海隆控股有限公司*

Hilong Holding Limited

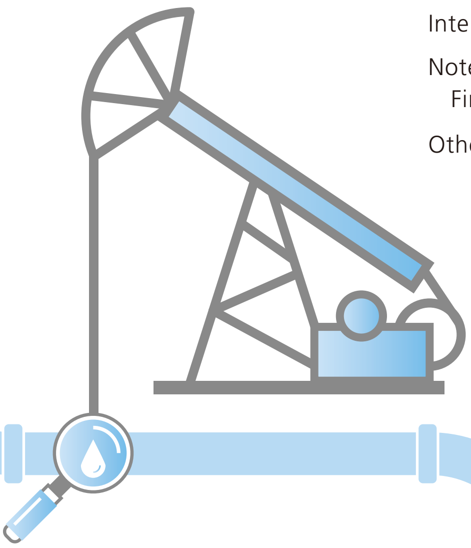
(Incorporated in the Cayman Islands with limited liability)
Stock Code: 1623

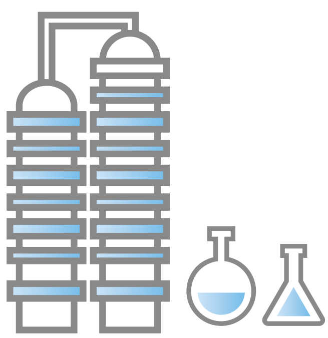
TECHNOLOGICAL INNOVATION

INTERIM REPORT 2019

* For identification purpose only

CONTENTS





CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

Ms. Zhang Shuman (張姝嫚)
Mr. Yuan Pengbin (袁鵬斌)
Mr. Li Huaiqi (李懷奇) [(1)]
Dr. Yang Qingli (楊慶理)

Independent Non-executive Directors

Mr. Wang Tao (王濤)
Mr. Wong Man Chung Francis (黃文宗)
Mr. Liu Haisheng (劉海勝) [(1)]
Mr. Shi Zheyan (施哲彥)

AUTHORIZED REPRESENTATIVES

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

Mr. Wang Tao (王濤)
(Chairman of Nomination Committee)
Mr. Wang Tao (汪濤)
Mr. Liu Haisheng (劉海勝) [(1)]
Mr. Shi Zheyan (施哲彥) [(2)]

COMPANY SECRETARY

Ms. Sham Ying Man (岑影文)

AUDITOR

PricewaterhouseCoopers

Notes:

(1) Retirement took effect on 21 June 2019.

(2) Appointment took effect on 21 June 2019.

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

Suite 3206, Tower One
Times Square
1 Matheson Street
Causeway Bay
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 AND CONTACT

www.hilonggroup.net
Tel: 852-2506-0885
Fax: 852-2506-0109

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

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

	Six months ended 30 June			
	2019		2018	
	RMB'000	%	RMB'000	%
Oilfield equipment manufacturing and services				
– Drill pipes	578,724	31.1	472,403	31.4
– Oil country tubular goods ("**OCTG**") coating services	150,641	8.1	106,329	7.1
– Drill pipe components	24,465	1.3	30,056	2.0
– Hardbanding	12,705	0.7	5,293	0.4
– Others	74,865	4.0	48,248	3.2
Subtotal	841,400	45.2	662,329	44.1
Line pipe technology and services				
– OCTG coating materials	11,764	0.6	48,491	3.2
– Oil and gas line pipe coating materials	378	–	503	–
– Oil and gas line pipe coating services	78,763	4.2	60,754	4.0
– Corrosion Resistant Alloy ("**CRA**") lined pipe	13,653	0.7	43,847	2.9
– Concrete Weighted Coating ("**CWC**") services	83,102	4.5	40,256	2.7
– Pipeline inspection services	13,210	0.7	1,595	0.1
Subtotal	200,870	10.7	195,446	12.9
Oilfield services	694,896	37.5	461,492	30.7
Offshore engineering services	122,401	6.6	185,428	12.3
Total revenue	1,859,567	100.0	1,504,695	100.0

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

	Six months ended 30 June			
	2019		2018	
	RMB'000	%	RMB'000	%
The PRC	513,510	27.6	369,280	24.5
East Europe, Russia and Central Asia	458,902	24.7	464,001	30.8
South and Southeast Asia	346,381	18.6	299,016	19.9
North and South America	246,751	13.3	172,720	11.5
Middle East	167,304	9.0	51,912	3.5
Africa	126,609	6.8	147,728	9.8
Others	110	0.0	38	0.0
Total	1,859,567	100.0	1,504,695	100.0

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue increased by RMB354.9 million, or 23.6%, from RMB1,504.7 million for the six months ended 30 June 2018 to RMB1,859.6 million for the six months ended 30 June 2019 (the "**Interim Period**"). Such increase was mainly due to the increase in revenue from oilfield equipment manufacturing and services segment and oilfield services segment.

Oilfield equipment manufacturing and services. Revenue from the oilfield equipment manufacturing and services segment increased by RMB179.1 million, or 27.0%, from RMB662.3 million for the six months ended 30 June 2018 to RMB841.4 million for the Interim Period. Such increase primarily reflected a significant increase in revenue derived from OCTG coating services and 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	
	2019	2018
Sales of drill pipes		
– International market		
– volume *(tonnes)*	**18,228**	23,889
– unit price *(RMB/tonne)*	**20,268**	18,177
Subtotal *(RMB'000)*	**369,453**	434,236
– The PRC market		
– volume *(tonnes)*	**12,625**	2,345
– unit price *(RMB/tonne)*	**16,576**	16,273
Subtotal *(RMB'000)*	**209,271**	38,167
Total *(RMB'000)*	**578,724**	472,403

Revenue from sales of drill pipes in the international market decreased by RMB64.7 million, or 14.9%, from RMB434.2 million for the six months ended 30 June 2018 to RMB369.5 million for the Interim Period. The decrease primarily reflected a decrease of 23.7% in the volume of drill pipes sold in the international market from 23,889 tonnes for the six months ended 30 June 2018 to 18,228 tonnes for the Interim Period. The decrease in the sales volume indicated that the Company put more emphasis on high-end products for long-term cooperation and prestigious customers in the international market. Average selling price increased by 11.5%, mainly reflecting that the Group has sold more high-end drill pipes and put more emphasis on long-term and prestigious customers.

Revenue from sales of drill pipes in the PRC market increased by RMB171.1 million, or 447.9%, from RMB38.2 million for the six months ended 30 June 2018 to RMB209.3 million for the Interim Period. The increase primarily reflected a 438.4% increase in volume of drill pipes sold in the PRC market from 2,345 tonnes for the six months ended 30 June 2018 to 12,625 tonnes for the Interim Period and, to a lesser extent, a 1.9% increase in average selling price sold in the PRC market from RMB16,273 per tonne for the six months ended 30 June 2018 to RMB16,576 per tonne for the Interim Period. The increase in the sales volume primarily reflected an increased demand in domestic market. The increase in average selling price primarily reflected the guideline price of American Petroleum Institute ("**API**") drill pipe products based on the annual bid of both China National Petroleum Corporation ("**CNPC**") and Sinopec Group, which increased in the Interim Period compared to that in the six months ended 30 June 2018.

Revenue from OCTG coating services increased by RMB44.3 million, or 41.7%, from RMB106.3 million for the six months ended 30 June 2018 to RMB150.6 million for the Interim Period. The increase was mainly due to the increased demands of OCTG coating services in the international market.

Line pipe technology and services. Revenue from line pipe technology and services segment increased by RMB5.4 million, or 2.8%, from RMB195.5 million for the six months ended 30 June 2018 to RMB200.9 million for the Interim Period. Such increase primarily reflected an increase in the revenue derived from oil and gas line pipe coating services, CWC services and pipeline inspection services, partly offset by the decreased revenue of OCTG coating materials.

The increase in revenue from CWC occupied by Bengal Project, Baosteel Project and the Project with subsidiary of Sinopec Group.

The increase in revenue derived from pipeline inspection services primarily reflected that the Company has completed numerous self-development of pipeline inspection equipments and pipeline inspection data analysis systems to undertake projects.

Oilfield services. Revenue from the oilfield services segment increased by RMB233.4 million, or 50.6%, from RMB461.5 million for the six months ended 30 June 2018 to RMB694.9 million for the Interim Period. Such increase was attributable to (i) higher oilfield services revenue generated from the improvement of utilisation rate of drilling rigs, (ii) the increase in revenue from the provision of OCTG trading and logistic services provided to oilfield services clients for the Interim Period as compared to the six months ended 30 June 2018; (iii) revenue contribution from the two drilling rigs in Oman and two workover rigs in Iraq with an initial operation period of 10 years and 5 years, which commenced operation in the fourth quarter of 2018 and first quarter of 2019, respectively.

Offshore engineering services. Revenue from the offshore engineering service segment for the Interim Period mainly represented RMB65.9 million from the BOKOR Project and RMB55.0 million from the Bengal Project.

Cost of Sales/Services

Cost of sales/services increased by RMB234.6 million, or 23.1%, from RMB1,015.1 million for the six months ended 30 June 2018 to RMB1,249.7 million for the Interim Period.

Gross Profit and Gross Profit Margin

As a result of the foregoing, gross profit increased by RMB120.3 million, or 24.6%, from RMB489.6 million for the six months ended 30 June 2018 to RMB609.9 million for the Interim Period. Gross profit margin was 32.8% for the Interim Period, increased by 0.3 ppt compared with that for the six months ended 30 June 2018.

Selling and Marketing Expenses

Selling and marketing expenses increased by RMB9.6 million, or 16.1%, from RMB59.5 million for the six months ended 30 June 2018 to RMB69.1 million for the Interim Period. These expenses, amounting to 3.7% of revenue for Interim Period, were slightly lower than 4.0% for the six months ended 30 June 2018.

