THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, other licensed corporation, bank manager, solicitor, professional accountant or professional adviser.

If you have sold or transferred all your shares in Hilong Holding Limited, you should at once hand this circular to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

HILONG

Hilong Holding Limited
海隆控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1623)

VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION IN RELATION TO THE DISPOSAL OF 100% EQUITY INTEREST IN THE TARGET COMPANY AND NOTICE OF EXTRAORDINARY GENERAL MEETING

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

RAINBOW.

RAINBOW CAPITAL (HK) LIMITED
浤 博 資 本 有 限 公 司

A letter from the Board is set out on pages 5 to 27 of this circular. A letter from the Independent Board Committee to the Independent Shareholders is set out on page 28 of this circular. A letter from Rainbow Capital (HK) Limited, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 29 to 57 of this circular.

A notice convening the EGM to be held at Conference Room, 6th Floor, Hilong Group of Companies Ltd., No.1825 Luodong Road, Baoshan Industrial Zone, Shanghai, China on Tuesday, April 25, 2023 at 10:00 a.m. is set out on pages EGM-1 to EGM-2 of this circular. A form of proxy for use at the EGM is enclosed with this circular. Such form of proxy is also published on the websites of the Stock Exchange at (www.hkexnews.hk) and the Company (http://en.hilonggroup.com/). Whether or not you are able to attend the EGM, you are requested to read the notice of the EGM and to complete and sign the form of proxy enclosed in this circular in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting thereof should you so wish. In such event, the form of proxy shall be deemed to be revoked.

* *For identification purpose only*

March 31, 2023

TABLE OF CONTENTS

		Page
DEFINITIONS		1
LETTER FROM THE BOARD		5
LETTER FROM THE INDEPENDENT BOARD COMMITTEE		28
LETTER FROM THE INDEPENDENT FINANCIAL ADVISER		29
APPENDIX I –	FINANCIAL INFORMATION OF THE GROUP	I-1
APPENDIX II –	FINANCIAL INFORMATION OF THE TARGET GROUP	II-1
APPENDIX III –	UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP	III-1
APPENDIX IV –	MANAGEMENT DISCUSSION AND ANALYSIS ON THE REMAINING GROUP	IV-1
APPENDIX V –	VALUATION REPORT OF THE TARGET GROUP	V-1
APPENDIX VI –	REPORT ON THE CALCULATIONS OF DISCOUNTED FUTURE ESTIMATED CASH FLOWS IN CONNECTION WITH THE BUSINESS VALUATION OF THE TARGET GROUP	VI-1
APPENDIX VII –	LETTER FROM THE BOARD ON PROFIT FORECAST	VII-1
APPENDIX VIII –	GENERAL INFORMATION	VIII-1
NOTICE OF EGM		EGM-1

In this circular, unless otherwise defined or the context requires, the following terms and expressions shall have the following meanings:

"associate(s)"	has the meaning ascribed thereto in the Listing Rules
"BHH Petroleum Machine Equipment"	Beijing Huashi Hailong Petroleum Machine Equipment Co., Ltd.* (北京華實海隆石油機械設備有限公司), a company incorporated in the PRC with limited liability
"Board"	the board of Directors
"Business Days"	a day(s) (excluding Saturday, Sunday, public holiday and any day on which typhoon signal No. 8 or above or a black rainstorm signal is hoisted during 9 a.m. to 5 p.m.) on which banks are generally open in Hong Kong to the general public for business
"Company"	Hilong Holding Limited* (海隆控股有限公司) (stock code: 1623), a company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange
"Completion"	completion of the Disposal in accordance with the terms and conditions of the Equity Transfer Agreement
"Completion Date"	the date on which the Completion is to take place
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Consideration"	the consideration of RMB700 million payable by the Purchaser to the Vendor for the transfer of the Sale Interests pursuant to the Equity Transfer Agreement
"controlling shareholder"	has the meaning ascribed thereto in the Listing Rules
"Director(s)"	the director(s) of the Company
"Disposal"	the disposal by the Vendor of the Sale Interests and the transactions contemplated under the Equity Transfer Agreement

"EGM"	the extraordinary general meeting of the Company to be convened and held to consider and, if thought fit, approve the Equity Transfer Agreement and the transactions contemplated thereunder
"Equity Transfer Agreement"	the equity transfer agreement dated March 31, 2023 entered into between the Vendor and the Purchaser in relation to the Disposal
"Group"	the Company and its subsidiaries
"HK$" or "HKD"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	the board committee of the Company comprising all independent non-executive Directors, namely Mr. WANG Tao (王濤), Mr. WONG Man Chung Francis and Mr. SHI Zheyan, to be established to make recommendation to the Independent Shareholders in respect of the terms of the Equity Transfer Agreement and the transactions contemplated thereunder
"Independent Financial Adviser"	Rainbow Capital (HK) Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders on the Equity Transfer Agreement and the transactions contemplated thereunder
"Independent Shareholders"	the Shareholders, other than Mr. Zhang and his associates, who are entitled to vote at the EGM in respect of the Equity Transfer Agreement and the transactions contemplated thereunder pursuant to the Listing Rules
"Independent Third Party(ies)"	party(ies) independent of and not connected with the Company and its connected persons (as defined under the Listing Rules)

"Latest Practicable Date"	March 27, 2023, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Mr. Zhang"	Mr. ZHANG Jun (張軍), the chairman of the Board, an executive Director and a controlling shareholder of the Company
"PRC"	the People's Republic of China which, for the purpose of this circular, does not include Hong Kong, Macao Special Administrative Region and Taiwan
"Purchaser"	Shanghai Hilong Shine New Material Co., Ltd.* (上海海隆賽能新材料有限公司), a company incorporated in the PRC with limited liability and controlled by Mr. Zhang
"Remaining Group"	the Group after completion of the Disposal
"RMB"	Renminbi, the lawful currency of the PRC
"Sale Interests"	the 100% equity interest of the Target Company
"Share(s)"	ordinary share(s) of HK$0.1 each in the share capital of the Company
"Shareholder(s)"	the registered holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target Company"	Hilong Pipeline Engineering Technology Service Co., Ltd.* (海隆管道工程技術服務有限公司), an indirect wholly-owned subsidiary of the Company with a registered share capital of RMB80 million and incorporated in the PRC with limited liability
"Target Group"	the Target Company and its subsidiaries

"Valuation Report"	the valuation report dated December 23, 2022 and the supplemental analysis report dated March 29, 2023 issued by Shanghai Orient Appraisal Co., Ltd.* (上海東洲資產評估有限公司) setting out the appraised market value of the Target Company, details of which are set out in Appendix V to this circular
"Valuer"	Shanghai Orient Appraisal Co., Ltd* (上海東洲資產評估有限公司), the independent valuer engaged by the Company for the valuation of the Sale Interests of the Target Company
"Vendor" or "Hilong Group of Companies"	Hilong Group of Companies Ltd.* (海隆石油工業集團有限公司), an indirect wholly-owned subsidiary of the Company incorporated in the PRC with limited liability
"%"	per cent

* *For identification purposes only*

Hilong Holding Limited
海隆控股有限公司*

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

Executive Directors:
Mr. ZHANG Jun
Mr. WANG Tao (汪濤)

Non-executive Directors:
Ms. ZHANG Shuman
Dr. YANG Qingli
Mr. CAO Hongbo
Dr. FAN Ren Da Anthony

Independent non-executive Directors:
Mr. WANG Tao (王濤)
Mr. WONG Man Chung Francis
Mr. SHI Zheyan

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

Principal Place of Business in Hong Kong:
5/F, Manulife Place
348 Kwun Tong Road
Kowloon
Hong Kong

March 31, 2023

To the Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION IN RELATION TO THE DISPOSAL OF 100% EQUITY INTEREST IN THE TARGET COMPANY AND NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

Reference is made to the announcement of the Company dated March 31, 2023 in relation to the Disposal.

The Disposal constitutes a very substantial disposal and a connected transaction of the Company. Accordingly, the Equity Transfer Agreement and the transactions contemplated thereunder are subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapters 14 and 14A of the Listing Rules.

* *For identification purpose only*

The purpose of this circular is to provide you with, among other things, (i) further details of the Equity Transfer Agreement and the Disposal; (ii) the letter of recommendation from the Independent Board Committee to the Independent Shareholders; (iii) the letter of advice from Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; (iv) the financial information of the Group and the Target Group, (v) management discussion and analysis of the Remaining Group, (vi) unaudited pro forma financial information of the Remaining Group; (vii) the valuation report of the Target Group; (viii) the notice of the EGM; and (ix) other information as required under the Listing Rules.

VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION

On March 31, 2023 (after trading hours), the Vendor, an indirect wholly-owned subsidiary of the Company, and the Purchaser entered into the Equity Transfer Agreement, pursuant to which the Vendor conditionally agreed to sell, and the Purchaser conditionally agreed to acquire, certain of the Group's businesses comprising multi-functional coating materials and coating services, inspection services and maintenance services for various pipes utilized in oil and gas drilling and transmission processes in the PRC as well as overseas markets (the "**Target Business**") which will be effected by sale of the Sale Interests (representing 100% of the equity interest in the Target Company) at the Consideration of approximately RMB700 million, subject to the terms and conditions of the Equity Transfer Agreement. Upon Completion, the Company will not hold any interest in the Target Company, and each member of the Target Group will cease to be a subsidiary of the Company.

THE EQUITY TRANSFER AGREEMENT

The principal terms of the Equity Transfer Agreement are summarized below:

Date: March 31, 2023

Parties:
(1) the Vendor; and
(2) the Purchaser

Subject Matter: Pursuant to the Equity Transfer Agreement, the Vendor conditionally agreed to sell, and the Purchaser conditionally agreed to acquire, the Sale Interests in the Target Company. The Sale Interests represent 100% of the equity interest in the Target Company. Upon Completion, the Company will not hold any interest in the Target Company, and each member of the Target Group will cease to be a subsidiary of the Company.

Consideration and payment:

The Consideration for the Disposal, pursuant to the Equity Transfer Agreement, is RMB700 million, 10% of which shall be paid in cash by the Purchaser to the Vendor at the Vendor's designated bank account by wire transfer within 30 days from the date of fulfilment of all the conditions precedent (the "**First Instalment**"), and the remainder shall be paid in cash by the Purchaser to the Vendor at the Vendor's designated bank account by wire transfer within 60 days from the Completion Date.

Basis of the Consideration:

The Consideration was determined after arm's length negotiations between the Vendor and the Purchaser on normal commercial terms with reference to, among other things, (1) the Target Group's appraised valuation at RMB1,004.5 million as of December 31, 2021 as set out in the Valuation Report, and supported by the supplemental analysis report dated March 29, 2023; (2) the unaudited consolidated financial statements of the Target Group for the three financial years ended December 31, 2019, 2020 and 2021 and the nine months ended September 30, 2022; (3) the potential development of the Target Business with reference to the latest operational and financial performance of the Target Group, including cash and cash equivalents of the Target Group as at September 30, 2022; (4) the distribution of dividends by the Target Company to the Remaining Group in an aggregate amount of RMB339 million which was approved by the shareholder of the Target Company in December 2022 and January 2023, respectively – the Target Company expects to complete the payment of the dividend to the Remaining Group within three months after the completion of the Disposal using its internal financial resources; (5) exemption of payables of RMB100 million payable by the Vendor to the Target Group; and (6) the factors set out in the paragraph headed "Reasons For and the Benefits of the Disposal" below.

Based on the Valuation Report, the Target Group was valued at approximately RMB1,004.5 million as at December 31, 2021 based on the asset-based approach. After taking into account the cash and cash equivalents of the Target Group as at September 30, 2022, the adjusted appraised value of the Target Group as at March 31, 2022 under the asset-based approach is RMB1,052.24 million. Assuming that the distribution of dividends by the Target Company to the Remaining Group in the amount of RMB339 million and the exemption of payables of RMB100 million payable by the Vendor to the Target Group had taken place on December 31, 2022, the adjusted valuation of the Target Group as at December 31, 2021 would be approximately RMB565.5 million. The Consideration of the Disposal of approximately RMB700 million hence represents a premium of approximately 23.8% over the adjusted valuation of the Target Group, which the Directors consider to be fair and reasonable after taking into account the other bases of the Consideration as mentioned above.

Conditions precedent: Completion of the Disposal is subject to the fulfillment of following conditions, or the written consents by the parties to waive parts or all of the conditions:

(1) the Equity Transfer Agreement being executed by the parties, or their respective representatives;

(2) the transactions contemplated under the Equity Transfer Agreement not violating any responsibilities or obligations of the Target Company, the Vendor, the Purchaser, and each of their connected persons under any agreement;

(3) there being no material adverse change to the business operations, assets, liabilities, tax or financial position of the Target Company from the date on which the Equity Transfer Agreement is executed;

(4) the parties having performed all internal procedures with respect to the execution, delivery and performance of the Equity Transfer Agreement and the transactions contemplated thereunder, including, but not limited to, the directors' and/or shareholders' approvals, the Company's board of Directors' approval, and the Company's Independent Shareholders' approval of the Equity Transfer Agreement and the transactions contemplated thereunder at the EGM; and

(5) all representations and warranties of the parties are true, accurate and complete.

Save as conditions (2), (3) and (5) above, none of the above conditions can be waived.

Completion: Completion of the Disposal shall take place on the date on which the First Instalment is paid by the Purchaser.

The parties shall complete the industrial and commercial transfer registration (工商變更登記) of the Sale Interests pursuant to the Equity Transfer Agreement within 10 days of the date of Completion.

Upon Completion, the Company will not hold any interest in the Target Company. Each member of the Target Group will cease to be a subsidiary of the Company and their financials will no longer be consolidated into the Group's consolidated financial statements.

VALUATION

In arriving at the appraised value of the Target Group, the Valuer, an independent valuer engaged by the Company, considered the market approach, the income approach and the asset-based approach:

According to the Valuation Report, for the market approach, the preconditions for the adoption of the market approach are a developed, fair and active open market with sufficient market information and the availability of comparable transactions on the open market. The Target Business is operated in a niche market, and despite the fact that the Valuer had made best efforts to search for and identify appropriate comparable companies through publicly available sources, there is a lack of sufficient samples of companies from the PRC market that are comparable in terms of addressable markets, business model, enterprise scale, revenue, asset structures and sizes. Therefore, the adoption of the market approach for the Target Group may not be appropriate.

For the income-based approach, it focuses on evaluating an enterprise from the perspective of expected profitability. This approach relies heavily on long-term financial forecast and could be heavily influenced by multiple factors, such as the overall supply and demand relationship of the industry in which the Target Group operates, PRC regulatory policies in energy sector, geopolitical risks, uncertainty in the Target Group's overseas business in Russia, significant fluctuation in energy price and exchange rate risk caused by the uncertainty of the Russia-Ukraine conflict. The above factors could be further influenced by other uncertain factors such as the actions of major oil producing countries and other energy prices, all of which are beyond the Company's control.

Based on the Valuation Report, the Target Group was valued at approximately RMB982.87 million as at March 31, 2022 based on the income-based approach. Considering the cash and cash equivalents balance stood at a higher level as of September 30, 2022, the management of the Company considered to add back a further cash item of RMB54.51 million, which was estimated as twice of the Target Group's cash balance as of March 31, 2022. Accordingly, the adjusted appraised value of the Target Company as at March 31, 2022 under income-based approach is RMB1,037.38 million.

As of March 31, 2022, the adjusted value of RMB1,037.38 million under income-based approach was approximately 4.0% higher than the value of RMB997.73 million under asset-based approach in the Valuation Report, and is slightly less than the adjusted appraised value of the Target Group as at March 31, 2022 under the asset-based approach of RMB1,052.24 million, after taking into account the cash and cash equivalents of the Target Group as at September 30, 2022. The difference between two valuation approaches was relatively small. Meanwhile, since there are many limitations to the assumptions for profit forecast and the risks that the Target Business' revenue is exposed to and could not be accurately measured. Therefore, the adoption of the income-based approach for the Target Group may not be appropriate.

For the asset-based approach, it uses the balance sheet as at the valuation benchmark date of the appraised entity as the basis for determining the value of the appraisal subject by reasonably appraising the value of the entity's on-balance sheet and identifiable off-balance sheet assets and liabilities. It estimates each asset and liability of an enterprise from the perspective of the current reconstruction of its assets and liabilities, and summarize them to obtain the value of shareholders' equity. The Target Company satisfies the requirements of the asset-based approach, i.e. it is in continuing use, and historical operating information is available. The asset-based approach could relatively fairly reflect the value of all shareholders' equity value of the entity on the benchmark date.

