Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

Hilong Holding Limited
海隆控股有限公司*

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

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

FINANCIAL HIGHLIGHTS

- Revenue was approximately RMB3,649.9 million, representing an increase of approximately 13.3% as compared with 2018.
- Gross profit was approximately RMB1,161.2 million, representing an increase of approximately 13.8% as compared with 2018. Gross profit margin was 31.8% in 2019, nearly the same as compared with 2018.
- Profit for the year was approximately RMB188.2 million, representing an increase of approximately 24.9% as compared with 2018. Profit attributable to equity owners of the Company for the year was approximately RMB176.8 million, representing an increase of approximately 18.9% as compared with 2018.
- Basic earnings per share was approximately RMB0.1, representing an increase of 18.9% as compared with 2018.

The Board resolved to recommend a final dividend of HK2.0 cents per share for the year ended 31 December 2019, which is subject to the shareholders' approval at the forthcoming annual general meeting of the Company.

* *For identification purposes only*

The board (the "**Board**") of directors (the "**Directors**") of Hilong Holding Limited (the "**Company**") is pleased to announce the consolidated annual results of the Company and its subsidiaries (collectively, the "**Group**" or "**Hilong**" or "**us**") prepared according to the Hong Kong Financial Reporting Standards ("**HKFRS**") for the year ended 31 December 2019 with the comparative figures as follows:

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2019

	Note	**Year ended 31 December 2019** *RMB'000*	2018 *RMB'000*
Revenue	*4*	**3,649,906**	3,222,416
Cost of sales		**(2,488,725)**	(2,201,734)
Gross profit		**1,161,181**	1,020,682
Selling and marketing expenses		**(154,926)**	(124,227)
Administrative expenses		**(486,766)**	(405,810)
Net impairment losses on financial assets		**(42,266)**	(12,418)
Other gains – net	*7*	**104,915**	56,881
Operating profit		**582,138**	535,108
Finance income		**3,523**	9,105
Finance costs		**(278,493)**	(318,791)
Finance costs – net	*8*	**(274,970)**	(309,686)
Share of profit of investments accounted for using equity method		**5,236**	7,121
Profit before income tax		**312,404**	232,543
Income tax expense	*9*	**(124,183)**	(82,012)
Profit for the year		**188,221**	150,531
Profit attributable to:			
Equity owners of the Company		**176,818**	148,741
Non-controlling interests		**11,403**	1,790
		188,221	150,531
Earnings per share attributable to the equity owners of the Company for the year (expressed in RMB per share)			
Basic earnings per share	*10*	**0.1042**	0.0877
Diluted earnings per share	*10*	**0.1042**	0.0877

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2019

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

CONSOLIDATED BALANCE SHEET
As at 31 December 2019

		As at 31 December	
	Note	**2019**	2018
		RMB'000	*RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**3,172,363**	3,261,017
Right-of-use assets		**120,268**	–
Lease prepayments		**–**	83,110
Intangible assets		**238,382**	212,627
Investments accounted for using equity method		**44,526**	39,230
Deferred income tax assets		**203,890**	211,348
Other long-term assets		**87,925**	57,244
		3,867,354	3,864,576
Current assets			
Inventories		**860,109**	889,138
Contract assets		**185,777**	–
Financial assets at fair value through other comprehensive income		**170,645**	–
Trade and other receivables	*5*	**2,341,098**	2,084,897
Prepayment		**182,331**	176,959
Current income tax recoverable		**26,170**	37,910
Restricted cash		**124,329**	184,479
Cash and cash equivalents		**783,178**	661,738
		4,673,637	4,035,121
Total assets		**8,540,991**	7,899,697
EQUITY			
Capital and reserve attributable to equity owners of the Company			
Ordinary shares	*12*	**141,976**	141,976
Other reserves		**1,283,815**	1,139,627
Currency translation differences		**(39,312)**	(92,848)
Retained earnings		**2,276,462**	2,120,614
		3,662,941	3,309,369
Non-controlling interests		**43,522**	212,641
Total equity		**3,706,463**	3,522,010

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 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 and offshore engineering services.