Administrative Expenses

Administrative expenses increased by RMB63.5 million, or 34.8%, from RMB182.5 million for the six months ended 30 June 2018 to RMB246.0 million for the Interim Period. Such increase primarily reflected the increase in staff costs, travelling expenses, office expenses and the increase in operating expenses from the setup of three companies.

Other Gains/(Losses) – Net

The Group recognized net gain of RMB36.9 million for the Interim Period and net loss of RMB11.4 million for the six months ended 30 June 2018. The net gain recognized for the Interim Period primarily reflected an exchange gain of RMB36.2 million from the operating activities as a combined result of the appreciation of the Ruble, United States Dollar and Hong Kong Dollar. The net loss recognized for the six months ended 30 June 2018 primarily reflected an exchange loss of RMB11.2 million from the operating activities.

Finance Costs – Net

Net finance costs decreased by RMB9.8 million, or 7.6%, from RMB127.0 million for the six months ended 30 June 2018 to RMB117.2 million for the Interim Period. Such decrease primarily reflected (i) an exchange loss of RMB2.9 million from the financing activities resulting from the appreciation of United States Dollar and Hong Kong Dollar, while for the six months ended 30 June 2018 the exchange loss was RMB29.3 million; (ii) the interest expense from bank borrowings increased from RMB105.7 million for the six months ended 30 June 2018 to RMB114.6 million for the Interim Period; (iii) the interest income decreased from RMB8.0 million for the six months ended 30 June 2018 to RMB1.6 million for the Interim Period.

Profit before Income Tax

As a result of the foregoing, profit before income tax increased from RMB115.5 million for the six months ended 30 June 2018 to RMB198.5 million for the Interim Period.

Income Tax Expense

The Group recognized income tax expense of RMB39.4 million for the six months ended 30 June 2018 and RMB48.1 million for the Interim Period. Effective tax rate was approximately 34.1% for the six months ended 30 June 2018 and 24.2% for the Interim Period, which was due to that there were less withholding tax on overseas business compared to that for the six months ended 30 June 2018.

Profit for the period attributable to equity owners of the Company

As a result of the foregoing, profit for the period attributable to equity owners of the Company increased from RMB70.8 million for the six months ended 30 June 2018 to RMB148.7 million for the Interim Period.

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 of average inventory for the periods indicated:

	As at 30 June 2019 RMB'000	As at 31 December 2018 RMB'000
Inventory	**767,689**	889,138
Turnover days of inventory (in days)[1]	**121**	144

(1) Turnover days of inventory for a period or a year equals average inventory divided by total cost of sales and then multiplied by 182 for the Interim Period and by 365 for the year ended 31 December 2018. Average inventory equals inventory balance at the beginning of the period or year plus inventory balance at the end of the period or year, divided by two.

The decrease of inventories from 31 December 2018 to 30 June 2019 is mainly due to the increasing sales of drill pipes and OCTG coating services.

Trade and Other Receivables

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

	As at 30 June 2019 RMB'000	As at 31 December 2018 RMB'000
Trade receivables		
– Due from third parties	**2,249,011**	1,958,858
– Due from related parties	**11,257**	4,039
– Less: Provision for loss allowance of receivables	**(99,025)**	(154,978)
Trade receivables – net	**2,161,243**	1,807,919
Other receivables		
– Due from third parties	**107,341**	92,163
– Due from related parties	**91,486**	133,866
Other receivables	**198,827**	226,029
Bills receivable	**40,615**	48,913
Dividends receivable	**2,036**	2,036
Total	**2,402,721**	2,084,897

Net trade receivables represent receivables from the sales of products and provision of services to third party customers and related parties, less impairment 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 2019 RMB'000	As at 31 December 2018 RMB'000
– Within 90 days	**1,055,417**	1,015,844
– Over 90 days and within 180 days	**390,692**	216,567
– Over 180 days and within 360 days	**425,551**	377,399
– Over 360 days and within 720 days	**270,803**	144,381
– Over 720 days	**117,805**	208,706
Trade Receivables	**2,260,268**	1,962,897
Less: provision for loss allowance of trade receivables	**(99,025)**	(154,978)
Trade receivables, net	**2,161,243**	1,807,919
Turnover days of trade receivables, net[1]	**194**	208

[1] Turnover days of trade receivables for a period or a year equals average trade receivables divided by revenue and then multiplied by 182 for the Interim Period, and by 365 for the year ended 31 December 2018. Average trade receivables equals balance of trade receivables less provision for impairment of receivables at the beginning of the period or year plus balance at the end of the period or year, divided by two.

The decrease in turnover days of trade receivables from 208 days as at 31 December 2018 to 194 days as at 30 June 2019 primarily reflected that settlement for trade receivables due from certain oil and gas companies in the international market was accelerated during the Interim Period.

The Group applies the HKFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade receivables, bills receivables and contract assets. To measure the expected credit loss, trade receivables, bills receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due.

	2019 RMB'000
As at 1 January 2019	**154,978**
Provision for receivables loss allowance	**23,432**
Write-off of loss allowance	**(79,385)**
As at 30 June 2019	**99,025**

Trade and Other Payables

Trade and other payables primarily consist of trade payables (due to third parties and related parties), other payables, bills payables, 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 2019 RMB'000	As at 31 December 2018 RMB'000
Bills payable	221,158	206,909
Trade payables		
– Due to related parties	18,437	15,984
– Due to third parties	654,662	658,109
Other payables		
– Due to related parties	18,620	19,031
– Due to third parties	62,573	34,213
Staff salaries and welfare payables	43,331	44,168
Interest payables	7,425	7,026
Accrued taxes (other than income tax)	101,962	94,158
Dividends payable	19,079	4,109
Other liabilities	15,562	15,482
	1,162,809	1,099,189

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

	As at 30 June 2019 RMB'000	As at 31 December 2018 RMB'000
Trade payables, gross		
– Within 90 days	413,753	458,889
– Over 90 days and within 180 days	226,327	170,886
– Over 180 days and within 360 days	20,158	28,656
– Over 360 days and within 720 days	8,549	12,812
– Over 720 days	4,312	2,850
	673,099	674,093
Turnover days of trade payables[1]	98	112

(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 182 for the Interim Period, and by 365 for the year ended 31 December 2018. 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.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the first half of 2019, the Group was faced with a complex and challenging external environment. The Sino-US trade conflicts escalated amid repeated initiations and terminations of negotiation, which had a significant impact on market sentiment. The complex relations in the Middle East region, especially the deteriorating security situation in Iran and its surrounding areas, are threatening the global supply and transportation of oil and natural gas. The domestic political chaos in major oil and natural gas producing countries in South America cast uncertainty over the oil and natural gas production in their surrounding areas. Various factors had been affecting the confidence in the future global energy demand, and the oil prices fluctuated in the range of USD50 to USD70 during the Interim Period. However, these short-term factors did not hinder the recovery of long-term production inputs in the oil industry. Driven by the recovery of spendings in oil and gas production, coupled with the proactive efforts of the management, in the first half of 2019, the Group achieved encouraging results. For the six months ended 30 June 2019, the revenue increased by 23.6% from RMB1,504.7 million for the same period in 2018 to RMB1,859.6 million for the Interim Period, and the net profit had significantly increased by 97.6% from RMB76.1 million for the same period in 2018 to RMB150.4 million for the Interim Period.

Such increases were mainly attributable to the two core business segments, oilfield services segment and oilfield equipment manufacturing and services segment, which recorded revenue of RMB694.9 million and RMB841.4 million for the Interim Period, respectively, representing an increase of 50.6% and 27.0% respectively, as compared with RMB461.5 million and RMB662.3 million for the same period in 2018. The line pipe technology and services segment and the offshore engineering services segment had also achieved satisfactory results. Set out below is the review of each segment development in the first half of 2019:

Oilfield Services

New projects releasing growth momentum and concentrating resources on serving high-end customers

During the Interim Period, revenue derived from oilfield services segment amounted to RMB694.9 million, representing an increase of 50.6% as compared with the same period in 2018. The oilfield services segment made a great contribution to our excellent group-wide performance. The increase in revenue was mainly resulted from two aspects. Firstly, in 2018, the Group entered into new services agreements with two global-leading oil and gas exploration and production companies, Petroleum Development Oman ("**PDO**") and BP Iraq N.V. ("**BP**"), respectively. Accordingly, the Group started to provide two 2,000HP automated drilling rigs and two high-end workover rigs to these two customers in two new markets (namely Oman and Iraq) in October 2018 and March 2019, respectively. The contract entered into with PDO in relation to the automated drilling rigs services had a term of 10+5 years and an annual minimum contract value of no less than USD10 million per rig. The contract entered into with BP in relation to the workover rigs services had a term of 5+1 years and an annual minimum contract value of no less than USD8.5 million per rig. The successful implementation of these two new contracts not only provided an essential impetus for the Group's brilliant performance during the Interim Period, but also laid a strong foundation for the Group's profit generation in the next few years.

Secondly, the integrated services of the oilfield services segment maintained its sound development trend in the first half of 2019. As a result of effective marketing campaigns in the past few years, the integrated services of Hilong have been recognized by many customers in the existing markets. Against this backdrop, the Group actively expanded its oilfield services business and achieved satisfactory results in the first half of 2019. Moreover, driven by the long cycle of oil and gas production, the South American market showed signs of recovery not seen in the past few years, and achieved significant sales growth in both drilling services and integrated oilfield services. The success of the integrated services, which served as an important supplement to its existing business, had freed the Group from a single development mode driven by heavy-asset investments for the oilfield services business. Additionally, the rapid growth of the integrated services at the current stage evidently reflected the market brand effect of Hilong's oil services business, which further helped the Group to improve its operating cash flows, enhance the capability on asset returns, upgrade the comprehensive financial indicators of the Group and lay a solid foundation for its future development.

