Hilong Holding Limited
海隆控股有限公司*
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1623)

INSIDE INFORMATION

(1) UPDATES ON BUSINESS OPERATION AND NOTES DEFAULT; AND (2) PROFIT WARNING

This announcement is made by Hilong Holding Limited (the "**Company**" and, together with its subsidiaries, the "**Group**") pursuant to Rule 13.09(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and the inside information provisions under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

Reference is made to the announcement (the "**Previous Announcement**") of the Company dated 30 June 2020 in relation to, among other things, the expiration of the Exchange Offer, the failure to repay the 2020 Notes upon maturity, which constituted an event of default under the 2020 Notes and also cross-defaulted, but did not automatically accelerate, the 2022 Notes (collectively, the "**Notes**", and such defaults, the "**Notes Default**"), and the appointment of external advisors. Unless the context requires otherwise, capitalised terms used in the following paragraphs shall bear the same meanings as defined in the Previous Announcement.

* *For identification purposes only*

UPDATES ON BUSINESS OPERATION AND NOTES DEFAULT

(i) Business Operations

The Group is a leading integrated oilfield equipment and service provider with a focus on oilfield equipment manufacturing and services, line pipe technology and services, oilfield services and offshore engineering services, in the PRC and international markets.

Since the Notes Default, the Group has taken steps to maintain its daily operations and has put in place measures designed to reduce capital expenditures and costs. Further, the Group has been actively engaging with its customers and suppliers in seeking their understanding and continued support of the Group. Due to the COVID-19 pandemic and the associated economic dislocation, as well as the volatility in global oil prices experienced in the first half of 2020, oil prices dipped and some of the Group's customers are experiencing liquidity constraints themselves and have been slow in making payments to the Group. As a result, turnover days of the Group's trade receivables for the six months ended 30 June 2020 have increased as compared to those for the same period in 2019, which put pressure on the Group's cash flows.

With respect to each of the Group's business segments:

- Oilfield equipment manufacturing and services: The oilfield equipment manufacturing and services of the Group consist of drill pipes, oil country tubular goods coating services, drill pipe components, hardbanding materials and services and other related products. This segment accounted for 45.3% of the total revenue of the Group for the year ended 31 December 2019.

  The global economic dislocation and the ongoing pandemic have resulted in an abrupt reduction in the demand for oil. Oil companies have reduced their drilling activities and oil production, in turn reducing demand for oilfield equipment. The demand for drilling pipes is, however, to a certain extent, supported by the nature of drilling pipes as non-durable goods that require regular replacement.

The Group's oilfield equipment business is generally funded by its working capital. Manufacturing activities are continuing in normal order as the Group has been able to receive recurring payments from customers. The Group is selective in bidding for new contracts, aiming at those with better visibility on cash flow generation.

- Oilfield services: The oilfield services of the Group primarily consist of drilling services, oil country tubular goods ("**OCTG**") trading and related services. This segment accounted for 35.2% of the total revenue of the Group for the year ended 31 December 2019.

  Compared with the oilfield equipment manufacturing and services segment, the oilfield services segment has seen a greater decline in demand as customers' drilling activities reduced. A number of the Group's ongoing drilling projects are suspended until further notice, due to in some cases orders by local governments since the outbreak of the pandemic and in other cases instructions by customers due to concerns about safety or constraints on their own cash flow. This could potentially put pressure on project schedules and eventually the Group's collection of accounts receivable.

  The Group continues to evaluate opportunities to bid for new contracts in this segment. As a measure to reduce capital expenditure, the Group is only considering projects that could be fulfilled by utilizing existing drilling rigs. The Group is refraining from bidding for projects that may require sizable initial investments including purchasing new drilling rigs.

- Line pipe technology and services: The line pipe technology and services business of the Group consists of OCTG coating materials, oil and gas line pipe coating materials, corrosion resistant alloy ("**CRA**") lined pipes, concrete weighted coating ("**CWC**") services and pipeline inspection services. This segment accounted for 9.8% of the total revenue of the Group for the year ended 31 December 2019.

A number of the Group's line pipe and coating projects are currently suspended, partly due to the pandemic and in some cases due to liquidity constraints of the customers. Its pipeline inspection services were also put on hold due to restrictions on travel to the inspection sites. In response to such challenges, the Group continues to explore projects in other industries that are supported by the central and local governments in the PRC where the Group's line pipe technology and services could be applied.

- Offshore engineering services: The offshore engineering services segment of the Group provides offshore engineering procurement, construction and installation ("**EPCI**") services, and is expanding into public-service infrastructure engineering. This segment accounted for 9.7% of the total revenue of the Group for the year ended 31 December 2019.