Having considered the above, the Valuer concluded that valuation results of the asset-based approach are relatively reliable comparing to that of the income-based approach, and the valuation results derived from the asset-based approach was taken as the Target Group's final valuation. The valuation result under the income-based approach ("**Income Approach Valuation**") constitutes a profit forecast under Rule 14.61 of the Listing Rules. For the purpose of complying with Rules 14.60A and 14.62 of the Listing Rules, set out below are the principal assumptions, including commercial assumptions, upon which the Income Approach Valuation was based, details of which shall be referred to "Appendix V — Valuation Report of the Target Group" to this circular:

(I) Basic Assumptions

1. Transaction assumption

The transaction assumption assumes that all assets to be analyzed are in the process of transaction, and the asset valuer will make estimation in a simulated market according to the transaction conditions of assets to be evaluated. The transaction assumption is one of the most fundamental assumptions for the further implementation of the asset valuation.

2. Open market assumption

The open market assumption is an assumption about the market conditions into which an asset is intended to enter and what effects the asset will receive under such market conditions. An open market is a fully developed and comprehensive market condition and a competitive market with willing buyers and sellers, where buyers and sellers are on equal footing and have access to adequate market information, and where transactions between buyers and sellers are conducted under voluntary, rational, non-compulsory or unrestricted conditions. The open market assumption is based on the assumption that assets are publicly tradable in the market.

3. Enterprise going concern assumption

The enterprise going concern assumption assumes that the Appraised Entity can legally continue its production and operation business as they are within the foreseeable future operating period under the existing asset resources conditions and there will be no major adverse changes in the operating conditions.

4. Assumption about the use of an asset for its existing purpose

The assumption about the use of an asset for its existing purpose assumes that the assets will continue to be used for their current purpose. Firstly, it is assumed that the assets within the scope of valuation are in use. Then it is assumed that the assets will continue to be used for the current purpose and mode of use without considering asset use conversion or optimal utilization conditions.

(II) General Assumptions

1. This analysis assumes that there will be no unforeseeable significant adverse changes in the external economic environment, including the relevant laws, macroeconomic, financial and industrial policies prevailing in China after the valuation benchmark date, and that there will be no significant impact caused by other human force majeure and unforeseeable factors.

2. This analysis does not consider the impact on the appraised entity's valuation conclusion of any collateral or guarantee that the Appraised Entity and its assets may assume in the future, or any additional price that may be paid as a result of special transactions.

3. It is assumed that there will be no significant changes in the socio-economic environment in which the appraised entity is located or the fiscal and taxation policies in place, such as taxes and tax rates, and that the credit policy, interest rate, exchange rate and other financial policies will be generally stable.

4. The current and future business operations of the appraised entity are and will be legal and in compliance with the relevant provisions of its business license and articles of association.

(III) Special Assumptions for the Income Approach Valuation

1. The future income of the appraised entity can be reasonably expected and measured in currency; the risk corresponding to the expected income is measurable; the period of future income can be determined or reasonably expected.

2. The current and future management of the appraised entity will perform their business and management functions in compliance with laws and with diligence. After the implementation of this economic act, there will be no significant impact on the development of the Company or detriment to the interests of Shareholders, and the Company will continue to maintain the current business and management model as well as management level.

3. In the future forecast period, the core management personnel and technical personnel of the assessed entity are relatively stable, and there will be no major changes that affect the business development and profit realization of the enterprise.

4. The accounting policies adopted by the appraised entity after the benchmark date are consistent with the accounting policies adopted at the time of preparation of this report in material aspects.

5. It is assumed that the inflow and outflow of cash flow of the appraised entity after the benchmark date are both even.

6. The assessed entity and their subsidiaries have mostly been high-tech enterprises in recent years. It is assumed that the assessed entity remains qualified for the recognition as a high-tech enterprise in the future and can continue to enjoy preferential income tax policies.

The details of the key inputs to the Income Approach Valuation and major assumptions of cash flow projection, upon which the Income Approach Valuation was based, are set out in pages V-92 to V-93 and pages V-95 to V-97 of "Appendix V — Valuation Report of the Target Company" to this circular.

Pursuant to Rule 14.62 of the Listing Rules, we have engaged PricewaterhouseCoopers, the auditor of the Company, to report on whether the discounted future estimated cash flows in connection with the business valuation of the Target Group, so far as the calculations are concerned, have been properly complied with by the Directors, in all material aspects in accordance with the bases and assumptions as set out in the Valuation Report. The Board has reviewed and considered Income Approach Valuation including the principal assumptions upon which the Income Approach Valuation was based. On the basis of the foregoing, the Board is of the opinion that the Income Approach Valuation has been made after due and careful enquiry. A report from PricewaterhouseCoopers and a letter from the Board are included in Appendix VI and Appendix VII to this circular, respectively.

INFORMATION OF THE PARTIES TO THE EQUITY TRANSFER AGREEMENT

The Group

The Group is principally engaged in the manufacture and distribution of oil and gas drilling equipment and provide oilfield and offshore engineering services worldwide. The Group operates its business through four segments, namely (1) oilfield equipment manufacturing and services, which is the production of oilfield equipment and provision of OCTG coating services; (2) line pipe technology and services, which is the provision of coating services related to transmission line pipes and production of coating materials; (3) oilfield services, which is the provision of well drilling services, OCTG trading and related services to oil and gas producers; and (4) offshore engineering services, which is the provision of offshore engineering services and offshore engineering design services.

The Vendor

The Vendor is a company incorporated in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company. The Vendor is principally engaged in the distribution of oil and gas equipment. It is an integrated oilfield equipment manufacturer and service provider in the fields of drill pipes, transmission line pipes, oilfield services and offshore engineering services.

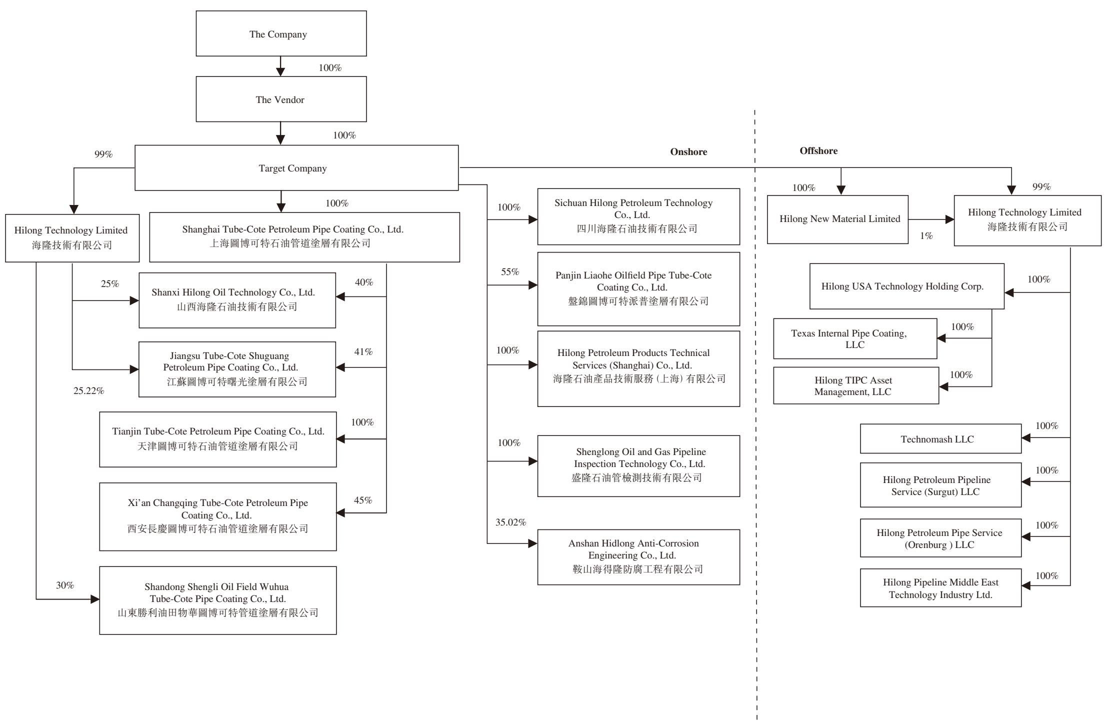
The Purchaser

The Purchaser is a company incorporated in the PRC with limited liability and is principally engaged in the manufacture and sales of heavy-duty coating materials applicable in various industries. The Purchaser is a wholly-owned subsidiary of BHH Petroleum Machine Equipment, which is held as to approximately 95.65% by Mr. Zhang, the chairman of the Board, and approximately 4.35% by Ms. Zhang Jingying, the mother of Mr. Zhang. As such, each of BHH Petroleum Machine Equipment and the Purchaser is an associate of Mr. Zhang and thus a connected person of the Company.

The Target Company

The Target Company was established in the PRC in 2005 and an indirect wholly-owned subsidiary of the Company. The Target Group consists of the Target Company and its subsidiaries. The Target Group is principally engaged in the Target Business, which comprises multi-functional coating materials and coating services, inspection services and maintenance services for various pipes utilized in oil and gas drilling and transmission processes in the PRC as well as overseas markets.

The following chart sets forth the simplified shareholding structure of the Target Group as at the Latest Practicable Date:



Set out below is a summary of the unaudited consolidated financial information of the Target Group (prepared in accordance with the Hong Kong Financial Reporting Standards) for the three financial years ended December 31, 2019, 2020 and 2021, and the nine months ended September 30, 2022:

	For the financial year ended December 31,			For the nine months ended September 30,
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	1,263,956	1,295,536	1,246,831	766,384
Net profit before taxation	180,046	115,519	281,645	103,042
Net profit after taxation	148,946	104,510	251,537	103,662

Based on the unaudited consolidated financial information of the Target Group, the total assets value, net assets value and net asset value attributable to equity owners of the Target Group were approximately RMB2,587.7 million, RMB1,270.8 million and RMB1,221.1 million, respectively as of September 30, 2022. Further details of the unaudited consolidated financial information of the Target Group for the three financial years ended December 31, 2019, 2020 and 2021 and the nine months ended September 30, 2022 is set out in Appendix II to this circular.

Set out below is the unaudited financial information of the Target Group according to the unaudited consolidated management accounts of the Target Group as of and for the financial year ended December 31, 2022, which was reviewed by the management of the Company and prepared in accordance with the Company's accounting policy:

	As of and for the financial year ended December 31, 2022
	RMB'000
Revenue	1,081,832
Net profit before taxation	151,166
Net profit after taxation	128,491
Total assets value	2,333,626
Net assets value	1,262,785
Net assets value attributable to equity owners of the Target Group	1,211,167

BUSINESS OF THE REMAINING GROUP

Following completion of the Disposal, the Remaining Group will comprise the following businesses:

1) **Drill pipe-related business**: the manufacture and distribution of drill pipes and related products in both domestic and global markets. The Company provides the customers with both standard and customized drill pipe products applied in various downhole environment. The Company has developed a variety of high-end drill pipe products to meet the specific needs of different customers over the years, and has gradually expanded to provide the repairment services for drilling tools in recent years, which will further strengthen the cooperation between the Company and its customers.

2) **The oilfield services business**: the provision of drilling and workover services, technical services and trading services. The Company capitalizes its rig fleet and provides services to world-leading oil and gas companies and national oil companies in major oil and gas production countries around the globe, such as Shell, BP and Petroleum Development Oman. In recent years, the Company has successfully operated various technical services such as cuttings treatment, mud service, directional well drilling, cementing and casing running. Moving forward, the Company will further expand its integrated services to include well completion and stimulation, drilling speed and efficiency improvement, and oilfield environmental protection, so as to diversify its revenue streams and enhance customer stickiness.

3) **The offshore engineering services**: the provision of offshore engineering design, procurement, construction and installation services mainly in China and Southeast Asia by utilizing the Company's offshore pipe-laying vessel "Hilong 106." In 2020, the Company made a breakthrough in this segment by providing vessel leasing and operations-related services for an offshore wind power construction project. Beyond the oil and gas industry, the Company has been actively seeking other opportunities to expand into the field of public infrastructure engineering services. The Company intends to leverage its extensive experience and know-how accumulated from various projects, and deliver efficient and high-quality offshore engineering services to its customer.

The revenue from the Remaining Group's businesses, excluding intercompany sales, accounted for approximately 72.99% and 79.54% of the Group's total revenue for the financial year ended December 31, 2021 and the nine months ended September 30, 2022, respectively.

Business prospects of the Remaining Group

1) **Drill pipe-related business**: Compared with other large-scale drilling equipment, drill pipe is a daily consumable that requires regular replacement in oil and gas exploration and development activities. The Company's drill pipe-related business remained relatively steady across industry cycles. Going forward, the Company will capitalize on its strong research and development strengths and emphasize more on developing and promoting high-end products, which will be less impacted by industry fluctuations.

   Following Completion, the Company will increase its marketing efforts to explore new large-scale customers while maintain all existing strategic partners. The Company will also take differentiated strategies in different regional markets. In terms of improving the operational efficiency, the Company will actively seek high-quality and economical sources of pipe materials to reduce manufacturing costs.

   The Company's drill pipe business in domestic markets will benefit from the implementation of the "Seven-Year Action Plan of 2019-2025 for China's Oil and Gas Industry" (中國油氣行業2019-2025七年行動方案) (the "**Seven-Year Action Plan**"), which was launched and promoted by the National Energy Administration (國家能源局). The "Seven-Year Action Plan" intends to ensure the stable and secure supply of energy at the national level with a key focus on promoting upstream oil and gas exploration and development activities. It is expected that the consumption of drill pipes and the major tools used in drilling activities will rise significantly, and considering the national guidance on encouraging import substitutions, the Company's leading position as a domestic drill pipe supplier will benefit from this business opportunity.

   Further, the Company has maintained a steady pace in the development of overseas markets, and has achieved significant progress in this regard starting from 2021 and continued such momentum since then.

   In the second half of 2022, the Company has entered into a series of drill pipe supply contracts with several customers. In the Middle East market, the Company has signed contracts with National Drilling & Services Company LLC and Arabian Drilling Company for the provision of drill pipes, drill collars and related products. The total contract value is approximately US$8.3 million. Later in 2022, the Company signed a contract with ADNOC Drilling company PJSC for the provision of drilling tubulars to be used for onshore land rigs and offshore jackup rigs. The total contract value is approximately US$61.5 million. The signing of the aforementioned contracts demonstrates that the Company's drill pipes and related products are further accredited by the customers in the Middle East market.

   Apart from strengthening its presence in the Middle East market, the Company has made progress in European market. The Company signed a drill pipe supply contract with Eavor GmbH, a German based geothermal company for the provision of V150 high strength drill pipe to be used in geothermal drilling. The total contract value of such contract is approximately US$4.9 million.

The Company's drill pipe business has also made significant progress in the North and South America markets. With respect to the South America market, the Company entered into several contracts with Ventura Petroleo S.A. and Weatherford Industria e Comercio Ltda. for the provision of ultra-deep water drilling tools. The signing of the contracts with the above renowned Brazilian customers represents the Company's successful expansion into the South American market.

As for the North America market, the Company signed a series of drill pipe supply contracts with Ensign US Southern Drilling LLC and Ensign United States Drilling Inc., subsidiaries of Ensign Energy Services Inc. which the Company has maintained well-established business relationship with. Furthermore, the Company entered into contracts for the provision of drill pipes with several customers in Canada, including Horizon Drilling, Precision Drilling Canada Limited Partnership, Complete Tubular Products Ltd, Savanna Drilling Corp. and Bonanza Drilling Inc. These new business opportunities demonstrated that the Group has made significant inroads in the Canadian market as part of the Group's strategy to expand its international footprint. The total value of the drill pipe supply contracts that the Company obtained in the North and South America markets in 2022 amounts to approximately US$72 million.

The signing of the above contracts is a testament to the quality of the Company's drill pipe and related products, as part of the Group's continuous efforts in refining its production techniques through years of experience. These drill pipe supply contracts will further solidify the Group's presence in the international markets and demonstrate that the Group's drill pipe production capability is highly recognized in the industry worldwide.

2) **The oilfield services business**: The oilfield services segment has always been the Company's major revenue stream over the years. Though the segment has been through difficulties in 2020 mainly due to the recurring COVID-19 pandemic, the business has gradually recovered since 2022. The Company strengthened its market development efforts by coordinating all internal resources to maximize the synergies among various business departments. As a result, the utilization rate of the rig fleet has been effectively improved and the price has been restored to an acceptable level since the first half of 2021.