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

The consolidated financial statements are presented in Renminbi thousand (RMB'000), unless otherwise stated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

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

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

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

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

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

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

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

(b) *New standards and interpretations not yet adopted*

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

- Amendments to HKFRS 3 'Business Combinations', effective for the accounting period beginning on or after 1 January 2020.
- Amendments to HKAS 1 and HKAS 8 'Definition of Material', effective for the accounting period beginning on or after 1 January 2020.
- Amendments to conceptual Framework of IASB, effective for the accounting period beginning on or after 1 January 2020.
- HKAS 39, HKFRS 7 and Amendments to HKFRS 9 'Interest Rate Benchmark Reform', effective for the accounting period beginning on or after 1 January 2020.
- HKFRS 17 'Insurance Contracts', effective for the accounting period beginning on or after 1 January 2022.
- Amendments to HKFRS 10 and HKAS 28 'Sale or contribution of assets between an investor and its associate or joint venture', the effective date of this amendment has been deferred by IASB.

3 CHANGES IN ACCOUNTING POLICIES

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

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

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

(i) Practical expedients applied

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

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

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

(ii) Measurement of lease liabilities

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

(iii) Measurement of Right-of-use assets

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

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

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

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

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

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

Right-of-use assets – increase by RMB143,417,000
Lease prepayments – decrease by RMB83,110,000
Lease liabilities – increase by RMB60,307,000

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

(v) Lessor accounting

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

4 SEGMENT INFORMATION

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

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

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

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

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

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

- Oilfield equipment manufacturing and services provision, including the production of oilfield equipment and provision of OCTG coating services;

- Line pipe technology and services provision, including the provision of services related to oil and gas pipe line and production of coating materials for anti-corrosive and anti-friction purposes;

- Oilfield services provision, including the provision of well drilling services, integrated comprehensive services, OCTG trading and related services to oil and gas producers; and

- Offshore engineering services provision, including the provision of offshore engineering services and offshore design services.

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

(a) Revenue

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

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

(b) Segment information

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

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

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

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

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

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

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

(c) Geographical segments

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

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

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

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

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

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

(d) Assets and liabilities related to contracts with customers

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

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

(i) Significant changes in contract assets and liabilities

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

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

(ii) Revenue recognised in relation to contract liabilities

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

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

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

(iii) Assets recognised from costs to fulfil a contract

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

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

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

5 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Bills receivable (i)	**–**	48,913
Trade receivables (i)	**2,191,645**	1,962,897
– Due from related parties	**6,140**	4,039
– Due from third parties	**2,185,505**	1,958,858
Less: provision for loss allowance of receivables (ii)	**(105,269)**	(154,978)
Trade receivables – net	**2,086,376**	1,807,919
Other receivables (iii)	**251,976**	226,029
Dividend receivables	**2,746**	2,036
Trade and other receivables – net	**2,341,098**	2,084,897

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

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

As at 31 December 2019 and 2018, the carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
– USD	**1,307,947**	1,102,254
– RMB	**718,400**	750,770
– RUB	**231,650**	166,476
– AED	**39,212**	23,561
– NGN	**20,848**	10,783
– PEN	**8,852**	40
– CAD	**6,347**	10,755
– MYR	**2,353**	70
– ALL	**2,150**	–
– PKR	**1,391**	3,845
– KZT	**627**	12,869
– Other currencies	**1,321**	3,474
	2,341,098	2,084,897

* RUB – Russian Rouble, AED – the United Arab Emirates Dirham, NGN – Nigerian Naira, PEN – Peru, CAD – Canadian Dollar, MYR – Malaysian ringgit, ALL – Albanian Lek, PKR – Pakistani rupee, KZT – Kazakhstan tenge, HKD – Hong Kong Dollar, EUR – European euro, ETB – Ethiopia birr, OMR – Oman rial, UAH – Hryvnia.