In addition to the above, we witnessed a series of important trends in the development of oilfield services in the first half of 2019. The demand for services from our key high-end customers went ahead with an increase. During the month from April to May 2019, we entered into a long-term drilling services contract with an international well-known enterprise, Shell, for the provision of two 2,000HP heavy onshore drilling rigs in Nigeria. One drilling rig had been relocated to there from Ethiopian operation area and commenced operation recently. Thanks to the good operational records with Shell from 2014 to 2017, the other drilling rig had been requested to return to the Shell operation area from the existing customer's project, which results in significant increase in our day rate. Additionally, our oil services segment is looking forward to making breakthroughs in some new high-end markets in the near future.

Oilfield Equipment Manufacturing and Services

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

The oilfield equipment manufacturing and services segment has been growing rapidly since 2017. During the Interim Period, its revenue increased by 27.0% from RMB662.3 million for the same period in 2018 to RMB841.4 million for the Interim Period. Such momentum had proven the continuing recovery of the production and operation of the global oil and gas market. This year, the market showed the following trends against the backdrop of the recovery for the past two years: first, the boom of domestic market gave rise to explosive growth in the domestic sales of drill pipes; second, the demand for high-end customized products rebounded and the proportion of non-API high-end products increased as compared with the corresponding period in 2018; and third, the high-end OCTG coating services business recorded significant growth which was driven by the overseas market.

As the PRC government constantly emphasized the self-sufficiency in respect of domestic energy production, most of the domestic oil and natural gas producing enterprises started to significantly increase their capital expenditures for production in the second half of 2018. In the first half of 2019, following the robust growth in the second half of 2018, the domestic sale volume of drill pipes significantly increased by 438.4% from 2,345 tonnes for the same period in 2018 to 12,625 tonnes. Accordingly, the domestic sales of drill pipes reached RMB209.3 million, representing an increase of 448.3% as compared to RMB38.2 million for the same period in 2018. In the first half of 2019, the principal domestic demand was mainly attributable to the production and exploration activities in the complex geological environments, such as the south-western region, Changqing and Traim, which drove demands for a great number of customized non-API products. As shown by various statistics, the exploitation activities of oil and natural gas situated in these complex geological environments will last and even further expand for a relatively long time in the future. Our advantage in the field of high-end drill pipes will also help us to further consolidate the relevant market share.

In respect of overseas markets, subject to the significant growth of domestic sales and the limitation of our production capacities, the Group reduced orders from overseas markets. This made us more selective about overseas sales, which was directly reflected in the significant growth of our overseas selling price of drill pipes. The overseas average selling price increased by 11.5% from RMB18,200 per ton for the same period in 2018 to RMB20,300 per ton for the Interim Period. Despite the decreased sales in the overall overseas markets, the core markets of the Group, namely Russia and the US, still had excellent performance. In Russia, with our efforts put in over the past two years, drilling products of Hilong had been highly recognized by principal customers. On this basis, in the first half of 2019, Hilong continued to strengthen its development in the Russian market, further consolidating its position as the biggest drill pipe provider in the local market. Along with the success of drilling products in Russia, Hilong also enhanced the marketing efforts for other high-end services such as OCTG coating services in Russia in the past two years, which started to achieve good results. As Russia increases its market share in the global natural gas supply, we expect the Russian market to maintain rapid development in the coming years and Russia will continue to remain as one of our principal markets for future development.

MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2019, Hilong also made tremendous achievements in developing new customers and exploring new markets in the overseas market. On 8 May 2019, Hilong entered into a three-year master supply agreement with a contract value of USD30 million with Ensign Drilling Inc., ("**Ensign**"), a renowned Canadian drilling services company. This agreement is the largest long-term supply agreement entered into between the Group and the global leading oil services company since the short-term volatility of global oil prices in 2015/16, which marked the on-going rapid recovery of the worldwide drilling activities. Hilong recently won a bid for a drill pipe order with a consideration of approximately RMB90 million in the Middle East market. This order is of great importance in terms of two aspects from a technical perspective. First of all, the drill pipes under this order adopted the special design of connections developed by Hilong in-house team, which significantly improved the torsion transmission efficiency and working strength of drill pipes. Such products had reached the highest level of technology of similar products developed by other major overseas competitors. At the same time, we also made significant improvements in these products' resistance to hydrogen sulfide according to customer's requirements. To the best of our knowledge, these products achieved the highest level of hydrogen-sulfide-resistant drill pipes in the world, which had taken full advantage of Hilong's years of experiences accumulated in natural gas wells and the high-level hydrogen sulfide wells operations. Such order was expected to be put into production in the second half of this year, which would improve the business segment's profit margin.

Line Pipe Technology and Services

Pipeline inspection business's results increasing rapidly with robust growth of subsea pipelines

The revenue of the line pipe technology and services segment was basically the same as compared to the corresponding period in 2018, which is RMB201.0 million during the Interim Period with an increase of 2.8% as compared to RMB195.5 million for the same period in 2018. Both the pipeline inspection business and subsea Concrete Weight Coating (CWC) business, being the main growth points of the Group in the future, recorded rapid growth during the Interim Period. In particular, since the Group's breakthrough in the development of inspection equipment and the inspection data analytical software in the second half of 2018, our pipeline inspection business has been highly regarded by our customers and we have received a large number of orders. The revenue of the pipeline inspection business surged from RMB2.0 million for the same period in 2018 to RMB13.2 million during the Interim Period. Given the long-term nature, the strong customer retention and the satisfactory level of orders on hand of the pipeline inspection business, the Group expects that the outstanding business performance since the second half of 2018 would lay a solid foundation for sustainable development in the future.

During the Interim Period, the subsea CWC business also recorded substantial growth. Its revenue increased by 106.4% from RMB40.3 million for the same period in 2018 to RMB83.1 million for the Interim Period, making the subsea CWC business the largest single business in the line pipe technology and services segment. Meanwhile, the long distance pipeline coating business with low profits continued to shrink. This also indicated an importance milestone to the line pipe technology and services segment over years of continuous investments in the scientific and technological research and development as well as market research in order to achieve the substitution of the low-end and high-end products structure and the growth drivers. The trend encouraged the Group to continue the implementation of its development strategy focusing on high-tech products.

Offshore Engineering Services

Completing contracts during the period and more cooperation in the future

During the Interim Period, Hilong's offshore engineering services segment completed the works in Malaysia, and recorded revenue of RMB122.4 million, a decrease of 34.0% as compared with RMB185.4 million for the corresponding period in 2018. In the field of offshore engineering services, the Group recently made material strategic adjustments. On 25 July 2019, the Group announced the establishment of a joint venture with Swiber Offshore Construction (SOC), a well-known offshore engineering company in Singapore, for the purpose of joint participation in the bidding for offshore engineering services. Faced with the gradual recovery of the global energy market, both parties reached a consensus that the offshore engineering services field was to embrace a new upward cycle. In the face of the upcoming recovery of the offshore engineering services market, both parties would integrate their respective favorable resources and jointly grasp the market opportunities under the premise of involving neither assets nor material investments. This cooperation was one of the key measures adopted by the Group to improve assets returns and optimize resources allocation.

Technology research and development

The Group always attaches great importance to the research and development and investments in the high-tech field. For years we have been continuously sparing no efforts to pursue the industry-leading technologies in line with the needs of future market. In the first half of 2019, we saw a number of technological achievements winning market recognition which became important profit-contribution points. For example, after years of painstaking research and study, we made breakthroughs in the hardware and software for the pipeline inspection technology in the second half of 2018. Before that, technologies in this field had been monopolized by two overseas companies, which not only limited our country's development of the pipeline inspection business, but also posed hidden perils for our national energy security. The success of Hilong in this field not only broke relevant companies' monopoly, but also created a critical future source of income for the Group. During the Interim Period, the rapid growth of this business also proved the huge potential of such technology.

Apart from the aforesaid, other material technological breakthroughs included the combination of high working-strength connections of drill pipes with the high-grade hydrogen-sulfide-resistant technology, which helped the Group secure a major order of drill pipes in the Middle East market recently. This order laid an important foundation for improving the gross profit margin of drilling tools segment in the second half of 2019. Going forward, the Group will continue to invest in high-tech research and development, looking forward to making breakthroughs in more fields.

Outlook

Looking ahead to the second half of 2019, against the backdrop of the traditional peak season of domestic oil filed activities in the second half of the year, we expect that the demand for high-end drill pipes will continue to surge. In addition, given that the price of domestic API drill pipes has increased for three consecutive years, the Group foresees that the market price of domestic drill pipes will continue to increase, driving continuous growth of the drill pipes segment. Save for the aforesaid, we will pay attention to the favorable change in the international market. Since the execution of the long-term supply agreement with Ensign in the first half of 2019, we found that more and more global drilling rigs companies intended to increase their procurement. The Group will strive to capture this market opportunity to further consolidate its leading position in the global drill pipes market. For the oil field services segment, we entered into the service contract with Shell for the provision of two heavy onshore drilling rigs, which serves as pivotal power for the increase of oil field services. Additionally, Hilong slanted its centralized resources towards the key customers, which would further increase the overall utilization of rigs, and the revenue-generating capacity per rig. Moreover, the Group is expected to obtain the large integration service contracts in the new market. Once the contract is finalized, it will provide significant driver for the growth of oil field services business in the coming one to two years. Furthermore, the Group will adhere to its core development roadmap based on the principle of "Driving growth with research and development of high technology". The Group will promote the growth of the line pipe technology and services segment by fully leveraging its high technology development and continue to improve the product structure. As for the offshore engineering services, we will actively give a full play of the new joint venture in order to reach new heights in business performance.

LIQUIDITY AND FINANCIAL RESOURCES

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

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Net cash from operating activities	**149,659**	77,877
Net cash used in investing activities	**(78,467)**	(238,724)
Net cash (used in)/generated from financing activities	**(107,719)**	328,697
Net (decrease)/increase in cash and cash equivalents	**(36,527)**	167,850
Exchange gains on cash and cash equivalents	**176**	655
Cash and cash equivalents at beginning of the period	**661,738**	389,014
Cash and cash equivalents at end of the period	**625,387**	557,519

As at 30 June 2019, cash and cash equivalents were mainly denominated in RMB, USD, Rubles, Naira, Rupee and Canadian dollars.