Earlier in 2022, the Company signed a contract with Kuwait Energy Iraq Ltd. ("**KE Iraq**") in relation to the provision of turnkey drilling services for three wells with contract value of approximately US$33.1 million. It is the Company's first turnkey project in Iraq. The turnkey drilling services contract demonstrates that the Company's oilfield services is widely recognized in the industry and lays a solid foundation for the Company's future development in international markets.

Following Completion, the Company intends to develop turnkey projects and technical services, facilitate foreign cooperation and seek expansion and transformation based on existing mature businesses. The Company will strive to make breakthroughs in China, the Middle East and Africa, and endeavor to increase the utilization rate of existing drilling and workover rigs. Currently, the Company is actively obtaining the qualification certification of core domestic customers, and is committed to grasping market opportunities brought by the new round of development in China's domestic oil and gas industry.

3) **The offshore engineering services**: The Company's offshore engineering services segment has seen smooth development over the past years and a significant growth since 2020. In particular, the Company has established a solid and promising market cooperation with CNOOC Limited ("**CNOOC**"), one of its core domestic customers. In September 2022, the Company signed a contract with Offshore Oil Engineering Co., Ltd (海洋石油工程股份有限公司), a subsidiary of CNOOC, in relation to the submerged pipeline laying project in the Bohai Sea. The value of the contract is over RMB100 million. The contract demonstrates that the Company's offshore engineering services are highly recognised by leading players in the industry.

Following Completion, the Company will continue to pursue potential opportunities brought by the Seven-Year Action Plan. Meanwhile, the Company will also actively attain other customers, and place more emphasis on the offshore wind power-related business going forward. The Company will leverage on its joint venture platform Ocentra Offshore Pte. Ltd. to consolidate its position in the Southeast Asian market and pay closer attention to opportunities in the Middle Eastern market.

The Company will continue the strategy of focusing on international and high-end customers and high value-added products and services. The Company believes that such strategy will accelerate the collection of trade payables, improve the Company's operational efficiency and gradually generate more revenue streams.

In recent years, the Company's drill pipe products have been further recognized by more major global customers. Recently, the Company obtained the certification from Saudi Aramco, one of the world's largest and most influential companies in the oil and gas sector. The recognition of such global brands will further enhance the Company's market presence. Further, these major companies have a large portfolio of drilling rigs in key oil and gas producing regions around the world, presenting various opportunities for the Company's drill pipe-related business. The Company expects that the revenue of the drill pipe-related business will continue to grow steadily in the next few years, while the gradual increase in the sales proportion of high value-added products and services will also contribute to the improvement of the Company's profit margins.

The Company will also continue to develop its oilfield services business, including onshore drilling and workover services, technical services and turnkey services. The utilization rate of the drilling rigs has gradually recovered and expected to remain at the high level in the near future. The Company's technical services including drilling fluid, directional drilling, well completion, cementing and other integrated technical services have grown steadily, and will be complemented by the development of its oil reserve stimulation services. In addition, the Company intends to leverage on bases already built in several overseas markets to promote the oil service related products and equipment of domestic suppliers to global customers. The Company believes that this strategy will expand revenue streams of its oilfield services business effectively without generating more fixed assets.

FINANCIAL IMPACT OF THE DISPOSAL AND USE OF PROCEEDS

Financial Impact

Upon Completion, each member of the Target Group will cease to be subsidiaries of the Company, and the financial information of the Target Group will no longer be consolidated into the Group's consolidated financial statements. The gross proceeds from the Disposal are expected to be RMB700 million and the net proceeds (after deducting transaction costs and professional expenses) are expected to be approximately RMB693.3 million. The Company estimates to record a loss on Disposal of approximately RMB32.87 million, after taking into the account of the Consideration, the net asset value of the Target Group attributable to the Shareholders as of September 30, 2022, exemption of payables payable by the Vendor to the Target Group and the estimated relevant fees and expenses in relation to the Disposal.

The above financial impact is shown for illustrative purpose only and the actual gain or loss as a result of the Disposal to be recorded by the Group is subject to, among other things, the audited net asset value of the Target Company on the day of Completion and the audit to be conducted by the auditors of the Company upon finalization of the consolidated financial statements of the Group for the year ending December 31, 2023.

Use of Proceeds

The Group intends to use the net proceeds from the Disposal as follows:

(1) 80.8%, or approximately RMB560.0 million, will be used to repay the Company's existing indebtedness before April 2024;

(2) 10.1%, or approximately RMB70.0 million, will be used to bid for turnkey projects in the oilfield services segment and upgrade the production facility for the drill pipe segment of the Company before April 2024; and

(3) 9.1%, or approximately RMB63.3 million, will be used for general corporate purpose, including the payment of salaries, expenses incurred in research and development activities, travel and communication expenses and sales expenses incurred in daily business operation and management, before October 2023.

REASONS FOR AND BENEFITS OF THE DISPOSAL

Financial Considerations

In recent years, the Group has focused on developing oilfield services and offshore engineering services and has financed the expansion of such businesses through debt issuances. Although the Company's leverage ratio has increased, the Company has always endeavored to develop steadily. Due to the COVID-19 pandemic and other factors, the Company was unable to repay its senior notes due June 2020, and had gone through a debt restructuring exercise, which was completed in May 2021, together with the issuance of a new round of senior notes in the principal amount of USD379,135,000 due November 2024. The interest rate of the new senior notes is higher comparing to the senior notes due June 2020, which causes greater financial pressure on the Group. To achieve steady business growth and to gradually reduce the Group's leverage ratio, the Board intends to dispose a non-core business of the Group and use the proceeds to repay certain principal amount of the new notes and alleviate the burden of the Group's financial expenses. The Disposal will significantly reduce future interest expenses and improve the Group's gearing ratio and cash ratio.

Additionally, the Remaining Group's businesses, particularly the drill pipe-related business and the oilfield services are capital-intensive. For instance, to better improve the operational efficiency for the drill pipe business, the Company intends to expand its existing production facility for drill pipes, which requires capital investments. Since the second half of 2022, the end to quarantine and easing of COVID-19 restrictions have contributed to the gradual recovery of the Remaining Group's oilfield services. As the overall business opportunities of the oilfield services segment start to pick up, the Remaining Group will also require certain amount of capital to resume its operations of drilling and well workover services. Also, the Group has been seeking opportunities for turnkey projects in the oilfield service business over the past few years, which require massive initial capital investment.

Turnkey project is a diversified and comprehensive service, and its scope of services include drilling, mud treatment, well completion, directional drilling, case running, oilfield environmental protection and so on. The Company intends to bid for more turnkey projects and believes that it will become one of the main focuses for its oilfield services segment and help maintain its long-term competitiveness in the industry. Further, turnkey contract is a type of engineering, procurement, and construction (EPC) business, which requires a higher standard of operational capabilities and management experience. Successfully bidding and completing turnkey projects will demonstrate the Company's overall strength and further enhance its industry reputation and consolidate its market position. At the same time, the profit margin of turnkey projects is generally higher than that of drilling services and oil well workover projects, which can generate a better return for the Company and its shareholders.

Currently, while continuing to develop the Company's drilling and oil well workover projects, the Company has been actively seeking for suitable turnkey projects in Iraq, Ecuador and other regional markets. Although the Group usually excels in customers' evaluation of our technical strengths, project management and track record, it often faced tough competition in terms of timely amassing sufficient cash flow upfront to commit to projects, which is the industry practice in turnkey projects bidding. This posed a challenge for the Company given it has less cash in hand in recent years. Therefore, the expansion of the Group's turnkey services has fallen behind schedule and the further expansion of the Group's business has been restrained. The Group has made continuous efforts to reduce capital expenditures such as disposing inefficient drilling rigs to increase cash inflows and optimizing supply chain management to reduce procurement costs, but the speed at which cash is generated from these endeavors is limited. The Board therefore believes that the liquidity generated by the Disposal will equip the Group with a sizable capital that will put the Group in more favorable positions to bid for desirable projects in the foreseeable future.

According to the terms of the Company's 2024 Notes, 17 drilling rigs in operation have already been pledged to the bondholders, and could not be used for further financing. Further, the Company already has a relatively high debt-to-revenue ratio at 81.2% as at December 31, 2021 and gearing ratio at 43.7% as at June 30, 2022. As such, it is impracticable for the Company to seek further debt financing. According to the terms of the 2024 Notes, the Disposal is not a matter which requires approval from the scheme creditors under the 2024 Notes.

Business Considerations

The Target Group only contributed to approximately 27.01% and 20.46% of the Group's revenue (excluding intercompany sales) for the financial year ended December 31, 2021 and the nine months ended September 30, 2022, respectively. It is not the Company's main revenue stream, and more importantly its business has limited synergy with the rest of the Group's core businesses – oilfield services and offshore engineering service. Compared to the Target Group, the operations of the Remaining Group have been more significantly impacted by the Covid-19 pandemic. Since February 2020, due to complex and unpredictable governmental measures and economic downturn during the pandemic, the Remaining Group's oilfield services segment, in particular, drilling services and oil well workover services in overseas markets have been interrupted to varying degrees. For instance, the Remaining Group received notices from customers to temporarily halt its services. The revenue and profit margin of its oilfield services segment decreased due to increase in staff cost, contributed by limited labor availability and quarantine measures, and reduction in overall drilling activity. Since the second half of 2022, the end to quarantine and easing of Covid-19 restrictions have contributed to the gradual recovery of the Remaining Group's oilfield services.

Recent geopolitical development has also caused impact on the Target Group. A significant portion of the Target Group's revenue is generated in Russia. As a result, the Target Group faces certain inherent risks in its operations in Russia. Russia-Ukraine conflict may continue for an extended period, which may hinder economic growth in the region and slowdown the Target Group's business operations, and also compound its difficulty in forecasting raw materials, labor and inventory at appropriate levels. Although the Target Group has adopted appropriate measures to minimize its exposure risks in Russia, the impact of the Russia-Ukraine conflict on the Target Group's business, financial condition and results of operations is still uncertain. On the other hand, the Remaining Group's operations is spread in East Europe, South Asia and Southeast Asia, North and South America and the Middle East. As governments continue to relax Covid-19 policy, the Company expects the Remaining Group's business to gradually recover in the near future. The Company believes that the Remaining Group's business is comparatively stable in the near future and the development of its oilfield services and offshore engineering services remains to be the focus of the Company's business strategy.

The Board considers that the Disposal is one of the Group's restructuring strategies which is expected to enhance the Group's operational efficiency and optimize investment return for the Shareholders. Upon Completion, the Group will focus on providing customers with diversified onshore drilling services and offshore engineering services as well as drill pipe production business.

In addition, the Disposal is mutually complementary and beneficial to the Group and the Purchaser. While the Group will be able to strengthen its overall financial position and redirect its resources to the core-businesses, the Purchaser will also reap synergistic benefits by integrating the Target Group's business. The anti-corrosion coating business in the Target Group will form synergies with the Purchaser in areas such as cost reduction of raw materials procurement, sharing of research and development achievements as well as the optimized utilization of production facilities and the subsequent efficiency improvement.

In light of the above, since the first half of 2021, the Group and the Purchaser had been discussing about the opportunity of forming a cooperative relationship given the potential synergies of the anti-corrosion coating business in the Target Group with the heavy-duty coating materials business of the Purchaser, and had come to a more established plan for the Disposal following the Group's debt restructuring completed in the second half of 2021. In searching for the potential buyer for the Disposal, as the Target Group is operating in a niche market in the oil and gas industry, there are only a few market players comprising mainly overseas companies with no connection with the Group, or large PRC oil and gas companies that already have their established in-house team to operate the relevant business. On the other hand, the Group has a long-term relationship with the Purchaser and they are very familiar with the businesses of each other. Having considered the above, the Directors believed that it would be time and cost efficient to negotiate with the Purchaser regarding the terms of the Disposal. Further, comparing to the price offered by a potential buyer engaged in construction coating in the PRC, the price offered by the Purchaser was the best offer received by the Company at that time.

As such, the Directors believe that the Disposal (i) will not have any material adverse impact of the Company's ability to maintain its business at a viable and sustainable level; (ii) aligns with the long-term business strategy of the Company and (iii) will reduce debt and interest burden of the Company and strengthen its financial position.

The terms of the Equity Transfer Agreement were determined after arm's length negotiations between the parties thereto and the Directors (including the independent non-executive Directors) are of the view that the terms of the Equity Transfer Agreement are fair and reasonable, and the transactions contemplated thereunder are on normal commercial terms or better, fair and reasonable, and in the interests of the Company and the Shareholders as whole.

POTENTIAL TRANSACTIONS AFTER COMPLETION OF DISPOSAL

Upon Completion, the Target Group will become a wholly-owned subsidiary of the Purchaser and accordingly, each member of the Target Group constitutes an associate of Mr. Zhang and thus a connected person of the Company. Therefore, any transactions between the Remaining Group and Target Group after the Completion will constitute connected transaction of the Company under Chapter 14A of the Listing Rules.

As of the date of this circular, the Target Group has been leasing premises from the Remaining Group for office use for a term of one year with effect from 1 January 2023. Such leasing transaction is expected to continue after the Completion and will therefore constitute continuing connected transaction of the Company. Based on the existing leasing agreements between the Remaining Group and the Target Group, the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules in respect of the aggregate amount of the annual rental payable by Target Group to the Remaining Group exceeds 0.1% but is below 5%. Accordingly, before the Completion Date, the Remaining Group and the Target Group will discuss the terms of the agreements and determine the relevant annual cap with respect to such leasing transaction, and the Company will comply with the relevant reporting, announcement, circular and Independent Shareholders' requirements, where applicable, under the Listing Rules upon the Completion.

The Remaining Group had been engaging the Target Group for provision of coating services in relation to certain of its oil and gas drilling pipe projects on project basis in the past. In those transactions, the provision of coating services by the Target Group to the Remaining Group was charged by the reference price of coating services formulated by China National Petroleum Corporation (CNPC) and China Petroleum & Chemical Corporation (Sinopec Corp.) on annual basis. After the Disposal, the Remaining Group, may in the future, enter into such transactions as and when necessary, and such transactions may constitute continuing connected transactions of the Group under Chapter 14A of the Listing Rules. As of the date of this circular, the Remaining Group and the Target Group have no actual plan to enter into the above transaction immediately following the completion of Disposal. In the event that the Remaining Group and the Target Group enter into the above transaction in the future, the Company will comply with the relevant requirements under the Listing Rules applicable to such transaction.

In addition, as confirmed by the Directors, immediately prior to the Completion, there will be no outstanding loans or non-trade balances due to or from the Target Group, nor will there be any outstanding financial assistance, security, pledges or guarantees provided by or to any member of the Target Group. Save for certain continuing connected transactions as mentioned above, there are no other side arrangements or continuing connected transactions expected to be entered into between the Remaining Group and the Target Group immediately following the Completion.

LISTING RULES IMPLICATIONS

As the highest applicable percentage ratio in respect of the Disposal under the Equity Transfer Agreement exceeds 75%, the Disposal constitutes a very substantial disposal for the Company pursuant to Rule 14.06(4) of the Listing Rules and is therefore subject to reporting, announcement, circular and Shareholders' approval requirement under Chapter 14 of the Listing Rules.

Additionally, as at the Latest Practicable Date, the Purchaser is a wholly-owned subsidiary of BHH Petroleum Machine Equipment, which is held as to approximately 95.65% by Mr. Zhang, the chairman of the Board, and approximately 4.35% by Ms. Zhang Jingying, the mother of Mr. Zhang. As such, each of BHH Petroleum Machine Equipment and the Purchaser is an associate of Mr. Zhang and thus a connected person of the Company. Therefore, the Disposal under the Equity Transfer Agreement also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements.

Mr. Zhang, a chairman of the Board who is also the ultimate controlling shareholder of the Purchaser, is considered to have a material interest in the Disposal. Mr. Zhang and each of Ms. ZHANG Shuman and Mr. CAO Hongbo, who is an associate of Mr. Zhang for the purpose of Chapter 14A of the Listing Rules, have abstained from voting on the board resolutions approving the Equity Transfer Agreement and the transactions contemplated thereunder. Mr. Zhang and his associates will abstain from voting in the resolution approving the Equity Transfer Agreement and the transactions contemplated thereunder at the EGM.