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

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

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Trade receivables, gross		
– Within 90 days	**910,130**	1,015,844
– Over 90 days and within 180 days	**388,624**	216,567
– Over 180 days and within 360 days	**351,649**	377,399
– Over 360 days and within 720 days	**367,799**	144,381
– Over 720 days	**173,443**	208,706
	2,191,645	1,962,897

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

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
As at 1 January	**(154,978)**	(143,457)
Provision for receivables loss allowance	**(41,730)**	(12,418)
Reversal of loss allowance	**–**	897
Write-off of loss allowance	**91,439**	–
As at 31 December	**(105,269)**	(154,978)

(iii) Details of other receivables are as follows:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Due from related parties	**148,537**	133,866
Deposits	**44,816**	42,990
Staff advances	**23,018**	29,546
Value added tax refund	**978**	1,167
Others	**34,627**	18,460
	251,976	226,029

6 TRADE AND OTHER PAYABLES

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Bills payable	**233,171**	206,909
Trade payables:	**658,402**	674,093
– Due to third parties	**643,219**	658,109
– Due to related parties	**15,183**	15,984
Other payables:	**155,294**	53,244
– Due to related parties (i)	**59,719**	19,031
– Due to third parties (ii)	**95,575**	34,213
Staff salaries and welfare payables	**42,314**	44,168
Interest payables	**33,364**	7,026
Accrued taxes other than income tax	**99,281**	94,158
Dividends payable	**11,809**	4,109
Other liabilities	**17,804**	15,482
	1,251,439	1,099,189

(i) As at 31 December 2019 and 2018, there was an unpaid cash consideration amounted to RMB938,000 in relation to the acquisition of additional interest in Hilong Oil Service and Engineering Co., Ltd, which was completed on 8 May 2014.

(ii) As at 31 December 2019 and 2018, there was an unpaid cash consideration due to Kamelon LLC amounted to USD200,000 in relation to the acquisition of Russia Coating Business which was completed on 1 December 2014.

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

As at 31 December 2019 and 2018, trade and other payables were denominated in the following currencies:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
– RMB	**883,741**	945,746
– USD	**209,421**	46,522
– RUB	**60,294**	19,366
– NGN	**35,659**	3,921
– AED	**18,499**	22,950
– PKR	**18,396**	13,921
– ETB	**13,059**	12,872
– EUR	**4,862**	961
– CAD	**1,810**	2,983
– OMR	**1,661**	24,522
– UAH	**1,160**	–
– MYR	**952**	443
– ALL	**883**	2,497
– KZT	**730**	2,485
– Other currencies	**312**	–
	1,251,439	1,099,189

(iii) The ageing analysis of the trade payables based on invoice date, including amounts due to related parties which was trading related in nature, was as follows:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Trade payables, gross		
– Within 90 days	**470,851**	458,889
– Over 90 days and within 180 days	**148,170**	170,886
– Over 180 days and within 360 days	**29,941**	28,656
– Over 360 days and within 720 days	**7,270**	12,812
– Over 720 days	**2,170**	2,850
	658,402	674,093

7 OTHER GAINS – NET

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Government grants	**6,517**	8,941
Net gains on disposal of a subsidiary (a)	**1,605**	2,910
Gains on disposal of a joint venture (b)	**–**	113
Gains/(losses) on disposal of property, plant and equipment – net	**3,825**	(14,310)
Exchange gains	**98,619**	62,862
Others	**(5,651)**	(3,635)
	104,915	56,881

(a) On 30 October 2019, Hilong Pipeline Engineering Technology Service Co., Ltd. transferred its total 55% equity interest of Hilong Pipeline Engineering Technology Service Taicang Co., Ltd. to Shanghai Jiafang Steel Pipe (Group) Co., Ltd. and Shanghai Jia Fang Pipe (Taicang) Co., Ltd. at a total consideration of RMB4,000,000. The Group recorded a gain of approximately RMB1,605,000 from the disposal. RMB2,000,000 of the consideration was collected in 2019.