Operating Activities

Net cash from operating activities for the Interim Period was RMB149.7 million, representing cash generated from operation of RMB174.0 million, offset by the income tax payment of RMB24.3 million.

Net cash from operating activities for the six months ended 30 June 2018 was RMB77.9 million, representing cash generated from operations of RMB105.4 million, offset by the income tax payment of RMB27.5 million.

Investing Activities

Net cash used in investing activities for the Interim Period was RMB78.5 million, primarily reflecting payment of RMB92.5 million for purchases of property, plant and equipment and payment of RMB1.8 million for purchases of intangible assets, partially offset by proceeds of RMB12.9 million from disposal of property, plant and equipment.

Net cash used in investing activities for the six months ended 30 June 2018 was RMB238.7 million, primarily reflecting payment of RMB237.6 million for purchases of property, plant and equipment.

Financing Activities

Net cash used in financing activities for the Interim Period was RMB107.7 million, primarily reflecting repayment of borrowings of RMB277.6 million and interest payment of RMB101.4 million, offset by proceeds of RMB284.1 million from borrowings.

Net cash generated from financing activities for the six months ended 30 June 2018 was RMB328.7 million, primarily reflecting proceeds of RMB731.7 million from borrowings and net cash inflow arising from security deposit for bank borrowings of RMB8.3 million, offset by repayment of borrowings of RMB305.9 million and interest payment of RMB110.0 million.

CAPITAL EXPENDITURES

Capital expenditures were RMB278.0 million and RMB127.5 million for the six months ended 30 June 2018 and the Interim Period, respectively. The decrease in capital expenditures for the Interim Period was mainly due to that there are no significant development in the overseas oilfield services segment business during the Interim Period.

INDEBTEDNESS

As at 30 June 2019, the outstanding indebtedness of RMB3,094.5 million was mainly denominated in USD, HKD and RMB. The following table sets forth breakdown of the indebtedness as at the dates indicated:

	As at 30 June 2019 RMB'000	As at 31 December 2018 RMB'000
Non-current		
Senior Notes – unsecured	–	2,106,656
Bank borrowings – unsecured	346	16,780
Bank borrowings – secured	491,297	480,527
Less: Current portion of non-current borrowings	(300,006)	(109,290)
	191,637	2,494,673
Current		
Senior Notes – unsecured	2,121,421	–
Bank borrowings – secured	91,651	97,185
Bank borrowings – unsecured	389,737	369,467
Current portion of non-current borrowings	300,006	109,290
	2,902,815	575,942

As at 30 June 2019, bank borrowings of RMB2,749.2 million were obtained at fixed rate (31 December 2018: RMB2,706.9 million).

The bank borrowings of RMB196.7 million (31 December 2018: RMB217.2 million) were secured by certain bank deposits of the Group, with a carrying amount of RMB49.3 million as at 30 June 2019 (31 December 2018: RMB49.6 million).

In June 2017, the Company entered into a RMB loan facility agreement with four banks amounted to RMB400.0 million. These loan principals were secured by the Controlling Shareholder and his spouse. As at 30 June 2019, RMB385.0 million were drawn down, out of which RMB115.5 million had been repaid during the period from 2017 to 2019. The principals will be fully repayable from 2019 to 2020.

In April 2018, Hilong Oil Service Co., Ltd., a subsidiary of the Company, entered into a USD loan facility agreement amounted to USD36,000,000, which was insured by China Export & Credit Insurance Corporation ("**SINOSURE**", a national policy insurance institution), and enjoyed preferential interest rate. As at 30 June 2019, USD33,544,595 were drawn down. The principals will be fully repayable from 2019 to 2025.

MANAGEMENT DISCUSSION AND ANALYSIS

On 18 January 2018, the Company issued USD60,000,000 7.25% senior notes due 2020 (the "**Additional 2020 Notes**") to be consolidated and to form a single series with the US$250,000,000 7.25% senior notes due 2020 the Company previously issued on 22 June 2017. The net proceeds of the Additional 2020 Notes amount to approximately USD59 million and will be used outside the PRC to refinance the Group's existing indebtedness, for working capital and general corporate purposes. The Additional 2020 Notes are listed on the Stock Exchange on 19 January 2018. As at 30 June 2019, the net proceeds of the Additional 2020 Notes had been fully utilized for the purpose as mentioned above.

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) less cash and cash equivalents, restricted cash and financial assets at fair value through profit or loss. Total capital is calculated as "equity" as shown in the consolidated balance sheet plus net debt.

The gearing ratios as at 30 June 2019 and 31 December 2018 are as follows:

	As at 30 June 2019 RMB'000	As at 31 December 2018 RMB'000
Total borrowings	**3,094,452**	3,070,615
Less: Cash and cash equivalents	**625,387**	661,738
Restricted cash	**190,552**	184,479
Net debt	**2,278,513**	2,224,398
Total equity	**3,689,032**	3,522,010
Total capital	**5,967,545**	5,746,408
Gearing ratio	**38.2%**	38.7%

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 15.2% appreciation of RMB against the USD from 21 July 2005 to 30 June 2019. There remains significant pressure on the PRC government to adopt more flexible currency policy, which could result in more fluctuated exchange rate of the RMB against USD. The Group may consider entering into currency hedging transactions to further manage its exposure to fluctuations in exchange rates, or nature hedging by active matching the currency structure of monetary assets and liabilities. However, the effectiveness of such transactions may be limited. The revenue denominated in USD represented 46.0% and 46.4% of the total revenue of the Company for the six months ended 30 June 2018 and the Interim Period, respectively.

STAFF AND REMUNERATION POLICY

As at 30 June 2019, the total number of full-time employees employed by the Group was 3,501 (31 December 2018: 3,405). The following table sets forth the number of the Group's full-time employees by area of responsibility as at 30 June 2019:

On-site workers	2,414
Administrative	476
Research and development	85
Engineering and technical support	393
Company management	35
Sales, marketing and after-sales services	98
	3,501

Employee costs excluding the Directors' remuneration totalled RMB358.0 million for the Interim Period.

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

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

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

EVENTS AFTER THE END OF THE INTERIM PERIOD

There were no important events affecting the Company nor any of its subsidiaries since the end of Interim Period.

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2019

	Note	(Unaudited) 30 June 2019 RMB'000	(Audited) 31 December 2018 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	*7*	**3,229,275**	3,261,017
Right-of-use assets	*7,18*	**136,444**	–
Lease prepayments	*7,18*	**–**	83,110
Intangible assets	*7*	**217,150**	212,627
Investments accounted for using equity method		**44,822**	39,230
Deferred income tax assets		**218,579**	211,348
Other long-term assets		**50,515**	57,244
Total non-current assets		**3,896,785**	3,864,576
Current assets			
Inventories		**767,689**	889,138
Contract assets		**40,830**	–
Trade and other receivables	*8*	**2,402,721**	2,084,897
Prepayment		**282,566**	176,959
Current income tax recoverable		**36,239**	37,910
Restricted cash	*8*	**190,552**	184,479
Cash and cash equivalents	*8*	**625,387**	661,738
Total current assets		**4,345,984**	4,035,121
Total assets		**8,242,769**	7,899,697
EQUITY			
Capital and reserves attributable to the equity owners of the Company			
Ordinary shares	*9*	**141,976**	141,976
Other reserves	*10*	**1,139,908**	1,139,627
Currency translation differences		**(61,559)**	(92,848)
Retained earnings		**2,254,386**	2,120,614
		3,474,711	3,309,369
Non-controlling interests		**214,321**	212,641
Total equity		**3,689,032**	3,522,010

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET *(Continued)*

AS AT 30 JUNE 2019

	Note	(Unaudited) 30 June 2019 RMB'000	(Audited) 31 December 2018 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	*8*	**191,637**	2,494,673
Lease liabilities	*8,18*	**32,453**	–
Deferred income tax liabilities		**55,032**	48,185
Contract liabilities		**43,449**	38,311
Total non-current liabilities		**322,571**	2,581,169
Current liabilities			
Trade and other payables	*8*	**1,162,809**	1,099,189
Contract liabilities		**79,056**	80,270
Current income tax liabilities		**63,874**	41,117
Borrowings	*8*	**2,902,815**	575,942
Lease liabilities	*8,18*	**22,612**	–
Total current liabilities		**4,231,166**	1,796,518
Total liabilities		**4,553,737**	4,377,687
Total equity and liabilities		**8,242,769**	7,899,697

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 2019

	Note	(Unaudited) Six months ended 30 June 2019 RMB'000	2018 RMB'000
Revenue	*6(a)*	**1,859,567**	1,504,695
Cost of sales		**(1,249,722)**	(1,015,090)
Gross profit		**609,845**	489,605
Selling and marketing expenses		**(69,062)**	(59,496)
Administrative expenses		**(245,978)**	(182,461)
Net impairment losses on financial assets		**(23,851)**	1,611
Other gains/(losses) – net	*11*	**36,886**	(11,379)
Operating profit		**307,840**	237,880
Finance income	*12*	**1,646**	8,006
Finance costs	*12*	**(118,889)**	(135,033)
Finance costs – net		**(117,243)**	(127,027)
Share of profit of investments accounted for using equity method		**7,903**	4,681
Profit before income tax		**198,500**	115,534
Income tax expense	*13*	**(48,078)**	(39,419)
Profit for the period		**150,422**	76,115
Profit attributable to:			
Equity owners of the Company		**148,742**	70,775
Non-controlling interests		**1,680**	5,340
		150,422	76,115
Earnings per share attributable to the equity owners of the Company (expressed in RMB per share)			
– Basic	*14*	**0.0877**	0.0417
– Diluted	*14*	**0.0877**	0.0417

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 2019

	(Unaudited) Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Profit for the period	**150,422**	76,115
Other comprehensive income:		
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	**31,289**	5,704
Total comprehensive income for the period	**181,711**	81,819
Attributable to:		
Equity owners of the Company	**180,031**	76,479
Non-controlling interests	**1,680**	5,340
	181,711	81,819