Pursuant to 14A.36 of the Listing Rules, any Shareholder who has a material interest in the Equity Transfer Agreement shall abstain from voting to approve the Equity Transfer Agreement and the Disposal at the EGM. As of the Latest Practicable Date, Hilong Group Limited, Younger Investment Limited, North Violet Investment Limited and LongZhi Investment Limited are interested in an aggregate of 822,961,800 Shares, which are held by Mr. Zhang's trust and family trusts, with Standard Chartered Trust (Singapore) Limited acting as trustee of Mr. Zhang's trust and family trusts. Mr. Zhang is interested in 1,260,000 Shares in his capacity as a beneficial owner, and is the founder of Mr. Zhang's trust and family trusts as well as the sole director of Hilong Group Limited, North Violet Investment Limited and LongZhi Investment Limited. In addition, Ms. ZHANG Shuman is interested in 692,000 Shares in her capacity as a beneficial owner, and is deemed to be interested in the Shares held by Younger Investment Limited of which she is the sole director. Mr. CAO Hongbo is interested in 1,708,000 Shares in his capacity as a beneficial owner. Accordingly, each of Hilong Group Limited, Younger Investment Limited, North Violet Investment Limited, Longzhi Investment Limited, Mr. Zhang, Ms. ZHANG Shuman and Mr. CAO Hongbo, who are interested in an aggregate of 826,621,800 Shares, representing approximately 48.73% of the total issued Shares of the Company as of the Latest Practicable Date, will be required to abstain from voting on the relevant resolutions at the EGM to approve the Equity Transfer Agreement and the transactions contemplated thereunder accordingly. Save as disclosed above, to the best knowledge of the Directors, no other Shareholder would be required to abstain from voting as no other Shareholder has any interest in the Equity Transfer Agreement which is different from the other Shareholders.

THE EGM

The EGM will be convened and held to consider and, if thought fit, approve the Equity Transfer Agreement and the transactions contemplated thereunder.

The Independent Board Committee comprising Mr. WANG Tao (王濤), Mr. WONG Man Chung Francis and Mr. SHI Zheyan, being all the independent non-executive Directors, has been established to advise the Independent Shareholders in respect of the Equity Transfer Agreement and the transactions contemplated thereunder. Rainbow Capital (HK) Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

A notice convening the EGM to be held at Conference Room, 6th Floor, Hilong Group of Companies Ltd., No.1825 Luodong Road, Baoshan Industrial Zone, Shanghai, China on Tuesday, April 25, 2023 at 10:00 a.m. is set out on pages EGM-1 to EGM-2 of this circular. An ordinary resolution will be proposed at the EGM for the purpose of considering and, if thought fit, approving the Equity Transfer Agreement and the transactions contemplated thereunder. The voting on the ordinary resolution to be proposed at the EGM will be taken by way of poll and an announcement will be made by the Company after the EGM on the result of the EGM with respect to whether or not the proposed ordinary resolution has been passed by the Shareholders.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to read the notice of EGM and to complete the form of proxy enclosed in this circular in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

The register of members of the Company will be closed from Thursday, April 20, 2023 to Tuesday, April 25, 2023, both days inclusive, during which period no transfer of Shares will be registered. Shareholders whose names appear on the register of members of the Company on Tuesday, April 25, 2023 are entitled to attend and vote at the EGM. In order to be eligible to attend and vote at the EGM, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Wednesday, April 19, 2023.

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee on page 28 of this circular, which contains its recommendation to the Independent Shareholders, and the letter of advice from the Independent Financial Adviser on pages 29 to 57 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in respect of the Equity Transfer Agreement and the transactions contemplated thereunder.

Having considered the principal factors and reasons stated in the Letter from the Independent Financial Adviser, the Independent Board Committee consider that (i) the terms of the Equity Transfer Agreement are fair and reasonable so far as the Independent Shareholders are concerned, the transactions contemplated under the Agreement are on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

Accordingly, the Independent Board Committee recommend the Independent Shareholders to vote in favor of the resolution to be proposed at the EGM to approve the Equity Transfer Agreement and the transactions contemplated thereunder.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

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

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

March 31, 2023

To the Independent Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION IN RELATION TO THE DISPOSAL OF 100% EQUITY INTEREST IN THE TARGET COMPANY

We refer to the circular of the Company dated March 31, 2023 (the "**Circular**") to the Shareholders, of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

In compliance with the Listing Rules, we have been appointed by the Board to form the Independent Board Committee to advise you in connection with the Equity Transfer Agreement and the transactions contemplated thereunder, details of which are set out in the letter from the Board in the Circular.

Rainbow Capital (HK) Limited has been appointed as the Independent Financial Adviser to advise the independent Board Committee and the Independent Shareholders in this regard. We wish to draw your attention to their of advice which is on pages 29 to 57 of the Circular.

Having considered the principal factors and reasons stated in the letter from the Independent Financial Adviser, we consider that the terms of the Equity Transfer Agreement are fair and reasonable so far as the Independent Shareholders are concerned, and the transactions contemplated under the Agreement are on normal commercial terms or better, fair and reasonable, and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favor of the resolution to be proposed at the EGM to approve the Equity Transfer Agreement and the transactions contemplated thereunder.

Yours faithfully,
Independent Board Committee

Mr. WANG Tao (王濤)	**Mr. WONG Man Chung Francis**	**Mr. SHI Zheyan**
Independent Non-executive Director	*Independent Non-executive Director*	*Independent Non-executive Director*

* *For identification purpose only*

The following is the full text of a letter of advice from Rainbow Capital to the Independent Board Committee and the Independent Shareholders in respect of the Equity Transfer Agreement and the transactions contemplated thereunder, which has been prepared for the purpose of inclusion in this circular.

Rainbow Capital (HK) Limited

31 March 2023

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION IN RELATION TO THE DISPOSAL OF 100% EQUITY INTEREST IN THE TARGET COMPANY

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Disposal, details of which are set out in the "Letter from the Board" (the "**Letter from the Board**") contained in the circular issued by the Company to the Shareholders dated 31 March 2023 (the "**Circular**"), of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

On 31 March 2023 (after trading hours), the Vendor, an indirect wholly-owned subsidiary of the Company, and the Purchaser entered into the Equity Transfer Agreement, pursuant to which the Vendor conditionally agreed to sell, and the Purchaser conditionally agreed to acquire the Target Business, which comprises multi-functional coating materials and coating services, inspection services and maintenance services for various pipes utilized in oil and gas drilling and transmission processes in the PRC as well as overseas markets, which will be effected by the sale of the Sale Interests (representing 100% of the equity interest in the Target Company) at the Consideration of RMB700 million, subject to the terms and conditions of the Equity Transfer Agreement. Upon Completion, the Company will not hold any interest in the Target Company, and each member of the Target Group will cease to be a subsidiary of the Company.

As at the Latest Practicable Date, the Purchaser is a wholly-owned subsidiary of BHH Petroleum Machine Equipment, which is held as at approximately 95.65% by Mr. Zhang, the chairman of the Board, and approximately 4.35% by Ms. Zhang Jingying, the mother of Mr. Zhang. As such, each of BHH Petroleum Machine Equipment and the Purchaser is an associate of Mr. Zhang and thus a connected person of the Company. Therefore, the Disposal constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. As the highest applicable percentage ratio in respect of the Disposal exceeds 75%, the Disposal also constitutes a very substantial disposal of the Company under Chapter 14 of the Listing Rules. Therefore, the Disposal is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under the Listing Rules.

Mr. Zhang, the chairman of the Board who is also the ultimate controlling shareholder of the Purchaser is considered to have a material interest in the Disposal. Mr. Zhang and each of Ms. Zhang Shuman and Mr. Cao Hongbo, who is an associate of Mr. Zhang for the purpose of Chapter 14A of the Listing Rules, have abstained from voting on the board resolution approving the Equity Transfer Agreement and the transactions contemplated thereunder. Mr. Zhang and his associates will abstain from voting on the relevant resolution approving the Equity Transfer Agreement and the transactions contemplated thereunder at the EGM.

The Independent Board Committee, comprising all the three independent non-executive Directors, namely Mr. Wang Tao (王濤), Mr. Wong Man Chung Francis and Mr. Shi Zheyan, has been formed to advise the Independent Shareholders on the terms of the Equity Transfer Agreement and the transactions contemplated thereunder and to make recommendation as to voting. We, Rainbow Capital, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

As at the Latest Practicable Date, we did not have any relationships or interests with the Group, the Purchaser, Mr. Zhang or Mr. Zhang's associates that could reasonably be regarded as relevant to our independence. During the two years immediately prior to our appointment, there was no engagement or connection between the Group, the Purchaser, Mr. Zhang or Mr. Zhang's associates and us. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangements exist whereby we had received any fees or benefits from the Group, the Purchaser, Mr. Zhang or Mr. Zhang's associates. Accordingly, we consider that we are independent pursuant to Rule 13.84 of the Listing Rules.

BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information supplied by the Group and its advisers; (iii) the opinions expressed by and the representations of the Directors and the management of the Group; and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in the Circular were true, accurate and complete in all respects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in the Circular are true at the time they were made and continue to be true as at the Latest Practicable Date and all such statements of belief, opinions and intentions of the Directors and the management of the Group and those as set out or referred to in the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the management of the Group. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations provided to us by the Directors and the management of the Group are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the date of the Circular.

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the Directors and the management of the Group, nor have we conducted any form of in-depth investigation into the businesses, affairs, operations, financial position or future prospects of the Company, the Target Company or any of their respective substantial shareholders, subsidiaries or associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether the terms of Equity Transfer Agreement are fair and reasonable, we have taken into account the principal factors and reasons set out below:

1. Business of the Group and background to the Disposal

The Group is principally engaged in the manufacture and distribution of oil and gas drilling equipment and provide oilfield and offshore engineering services worldwide. The Group operates its business through four segments, namely (i) oilfield equipment manufacturing and services, which is the production of oilfield equipment and provision of OCTG coating services; (ii) line pipe technology and services, which is the provision of coating services related to transmission line pipes and production of coating materials; (iii) oilfield services, which is the provision of well drilling services, OCTG trading and related services to oil and gas producers; and (iv) offshore engineering services, which is the provision of offshore engineering services and offshore engineering design services.

Reference is made to the annual report of the Company for the year ended 31 December 2020 and the interim report of the Company for the six months ended 30 June 2021. On 22 June 2020, an event of default occurred under the 2020 Notes due to the Company's failure to repay the outstanding principal amount of the 2020 Notes in the amount of USD165,114,400 due on the same date, which, in turn, triggered cross-default of the 2022 Notes. On 16 December 2020, the Company announced that it intended to enter into with holders of the 2020 Notes and the 2022 Notes the restructuring support agreement to support the debt restructuring (the "**Debt Restructuring**"), which was implemented through a scheme of arrangement in the Cayman Islands (the "**Cayman Scheme**"). On 22 March 2021, the Grand Court (the "**Court**") of the Cayman Islands directed that a meeting of Cayman Scheme creditors be convened for the purposes of considering and, if thought fit, approving the Cayman Scheme (with or without modification, addition or condition approved or imposed by the Court). The Cayman Scheme was approved by the Cayman Scheme creditors on 5 May 2021 and the Court made a verbal order to sanction the Scheme on 6 May 2021, following which, on 18 May 2021, the Company announced that the Debt Restructuring was completed. The 2020 Notes and the 2022 Notes had been cancelled and the 2024 Notes had been issued by the Company.

Reference is made to the announcement of the Company dated 18 June 2021 and the circular of the Company dated 29 September 2021 in relation to the disposal of 70% equity interest in Shanghai Hilong Special Steel Pipe Co., Ltd.* (上海海隆特種鋼管有限公司) an indirect wholly owned subsidiary of the Company principally engaged in the manufacture and distribution of oil and gas equipment. As a part of the Group's restructuring strategy to improve the financial position, strengthen the general working capital and reallocate more financial resources to core business, the Group disposed the equity interest for a consideration of RMB103,480,000, which had been utilised as general working capital of the Group.

We consider the Disposal is a further step of the Group' restructuring strategy after the disposal in September 2021 with the objective to relieve financial pressure and put emphasis on its core businesses.

2. Financial information of the Group

Set out below is a summary of the consolidated financial information of the Group for the years ended 31 December 2019, 2020 and 2021 ("**FY2019**", "**FY2020**" and "**FY2021**", respectively) and the six months ended 30 June 2021 and 2022 ("**6M2021**" and "**6M2022**", respectively), as extracted from the annual report of the Company for FY2020 and FY2021 and the interim report of the Company for 6M2022:

(i) Financial performance

	FY2019	**FY2020**	**FY2021**	**6M2021**	**6M2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(audited)	*(audited)*	*(audited)*	*(unaudited)*	*(unaudited)*
Revenue	3,649,906	2,623,037	2,916,922	1,571,075	1,703,243
– Oilfield equipment manufacturing and services	1,652,331	1,307,131	1,204,759	659,359	1,003,136
– Drill pipes	1,089,198	834,424	753,315	423,544	789,659
– OCTG coating services	328,476	282,832	310,305	136,959	142,724
– Drill pipe components	42,446	39,224	30,679	19,560	10,192
– Hardbanding	20,599	13,064	24,587	16,215	15,819
– Others	171,612	137,587	85,873	63,081	44,742
– Line pipe technology and services	360,781	253,839	388,727	138,292	177,271
– OCTG coating materials	33,388	16,321	14,082	5,129	4,984
– Oil and gas line pipe coating materials	919	4,150	6,118	1,294	649
– Oil and gas line pipe coating services	150,914	90,286	168,566	76,749	60,913
– Corrosion resistant alloy lined pipe	19,021	11,137	11,587	2,853	211
– Concrete weighted coating ("**CWC**") services	131,488	79,974	112,471	17,277	90,389
– Pipeline inspection services	25,051	51,971	75,903	34,990	20,125
– Oilfield services	1,283,325	683,782	845,282	434,124	458,544
– Offshore engineering services	353,469	378,285	478,154	339,300	64,292
Cost of sales	(2,488,725)	(1,929,054)	(2,018,603)	(1,149,127)	(1,246,369)

	FY2019	FY2020	FY2021	6M2021	6M2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(audited)	*(audited)*	*(audited)*	*(unaudited)*	*(unaudited)*
Gross profit/(loss)	1,161,181	693,983	898,319	421,948	456,874
– Oilfield equipment manufacturing and services	571,469	477,249	437,662	173,117	284,915
– Line pipe technology and services	105,913	75,499	134,553	69,067	61,380
– Oilfield services	456,835	156,291	293,912	143,176	150,722
– Offshore engineering services	26,964	(15,056)	32,192	36,588	(40,143)
Operating profit/(loss)	582,138	(144,233)	460,347	191,169	357,716
Finance income	3,523	13,685	5,550	1,161	1,346
Finance costs	(278,493)	(104,338)	(323,337)	(142,694)	(287,291)
Share of profit/(loss) of investments accounted for using equity method	5,236	5,101	768	26,013	(1,895)
Profit/(loss) before income tax	312,404	(229,785)	143,328	75,649	69,876
Profit/(loss) attributable to the Shareholders	176,818	(298,806)	44,249	40,209	54,058

Oilfield equipment manufacturing and services

The Group's oilfield equipment manufacturing and services segment primarily consists of the production of drill pipes, drill pipe components, hardbanding and other oilfield equipment and provision of OCTG coating services.

The Group's revenue from oilfield equipment manufacturing and services decreased by approximately 20.9% from approximately RMB1,652.3 million for FY2019 to approximately RMB1,307.1 million for FY2020, and further decreased by approximately 7.8% to approximately RMB1,204.8 million for FY2021. Such decreases were primarily attributable to the decrease in revenue from sales of drill pipes in the international market as a result of the delayed demands by customers in overseas market as a consequence of the outbreak of COVID-19, which amounted to approximately RMB1,089.2 million, RMB834.4 million and RMB753.3 million, accounted for approximately 29.8%, 31.8% and 25.8% of the Group's total revenue for FY2019, FY2020 and FY2021, respectively. For 6M2022, revenue from oilfield equipment manufacturing and services increased significantly by approximately 52.1% from approximately RMB659.4 million for 6M2021 to approximately RMB1,003.1 million, which was primarily attributable to increase in revenue from sales of drill pipes.