On 30 September 2018, Hilong Group of Companies Ltd. transferred its 100% equity interest of Jiangsu Hilong Drill Pipe Co., Ltd. to Jiangsu Shuguang Group Co., Ltd. at a consideration of RMB24,727,622. The Group recorded a gain of approximately RMB3,446,597 from the disposal. RMB15,727,622 of the consideration was waived by an offsetting agreement and the remaining balance of RMB9,000,000 was not yet collected.

On 30 September 2018, Hilong Group of Companies Ltd. and Hilong Energy Limited transferred their total 51% equity interest of Shanxi Tangrong Hilong Drill Tools Co., Ltd. to Shanxi Tangrong Machinery Manufacturing Co., Ltd. at a consideration of RMB16,160,000. The Group recorded a loss of approximately RMB536,125 from the disposal. RMB8,240,000 of the consideration was waived by an offsetting agreement and the remaining balance of RMB7,920,000 was collected in 2018.

(b) On 27 December 2018, Shaanxi Yanchang Petroleum Tube-Cote Pipe Coating Co., Ltd. was liquidated. The Group recorded a gain of approximately RMB113,200 from the disposal of the investment.

8 FINANCE COSTS – NET

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Finance income:		
– Interest income derived from bank deposits	**3,523**	7,630
– Fair value gains on financial assets at fair value through profit or loss	**–**	1,475
	3,523	9,105
Finance costs:		
– Interest expense on bank borrowings	**(246,136)**	(217,459)
– Interest expense on lease liabilities	**(2,611)**	–
– Less: interest capitalised	**–**	4,996
– Exchange losses	**(29,746)**	(106,328)
	(278,493)	(318,791)
Finance costs – net	**(274,970)**	(309,686)

9 INCOME TAX EXPENSE

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Current income tax	**119,074**	108,050
Deferred income tax	**5,109**	(26,038)
Income tax expense	**124,183**	82,012

The difference between the actual income tax charge in the consolidated income statement and the amounts which would result from applying the enacted tax rate to profit before income tax can be reconciled as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Profit before tax	**312,404**	232,543
Tax calculated at statutory tax rates applicable to each group entity	**78,212**	51,228
Tax effect of:		
Expenses not deductible for tax purpose	**3,788**	5,057
Additional deduction for research and development expenses (b)	**(8,960)**	(8,242)
Tax effect of reduced tax rate	**1,447**	–
Utilisation of previously unrecognised tax losses	**(11,825)**	(12,957)
Tax losses of subsidiaries not recognised	**61,521**	46,926
Tax charge	**124,183**	82,012

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

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

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

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

Enterprises incorporated in other places (other than the Mainland China) are subject to income tax rates ranging from 15% to 35% prevailing in the places in which these enterprises operated for the year ended 31 December 2019 (31 December 2018: 15% to 35%).

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

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

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

Pursuant to the Arrangement between the Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respects to Taxes on Income, a lower 5% withholding tax rate can be applied if the immediate holding companies of the PRC subsidiaries are established in Hong Kong and can be considered as a "beneficial owner". Hilong Energy Limited ("**Hilong Energy**") is a Hong Kong registered company and is the immediate holding company of the PRC subsidiaries, which has successfully applied for and been qualified as a "beneficial owner". Given the above, the local tax authority approved Hilong Group of Companies Ltd., the PRC holding company of all other subsidiaries in the PRC, to use a 5% withholding tax rate when it distributed its profits to Hilong Energy from 2016 to 2018. As at 31 December 2019, Hilong Energy is in the process of renewal of the qualification.