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 2019

		(Unaudited)						
		Capital and reserves attributable to equity owners of the Company						
	Note	Ordinary shares RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Cumulative translation differences RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at 31 December 2017		141,976	1,136,669	2,067,512	(114,649)	3,231,508	232,267	3,463,775
Change in accounting policy – HKFRS 9		–	–	(8,551)	–	(8,551)	–	(8,551)
As at 1 January 2018		141,976	1,136,669	2,058,961	(114,649)	3,222,957	232,267	3,455,224
Profit for the period		–	–	70,775	–	70,775	5,340	76,115
Other comprehensive income		–	–	–	5,704	5,704	–	5,704
Total comprehensive income for the period		–	–	70,775	5,704	76,479	5,340	81,819
Transactions with owners in their capacity as owners								
2013 Share Option Scheme	*10(a)*	–	590	–	–	590	–	590
Dividends in respect of 2017	*15*	–	–	(14,350)	–	(14,350)	–	(14,350)
Dividends paid to non-controlling interests of subsidiaries		–	–	–	–	–	(5,374)	(5,374)
Total transaction with owners		–	590	(14,350)	–	(13,760)	(5,374)	(19,134)
As at 30 June 2018		141,976	1,137,259	2,115,386	(108,945)	3,285,676	232,233	3,517,909
As at 1 January 2019		**141,976**	**1,139,627**	**2,120,614**	**(92,848)**	**3,309,369**	**212,641**	**3,522,010**
Profit for the period		**–**	**–**	**148,742**	**–**	**148,742**	**1,680**	**150,422**
Other comprehensive income		**–**	**–**	**–**	**31,289**	**31,289**	**–**	**31,289**
Total comprehensive income for the period		**–**	**–**	**148,742**	**31,289**	**180,031**	**1,680**	**181,711**
Transactions with owners in their capacity as owners								
2013 Share Option Scheme	*10(a)*	**–**	**93**	**–**	**–**	**93**	**–**	**93**
Other addition		**–**	**188**	**–**	**–**	**188**	**–**	**188**
Dividends in respect of 2018	*15*	**–**	**–**	**(14,970)**	**–**	**(14,970)**	**–**	**(14,970)**
Total transaction with owners		**–**	**281**	**(14,970)**	**–**	**(14,689)**	**–**	**(14,689)**
As at 30 June 2019		**141,976**	**1,139,908**	**2,254,386**	**(61,559)**	**3,474,711**	**214,321**	**3,689,032**

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 2019

	(Unaudited) Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Cash flow from operating activities		
Cash flow generated from operations	**173,975**	105,409
Income tax paid	**(24,316)**	(27,532)
Net cash generated from operating activities	**149,659**	77,877
Cash flow from investing activities		
Proceeds from sale of property, plant and equipment	**12,941**	4,671
Payments for property, plant and equipment	**(92,506)**	(237,649)
Purchases of intangible assets	**(1,796)**	(9,233)
Dividends received	**2,894**	3,487
Net cash used in investing activities	**(78,467)**	(238,724)
Cash flow from financing activities		
Proceeds from borrowings	**284,124**	731,672
Repayments of borrowings	**(277,584)**	(305,941)
Interest paid	**(101,370)**	(110,042)
Principal element of lease payments	**(13,159)**	–
Dividends paid to non-controlling interest	**–**	4,748
Cash inflow arising from security deposit for bank borrowings	**270**	8,260
Net cash (used in)/generated from financing activities	**(107,719)**	328,697
Net (decrease)/increase in cash and cash equivalents	**(36,527)**	167,850
Cash and cash equivalents at beginning of the period	**661,738**	389,014
Effects of exchange rate changes on cash and cash equivalents	**176**	655
Cash and cash equivalents at end of the period	**625,387**	557,519

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 2019

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 23 August 2019.

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 2019 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 2018, and any public announcements made by the Company during the interim reporting period.

As at 30 June 2019, the Group has net positive working capital of RMB115 million. The Group's total borrowings due within one year were RMB2,902 million whereas the cash and cash equivalent were RMB625 million. The borrowings were mainly resulted from Senior Notes (RMB2,121 million) as per Note 8(b)(ii) and other short-term loans (RMB781 million) which will be due for payment by June 2020. The directors of the Company estimate that there would be a shortage of funds to fulfil the repayment obligations of the borrowings if no additional financial resources are available to the Group. In view of such circumstances, management of the Company has been actively seeking for external financing resources to ensure the Group being able to mitigate the liquidity needs and improve its financial position.

Management has prepared the Group's cash flow forecast which covers a period of at least 12 months from 30 June 2019. The cash flow forecast has taken into accounts the anticipated cash flows generated from the Group's operation, the successful renewal or extension of existing borrowings and entering into new financing arrangement. The directors, after making due enquiries and considering the basis of management's projections described above, believe that the Group will have sufficient funds to finance its operations and to meet its financial obligations when they fall due within the next 12 months from 30 June 2019. Accordingly, the directors are satisfied that it is appropriate to prepare the interim condensed consolidated financial information for the six month ended 30 June 2019 on a going concern basis.

3 ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2018, 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 new or amended standards became applicable for the current reporting period and the group had to change its accounting policies and make modified retrospective adjustments as a result of adopting HKFRS 16 Leases.

The impact of the adoption of these standards and the new accounting policies are disclosed in Note 18. The other standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

(b) New standards and amendments to standards have been issued but are not effective for the financial year beginning on 1 January 2019 and have not been early adopted by the Group:

- Amendments to HKFRS 3 'Definition of a business', effective for the accounting period beginning on or after 1 January 2020;
- Amendments to HKAS 1 and HKAS 8 'Definition of material', effective for the accounting period beginning on or after 1 January 2020;
- HKFRS 17 "Insurance contracts", effective for the accounting period beginning on or after 1 January 2021.

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

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

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

4 ESTIMATES

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

In preparing this interim condensed consolidated financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to consolidated financial statements for the year ended 31 December 2018.

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 2018.

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 2019					
Borrowings and interest payables	3,108,365	49,176	145,261	28,804	3,331,606
Trade and other payables (excluding interest payables, staff salaries and welfare payables and other tax liabilities)	1,010,091	–	–	–	1,010,091
Lease liabilities	24,729	18,422	7,827	12,218	63,196
	4,143,185	67,598	153,088	41,022	4,404,893
As at 31 December 2018					
Borrowings and interest payables	773,073	2,464,101	141,824	19,163	3,398,161
Trade and other payables (excluding interest payables, staff salaries and welfare payables and other tax liabilities)	953,837	–	–	–	953,837
	1,726,910	2,464,101	141,824	19,163	4,351,998

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

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 2019 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

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

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

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

5 FINANCIAL RISK MANAGEMENT (continued)

5.4 Fair value estimation (continued)

As at 30 June 2019 and 31 December 2018, the Group did not hold any financial instruments measured at fair value belonging to the above three levels.

There was no fair value gains on financial assets at fair value through profit or loss recognised in the interim condensed consolidated income statement for the six months ended 30 June 2019 (six months ended 30 June 2018: RMB1,255,000).

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 income/(costs), share of profits/(losses) 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 2019 and 2018 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.

6 SEGMENT INFORMATION (continued)

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

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

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

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

(a) Revenue

The revenue of the Group for the six months ended 30 June 2019 and 2018 are set out as follows:

	(Unaudited) Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Oilfield equipment manufacturing and services	**841,400**	662,329
Line pipe technology and services	**200,870**	195,446
Oilfield services	**694,896**	461,492
Offshore engineering services	**122,401**	185,428
	1,859,567	1,504,695

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 2019 is as follows:

	Six months ended 30 June 2019 (Unaudited)				
Business segment	Oilfield equipment manufacturing and services RMB'000	Line pipe technology and services RMB'000	Oilfield services RMB'000	Offshore engineering services RMB'000	Total RMB'000
Revenue					
Segment revenue	877,467	241,043	694,896	122,401	1,935,807
Inter-segment sales	(36,067)	(40,173)	–	–	(76,240)
Revenue from external customers	841,400	200,870	694,896	122,401	1,859,567
Revenue from contracts with customers:					
– at a point in time	660,905	12,493	113,466	–	786,864
– over time	118,535	188,377	581,430	122,401	1,010,743
	779,440	200,870	694,896	122,401	1,797,607
Revenue from other sources:					
– rental income	61,960	–	–	–	61,960
	841,400	200,870	694,896	122,401	1,859,567
Results					
Segment gross profit	299,623	62,988	246,337	897	609,845
Segment profit	196,020	30,231	146,703	(34,116)	338,838
Corporate overheads					(30,998)
Operating profit					307,840
Finance income					1,646
Finance costs					(118,889)
Share of profit of investments accounted for using equity method					7,903
Profit before income tax					198,500
Other information					
Depreciation of property, plant and equipment	50,640	10,215	80,942	32,720	174,517
Depreciation of right-of-use assets	1,552	1,431	7,696	1,183	11,862
Amortization of intangible assets	1,202	286	85	444	2,017
Capital expenditure	86,519	9,930	31,029	–	127,478

6 SEGMENT INFORMATION (continued)

(b) Segment information (continued)

	As at 30 June 2019 (Unaudited)				
Business segment	Oilfield equipment manufacturing and services RMB'000	Line pipe technology and services RMB'000	Oilfield services RMB'000	Offshore engineering services RMB'000	Total RMB'000
Segment assets	3,077,165	824,012	2,854,952	1,441,818	8,197,947
Investments accounted for using equity method					44,822
Total assets					8,242,769
Total liabilities (a)	3,521,509	319,990	648,952	63,286	4,553,737

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

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 2018 is as follows:

	Six months ended 30 June 2018 (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	679,353	214,355	461,492	185,428	1,540,628
Inter-segment sales	(17,024)	(18,909)	–	–	(35,933)
Revenue from external customers	662,329	195,446	461,492	185,428	1,504,695
Timing of revenue recognition					
At a point in time	517,176	92,841	51,197	–	661,214
Over time	145,153	102,605	410,295	185,428	843,481
	662,329	195,446	461,492	185,428	1,504,695
Results					
Segment gross profit	247,700	68,828	158,189	14,888	489,605
Segment profit	119,526	50,476	83,527	9,532	263,061
Corporate overheads					(25,181)
Operating profit					237,880
Finance income					8,006
Finance costs					(135,033)
Share of profit of investments accounted for using equity method					4,681
Profit before income tax					115,534
Other information					
Depreciation of property, plant and equipment	43,139	9,336	50,740	31,455	134,670
Amortization of lease prepayments	616	452	–	–	1,068
Amortization of intangible assets	1,141	182	85	482	1,890
Capital expenditure	64,255	7,011	206,661	57	277,984

6 SEGMENT INFORMATION (continued)

(b) Segment information (continued)

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
	As at 30 June 2018 (Unaudited)				
Segment assets	3,212,978	607,198	2,352,451	1,392,167	7,564,794
Investments accounted for using equity method					56,903
Total assets					7,621,697
Total liabilities (a)	3,498,573	174,661	400,838	29,716	4,103,788

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

(c) Geographical segments

Although the Group's four segments are managed on a worldwide basis, they operate in six principal geographical areas of the world. In the People's Republic of China ("**PRC**"), the Group produces and sells a broad range of drill pipes and related products, provides coating materials and services. In Russia, Central Asia, East Europe, Middle East and North and South America, the Group sells drill pipes and related products. In Russia and North America, the Group provides coating services. In North America, the Group provides drill pipe operating lease services. In Central Asia, South Asia, Africa, South America 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	
	2019 RMB'000	2018 RMB'000
The PRC	**513,510**	369,280
East Europe, Russia and Central Asia	**458,902**	464,001
South and Southeast Asia	**346,381**	299,016
North and South America	**246,751**	172,720
Middle East	**167,304**	51,912
Africa	**126,609**	147,728
Others	**110**	38
	1,859,567	1,504,695

6 SEGMENT INFORMATION (continued)

(c) Geographical segments (continued)

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

	(Unaudited)	(Audited)
	Carrying amount of segment assets	
	30 June 2019 RMB'000	31 December 2018 RMB'000
The PRC	**1,799,479**	1,797,890
Middle East	**513,148**	514,985
North and South America	**457,204**	412,852
South and Southeast Asia	**320,924**	339,551
East Europe, Russia and Central Asia	**266,107**	250,747
Africa	**226,007**	240,729
	3,582,869	3,556,754

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	
	2019 RMB'000	2018 RMB'000
North and South America	**76,337**	56,347
East Europe, Russia and Central Asia	**28,860**	29,816
The PRC	**18,751**	13,161
South and Southeast Asia	**6,611**	8,451
Middle East	**1,801**	166,705
Africa	**7**	3,504
	132,367	277,984

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

	(Unaudited)			
	Property, plant and equipment RMB'000	Lease Prepayments [(a)] RMB'000	Right-of-use assets [(a)] RMB'000	Intangible assets RMB'000
As at 1 January 2018				
Cost	4,052,335	105,680	–	194,997
Accumulated depreciation	(1,137,180)	(19,240)	–	(9,494)
Impairment provision	–	–	–	(2,097)
Net book amount	2,915,155	86,440	–	183,406
Six months ended 30 June 2018				
Opening net book amount	2,915,155	86,440	–	183,406
Additions	268,751	–	–	9,233
Disposals	(5,333)	–	–	–
Depreciation	(134,670)	(1,068)	–	(1,890)
Currency translation differences	6,770	–	–	(1,579)
Closing net book amount	3,050,673	85,372	–	189,170
As at 30 June 2018				
Cost	4,315,815	105,680	–	201,520
Accumulated depreciation	(1,265,142)	(20,308)	–	(10,253)
Impairment provision	–	–	–	(2,097)
Net book amount	3,050,673	85,372	–	189,170
As at 1 January 2019				
Cost	**4,621,254**	**–**	**164,758**	**227,029**
Accumulated depreciation	**(1,360,237)**	**–**	**(21,341)**	**(12,305)**
Impairment provision	**–**	**–**	**–**	**(2,097)**
Net book amount	**3,261,017**	**–**	**143,417**	**212,627**
Six months ended 30 June 2019				
Opening net book amount	**3,261,017**	**–**	**143,417**	**212,627**
Additions	**125,682**	**–**	**4,889**	**1,796**
Disposals	**(9,418)**	**–**	**–**	**–**
Depreciation	**(174,517)**	**–**	**(11,862)**	**(2,017)**
Currency translation differences	**26,511**	**–**	**–**	**4,744**
Closing net book amount	**3,229,275**	**–**	**136,444**	**217,150**
As at 30 June 2019				
Cost	**4,755,311**	**–**	**169,647**	**233,572**
Accumulated depreciation	**(1,526,036)**	**–**	**(33,203)**	**(14,325)**
Impairment provision	**–**	**–**	**–**	**(2,097)**
Net book amount	**3,229,275**	**–**	**136,444**	**217,150**

(a) With effect from 1 January 2019, lease prepayments were presented as part of right-of-use assets (Note 18).

8 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group holds the following financial instruments:

		(Unaudited) 30 June 2019 RMB'000	(Audited) 31 December 2018 RMB'000
Financial assets			
Financial assets at amortised cost			
– Trade and other receivables	*(a)*	**2,402,721**	2,084,897
– Cash and cash equivalents		**625,387**	661,738
– Restricted cash		**190,552**	184,479
		3,218,660	2,931,114
Financial liabilities			
Borrowings	*(b)*	**3,094,452**	3,070,615
Trade and other payables	*(c)*	**1,162,809**	1,099,189
Lease liabilities *(Note 16(c), Note 18)*		**55,065**	–
		4,312,326	4,169,804

(a) Trade and other receivables

	(Unaudited) 30 June 2019 RMB'000	(Audited) 31 December 2018 RMB'000
Trade receivables *(i)*	**2,260,268**	1,962,897
– Due from related parties *(Note 16(c))*	**11,257**	4,039
– Due from third parties	**2,249,011**	1,958,858
Less: Provision for loss allowance of receivables *(ii)*	**(99,025)**	(154,978)
Trade receivables – net	**2,161,243**	1,807,919
Bills receivable *(i)*	**40,615**	48,913
Other receivables *(Note 16(c))*	**198,827**	226,029
Dividends receivable *(Note 16(c))*	**2,036**	2,036
Trade and other receivables – net	**2,402,721**	2,084,897

8 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

(a) Trade and other receivables (continued)

As at 30 June 2019 and 31 December 2018, the fair values of the trade and other receivables of the Group, approximated their carrying amounts.

(i) The ageing of bills receivable is within 180 days, which is within the credit terms granted to customers.

The ageing analysis of trade receivables based on invoice date, before provision for loss allowance, as at 30 June 2019 and 31 December 2018 was as follows:

	(Unaudited) 30 June 2019 RMB'000	(Audited) 31 December 2018 RMB'000
Trade receivables, gross		
– Within 90 days	**1,055,417**	1,015,844
– Over 90 days and within 180 days	**390,692**	216,567
– Over 180 days and within 360 days	**425,551**	377,399
– Over 360 days and within 720 days	**270,803**	144,381
– Over 720 days	**117,805**	208,706
	2,260,268	1,962,897

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

	(Unaudited) Six months ended 30 June	
	2019 RMB'000	2018 RMB'000
Beginning of the period	**(154,978)**	(55,209)
Provision for receivables loss allowance	**(23,432)**	–
Reversal of loss allowance	**–**	1,424
Write-off of loss allowance	**79,385**	–
End of the period	**(99,025)**	(53,785)

8 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

(b) Borrowings

	(Unaudited) 30 June 2019 RMB'000	(Audited) 31 December 2018 RMB'000
Non-current		
Bank borrowings – secured *(i)*	**491,297**	480,527
Bank borrowings – unsecured	**346**	16,780
Senior Notes – unsecured *(ii)*	**–**	2,106,656
Less: Current portion of non-current borrowings	**(300,006)**	(109,290)
	191,637	2,494,673
Current		
Senior Notes – unsecured *(ii)*	**2,121,421**	–
Bank borrowings – unsecured	**389,737**	369,467
Bank borrowings – secured *(i)*	**91,651**	97,185
Current portion of non-current borrowings	**300,006**	109,290
	2,902,815	575,942
	3,094,452	3,070,615

Movement in borrowings is analysed as follows:

	(Unaudited) Six months ended 30 June	
	2019 RMB'000	2018 RMB'000
Beginning of the period	**3,070,615**	2,449,452
Additions of borrowings – net	**284,124**	719,181
Repayments of borrowings	**(277,584)**	(305,941)
Amortization using the effective interest method	**14,197**	12,324
Exchange difference	**3,100**	30,390
End of the period	**3,094,452**	2,905,406

The fair value of current borrowings equals their carrying amount as the discounting impact is not significant. While the fair values of the non-current bank borrowings approximated their carrying amount.

8 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

(b) Borrowings (continued)

(i) Bank borrowings – secured

The bank borrowings of RMB196,651,000 (31 December 2018: RMB217,185,000) were secured by certain bank deposits of the Group, with a carrying amount of RMB49,320,000 as at 30 June 2019 (31 December 2018: RMB49,590,000).

In June 2017, the Company entered into a RMB loan facility agreement with four banks amounted to RMB400,000,000. These loans were secured by the Controlling Shareholder and his spouse. As at 30 June 2019, RMB385,000,000 were drawn down, out of which RMB77,000,000 had been repaid during 2017 and 2018, out of which RMB38,500,000 had been repaid during 2019. The principals will be fully repayable from 2019 to 2020.