The revenue from sales of drill pipes in the PRC market decreased by approximately 79.6% from approximately RMB321.1 million for FY2019 to approximately RMB65.4 million for FY2020, and rebounded to approximately RMB161.7 million for FY2021 as the Company put more emphasis on cooperation with customers in PRC market resulting from the recovery of certain oil and gas companies in 2021. However, such rebound was not sufficient to offset with the decrease in revenue from sales of drill pipes in international market, which decreased by approximately 23.1% from approximately RMB769.0 million for FY2020 to approximately RMB591.6 million for FY2021. Further, the Company recorded decrease in average selling price of drill pipes in both international and the PRC market which reflected the guideline price of American Petroleum Institute ("**API**") drill pipe products based on annual bid of both CNPC and Sinopec Group decreased in FY2021 compared to that in FY2020. During 6M2022, the sales to the international market rebounded significantly from approximately RMB275.4 million for 6M2021 to approximately RMB765.1 million, which reflected the large demands from the Middle East and Russian markets and the Company's strategy to put more effort into long-term cooperation with prestigious customers in the international market. Due to the large demand in the international market, the Group utilised part of the domestic capacity to satisfy the requirement of high margin drill pipe's orders in the international market. In the second half of 2022, this segment continued to grow and the Company has entered into a series of drill pipe supply contracts with several customers in the Middle East market, European market and the North and South America markets, with total contract value obtained amounted to approximately US$146.7 million.

The gross profit of oilfield equipment manufacturing and services decreased by approximately 16.5% from approximately RMB571.5 million for FY2019 to approximately RMB477.2 million for FY2020, and further decreased by approximately 8.3% to approximately RMB437.7 million for FY2021. The gross profit margin of oilfield equipment manufacturing and services increased from approximately 34.6% for FY2019 to approximately 36.5% for FY2020 and remained relatively stable at approximately 36.3% for FY2021. For 6M2022, the segment gross profit increased from approximately RMB173.1 million for 6M2021 to approximately RMB284.9 million, which was mainly driven by the increase in sales of high margin drill pipe in the international market as mentioned in the above.

Line pipe technology and services

The Group's line pipe technology and services segment primarily consists of the provision of services related to oil and gas pipe line and production of coating materials for anti-corrosive and anti-friction purposes.

The Group's revenue from line pipe technology and services decreased by approximately 29.6% from approximately RMB360.8 million for FY2019 to approximately RMB253.8 million for FY2020. Such decrease was mainly attributable to the postponed execution of some pipeline coating projects caused by the outbreak of COVID-19. Revenue from this segment recovered significantly by approximately 53.1% to approximately RMB388.7 million for FY2021, which was mainly due to (i) the PRC successfully contained COVID-19 in 2021; and (ii) the Company undertook more projects and developed new customers during 2021. For 6M2022, revenue generated from line pipe technology and services segment increased from approximately RMB138.3 million for 6M2021 to approximately RMB177.3 million, which primarily reflected the increase in the revenue derived from CWC services as the Company undertook more projects and developed new customers.

The gross profit of line pipe technology and services decreased by approximately 28.7% from approximately RMB105.9 million for FY2019 to approximately RMB75.5 million for FY2020 and increased by approximately 78.2% to approximately RMB134.6 million for FY2021. The gross profit margin of line pipe technology and services increased from approximately 29.4% for FY2019 to approximately 29.7% for FY2020 and further increased to approximately 34.6% for FY2021. For 6M2022, the gross profit of line pipe technology and services decreased from approximately RMB69.1 million for 6M2021 to approximately RMB61.4 million.

Oilfield services

The Group's oilfield services segment primarily consists of the provision of well drilling services, integrated comprehensive services, OCTG trading and related services to oil and gas producers.

The Group's revenue from oilfield services decreased by approximately 46.7% from approximately RMB1,283.3 million for FY2019 to approximately RMB683.8 million for FY2020. Such decrease was mainly attributable to the lower utilisation rate of drilling rigs affected by the outbreak of COVID-19. Revenue from this segment covered and increased by approximately 23.6% to approximately RMB845.3 million for FY2021 due to the recovery of utilisation rate of drilling rigs in 2021. For 6M2022, revenue generated from oilfield services increased from approximately RMB434.1 million for 6M2021 to approximately RMB458.5 million, which primarily reflected the increase in revenue from trade services and the recovery of the utilisation rate of drilling rigs. As advised by the management of the Group, in light of the end to quarantine and easing of COVID-19 restrictions, the oilfield services has continued to recover in the second half of 2022 and the Group is expected to achieve segment revenue of around RMB600 million in the second half of 2022, such that the segment revenue would be over RMB1,000 million for the year ended 31 December 2022.

The gross profit of oilfield services decreased by approximately 65.8% from approximately RMB456.8 million for FY2019 to approximately RMB156.3 million for FY2020 and increased by approximately 88.1% from approximately RMB293.9 million for FY2021. The gross profit margin of oilfield services decreased from approximately 35.6% for FY2019 to approximately 22.9% for FY2020 and increased to approximately 34.8% for FY2021. For 6M2022, in line with the increase in segment revenue, gross profit of this segment increased from approximately RMB143.2 million for 6M2021 to approximately RMB150.7 million.

Offshore engineering services

The Group's offshore engineering services segment primarily consists of the provision of offshore engineering services and offshore engineering design services.

The Group's revenue from offshore engineering services segment increased by approximately 7.0% from approximately RMB353.5 million for FY2019 to approximately RMB378.3 million for FY2020, and further increased by approximately 26.4% to approximately RMB478.2 million for FY2021, which mainly comprised revenue from two major projects. For 6M2022, the segment revenue decreased significantly from approximately RMB339.3 million for 6M2021 to approximately RMB64.3 million, as revenue was only generated from one project which was wrapping up during the period.

The gross loss of offshore engineering services was approximately RMB15.1 million for FY2020 as compared to a gross profit of approximately RMB27.0 million for FY2019. Nevertheless, such segment recovered and recorded gross profit of approximately RMB32.2 million for FY2021. For 6M2022, this segment recorded gross loss of approximately RMB40.1 million.

Overall performance

The Group's total revenue decreased by approximately 28.1% from approximately RMB3,649.9 million for FY2019 to approximately RMB2,623.0 million for FY2020, which was mainly due to the decrease in revenue from oilfield services and oilfield equipment manufacturing and services, partly offset by the increase in revenue from offshore engineering services. The Group's total revenue recovered and increased by approximately 11.2% to approximately RMB2,916.9 million for the FY2021, which was mainly due to the increase in revenue from the offshore engineering services segment and line pipe technology and services segment, partly offset by the decrease in revenue from the oilfield equipment manufacturing and services segment, due to the reasons as stipulated in the above. For 6M2022, due to the high international crude oil price, capital expenditure within the oil and gas industry increased significantly and the Group benefited from such opportunity to expand its business, with revenue increased approximately RMB1,571.1 million for 6M2021 to approximately RMB1,703.2 million as supported by the increase in orders.

The Group's interest expense on senior notes and other borrowings increased by approximately 6.4% from approximately RMB246.1 million for FY2019 to approximately RMB261.8 million for FY2020, and further increased by approximately 44.8% to approximately RMB379.2 million for FY2021. Such increases represent the heavier financial burden the Group is facing and pose pressures on the Group's future liquidity. For 6M2022, the Group's interest expense amounted to approximately RMB159.0 million, representing a decrease of approximately 4.4% as compared to approximately RMB166.3 million for 6M2021. However, the total finance costs increased from approximately RMB142.7 million for 6M2021 to approximately RMB287.3 million, which was mainly due to exchange losses resulting from the appreciation of USD.

The Group recorded loss attributable to the Shareholders of approximately RMB298.8 million for FY2020 as compared to a profit attributable to the Shareholders of approximately RMB176.8 million for FY2019. For FY2021, the financial performance of the Group recovered and recorded profit attributable to the Shareholders of approximately RMB44.2 million. For 6M2022, the Group recognised profit attributable to the Shareholders of approximately RMB54.1 million.

(ii) Financial position

	As at 31 December			As at 30 June
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(audited)	*(audited)*	*(audited)*	*(unaudited)*
Non-current assets, including:	3,867,354	3,277,039	2,945,299	3,104,723
Property, plant and equipment	3,172,363	2,619,526	2,381,624	2,484,227
Current assets, including:	4,673,637	4,093,318	4,126,507	4,725,645
Trade and other receivables	2,341,098	1,682,031	1,663,545	2,092,594
Inventories	860,109	1,001,255	1,050,881	1,416,363
Cash and cash equivalents	783,178	697,463	628,805	519,003
Restricted cash	124,329	77,616	60,379	30,666
Financial assets at fair value through profit or loss ("FVPL")	–	23,377	–	–
Total assets	8,540,991	7,370,357	7,071,806	7,830,368
Non-current liabilities, including:	1,648,441	127,553	2,524,859	2,738,244
Borrowings	1,531,246	23,674	2,432,509	2,650,315
Lease liabilities	20,314	17,775	11,655	9,638
Current liabilities, including:	3,186,087	4,124,506	1,504,120	1,671,365
Borrowings	1,712,111	3,101,841	607,352	536,817
Trade and other payables	1,251,439	906,793	736,348	941,928
Lease liabilities	20,083	10,206	5,892	4,948
Total liabilities	4,834,528	4,252,059	4,028,979	4,409,609
Equity attributable to the Shareholders	3,662,941	3,074,472	3,015,479	3,391,600
Gearing ratio *(Note)*	39.1%	43.0%	43.8%	43.7%

Note: being net debt (total borrowings and lease liabilities less cash and cash equivalents, restricted cash and financial assets at FVPL) divided by the sum of total equity and net debt.

As at 31 December 2021, total assets of the Group were RMB7,071.8 million, which mainly included (a) property, plant and equipment of RMB2,381.6 million; (b) trade and other receivables of RMB1,663.5 million; (c) inventories of RMB1,050.9 million; and (d) cash and cash equivalents of RMB628.8 million, representing a decrease of approximately 4.1% as compared to that of RMB7,370.4 million as at 31 December 2020. As at 30 June 2022, total assets of the Group increased to approximately RMB7,830.4 million, which was mainly due to the increase in trade and other receivables and inventories.

As at 31 December 2021, total liabilities of the Group were RMB4,029.0 million, which mainly included (a) borrowings of RMB3,039.9 million, including senior notes of with carrying value of approximately RMB2,348.0 million which were secured by certain drilling rigs of the Group and interest-bearing at 9.75% per annum payable semi-annually; and (b) trade and other payables of RMB736.3 million. The Group intended to either replace the senior notes by issuance of new senior notes before its maturity date on 18 November 2024 or repay the senior notes by seeking for external equity financings or disposal of certain assets, if needed. As at 30 June 2022, total liabilities of the Group increased to approximately RMB4,409.6 million, which was mainly due to increase in borrowings.

The equity attributable to the Shareholders and gearing ratio as at 31 December 2021 remain stable at RMB3,015.5 million and 43.8%, respectively, as compared to those as at 31 December 2020. As at 30 June 2022, the equity attributable to the Shareholders increased to approximately RMB3,391.6 million, with the gearing ratio remain stable at 43.7%.

(iii) Overall comment

While the financial performance of the Group improved and recorded increase in revenue and turnaround to net profit for FY2021 and 6M2022, the future financial performance is expected to be continued to be affected by the significant interest expense. For FY2021, the Group's interest expense on senior notes and other borrowings amounted to approximately RMB272.1 million, and such interest expense is expected to continue to incur for the coming years unless the Company repay the senior notes. For 6M2022, the Company continued to incur interest expenses which amounted to approximately RMB159.0 million.

As set out in the section headed "Business of the Group and background to the Disposal" above, due to the COVID-19 pandemic and other factors, the Company was unable to repay the outstanding principal amount of the 2020 Notes due on 22 June 2020, and had gone through the Debt Restructuring exercise, which was completed in May 2021, together with the issuance of 2024 Notes. The 2024 Notes were issued at 9.75% per annum with interest payable semi-annually, the interest of which is higher than the 2020 Notes of 7.25% and 2022 Notes of 8.25%. The issuance of the 2024 Notes has created additional interest burden and caused more financial stress on the Group. As discussed in the section headed "Reasons for and benefits of the Disposal" below, to prevent the Group from requiring further debt restructuring exercise and to maintain a healthier financial position, we consider the Disposal will be beneficial to the Group's steady growth.

3. Information of the Purchaser

The Purchaser is a company incorporated in the PRC with limited liability and is principally engaged in the manufacture and sales of heavy-duty coating materials applicable in various industries. The Purchaser is a wholly-owned subsidiary of BHH Petroleum Machine Equipment, which is held as to approximately 95.65% by Mr. Zhang, the chairman of the Board, and approximately 4.35% by Ms. Zhang Jingying, the mother of Mr. Zhang. As such, each of BHH Petroleum Machine Equipment and the Purchaser is an associate of Mr. Zhang and thus a connected person of the Company.

4. Information of the Target Group

The Target Company was established in the PRC in 2005 and an indirect wholly-owned subsidiary of the Company. The Target Group is principally engaged in the Target Business which comprises multi-functional coating materials and coating services, inspection services and maintenance services for various pipes utilised in oil and gas drilling and transmission processes in the PRC and overseas markets.

Set out below is the summary of the unaudited financial information of the Target Group for the three years ended 31 December 2021 and the nine months ended 30 September 2022 ("**9M2022**"):

	FY2019	**FY2020**	**FY2021**	**9M2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	1,263,956	1,295,536	1,246,831	766,384
Gross profit	351,379	327,670	348,589	246,840
Net profit before taxation	180,046	115,519	281,645	103,042
Net profit after taxation	148,946	104,510	251,537	103,662
Profit attributable to the Shareholders	131,454	97,697	248,992	99,397

	As at 31 December 2019	**As at 31 December 2020**	**As at 31 December 2021**	**As at 30 September 2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	2,279,823	2,252,316	2,330,220	2,587,746
Total liabilities	1,313,913	1,236,524	1,282,078	1,316,924
Equity attributable to the Shareholders	909,597	952,666	1,002,768	1,221,183

Revenue of the Target Group was generally stable for FY2019, FY2020, FY2021 and 9M2022. The gross profit margin of the Target Group was generally stable as well, which amounted to approximately 27.8%, 25.3%, 28.0% and 32.2% for the three years ended 2019, 2020, 2021 and 9M2022, respectively. The Target Group recorded net profit margin of approximately 11.8%, 8.1%, 20.2% and 13.5% for the FY2019, FY2020, FY2021 and 9M2022, respectively. The increase in net profit margin for FY2021 as compared to that for FY2020 was mainly attributable to the net other gains of approximately RMB72.8 million primarily generated from the disposal of the entire equity interest of Shanghai Hilong Special Steel Pipe Co., Ltd. and the reversal of impairment losses on financial assets of approximately RMB37.1 million for FY2021. Excluding the other gains and the reversal of impairment losses on financial assets, the net profit for FY2021 would be amounted to approximately RMB141.6 million, representing a net profit margin of approximately 11.4%. The increase in net profit margin for 9M2022 was mainly attributable to the increase in gross profit margin of OCTG services as driven by the increase in selling price (especially in overseas markets) resulting from the high crude oil price, while the increase of Oil & Gas Line Pipe Coating Services and CWC services profit were due to the larger size and higher technical requirements projects undertaken during the year. According to the management accounts of the Target Group, the Target Group recorded revenue, net profit before taxation and net profit after taxation in the amount of approximately RMB1,081.8 million, RMB151.2 million and RMB128.5 million for the year ended 31 December 2022, all of which decreased as compared to FY2021.

As at 30 September 2022, total assets of the Target Group amounted to approximately RMB2,587.7 million, which mainly represented (i) trade and other receivables of approximately RMB1,637.6 million; (ii) property, plant and equipment of approximately RMB283.5 million; (iii) inventories of approximately RMB185.0 million; and (iv) cash and cash equivalents of approximately RMB187.6 million.

As at 30 September 2022, total liabilities of the Target Group amounted to approximately RMB1,316.9 million, which mainly represented (i) trade and other payables of approximately RMB993.0 million; and (ii) borrowings of approximately RMB235.3 million.

The Target Group's businesses, excluding intercompany sales, accounted for approximately 27.01% and 20.46% of the Group's total revenue for FY2021 and 9M2022, respectively.

5. Information of the Remaining Group

Following completion of the Disposal, the Remaining Group will comprise the following businesses:

(i) Drill pipe-related business: the manufacture and distribution of drill pipes and related products in both domestic and global markets. The Company provides the customers with both standard and customised drill pipe products applied in various downhole environment. The Company has developed a variety of high-end drill pipe products to meet the specific needs of different customers over the years, and has gradually expanded to provide the repairment services for drilling tools in recent years, which will further strengthen the cooperation between the Company and its customers.