Meanwhile, pursuant to the resolutions of the Board of Directors of Hilong Group of Companies Ltd. dated 31 December 2019 and 29 December 2018, all the earnings generated by the Company's wholly-owned PRC subsidiaries will all be permanently reinvested. Accordingly, deferred income tax liabilities of RMB3,267,000 (2018: RMB6,437,000) have not been recognised for withholding tax that would be payable on the unremitted earnings generated by the Company's PRC subsidiaries for the years ended 31 December 2019 and 2018. As at 31 December 2019, deferred income tax liabilities of RMB76,920,000 (31 December 2018: RMB73,653,000) have not been recognised for the withholding tax that would otherwise be payable on the unremitted earnings of RMB1,538,400,000 (31 December 2018: RMB1,473,060,000).

(a) Tax effect of tax exemption and reduced tax rates under tax holiday

The effective income tax rates for the companies with tax preferential treatment are as follows:

	Year ended 31 December	
	2019	2018
Shanghai Hilong Drill Pipe Co., Ltd.*	**15%**	15%
Hilong Drill Pipe (Wuxi) Co., Ltd.*	**15%**	15%
Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd.*	**15%**	15%
Hilong Pipeline Engineering Technology Service Co., Ltd.*	**15%**	15%
Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd.*	**15%**	15%
Sichuan Hilong Petroleum Technology Co., Ltd.*	**15%**	15%
Shanghai Boteng Welding Consumable Co., Ltd.*	**15%**	15%
Shenglong Oil and Gas Pipeline Inspection Technology Co., Ltd.*	**15%**	15%
Hilong Petroleum Products Technical Services (Shanghai) Co., Ltd.*	**15%**	15%
Shanghai Hilong Tubular Goods Manufacturing Co., Ltd.*	**15%**	25%
Hilong Group (Shanghai) Information Technology Company*	**15%**	25%

* Shanghai Hilong Drill Pipe Co., Ltd. is qualified for new/high-tech enterprises status and enjoys a preferential income tax rate of 15% for the three years from 2018 to 2020.

* Hilong Drill Pipe (Wuxi) Co., Ltd. is qualified for new/high-tech enterprises status and enjoys a preferential income tax rate of 15% for the three years from 2018 to 2020.

* Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd. is qualified for new/high-tech enterprises status and enjoys a preferential income tax rate of 15% for the three years from 2017 to 2019, and the qualification is in the process of renewal.

* Hilong Pipeline Engineering Technology Service Co., Ltd. is qualified for new/high-tech enterprises status and enjoys a preferential income tax rate of 15% for the three years from 2018 to 2020.

* Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd. is qualified for new/high-tech enterprises status and enjoys a preferential income tax of 15% for the three years from 2018 to 2020.

* Sichuan Hilong Petroleum Technology Co., Ltd. is incorporated in the western region of China and is engaged in encouraged industries, and enjoys a preferential income tax of 15% for the six years from 2015 to 2020.

* Shanghai Boteng Welding Consumable Co., Ltd. is qualified for new/high-tech enterprises status and enjoys a preferential income tax of 15% for the three years from 2018 to 2020.

* Shenglong Oil and Gas Pipeline Inspection Technology Co., Ltd. is qualified for new/high-tech enterprises status and enjoys a preferential income tax rate of 15% for the three years from 2018 to 2020.

* Hilong Petroleum Products Technical Services (Shanghai) Co., Ltd. is qualified for new/high-tech enterprises status and enjoys a preferential income tax rate of 15% for the three years from 2018 to 2020.

* Shanghai Hilong Tubular Goods Manufacturing Co., Ltd. is qualified for new/high-tech enterprises status and enjoys a preferential income tax rate of 15% for the three years from 2019 to 2021.

* Hilong Group (Shanghai) Information Technology Company is qualified for new/high-tech enterprises status and enjoys a preferential income tax rate of 15% for the three years from 2019 to 2021.

No tax reductions and exemptions were granted to the other subsidiaries of the Company in the PRC for the years ended 31 December 2019 and 2018.

(b) Additional deduction for research and development expenses

Pursuant to the CIT Law, an additional tax deduction relating to research and development expenses incurred is allowed, after the approval by the tax authorities is obtained. This additional allowed deduction is calculated at 75% of the actual research and development expenses incurred from 1 January 2018 to 31 December 2020.