In 2018, Hilong Oil Service Co., Ltd. entered into a USD loan facility agreement amounted to USD36,000,000, which was insured by China Export & Credit Insurance Corporation ("**SINO SURE**", a national policy insurance institution), and enjoyed preferential interest rate. As at 30 June 2019, USD33,545,000 or equivalent to RMB230,609,000 were drawn down (31 December 2018: USD29,000,000 or equivalent to RMB199,033,000). The principals will be fully repayable from 2019 to 2025.

(ii) Senior Notes

In June 2017, the Company issued Senior Notes amounting to USD250,000,000 at a discounted price 99.339% (the "**Original Notes**"). The Senior Notes, guaranteed by certain subsidiaries of the Group, will bear interest from 22 June 2017 at 7.25% per annum payable semi-annually in arrears on 22 June and 22 December of each year, beginning from 22 December 2017. The Senior Notes were listed on the Stock Exchange of Hong Kong Limited on 23 June 2017.

On 18 January 2018, the Company issued a Senior Notes amounting to USD60,000,000 in addition to the Original Notes (the "**Additional Notes**"). The Additional Notes, guaranteed by certain subsidiaries of the Group, bear interest at 7.25% per annum payable semi-annually.

As at 30 June 2019, the total amount of above Senior Notes was USD310,000,000 or equivalent to RMB2,121,421,000. These Senior Notes will mature on 22 June 2020.

8 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

(c) Trade and other payables

	(Unaudited) 30 June 2019 RMB'000	(Audited) 31 December 2018 RMB'000
Bills payable	221,158	206,909
Trade payables:	673,099	674,093
– Due to third parties	654,662	658,109
– Due to related parties *(Note 16(c))*	18,437	15,984
Other payables:	81,193	53,244
– Due to third parties	62,573	34,213
– Due to related parties *(Note 16(c))*	18,620	19,031
Staff salaries and welfare payables	43,331	44,168
Interest payables	7,425	7,026
Accrued taxes other than income tax	101,962	94,158
Dividends payable	19,079	4,109
Other liabilities	15,562	15,482
	1,162,809	1,099,189

As at 30 June 2019 and 31 December 2018, all trade and other payables of the Group were non-interest bearing, and their fair value, excluding staff salaries and welfare payables and accrued taxes other than income tax which are not financial liabilities, approximated their carrying amounts due to their short maturities.

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

	(Unaudited) 30 June 2019 RMB'000	(Audited) 31 December 2018 RMB'000
Trade payables, gross		
– Within 90 days	413,753	458,889
– Over 90 days and within 180 days	226,327	170,886
– Over 180 days and within 360 days	20,158	28,656
– Over 360 days and within 720 days	8,549	12,812
– Over 720 days	4,312	2,850
	673,099	674,093

9 ORDINARY SHARES

	(Unaudited)		
	Number of ordinary shares	Nominal value of ordinary shares (In HKD)	Equivalent nominal value of ordinary shares (In RMB)
As at 1 January 2018 and 30 June 2018	1,696,438,600	169,643,860	141,975,506
As at 1 January 2019 and 30 June 2019	1,696,438,600	169,643,860	141,975,506

10 OTHER RESERVES

	(Unaudited) 30 June 2019 RMB'000	(Audited) 31 December 2018 RMB'000
Statutory reserve	**103,364**	103,364
Merger reserve	**(141,929)**	(141,929)
Share options reserve *(a)*	**48,888**	48,795
Share premium	**1,172,248**	1,172,248
Capital redemption reserve	**702**	702
Capital reserve	**(43,553)**	(43,553)
Others	**188**	–
	1,139,908	1,139,627

(a) Share options reserve

On 28 February 2011, the Company ratified and adopted an equity-settled "Pre-IPO share option plan" to recognize the contributions made by the directors and the employees of the Group.

At the annual general meeting of the shareholders on 10 May 2013, the shareholders adopted a share option scheme (the "**2013 Share Option Scheme**") for options to subscribe for not more than 5% ordinary shares of the then total outstanding shares of the Company. The purpose of the 2013 Share Option Scheme is to provide incentive or reward to certain directors or employees of the Group for their contribution to the Group. On 5 February 2014, options for a total of 19,980,000 ordinary shares of the Company under 2013 Share Option Scheme were granted to certain employees of the Group.

The fair value of the contributions received in exchange for the grant of the options is recognised as an expense on a straight-line basis over vesting period of each tranche.These share options are measured at fair value at granting date.The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee contributions received, measured by reference to the granting date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

10 OTHER RESERVES (continued)

(a) Share options reserve (continued)

(i) Pre-IPO share option plan

The movements in the number of share options outstanding and their related exercise prices under the Pre-IPO share option plan are as follows:

	Exercise price (per share in HKD)	Outstanding shares (unaudited)	
		Six months ended 30 June	
		2019	2018
Beginning of the period	2.60	**29,564,300**	29,564,300
Current period change	2.60	**–**	–
End of the period	2.60	**29,564,300**	29,564,300

The share options outstanding (expiry date: 31 December 2020) as at 30 June 2019 and 2018 have the following vesting dates and exercise prices:

	Exercise price (per share in HKD)	Outstanding shares (unaudited)	
		Six months ended 30 June	
Vesting date		**2019**	2018
21 April 2012	2.60	**2,176,900**	2,176,900
21 April 2013	2.60	**6,426,800**	6,426,800
21 April 2014	2.60	**6,973,000**	6,973,000
21 April 2015	2.60	**6,985,800**	6,985,800
21 April 2016	2.60	**7,001,800**	7,001,800
	2.60	**29,564,300**	29,564,300

All of the options were exercisable as at 30 June 2019 and 2018. No options were exercised during the six months ended 30 June 2019 and 2018.

10 OTHER RESERVES (continued)

(a) Share options reserve (continued)

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

The fair value of the Pre-IPO share options at the granting date has been valued by an independent qualified valuer using Binomial valuation model as follows:

	Granting date RMB'000
Total fair value of share options granted under Pre-IPO share option plan	32,804

The significant inputs into the model were as follows:

	Granting date	
	In HKD	Equivalent to RMB
Spot share price	2.60	2.11
Exercise price	2.60	2.11
Expected volatility	55.98%	N/A
Maturity (years)	10.00	N/A
Risk-free interest rate	2.80%	N/A
Dividend yield	2.00%	N/A
Early Exercise Level	1.30	N/A

(ii) 2013 Share Option Scheme

There was no change in the number of share options outstanding and their related exercise prices under the 2013 Share Option Scheme during the six month ended 30 June 2019 and 2018:

	Exercise price (per share in HKD)	Outstanding shares (unaudited)	
		Six months ended 30 June	
		2019	2018
Beginning of the period	5.93	**17,221,200**	17,221,200
Current period change	5.93	**–**	–
End of the period	5.93	**17,221,200**	17,221,200

10 OTHER RESERVES (continued)

(a) Share options reserve (continued)

(ii) 2013 Share Option Scheme (continued)

The share options outstanding (expiry date: 4 February 2024) as at 30 June 2019 and 2018 have the following vesting dates and exercise prices:

Vesting date	Exercise price (per share in HKD)	Outstanding shares (unaudited) Six months ended 30 June 2019	2018
5 February 2015	5.93	**3,444,240**	3,444,240
5 February 2016	5.93	**3,444,240**	3,444,240
5 February 2017	5.93	**3,444,240**	3,444,240
5 February 2018	5.93	**3,444,240**	3,444,240
5 February 2019	5.93	**3,444,240**	3,444,240
	5.93	**17,221,200**	17,221,200

All of the options were exercisable as at 30 June 2019 (30 June 2018: 13,776,960 options).

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	Granting date 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

The total expense recognised in the interim condensed consolidated income statement for the six months ended 30 June 2019 for share options granted under 2013 Share Option Scheme amounted to RMB93,000 (six months ended 30 June 2018: RMB590,000), with a corresponding amount credited in share options reserve.

11 OTHER GAINS/(LOSSES) – NET

	(Unaudited) Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Exchange gains/(losses) – net	**36,190**	(11,189)
Government grants	**2,828**	1,925
Gains/(losses) on disposal of property, plant and equipment – net	**2,482**	(662)
Others	**(4,614)**	(1,453)
	36,886	(11,379)

12 FINANCE COSTS – NET

	(Unaudited) Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Finance income:		
– Interest income derived from bank deposits	**1,646**	6,751
– Fair value gains on financial assets at fair value through profit or loss	**–**	1,255
	1,646	8,006
Finance costs:		
– Interest expense on bank borrowings	**(114,597)**	(105,738)
– Interest expense on lease liability	**(1,368)**	–
– Exchange losses	**(2,924)**	(29,295)
	(118,889)	(135,033)
Finance costs – net	**(117,243)**	(127,027)

13 INCOME TAX EXPENSE

	(Unaudited)	
	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Current income tax	**48,744**	52,061
Deferred income tax	**(666)**	(12,642)
Income tax expense	**48,078**	39,419

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

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

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

In accordance with the two-tiered profits tax regime, Hong Kong profits tax was calculated on 8.25% of the first HK$2,000,000 and 16.5% of the remaining balance of the estimated assessable profits from 1 April 2018.

Enterprises incorporated in other places (other than the Mainland of China) are subject to income tax rates of 15% to 35% prevailing in the places in which the Group operated for the six months ended 30 June 2019 (for the six months ended 30 June 2018: 15% to 34%).

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

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

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

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

As at 30 June 2019, the permanently reinvested unremitted earnings totalled RMB1,542,740,000 (31 December 2018: RMB1,473,060,000).

14 EARNINGS PER SHARE

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

	(Unaudited) Six months ended 30 June	
	2019	2018
Profit attributable to equity owners of the Company (RMB'000)	**148,742**	70,775
Weighted average number of ordinary shares in issue (thousands of shares)	**1,696,439**	1,696,439
Basic earnings per share (RMB per share)	**0.0877**	0.0417

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 2019, there were 29,564,300 (30 June 2018: 29,564,300) share options outstanding related to Pre-IPO share option plan. For the six months ended 30 June 2019 and 2018, as the average market share price of the ordinary shares during the period was lower than the subscription price, the impact on earnings per share was anti-dilutive.