(ii) The oilfield services business: the provision of drilling and workover services, technical services and trading services. The Company capitalises its rig fleet and provides services to world-leading oil and gas companies and national oil companies in major oil and gas production countries around the globe, such as Shell, BP and Petroleum Development Oman. In recent years, the Company has successfully operated various technical services such as cuttings treatment, mud service, directional well drilling, cementing and casing running. Moving forward, the Company will further expand its integrated services to include well completion and stimulation, drilling speed and efficiency improvement, and oilfield environmental protection, so as to diversify its revenue stream and enhance customer stickiness.

(iii) The offshore engineering services: the provision of offshore engineering design, procurement, construction and installation services mainly in China and Southeast Asia by utilising the Company's offshore pipe-laying vessel "Hilong 106." In 2020, the Company made a breakthrough in this segment by providing vessel leasing and operations-related services for an offshore wind power construction project. Beyond the oil and gas industry, the Company has been actively seeking other opportunities to expand into the field of public infrastructure engineering services. The Company intends to leverage its extensive experience and know-how accumulated from various projects, and deliver efficient and high-quality offshore engineering services to its customer.

The revenue from the Remaining Group's businesses, excluding intercompany sales, accounted for approximately 72.99% and 79.54% of the Group's total revenue for FY2021 and 9M2022, respectively. For the detailed business prospect of the Remaining Group, please refer to the section headed "Business prospects of the Remaining Group" in the Letter from the Board.

6. Principal terms of the Equity Transfer Agreement

Details of the principal terms of the Equity Transfer Agreement is set out in the Letter from the Board, which are summarised as follows:

Date	:	31 March 2023
Parties:	:	the Vendor; and
		the Purchaser

Subject Matter	:	The Vendor conditionally agreed to sell and the Purchaser conditionally agreed to acquire 100% of the equity interest in the Target Company. Upon Completion, the Company will not hold any interest in the Target Company, and each member of the Target Group will cease to be a subsidiary of the Company.
Consideration and payment	:	RMB700 million, 10% of which shall be paid in cash by the Purchaser to the Vendor at the Vendor's designated bank account by wire transfer within 30 days from the date of fulfilment of all the conditions precedent (the "**First Instalment**"), and the remainder shall be paid in cash by the Purchaser to the Vendor at the Vendor's designated bank account by wire transfer within 90 days from the Completion Date.
Basis of the Consideration	:	The vendor has engaged the Valuer to conduct a valuation on the Target Group. The Target Group was valued at approximately RMB1,004.5 million as at 31 December 2021 based on the asset-based approach. The Consideration was determined after arm's length negotiations between the Vendor and the Purchaser on normal commercial terms with reference to, among other things, the (1) Target Group's appraised valuation of 1,004.5 million as at 31 December 2021 as set out in the Valuation Report, and supported by the supplemental analysis report dated 29 March 2023; (2) the historical financial performance of the Target Group for the three years ended 31 December 2021 and 9M2022; (3) the potential development of the Target Business with reference to the latest operational and financial performance of the Target Group, including cash and cash equivalents of the Target Group as at 30 September 2022; (4) the distribution of dividends by the Target Company to the Remaining Group in the amount of RMB339 million which was approved by the shareholder of the Target Company in December 2022 and January 2023, respectively – the Target Company expects to complete the payment of the dividend to the Remaining Group within three months after the completion of the Disposal using its internal financial resources; (5) exemption of payables of RMB100 million payable by the Vendor to the Target Group; and (6) the factors set out in the section "Reasons for and the benefits of the Disposal" in the Letter from the Board.

Conditions precedent	:	Completion of the Disposal is subject to the fulfillment of the following conditions, or the written consents by the parties to waive parts or all of the conditions:

(1) the Equity Transfer Agreement being executed by the parties, or their respective representatives;

(2) the transactions contemplated under the Equity Transfer Agreement not violating any responsibilities or obligations of the Target Company, the Vendor, the Purchaser, and each of their connected persons under any agreement;

(3) there being no material adverse change to the business operations, assets, liabilities, tax or financial position of the Target Company from the date on which the Equity Transfer Agreement is executed;

(4) the parties having performed all internal procedures with respect to the execution, delivery and performance of the Equity Transfer Agreement and the transactions contemplated thereunder, including, but not limited to, the directors' and/or shareholders' approvals, the Company's board of Directors' approval, and the Company's Independent Shareholders' approval of the Equity Transfer Agreement and the transactions contemplated thereunder at the EGM; and

(5) all representations and warranties of the parties are true, accurate and complete.

Save as conditions (2), (3) and (5) above, none of the above conditions can be waived.

Completion : Completion of the Disposal shall take place on the date on which the First Instalment is paid by the Purchaser.

The parties shall complete the industrial and commercial transfer registration (工商變更登記) of the Sale Interests pursuant to the Equity Transfer Agreement within 10 days of the date of Completion.

7. Reasons for and benefits of the Disposal

(i) Enhancement of the capital structure of the Company

The gross proceeds from the Disposal are expected to be RMB700 million and the net proceeds (after deducting transaction costs and professional expenses) are expected to be approximately RMB693.3 million. The Company estimates to record a loss on Disposal of approximately RMB32.87 million, after taking into account of the Consideration, the net asset value of the Target Group attributable to the Shareholders as of 30 September 2022, exemption of payables payable by the Vendor to the Target Group and the estimated relevant fees and expenses in relation to the Disposal.

The Group intends to use the net proceeds as to (1) 80.8%, or approximately RMB560.0 million, to repay the Company's existing indebtedness before April 2024; (2) 10.1%, or approximately RMB70.0 million, to bid for turnkey projects in the oilfield service segment and upgrade the production facility of the drill pipe segment of the Company before April 2024; and (3) 9.1%, or approximately RMB63.3 million, for general corporate purpose, including the payment of salaries, expenses incurred in research and development activities, travel and communication expenses and sales expenses incurred in daily business operation and management, before October 2023.

As set out in the section headed "Business of the Group and background to the Disposal" above, the Group has been facing heavy interest burden from borrowings and senior notes since 2020, and since the interest rate of the 2024 Notes is higher than the 2022 Notes which was replaced with, the Group is expected to incur more interest expenses and which experience greater financial pressure in the coming years. To achieve steady business growth and to gradually reduce the Group's leverage ratio, the Board intends to dispose the non-core business and use the proceeds to repay certain principal amount of the new notes and alleviate the burden of the Group's financial expenses. The Disposal will significantly reduce future interest expenses and improve the Group's gearing ratio.

Additionally, the Remaining Group's businesses, particularly the drill pipe-related business and the oilfield services are capital-intensive. The Group has been seeking opportunities for turnkey projects in the oilfield service business over the past few years, which require massive initial capital investment. However, the Group often faced tough competition in terms of timely amassing sufficient cash flow to commit to projects, which is the industry practice in turnkey projects bidding. Therefore, the expansion of the Group's turnkey services has fallen behind schedule and the further expansion of the Group's business has been restrained by the Group's ability of amassing sufficient cash flow upfront to commit to projects when bidding. This posed a challenge for the Group given it has less cash in hand in recent years. The Group has made continuous efforts to reduce capital expenditures such as disposing inefficient drilling rigs to increase cash inflows and optimising supply chain management to reduce procurement costs, but the speed at which cash is generated from these endeavors is limited. Since the second half of 2022, the end to quarantine and easing of COVID-19 restrictions have contributed to the gradual recovery of the Remaining Group's oilfield services. As the overall business opportunities of the oilfield services segment start to pick up, the Remaining Group will also require certain amount of capital to resume its operations of drilling and oil well workover services. The Board therefore believes that the liquidity generated by the Disposal will equip the Group with a sizable capital that will put the Group in more favorable positions to bid for desirable projects in the foreseeable future, and thereby improve the overall business operations.

Currently, while continuing to develop the Company's drilling and oil well workover projects, the Company has been actively seeking for suitable turnkey projects in Iraq, Ecuador and other regional markets. The Company intends to bid for more turnkey projects and believes that it will become one of the main focuses for its oilfield services segment and help maintain its long-term competitiveness in the industry. Further, turnkey contract is a type of engineering, procurement, and construction (EPC) business, which requires a higher standard of operational capabilities and management experience. Successfully bidding and completing turnkey projects will demonstrate the Company's overall strength and further enhance its industry reputation and consolidate its market position. At the same time, the profit margin of turnkey projects is generally higher than that of drilling services and oil well workover projects, which can generate a better return for the Company and the Shareholders.

The Company will continue the strategy of focusing on international and high-end customers and high value-added products and services. The Company believes that such strategy will accelerate the collection of trade payables, improve the Company's operational efficiency and gradually generate more revenue streams. The Company expects that the revenue of the drill pipe-related business will continue to grow steadily in the next few years, while the gradual increase in the sales proportion of high value-added products and services will also contribute to the improvement of the Company's profit margins.

According to the terms of the Company's 2024 Notes, 17 drilling rigs in operation have already been pledged to the bondholders, and could not be used for further financing. Further, the Company already has a relatively high gearing ratio at 43.7% as at 30 June 2022. As such, it is impracticable for the Company to seek further debt financing.

(ii) Focus on the Remaining Businesses

The Target Group's businesses, excluding intercompany sales, accounted for approximately 27.01% and 20.46% of the Group's total revenue for FY2021 and 9M2022, respectively. It is not the Company's main revenue stream and has limited synergy with the Group's core businesses – oilfield services and offshore engineering service. For FY2021, revenue generated from the oilfield services and offshore engineering service amounted to approximately RMB845.3 million and RMB478.2 million, representing approximately 29.0% and 16.4% of the Group's revenue for the year, and these two segments achieved revenue growth of approximately 23.6% and 26.4% respectively for FY2021. For the six months ended 30 June 2022, revenue generated from the oilfield services and offshore engineering service amounted to approximately RMB458.5 million and RMB64.3 million, respectively. As advised by the management of the Group, the Group expects these segments will continue to grow as brought by the recovery of the global oil and gas industry and the continuous increase of domestic oil and gas exploration and development.

We noted that the Remaining Group has been loss making for FY2020, FY2021 and 6M2022. As advised by the management of the Group, the loss was primarily due to the fact that the operations of the Remaining Group have been more significantly impacted by the COVID-19 pandemic when compared to the Target Group. Since February 2020, due to complex and unpredictable governmental measures and economic downturn during the pandemic, the Remaining Group's oilfield services segment, in particular, drilling services and oil well workover services in overseas markets have been interrupted to varying degrees. For instance, the Remaining Group received notices from customers to temporarily halt its services. The revenue and profit margin of the Remaining Group's oilfield services segment decreased due to the increase in staff cost, contributed by limited labor availability and quarantine measures, and reduction in overall drilling activity. Since the second half of 2022, the end to quarantine and easing of COVID-19 restrictions have contributed to the gradual recovery of the Remaining Group's oilfield services. As advised by the management of the Group, the revenue generated from the oilfield services segment has significantly improved in the second half of 2022. Based on the management accounts of the Group, the Group is expected to achieve segment revenue of around RMB600 million in the second half of 2022 as compared to approximately RMB458.5 million for the first half of 2022, and the full year the segment revenue would be over RMB1,000 million for FY2022, as compared to approximately RMB845.3 million for FY2021.

The Company intends to continue to develop its oilfield services business as the utilization rate of the drilling rigs has gradually recovered and expects to remain at the high level in the near future. The Company's technical services will also be complemented by the development of its oil reserve stimulation services. In addition, the Company intends to leverage on bases already built in several overseas markets to promote the oil service related products and equipment of domestic suppliers to global customers. The Company believes that this strategy will expand revenue streams of its oilfield services business effectively without generating more fixed assets.

Recent geopolitical development has also affected on the Target Group. A significant portion of the Target Group's revenue is generated in Russia. As a result, the Target Group faces certain inherent risks in its operations in Russia. Russia-Ukraine conflict may continue for an extended period, which may hinder economic growth in the region and slow the Target Group's business operations, and also compound its difficulty in forecasting raw materials, labor and inventory at appropriate levels. Although the Target Group has adopted appropriate measures to minimize its exposure risks in Russia, the impact of the Russia-Ukraine conflict on the Target Group's business, financial condition and results of operations is still uncertain. On the other hand, the Remaining Group's operations is spread in East Europe, South Asia and Southeast Asia, North and South America and the Middle East. As governments continue to relax COVID-19 policy, the Company expects the Remaining Group's business to gradually recover in the near future. The Company believes that the Remaining Group's business is comparatively more stable in the near future and the development of its oilfield services and offshore engineering services remains to be the focus of the Company's business strategy.

As set out in the Letter from the Board, the Board considers that the Disposal is one of the Group's restructuring strategies which is expected to enhance the Group's operational efficiency and optimise investment return for the Shareholders. Upon Completion, the Group will focus on providing customers with diversified onshore and offshore drilling services and equipment.

(iii) Prospects and industry overview of the Remaining Group

After Completion, the Remaining Group will be mainly engaged in (1) drill pipe-related business; (2) oilfield services business; and (3) offshore engineering services business.

Crude oil prices increased in 2021 as a result of the increase in global COVID-19 vaccination rate and governments loosened pandemic-related restrictions, which drove the recovery of global economy and hence the demand in petroleum rose faster than supply. The slower increase in production was mostly attributable to OPEC crude oil production cuts that started in late 2020. OPEC and other countries, such as Russia, that coordinate production with OPEC announced in December 2020 that they would continue to limit production increases throughout 2021 to support higher crude oil prices. The spot price of Brent crude oil, a global benchmark price on crude oil, raised from US$50 per barrel in the beginning of the year to US$86 per barrel in late October 2021 before the decline in price during the final weeks of 2021.

On 24 February 2022, Russia initiated a further invasion of Ukraine that contributed to the sharp increase in the Brent crude oil spot price since then, and reached a peak at US$123.48 per barrel on 8 March 2022. This sharp rise in crude oil prices reflects the increased geopolitical risk and the uncertain speculation over the global energy markets as affected by the sanctions imposed on Russia The Brent crude oil spot price remained high during the first half of 2022 and gradually dropped to US$81.6 at the end of 2022. The Energy Information Administration (the "**EIA**") expected that crude oil production in the United States will reach new record high in 2023 and 2024, and the price of crude oil will gradually drop. The EIA forecast that the Brent crude oil spot price will drop from an average of US$100.9 per barrel in 2022 to an average of US$83.0 per barrel in 2023 and then fall to an average of US$77.6 per barrel in 2024. Despite the expected decrease in crude oil price, the expected prices in 2023 and 2024 are still far higher than that of approximately US$42 per barrel in 2020. Nevertheless, actual price outcomes will largely depend on the degree to which existing sanctions imposed on Russia, any potential future sanctions, and independent corporate actions affect Russia's oil production or the sale of Russia's oil in the global market. In any event, the demands for both onshore and offshore oilfield services are expected to increase as the crude oil price continues to be high and drive petroleum production, and hence provides an opportunity for the Remaining Group to expand its business as the oil and gas companies increase their expenditure in exploration, drilling and production activities.

Based on an Oilfield Market Report issued by Spears and Associates, which has provided market research-based consulting services to the worldwide petroleum industry since 1965, the global drill pipe market is projected to increase from approximately US$630 million in 2020 to approximately US$1,185 million in 2025, representing a compound annual growth rate of approximately 13.5% over the 2020 to 2025 timeframe. The Chinese drill pipe market, which is led by the Company, is expected to grow at a compound annual growth rate of approximately 9% over the 2020 to 2025 timeframe. Furthermore, based on the Dallas Fed Energy Survey published by the Federal Reserve Bank of Dallas in December 2022, activity in the oil and gas sector continued growing in the fourth quarter 2022 and the pace of expansion is expected to remain solid. The cost for oilfield services has been on a growing trend but reported to be gradually slowed, and the labor market index remain elevated but declined from last quarter. The lag time in delivery of services by oilfield service firms has also edged down in the fourth quarter of 2022. Based on the above, the Directors consider that the oilfield services industry is on the pace of recovery.

In light of the prospect on the oil market and the onshore and offshore oilfield services which are favorable to the business of the Remaining Group as well as the expected enhancement on the capital structure of the Group following the Disposal, we consider that it is in the interest of the Company to focus on the onshore and offshore oilfield services field and that the Disposal is in the interests of the Company and the Shareholders as a whole.