10 EARNINGS PER SHARE

Basic earnings per share

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

	Year ended 31 December	
	2019	2018
Profit attributable to equity owners of the Company *(RMB'000)*	**176,818**	148,741
Weighted average number of ordinary shares in issue *(thousands of shares)*	**1,696,439**	1,696,439
Basic earnings per share *(RMB per share)*	**0.1042**	0.0877

Diluted earnings per share

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

A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares from 1 January to 31 December) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

As at 31 December 2019, there were 29,500,300 (31 December 2018: 29,564,300) share options outstanding related to Pre-IPO share option plan. For the years ended 31 December 2019 and 31 December 2018, as the average market share price of the ordinary shares during the years was lower than the subscription price, the impact on earnings per share was anti-dilutive.

As at 31 December 2019, there were 16,058,100 (31 December 2018: 17,221,200) share options outstanding related to 2013 Share Option Scheme. For the years ended 31 December 2019 and 31 December 2018, as the average market share price of the ordinary shares during the years was lower than the subscription price, the impact on earnings per share was anti-dilutive.

11 DIVIDENDS

Pursuant to a resolution of the Board of Directors on 29 March 2020, a final dividend of HKD0.0200 (equivalent to approximately RMB0.0180) per share for the year ended 31 December 2019 has been recommended by the directors. This final cash dividend is subject to the approval of the shareholders of the Company at the forthcoming annual general meeting. Upon approval of the shareholders at the annual general meeting, the proposed final dividend will be paid on 10 July 2020 to the shareholders of the Company whose names appear on the register of members of the Company as at 30 June 2020. The total amount is estimated to be HKD33,928,000 (equivalent to approximately RMB30,535,000). These financial statements do not reflect this dividend payable.

The dividend in respect of 2018 of HKD0.0100 (equivalent to RMB0.0090) per share, amounted to a total dividend of HKD16,964,000 (equivalent to RMB15,324,000), was approved at the Company's annual general meeting on 21 June 2019. It has been reflected as an appropriation of retained earnings for the year ended 31 December 2019 and paid out.

The dividend in respect of 2017 of HKD0.0100 (equivalent to RMB0.0087) per share, amounted to a total dividend of HKD16,964,000 (equivalent to RMB14,734,000), was approved at the Company's annual general meeting on 22 June 2018. It has been reflected as an appropriation of retained earnings for the year ended 31 December 2018 and paid out.

There is no arrangement that any shareholder of the Company has waived or agreed to waive any dividends.

12 ORDINARY SHARES

	Number of ordinary shares	**Nominal value of ordinary shares** *(In HKD)*	**Equivalent nominal value of ordinary shares** *(In RMB)*
As at 31 December 2018 and 31 December 2019	1,696,438,600	169,643,860	141,975,506

13 EVENTS AFTER THE BALANCE SHEET DATE

Pursuant to a resolution of the Board of Directors on 29 March 2020, a dividend of HKD0.0200 (equivalent to approximately RMB0.0180) per share was proposed. Details refer to Note 11.

In December 2019, Hilong Pipeline Engineering Technology Service Co., Ltd. signed an agreement with Beijing Huashi Hailong Oil Investments Co., Ltd. ("**Huashi Investment**") to purchase 51% equity interest of Shanghai Hilong Shine New Material Co., Ltd., a wholly-owned subsidiary of Huashi Investment, at a cash consideration of RMB84,150,000. Up to the date of approving the consolidated financial statements of the company, the transaction is still in process. Details of the transaction were set out in the announcement dated 5 December 2019 and the circular dated 6 December 2019 of the company.