As at 30 June 2019, there were 17,221,200 (30 June 2018: 17,221,200) share options outstanding related to 2014 Share Option Scheme. For the six months ended 30 June 2019 and 2018, as the average market share price of the ordinary shares during the period was lower than the subscription price, the impact on earnings per share was anti-dilutive.

15 DIVIDENDS

The dividend in respect of 2018 of HKD0.0100 (equivalent to RMB0.0088) per share, amounting to a total dividend of HKD16,964,000 (equivalent to RMB14,970,000), was approved at the Company's annual general meeting on 21 June 2019. It has been reflected as an appropriation of retained earnings for the six months ended 30 June 2019.

The dividend in respect of 2017 of HKD0.0100 (equivalent to RMB0.0085) per share, amounting to a total dividend of HKD16,964,000 (equivalent to RMB14,350,000), was approved at the Company's annual general meeting on 22 June 2018. It has been reflected as an appropriation of retained earnings for the six months ended 30 June 2018.

The directors resolved not to declare any interim dividend in respect of the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

16 RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control.

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the six months ended 30 June 2019 and 2018, and balances arising from related party transactions as at 30 June 2019 and 31 December 2018.

(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 2019 and 2018, the Group had the following significant transactions with related parties:

	(Unaudited) Six months ended 30 June	
	2019 RMB'000	2018 RMB'000
Sales of goods or services:		
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	**6,892**	3,069
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	**3,424**	7,157
Shanghai Hilong Shine New Material Co., Ltd.	**2,308**	11,172
	12,624	21,398
Purchase of goods:		
Shanghai Hilong Shine New Material Co., Ltd.	**6,129**	7,898
Short-term rental expenses:		
Beijing Huashi Hailong Oil Investments Co., Ltd.	**5,014**	5,410
Shanghai Longshi Investment Management Co., Ltd.	**–**	1,355
	5,014	6,765
Interest expenses on lease liabilities:		
Beijing Huashi Hailong Oil Investments Co., Ltd.	**24**	–
Shanghai Longshi Investment Management Co., Ltd.	**80**	–
	104	–
Rental income:		
Shanghai Hilong Shine New Material Co., Ltd.	**1,238**	–

In the opinion of the Company's directors, the above related party transactions were carried out in the ordinary course of the business and in accordance with the terms of the underlying agreements.

16 RELATED PARTY TRANSACTIONS (continued)

(c) Balances with related parties

	(Unaudited) 30 June 2019 RMB'000	(Audited) 31 December 2018 RMB'000
Trade receivables due from:		
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	6,107	1,805
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	5,150	2,234
	11,257	4,039
Other receivables due from:		
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	43,281	44,621
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	32,884	24,609
Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd	8,409	52,484
Shanghai Hilong Shine New Material Co., Ltd.	3,829	7,112
Anshan Hidlong Anti-Corrosion Engineering Co., Ltd.	1,568	3,525
Hilong Group Limited	1,515	1,515
	91,486	133,866
Lease liabilities due to:		
Beijing Huashi Hailong Oil Investments Co., Ltd.	975	–
Shanghai Longshi Investment Management Co., Ltd.	2,594	–
	3,569	–
Trade payables due to:		
Shanghai Hilong Shine New Material Co., Ltd.	18,437	15,984
Other payables due to:		
Beijing Huashi Hailong Oil Investments Co., Ltd.	12,005	10,355
Shanghai Longshi Investment Management Co., Ltd.	5,470	3,964
Mr. Zhang Jun	938	938
Shanghai Hilong Shine New Material Co., Ltd.	207	3,774
	18,620	19,031
Dividends receivable:		
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	2,036	2,036

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

17 COMMITMENTS

(a) Operating lease commitments

The Group leases various buildings and a rig under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	(Unaudited) 30 June 2019 RMB'000	(Audited) 31 December 2018 RMB'000
No later than 1 year	–	32,865
Later than 1 year and no later than 3 years	–	30,262
Later than 3 years	–	17,254
	–	80,381

18 CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of HKFRS 16 Leases on the Group's financial statements and discloses the new accounting policies that have been applied from 1 January 2019 in Note 18(b) below.

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

(a) Adjustments recognised on adoption of HKFRS 16

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

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

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

18 CHANGES IN ACCOUNTING POLICIES (continued)

(a) Adjustments recognised on adoption of HKFRS 16 (continued)

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

	30 June 2019 RMB'000	1 January 2019 RMB'000
Land	**92,205**	93,531
Buildings	**16,802**	14,848
Machinery and equipment	**27,437**	35,038
Total right-of-use assets	**136,444**	143,417

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

(i) Impact on segment disclosures and earnings per share

Segment assets and segment liabilities for 30 June 2019 all increased as a result of the change in accounting policy. Lease liabilities are now included in segment liabilities. The following segments were affected by the change in policy:

	Segment assets RMB'000	**Segment liabilities** RMB'000
Oilfield equipment manufacturing and services	20,686	20,952
Line pipe technology and services	4,896	4,955
Oilfield services	26,246	26,564
Offshore engineering services	2,563	2,594
	54,391	55,065

Earnings per share decreased by RMB0.0004 per share for the six months to 30 June 2019 as a result of the adoption of HKFRS 16.

18 CHANGES IN ACCOUNTING POLICIES (continued)

(a) Adjustments recognised on adoption of HKFRS 16 (continued)

(ii) Practical expedients applied

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

- reliance on previous assessments on whether leases are onerous
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases, and
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application

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

(b) The Group's leasing activities and how these are accounted for

The Group leases various land, buildings and equipments. Rental contracts are typically made for fixed periods of 3 to 5 years and has no extension option except for the land. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease. Meanwhile, lease prepayments in respect of land use rights were amortised on straight-line basis over their approved remaining periods.

From 1 January 2019, leases and lease prepayment are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the lease term on a straight-line basis.

18 CHANGES IN ACCOUNTING POLICIES (continued)

(b) The Group's leasing activities and how these are accounted for (continued)

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

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

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

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

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

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

OTHER INFORMATION

CHANGES IN DIRECTORS' INFORMATION

There were changes in information of directors since the date of the 2018 Annual Report of the Company as follows:

1. Mr. Li Huaiqi retired as a non-executive Director of the Company upon the conclusion of the 2019 annual general meeting on 21 June 2019;

2. Mr. Liu Haisheng retired as an independent non-executive Director of the Company upon the conclusion of the 2019 annual general meeting on 21 June 2019.

DISCLOSURE OF INTERESTS

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

As at 30 June 2019, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") were as follows:

(a) Long positions in the shares of the Company

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

Notes:

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

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

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

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

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

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

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

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

OTHER INFORMATION

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

As at 30 June 2019, the interests or short positions of the substantial shareholders (other than the interests disclosed above in respect of certain Directors who are also substantial shareholders of the Company) in the shares and underlying shares of the Company as recorded in the register of substantial shareholders as required to be kept by the Company under Section 336 of the SFO or as the Company is aware were as follows:

Long positions in the shares and underlying shares of the Company

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

Notes:

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

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

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

PRE-IPO SHARE OPTION SCHEME

The Company ratified and adopted a pre-IPO share option scheme (the "**Pre-IPO Scheme**") on 28 February 2011. The Pre-IPO Scheme commenced on 1 January 2011. The grantees to whom an option has been granted under the Pre-IPO Scheme will be entitled to exercise his/her options up to 20% at any time commencing from each anniversary of the date of listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Listing Date**") and ending on the next anniversary of the Listing Date prior to the fifth anniversary of the Listing Date, while the last 20% and all of the unexercised options from the preceding four years will be exercisable at any time during the period commencing from the fifth anniversary of the Listing Date and ending on the expiry of the option period, which must not be more than 10 years from the Listing Date. During the year of 2011, options to subscribe for an aggregate of 46,322,000 shares, being all options available under the Pre-IPO Scheme, have been granted.

OTHER INFORMATION

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

Category/ name of grantees	Number of share options: Outstanding as at 1 January 2019	Granted during the Interim Period	Exercised during the Interim Period	Cancelled/ lapsed during the Interim Period	Outstanding as at 30 June 2019	Exercise price HK$	Weighted average closing price immediately before exercise HK$	Date of grant	Exercise period
Directors									
Mr. Zhang Jun	600,000	–	–	–	600,000	2.60	–	1 January 2011	21 April 2012– 31 December 2020
Ms. Zhang Shuman	600,000	–	–	–	600,000	2.60	–	1 January 2011	21 April 2012– 31 December 2020
Mr. Yuan Pengbin	2,150,000	–	–	–	2,150,000	2.60	–	1 January 2011	21 April 2012– 31 December 2020
Mr. Wang Tao (汪濤)	2,150,000	–	–	–	2,150,000	2.60	–	1 January 2011	21 April 2012– 31 December 2020
In aggregate	5,500,000	–	–	–	5,500,000				
Employees of the Group other than Directors									
In aggregate	24,064,300	–	–	–	24,064,300	2.60	–	1 January 2011	21 April 2012– 31 December 2020
Total	29,564,300	–	–	–	29,564,300				

POST-IPO SHARE OPTION SCHEME

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

Category/ name of grantees	Number of share options: Outstanding as at 1 January 2019	Granted during the Interim Period	Exercised during the Interim Period	Cancelled/ lapsed during the Interim Period	Outstanding as at 30 June 2019	Exercise price HK$	Closing price immediately before the date of grant HK$	Weighted average closing price immediately before exercise HK$	Date of grant	Exercise period
Employees of the Group other than Directors										
In aggregate	17,221,200	–	–	–	17,221,200	5.93	5.72	–	5 February 2014	5 February 2015– 4 February 2024

OTHER INFORMATION

CORPORATE GOVERNANCE CODE

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

REVIEW OF INTERIM REPORT

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

DIVIDENDS

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

APPRECIATION

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

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

23 August 2019