  As compared with its peers, the Group maintains a competitive advantage in this segment in areas including the PRC and South East Asia. It continues to perform its active contracts and seeks to continue expanding outside the oil and gas industry into wind power and sea piling projects to support its cash flow.

(ii) Order Backlog

As at 30 June 2020, the Group had backlog orders for its services with an aggregate contract value of approximately RMB3,898.3 million, representing an approximately 15% decrease as compared to that as at 30 June 2019. Such decrease was primarily attributable to the oil price collapse in the first half of 2020, and decrease in oil demand which resulted in depression in the entire oil services industry. Uncertainties with the overall oil industry and the financial situation of the Group's customers have put pressure on project schedules and viability. As of the date of this announcement, the Company does not have full visibility on when certain orders will be delivered.

Since the Notes Default and up to the date of this announcement, the Group has not experienced any withdrawal or cancellation of any major contract. The Group continues to perform its existing contracts and is selectively bidding for new contracts where the required capital expenditure could be supported by the Group's cash flow. However, the Group believes that a continuing debt default will increasingly challenge its ability to manage its existing contracts and secure new contracts.

(iii) Workforce

As at the date of this announcement, the management and operation teams of the Group have remained substantially stable. The senior management team has volunteered to take a reduction in their remuneration in consideration of the current financial position of the Group. The Group will continue to monitor the scale of its workforce in relation to the requirements of its business. As at the date of this announcement, the Group does not intend to effect any large-scale reduction to its workforce.

(iv) Bank Borrowings

Other than the 2020 Notes and the 2022 Notes, as at 30 June 2020, the Group had offshore and onshore borrowings in an aggregate outstanding principal amount of approximately RMB723.0 million. Its bank acceptance bills totaled approximately RMB167.9 million.

As at the date of this announcement, the Company has not received any formal notice of default (including cross-default) nor any demand for immediate repayment of indebtedness from its onshore or offshore lenders.

The Group has been in close communication with its lenders to explore possibilities of extending the payment schedules under the respective loans. However, no assurances can be given as to the ultimate outcome of these discussions.

Appointment of Advisers for the Restructuring of the Notes

As announced in the Previous Announcement, the Company has appointed Admiralty Harbour Capital Limited and Sidley Austin as its restructuring financial and legal advisers, respectively. The Company understands that an ad hoc committee of holders of the Notes (the "**Ad Hoc Committee**") has since the Previous Announcement retained Houlihan Lokey (China) Limited and Linklaters Singapore Pte. Ltd. as its financial and legal advisers in relation to restructuring of the Notes, respectively. The Company looks forward to working with the Ad Hoc Committee and its advisers with a view to reaching an equitable, appropriate and consensual restructuring of the Notes as quickly as possible.

The Group is actively engaging with its onshore and offshore creditors in pursuit of a consensual resolution. In the meantime, the Group urges all interested parties to refrain from precipitous action that could be damaging to the Group's business and operations and detrimental to the interests of all stakeholders.

PROFIT WARNING

The Company is in the process of preparing the results of the Group for the six months ended 30 June 2020 (the "**Interim Period**").

The Board wishes to inform all stakeholders and potential investors that, based on the information currently available to the Board and the preliminary review of the unaudited consolidated management accounts of the Group, the Group's net profit for the Interim Period is expected to reduce significantly as compared to that for the corresponding period in 2019. Such significant decrease was mainly attributable to the extended duration and impact of COVID-19 on the oil and gas industry and the global economy as a whole, and in particular, the decrease in demand from oil and gas companies in connection with exploration, drilling and production activities.

The Company is still in the process of finalising the interim results of the Group for the Interim Period, and the information contained in this announcement is only based on the Board's preliminary assessment of the unaudited consolidated management accounts of the Group for the Interim Period, which has not been audited or reviewed by the Company's auditors or the audit committee of the Company. The actual results of the Group for the Interim Period may be subject to adjustments where necessary, and may differ from the information contained in this announcement. All stakeholders and potential investors should refer to the Group's interim results announcement, which is expected to be published before the end of August 2020, for detailed financial information and performance of the Group.

CONTINUED SUSPENSION OF TRADING

Trading in the 2022 Notes (Stock Code: 40001) has been suspended from 9:00 a.m. on 22 June 2020 until further notice.

Shareholders and investors are reminded to exercise caution when dealing in the securities of the Company.

By Order of the Board
Hilong Holding Limited
ZHANG Jun
Chairman

Hong Kong, 26 July 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 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.