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

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Revenue

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Cost of Sales/Services

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

Gross Profit and Gross Profit Margin

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

Selling and Marketing Expenses

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

Administrative Expenses

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

Other Gains – Net

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

Finance Costs – Net

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

Profit before Income Tax

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

Income Tax Expense

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

Profit for the year attributable to equity owners of the Company

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

Inventories

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

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

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

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

Trade and Other Receivables

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

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

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

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

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

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

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

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

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

Trade and Other Payables

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

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

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

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

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

Liquidity and Financial Resources

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

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

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

Operating Activities

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

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

Investing Activities

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

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

Financing Activities

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

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

Capital Expenditures

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

Indebtedness

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

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

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

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

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

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

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

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

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

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

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

Gearing Ratio

The Group's objectives in capital management objectives are to maintain the Group's ability of ongoing operation to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

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

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

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

Foreign Exchange

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to USD. Foreign exchange risk arises from recognised assets and liabilities in foreign operations. The conversion of RMB into foreign currencies, including USD, has been made based on the rates set by the People's Bank of China. On 21 July 2005, the PRC government changed its decade-old policy of pegging the value of RMB to USD. Under this policy, RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in an approximately 14.0% appreciation of RMB against USD from 21 July 2005 to 31 December 2019. There remains significant pressure on the PRC government to adopt more flexible currency policy, which could result in more fluctuated exchange rate of the RMB against USD. The Group may consider entering into currency hedging transactions to further manage its exposure to fluctuations in exchange rates, or nature hedging by actively matching the currency structure of monetary assets and liabilities. However, the effectiveness of such transactions may be limited. The revenue denominated in USD represented 47.8% and 47.7% of the total revenue of the Group in 2018 and 2019, respectively.

Staff and Remuneration Policy

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

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

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

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

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

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

BUSINESS REVIEW

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

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

Oilfield Equipment

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

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

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

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

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

Line Pipe Technology and Services

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

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

Oilfield Services

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

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

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

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

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

Offshore Engineering Services

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

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

Technology research and development

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

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

Outlook

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

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

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

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

CORPORATE GOVERNANCE

Corporate Governance Code

The Company has complied with all the code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") throughout the year ended 31 December 2019.

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 year ended 31 December 2019.

REVIEW OF ANNUAL RESULTS

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 annual results for the year ended 31 December 2019 before the results were submitted to the Board for approval.

The auditor of the Company, PricewaterhouseCoopers, has agreed that the figures in respect of the Group's annual results for the year ended 31 December 2019 contained in this announcement are consistent with the amounts set out in the Group's audited consolidated financial statements for the year.

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 year ended 31 December 2019.

DIVIDENDS

The Board resolved to recommend the payment of a final dividend of HK2.0 cents per share (2018: HK1.0 cent per share), amounting to approximately HK$33.9 million (equivalent to approximately RMB30.5 million) calculated based on the number of the issued shares of the Company as at the date hereof, for the year ended 31 December 2019, subject to the approval of the shareholders of the Company at the forthcoming annual general meeting of the Company (the "**AGM**"). Upon approval of the shareholders at the AGM, the proposed final dividend will be paid on 10 July 2020 to the shareholders of the Company whose names appear on the register of members of the Company as at 30 June 2020.

CLOSURE OF REGISTER OF MEMBERS

For determining the qualification as shareholders of the Company to attend and vote at the AGM to be held on 19 June 2020, the register of members of the Company will be closed from Tuesday, 16 June 2020 to Friday, 19 June 2020, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Monday, 15 June 2020.

For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Monday, 29 June 2020 to Tuesday, 30 June 2020, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the entitlement to the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Friday, 26 June 2020.

PUBLICATION OF ANNUAL RESULTS

This annual results announcement is published on the websites of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (www.hilonggroup.net).

The annual report for the year ended 31 December 2019 containing all the information required by the Listing Rules will be despatched to shareholders of the Company and become available on the same websites in due course.

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

29 March 2020

As at the date of this announcement, the executive directors of the Company are Mr. ZHANG Jun and Mr. WANG Tao (汪濤); the non-executive directors are Ms. ZHANG Shuman, Mr. YUAN Pengbin and Dr. YANG Qingli; and the independent non-executive directors are Mr. WANG Tao (王濤), Mr. WONG Man Chung Francis and Mr. SHI Zheyan.