8. Valuation of the Target Group

The Consideration is determined with reference to, among others, the valuation of the Target Group as at 31 December 2021 and supplemented with a supplementary analysis report with 31 March 2022 as the benchmark date of value analysis, as conducted by Shanghai Orient Appraisal Co., Ltd.* (上海東洲資產評估有限公司) ("**Shanghai Orient**"), an independent valuer. The summary of the Valuation Report is set out in Appendix V to this Circular. As the validity period of the Valuation Report shall be one year from the valuation benchmark date, i.e. effective until 31 March 2023, the valuation conclusion remains valid as at the Latest Practicable Date and hence we consider it is reasonable to rely on the valuation conclusion.

We have reviewed the Valuation Report (including the supplementary analysis report) and the relevant calculation workings prepared by Shanghai Orient for the valuation, and interviewed the relevant staff of Shanghai Orient in relation to, among others, (i) Shanghai Orient's terms of engagement with the Company; (ii) Shanghai Orient's qualification and experience in relation to the preparation of the valuation; and (iii) the steps and due diligence measures taken by Shanghai Orient in performing the valuation.

In our review of the engagement letter between the Company and Shanghai Orient, we are satisfied that the scope of works of Shanghai Orient are appropriate to the opinion Shanghai Orient is required to give and there are no limitations on the scope of work which might adversely impact on the degree of assurance given by Shanghai Orient in the Valuation Report. Shanghai Orient has confirmed that it is independent from the Group, the Purchaser and Mr. Zhang and their respective connected persons and associates.

Shanghai Orient is an independent firm of qualified PRC valuer and is authorised by the Ministry of Finance of the PRC and China Securities Regulatory Commission to provide valuation services in the PRC. We have complied with all the requirements under Note (1)(d) to Rule 13.80(2)(b) of the Listing Rules in relation to valuer and its work as regards to the valuation, in particular, we have discussed with Shanghai Orient regarding its expertise and understand that the persons signing the Valuation Report have years of experience in conducting valuation, and possess sufficient qualifications and experience in similar assets in the PRC. Based on our discussions with Shanghai Orient, we understand that the Valuation Report has been prepared in compliance with the relevant PRC regulatory requirements and professional standards. Based on the above, we are satisfied with the terms of engagement of the Valuer as well as their qualification and experience for performing the Valuation, and we are of the view that the scope of work of Shanghai Orient is appropriate.

(i) Valuation methodology

We have reviewed and discussed with Shanghai Orient the methodologies, bases and assumptions adopted for the valuations and adjustments made to arrive at the valuations of the Target Group. Shanghai Orient has also carried out physical inspections and made relevant enquiries for the purpose of valuing the Target Group.

As stated in the Valuation Report, Shanghai Orient has considered the income approach, the market approach and the asset-based approach for the Target Group. Income-based approach focuses on evaluating an enterprise from the perspective of expected profitability. This approach relies heavily on long-term financial forecast and could be heavily influenced by multiple factors, such as the overall supply and demand relationship of the industry in which the Target Group operates, PRC regulatory policies in energy sector, geopolitical risks, uncertainty in the Target Group's overseas business in Russia, significant fluctuation in energy price and exchange rate risk caused by the uncertainty of the Russia-Ukraine conflict. The above factors could be further influenced by other uncertain factors such as the actions of major oil producing countries and other energy prices, all of which are beyond the Company's control. Hence, when adopting the income approach, significant judgement will be exerted for the estimation of revenue and costs on remote years. For instance, as a result of the prolonged impact of the COVID-19 pandemic on global demand and the failure of OPEC and Russia to reach an agreement on production cuts, the crude oil price fluctuated dramatically in 2020 and 2021. Therefore, any change in the economic condition, market uncertainty and various factors that are beyond the Group's control, including actions by major oil-producing countries and the prices and availability of other energy resources, may reduce the worldwide demand for oil and natural gas and reduce or curtail the expenditure by oil and gas companies in connection with exploration, drilling and production activities, which may result in lower sales of coating materials and related services in connection with oil and gas projects in the PRC and overseas.

In addition, since a significant portion of the revenue of the Target Business were derived from Russia, the Target Business may be affected by the geopolitical factors arising in connection with the military conflict between Russia and Ukraine which has brought uncertainty to the global economy and trade and regulatory environments. If the conflict persists or deteriorates, the Target Business may be exposed to geopolitical risks. The geopolitical landscape may be further implicated, causing volatility in currency exchange rates, economic, social and political repercussions on a number of regions which may give rise to a significant expansion of sanctions and trade restrictions among different countries.

Since the business segment of the Target Group is considered to be facing the impact of various factors as aforementioned such as operating risks, uncertainty in downstream demand and the historical operating conditions of the enterprise, the uncertain future financial performance further increases the inherent uncertainties and risks in any projections derived for the purpose of the income approach. Given the above, there are many limitations to the assumptions for profit forecast it is difficult to provide a meaningful projection of the performance of the Target Company based on information reasonably available to the Company, and the assumptions made on remote years may not capture the market uncertainties and various factors that are beyond the Group's control. As such, Shanghai Orient considers the income approach is not appropriate and had only adopted the income-based approach as a supplementary method to the valuation. In this regard, we have reviewed the basis and assumptions adopted for the income-based approach as well as the methodology applied by Shanghai Orient in deriving the appraisal value, and we consider that they are generally in line with market practice and with no material deviations. Nevertheless, due to the factors in relation to the uncertainties in adopting the income approach and that there is no material differences between the appraised value of the Target Group under the income approach and the asset-based approach, the asset-based approach is considered to be much more reliable than the income-based approach and hence the income approach has not been adopted by Shanghai Orient.

The Target Group is principally engaged in the Target Business which comprises multi-functional coating materials and coating services, inspection services and maintenance services for various pipes utilised in oil and gas drilling and transmission processes in the PRC as well as overseas markets. The preconditions for the adoption of the market approach are a developed, fair and active open market with sufficient market information and the availability of comparable transactions on the open market. According to the Valuation Report, there were only two comparable companies and no comparable transaction were available for market approach.

The asset-based approach uses the balance sheet as at the valuation benchmark date of the appraised entity as the basis for determining the value of the appraisal subject by reasonably appraising the value of the entity's on-balance sheet and identifiable off-balance sheet assets and liabilities. It estimates each asset and liability of an enterprise from the perspective of the current reconstruction of its assets and liabilities, and summarize them to obtain the value of shareholders' equity. As the Target Company satisfies the requirements of the asset-based approach, the asset-based approach could relatively fairly reflect the value of all shareholders' equity value of the entity on the benchmark date.

Taking into account, among others, (1) the lack of sufficient suitable market comparables for the purpose of adopting the market approach; and (2) the availability of sufficient financial information of the assets entrusted to be valued, the extensive sources for relevant data and information of the cost of re-acquiring the assets as well as the internal relationship between the costs of assets replacement and the prevailing market price of the costs and the current value of revenue, Shanghai Orient considers the asset-based approach is more appropriate.

(ii) Factors considered in valuing the Target Group

For valuation of the investments in associates, reference has been made to the net assets of the associates on their financial statements or the transaction consideration if the associates have been transferred after the date of valuation.

For valuation of the property, plant and equipment, Shanghai Orient has taken into account the cost of replacement and the degree of usage of the subject assets. Factors considered in estimating the cost of replacement include, amongst others, the costs of construction materials and the salary of workers as at the valuation date, costs of transportation and installation, the local or industrial pricing standards, the loan prime rate, the market price of the equipment and supplier contracts which were entered around the valuation date.

For valuation of the right-of-use assets, reference has been made to the latest market price of the land appraised and the benchmark land price in the district.

In arriving at the valuation of the intangible assets, Shanghai Orient has fully analysed the Target Group's use plan and expected income derived from the assets appraised and the market transactions of similar assets.

In respect of the supplementary analysis report, Shanghai Orient has made a comparative analysis of the changes in the value of the assets involved in the value analysis as of 31 December 2021 and 31 March 2022 and the reasons for the differences as well as a judgment on the accuracy of the original valuation conclusion as of 31 December 2021, so as to provide a reference basis for determining the transfer base price. As there were no material change on the valuation, Shanghai Orient considers that the valuation of the Target Group as at 31 December 2021 to remain reasonable as at 31 March 2022.

The above methodology and factors are, in our opinion, reasonable in establishing the valuation of the Target Group.

(iii) Valuation results and evaluation of the Consideration

Set out below is a summary of the appraised book values of the Target Group as at 31 December 2021, as extracted from the Valuation Report:

	Appraised value
	RMB'000
Current assets	558,007
Non-current assets, including:	831,103
– Investments in associates	779,717
– Property, plant and equipment	28,064
– Intangible assets	12,497
Current liabilities	384,594
Non-current liabilities	–
Net assets	1,004,516

Based on the above, the Target Group was valued at approximately RMB1,004.5 million as at 31 December 2021 based on the asset-based approach. Assuming that the distribution of dividends by the Target Company to the

Remaining Group in the amount of RMB339 million and the exemption of payables of RMB100 million payable by the Vendor to the Target Group had taken place on 31 December 2021, the adjusted valuation of the Target Group as at 31 December 2021 would be approximately RMB565.5 million.

The Consideration of the Disposal of approximately RMB700 million hence represents a premium of approximately 23.8% over the adjusted valuation of the Target Group.

In view of (i) the methodology, bases and assumptions adopted by Shanghai Oriental in determining the market value of the Target Group are appropriate; (ii) the Consideration is made reference to the aforementioned valuation which was fairly and reasonably determined by Shanghai Oriental; (iii) the Consideration represents a premium of approximately 23.8% over the adjusted valuation of the Target Group; and (iv) the reasons for and benefits of the Disposal as discussed in the section headed "Reasons for and benefits of the Disposal" above, we are of the view that the Consideration is fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

9. Financial effects of the Disposal

(i) Earnings

The Target Group is principally engaged in the Target Business which comprises multi-functional coating materials and coating services, inspection services and maintenance services for various pipes utilised in oil and gas drilling and transmission processes in the PRC and overseas markets. Upon Completion, the Company will not hold any interest in the Target Company, and each member of the Target Group will cease to be a subsidiary of the Company, and their financial results will no longer be consolidated into the Group's consolidated financial statements.

The Target Group's businesses, excluding intercompany sales, accounted for approximately 27.01% and 20.46% of the Group's total revenue for FY2021 and 9M2022, respectively. It is not the Company's main revenue stream and has limited synergy with the Group's core businesses – oilfield services and offshore engineering service. It is expected that the Group will realise a one-off loss on Disposal of approximately RMB32.87 million, which is determined based on the Consideration, the net asset value of the Target Group attributable to the Shareholders as of 30 September 2022, exemption of payables of RMB100 million payable by the Vendor to the Target Group, and the estimated relevant fees and expenses in relation to the Disposal.

Although the Company expects to realize a one-off unaudited loss on the Disposal, the net proceeds arising from the Disposal could allow the Group to save financing expenses through the repayment of debts and the liquidity generated by the Disposal will equip the Group with a sizable capital that will put the Group in more favorable positions to bid for desirable projects in the foreseeable future. Although the earnings of the Group for the coming year will be adversely affected by the one-off loss on Disposal, the overall earnings of the Group in the future may be improved following completion of the Disposal. Hence, as balanced by the anticipated future prospect of the Remaining Group and the funding requirement of the Group from the proceeds of the Disposal, we consider the one-off loss on Disposal to be acceptable.

(ii) Equity attributable to the Shareholders

As set out in Appendix III to this Circular, on the assumption that the Disposal, the distribution of dividends and the exemption of payables of RMB100 million payable by the Vendor to the Target Group had taken place on 30 June 2022, the pro forma net current assets of the Remaining Group as 30 June 2022 would be approximately RMB2,886.9 million after Completion, representing a decrease of approximately 5.5% from that of the Group of approximately RMB3,054.3 million.

The pro forma equity attributable to the Shareholders of the Remaining Group as at 30 June 2022 would be approximately RMB2,953.5 million after Completion, representing a decrease of approximately 12.9% from that of the Group of approximately RMB3,391.6 million. Such decrease was mainly attributable to the pro forma adjustments for (i) the Disposal of the Target Group with a net asset of RMB1,281.9 million as at 30 June 2022; (ii) the intra-group balances between the Target Group and the Remaining Group which were eliminated on consolidation; (iii) the estimated income tax expense and transaction costs in connection with the Disposal, offset by the pro forma adjustments for the distribution of dividends, the exemption of payables payable by the Vendor to the Target Group and the Consideration to be received.

(iii) Gearing

As at 30 June 2022, the Group had a gearing ratio of approximately 43.7%, which is calculated as net debt divided by the sum of total equity and net debt of the Group. We set out below the gearing ratio of the Remaining Group based on Appendix III to this Circular:

	The Group as at 30 June 2022 *RMB'000* *(unaudited)*	**The Remaining Group as 30 June 2022** *RMB'000* *(unaudited)*
Total borrowings	3,187,132	2,977,172
Add: Lease liabilities	14,586	13,686
Less: Cash and cash equivalents	(519,003)	(1,498,081)
Restricted cash	(30,666)	(30,666)
Net debt	2,652,049	1,462,111
Total equity	3,420,759	2,936,113
Gearing ratio	43.7%	33.2%

As shown in the table above, the gearing ratio of the Remaining Group would decrease to approximately 33.2% immediately after Completion, mainly attributable to the increase in cash and cash equivalents.

For details of the pro forma adjustments, please refer to Appendix III to this circular.

The above financial impact is shown for illustrative purpose only and the actual gain or loss as a result of the Disposal to be recorded by the Group is subject to, among other things, the net asset value of the Target Company on the day of Completion and the review by the auditors of the Company upon finalization of the consolidated financial statements of the Group.

OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that the Equity Transfer Agreement and the transactions contemplated thereunder are conducted in the ordinary and usual course of business of the Group, on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Equity Transfer Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Rainbow Capital (HK) Limited
Larry Choi
Managing Director

Mr. Larry Choi is a licensed person and a responsible officer of Rainbow Capital (HK) Limited registered with the Securities and Futures Commission to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO. He has over ten years of experience in the corporate finance industry.

1. FINANCIAL INFORMATION OF THE GROUP

Details of the financial information of the Group for each of the three financial years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022 are disclosed in the following documents which have been published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (http://en.hilonggroup.com) and can be accessed at the website addresses below:

The annual report of the Company for the financial year ended December 31, 2019, please see: https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0402/2020040201375.pdf (pages 73 to 167)

The annual report of the Company for the financial year ended December 31, 2020, please see: https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0416/2021041600711.pdf (pages 74 to 171)

The annual report of the Company for the financial year ended December 31, 2021, please see: https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0421/2022042101008.pdf (pages 66 to 159)

The interim report of the Company for the six months ended June 30, 2022, please see: https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0919/2022091900514.pdf (pages 19 to 52)

2. INDEBTEDNESS STATEMENT

Debts and borrowings

As of January 31, 2023, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had the following indebtedness.

	As of January 31, 2023 *(unaudited)* *RMB'000*
Non-current	
2024 Notes – secured, guaranteed	2,425,963
Bank borrowings – secured, guaranteed	89,519
Bank borrowings – secured, unguaranteed	202
Less: Current portion of non-current bank borrowings – secured, guaranteed	(41,576)
	2,474,108
Current	
Bank borrowings – secured , guaranteed	431,400
Bank borrowings – secured, unguaranteed	42,977
Current portion of non-current bank borrowings – secured, Guaranteed	41,576
	515,953
Total	**2,990,061**

Lease Liabilities

As at January 31, 2023, for the purpose of this statement of indebtedness, the Group, as a lessee, had outstanding unpaid contractual lease liabilities of approximately RMB18.25 million.

Save as disclosed above or as otherwise mentioned herein, and apart from intragroup liabilities and normal accounts payables in the ordinary course of business as of January 31, 2023, the Group did not have any debt securities issued and outstanding, and authorized or otherwise created but unissued, and term loans, distinguishing between guaranteed, unguaranteed, secured (whether the security is provided by the issuer or by third parties) and unsecured, and other borrowings or indebtedness in the nature of borrowing of the Group including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits debentures, mortgages, charges, finance leases, hire purchase commitments, guarantees or other material contingent liabilities.

3. WORKING CAPITAL STATEMENT

The Directors, after due and careful inquiry, are of the opinion that, in the absence of unforeseeable circumstances, after taking into account the Group's internal resources, available banking facilities and the estimated net proceeds (after deducting transaction costs and professional expenses) from the Disposal, the Group will have sufficient working capital to satisfy its requirements for at least the next 12 months following the date of this circular. The Company has obtained the relevant letter as required under Rule 14.66(12) of the Listing Rules.

4. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

With the gradual weakening of the impact of the pandemic and the rise of global energy demand, the price of crude oil continues to rise, which is bound to drive the further growth of industry investment and workload. China has entered the fifth year in implementing the seven-year action plan for oil and gas industry which spans from 2019 to 2025. In general, the domestic and foreign oil and gas industry markets are promising. As a leader in multiple segments, the Company will endeavor to grasp market opportunities brought by the recovery of global oil and gas industry and the constant expansion of domestic oil and gas exploration and development, and focus on the below business segments:

Drill pipe-related business

In terms of the domestic drill pipes market, the Company will adopt differentiated marketing strategies for different customers in domestic market, and continue to position itself in high-end products and markets. Further, the Company has maintained a steady pace in the development of overseas markets, and has achieved significant progress in this regard starting from 2021 and continued such momentum in 2022.

In the second half of 2022, the Company has entered into a series of drill pipe supply contracts with several customers. In the Middle East market, the Company has signed contracts with National Drilling & Services Company LLC and Arabian Drilling Company for the provision of drill pipes, drill collars and related products. The total contract value is approximately US$8.3 million. Later in 2022, the Company signed a contract with ADNOC Drilling company PJSC for the provision of drilling tubulars to be used for onshore land rigs and offshore jackup rigs. The total contract value is approximately US$61.5 million. The signing of the aforementioned contracts demonstrates that the Company's drill pipes and related products are further accredited by the customers in the Middle East market.

Apart from strengthening its presence in the Middle East market, the Company has made progress in Europe market. The Company signed a drill pipe supply contract with Eavor GmbH, a German based geothermal company for the provision of V150 high strength drill pipe to be used in geothermal drilling. The total contract value of the contracts is approximately US$4.9 million.

The Company has made significant progress in the North and South America markets. With respect to the South America market, the Company entered into several contracts with Ventura Petroleo S.A. and Weatherford Industria e Comercio Ltda. for the provision of ultra-deep water drilling tools. The signing of the contracts with these renowned Brazilian customers represents the Company's successful expansion into the South American market.

As for the North America market, the Company signed a series of drill pipe supply contracts with Ensign US Southern Drilling LLC and Ensign United States Drilling Inc., subsidiaries of Ensign Energy Services Inc. which the Group has maintained well-established business relationship with. Furthermore, the Company entered into contracts for the provision of drill pipes with several customers in Canada, including Horizon Drilling, Precision Drilling Canada Limited Partnership, Complete Tubular Products Ltd, Savanna Drilling Corp. and Bonanza Drilling Inc. These new business opportunities demonstrated that the Group has made significant inroads in the Canadian market as part of the Group's strategy to expand its international footprint. The total value of the drill pipe supply contracts that the Company obtained in the North and South America market in 2022 amounts to approximately US$72 million.

Oilfield services business

For the oil service business, The Company strengthened its market development efforts by coordinating all internal resources to maximize the synergies among various business departments. As a result, the utilization rate of the rig fleet has been effectively improved and the price has been restored to an acceptable level since the first half of 2021. Following Completion, the Company intends to develop turnkey projects and technical services, facilitate foreign cooperation and seek expansion and transformation based on existing mature businesses. The Company will strive to make breakthroughs in China, Russia, the Middle East and Africa, and endeavor to increase the utilization rate of existing drilling and workover rigs. In February 2022, the Company signed a contract with Kuwait Energy Iraq Ltd for the provision of turnkey drilling services for three wells with contract value of approximately US$33.1 million. Currently, the Company is actively obtaining the qualification certification of core domestic customers, and is committed to grasping market opportunities brought by the new round of development in China's domestic oil and gas industry.

Offshore-engineering services

For the offshore engineering service segment, emphasis will be placed on capturing potential business opportunities from CNOOC's "seven-year action plan" and the offshore wind power industry. At the same time, we will make full use of the joint venture platform to consolidate the Southeast Asian market and pay attention to project opportunities in the Middle East and other regions.

Following Completion, the Company will focus on sourcing more international and high-end customers and developing high-end value-added products and services. The Company believes that such strategy will accelerate the collection of trade payables, improve the Company's operational efficiency and gradually generate more revenue stream.

In recent years, the Company's drill pipe production capability is increasingly being recognized by more global and major customers. Recently, the Company obtained the network access qualification certification from Saudi Aramco, one of the world's largest integrated energy and chemical company in the oil and gas sector. The recognition of such global brands will further enhance the Company's market presence. Further, these major companies have a large portfolio of drilling rigs in key oil and gas producing regions around the world, presenting various opportunities for the Company's drill pipe-related business. The Company expects that the revenue of the drill pipe-related business will continue to grow steadily in the next few years, while the gradual increase in the sales proportion of high-end value-added products and services will also contribute to the improvement of the Company's profit margins.

The Company will also continue to develop its oilfield services business, including onshore drilling and workover services, engineering technical services and package services, which are traditional strengths of the Company. The operation rate of the drilling team has gradually recovered and expected to achieve full capacity in the near future. The Company's engineering technical services including drilling fluid, premium directional drilling, well completion, cementing and other integrated technical services have grown steadily, and will be complemented by the development of its oil reserve and relevant stimulation technology services. In addition, as part of the Company's ongoing efforts to develop its oilfield business without increasing fixed assets, the Company intends to leverage on bases already built in several overseas markets to promote the products and equipment of domestic equipment suppliers in the oil service industry to overseas customers at a considerable scale. The Company believes that this strategy will expand revenue streams of its oilfield services business effectively.

5. EFFECTS OF THE DISPOSAL ON THE EARNINGS AND ASSETS AND LIABILITIES OF THE GROUP

Upon Completion, each member of the Target Group will cease to be subsidiaries of the Company, and the financial information of the Target Group will no longer be consolidated into the Group's consolidated financial statements. The gross proceeds from the Disposal are expected to be RMB700 million and the net proceeds (after deducting transaction costs and professional expenses) are expected to be approximately RMB693.3 million. The Company estimates to record a loss on Disposal of approximately RMB32.87 million, which is determined based on the Consideration, the net asset value of the Target Group attributable to the Shareholders as of September 30, 2022, exemption of payables and the estimated relevant fees and expenses in relation to the Disposal.

The pro forma financial effects of the Disposal on total assets, total liabilities and net assets of the Remaining Group as at June 30, 2022, as if the Disposal and the dividend distribution of RMB339 million by the Target Group to the Remaining Group was completed on June 30, 2022, are as follows:

	Before Completion of the Disposal and the dividend distribution of RMB339 million by the Target Group$^{(Note)}$ *RMB'000*	**After Completion of the Disposal and the dividend distribution of RMB339 million by the Target Group before the Disposal** *RMB'000*
Total Assets	7,830,368	8,351,584
Total Liabilities	4,409,609	5,492,421
Net Assets	3,420,759	2,859,163

Note: Based on the unaudited financial statements for the six months ended June 30, 2022

It should be noted that the financial effects of the Disposal are presented on a pro forma basis for illustrative purposes only and are subject to the assumptions set out in Appendix III to this circular.

The above financial impact is shown for illustrative purpose only and the actual gain or loss as a result of the Disposal to be recorded by the Group is subject to, among other things, the audited net asset value of the Target Company on the day of Completion and the audit to be conducted by the auditors of the Company upon finalization of the consolidated financial statements of the Group for the year ending December 31, 2022.

羅兵咸永道

REPORT ON REVIEW OF HISTORICAL FINANCIAL INFORMATION OF HILONG PIPELINE ENGINEERING TECHNOLOGY SERVICE CO., LTD.
(incorporated in People's Republic of China with limited liability)

To the Board of Directors of Hilong Holding Limited

Introduction

We have reviewed the unaudited historical financial information set out on pages II-3 to II-12 which comprise the consolidated statements of financial position of Hilong Pipeline Engineering Technology Service Co., Ltd. (the "Target Company") and its subsidiaries (together, the "Target Group") as at 31 December 2019, 2020 and 2021 and 30 September 2022, and the consolidated income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the years ended 31 December 2019, 2020 and 2021 and the nine months ended 30 September 2021 and 2022 and explanatory notes (the "Historical Financial Information"). The Historical Financial Information has been prepared by the directors of the Company solely for the purpose of inclusion in the circular to be issued by Hilong Holding Limited (the "Company") in connection with the disposal of the entire equity interest in the Target Company in accordance with paragraph 14.68(2)(a)(i)(A) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rule").

The directors of the Company are responsible for the preparation and presentation of the Historical Financial Information of the Target Group in accordance with the basis of preparation set out in note 3 to the Historical Financial Information and paragraph 14.68(2)(a)(i) of the Listing Rule. The directors are also responsible for such internal control as management determines is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error. The Historical Financial Information does not contain sufficient information to constitute a complete set of financial statements as defined in Hong Kong Accounting Standard 1 "Presentation of Financial Statements" or an interim financial report as defined in Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). Our responsibility is to express a conclusion on the Historical Financial Information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA and with reference to Practice Note 750, *Review of Financial Information under the Hong Kong Listing Rules for a Very Substantial Disposal* issued by the HKICPA. A review of the Historical Financial Information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the Historical Financial Information of the Target Group for the relevant periods is not prepared, in all material respects, in accordance with the basis of preparation set out in note 3 to the Historical Financial Information.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 31 March 2023

A. UNAUDITED CONSOLIDATED INCOME STATEMENTS

				(Unaudited)	
	Years ended 31 December			Nine months ended 30 September	
	2019	2020	2021	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	1,263,956	1,295,536	1,246,831	854,934	766,384
Cost of sales	(912,577)	(967,866)	(898,242)	(663,625)	(519,544)
Gross profit	351,379	327,670	348,589	191,309	246,840
Selling and marketing expenses	(52,461)	(61,763)	(54,725)	(38,724)	(28,708)
Administrative expenses	(118,037)	(121,374)	(121,104)	(87,555)	(103,063)
(Provision)/reversal of impairment losses on receivables and contract assets	(24,015)	(5,486)	37,086	(56,539)	(68,246)
Other income	2,221	4,943	4,146	3,362	3,182
Other gains/(losses) – net	18,945	(29,318)	72,835	83,273	63,903
Operating profit	178,032	114,672	286,827	95,126	113,908
Finance income	407	448	379	332	670
Finance costs	(2,568)	(4,702)	(7,714)	(9,433)	(11,884)
Finance costs – net	(2,161)	(4,254)	(7,335)	(9,101)	(11,214)
Share of profit/(loss) of investments accounted for using equity method	4,175	5,101	2,153	(304)	348
Profit before income tax	180,046	115,519	281,645	85,721	103,042
Income tax expense	(31,100)	(11,009)	(30,108)	2,048	620
Profit for the year/period	148,946	104,510	251,537	87,769	103,662
Profit attributable to:					
Equity owners of the Target Company	131,454	97,697	248,992	85,164	99,397
Non-controlling interests	17,492	6,813	2,545	2,605	4,265
	148,946	104,510	251,537	87,769	103,662

B. UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	(Unaudited)				
	Years ended 31 December			Nine months ended 30 September	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Profit for the year/period	148,946	104,510	251,537	87,769	103,662
Other comprehensive income/(loss):					
Items that may be reclassified to profit or loss					
Changes in the fair value of financial assets at fair value through other comprehensive income	(3,109)	2,706	381	400	21
Currency translation differences	18,229	(57,334)	(7,406)	856	118,997
Other comprehensive income/(loss) for the year/period, net of tax	15,120	(54,628)	(7,025)	1,256	119,018
Total comprehensive income for the year/period	164,066	49,882	244,512	89,025	222,680
Attributable to:					
Equity owners of the Target Company	146,574	43,069	241,967	86,420	218,415
Non-controlling interests	17,492	6,813	2,545	2,605	4,265
	164,066	49,882	244,512	89,025	222,680

C. UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	(Unaudited) As at 31 December 2019	31 December 2020	31 December 2021	30 September 2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS				
Non-current assets				
Property, plant and equipment	523,777	433,735	238,353	283,467
Right-of-use assets	77,361	74,853	7,523	6,962
Intangible assets	81,819	74,548	72,644	80,972
Investments accounted for using equity method	36,638	50,888	51,037	46,201
Deferred income tax assets	56,968	64,405	50,240	63,205
Other long-term assets	5,504	7,148	6,321	5,524
	782,067	705,577	426,118	486,331
Current assets				
Inventories	237,851	227,233	164,203	185,027
Contract assets	10,838	6,043	1,363	–
Financial assets at fair value through other comprehensive income	109,253	40,152	22,046	10,939
Trade and other receivables	976,884	1,113,853	1,570,352	1,637,642
Prepayments	33,858	73,422	73,327	78,502
Restricted cash	14,255	686	669	1,696
Cash and cash equivalents	114,817	85,350	72,142	187,609
	1,497,756	1,546,739	1,904,102	2,101,415
Total assets	2,279,823	2,252,316	2,330,220	2,587,746

	(Unaudited) As at 31 December 2019 RMB'000	31 December 2020 RMB'000	31 December 2021 RMB'000	30 September 2022 RMB'000
EQUITY				
Capital and reserve attributable to equity owners of the Target Company				
Ordinary shares	100,000	100,000	80,000	80,000
Other reserves	522,935	530,891	472,478	472,499
Currency translation differences	1,763	(55,571)	(62,977)	56,020
Retained earnings	284,899	377,346	513,267	612,664
	909,597	952,666	1,002,768	1,221,183
Non-controlling interests	56,313	63,126	45,374	49,639
Total equity	965,910	1,015,792	1,048,142	1,270,822
LIABILITIES				
Non-current liabilities				
Borrowings	176	23,469	–	–
Lease liabilities	1,769	1,197	596	–
Deferred income tax liabilities	9,814	8,685	11,878	12,405
Deferred revenue	5,729	9,642	9,352	9,275
	17,488	42,993	21,826	21,680
Current liabilities				
Trade and other payables	1,197,691	1,004,816	1,005,239	992,954
Contract liabilities	21,292	30,898	22,101	30,722
Current income tax liabilities	46,720	43,688	36,678	35,448
Borrowings	30,118	113,498	195,574	235,309
Lease liabilities	545	572	601	752
Deferred revenue	59	59	59	59
	1,296,425	1,193,531	1,260,252	1,295,244
Total liabilities	1,313,913	1,236,524	1,282,078	1,316,924
Total equity and liabilities	2,279,823	2,252,316	2,330,220	2,587,746

D. UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Note	(Unaudited) Capital and reserves attributable to equity owners						
		Ordinary shares	Other reserves	Retained earnings	Cumulative Translation differences	Total	Non-controlling interests	Total equity
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2019		50,000	616,038	159,091	(16,466)	808,663	225,538	1,034,201
Profit for the year		–	–	131,454	–	131,454	17,492	148,946
Changes in the fair value of financial assets at fair value through other comprehensive income		–	(3,109)	–	–	(3,109)	–	(3,109)
Currency translation difference		–	–	–	18,229	18,229	–	18,229
Total comprehensive (loss)/income for the year		–	(3,109)	131,454	18,229	146,574	17,492	164,066
Appropriation to statutory reserve		–	5,646	(5,646)	–	–	–	–
Transactions with owners								
2013 Share Option Scheme		–	13	–	–	13	–	13
Issue of ordinary shares	*2(g)*	50,000	(50,000)	–	–	–	–	–
Deemed contribution in respect of business combination under common control	*2((c), (f), (i), (j), (k))*	–	(213,107)	–	–	(213,107)	–	(213,107)
Disposal of a subsidiary	*2(d)*	–	–	–	–	–	(1,960)	(1,960)
Deemed contribution	*2(a), (b)*	–	25,924	–	–	25,924	–	25,924
Transactions with non-controlling interests in respect of Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd.	*2(a)*	–	33,862	–	–	33,862	(38,846)	(4,984)
Transactions with non-controlling interests in respect of Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd.	*2(b)*	–	107,571	–	–	107,571	(132,711)	(25,140)
Share of other comprehensive income of associate		–	97	–	–	97	–	97
Dividends paid to non-controlling interests of subsidiaries		–	–	–	–	–	(13,200)	(13,200)
As at 31 December 2019		100,000	522,935	284,899	1,763	909,597	56,313	965,910
As at 1 January 2020		100,000	522,935	284,899	1,763	909,597	56,313	965,910
Profit for the year		–	–	97,697	–	97,697	6,813	104,510
Changes in the fair value of financial assets at fair value through other comprehensive income		–	2,706	–	–	2,706	–	2,706
Currency translation difference		–	–	–	(57,334)	(57,334)	–	(57,334)
Total comprehensive income/(loss) for the year		–	2,706	97,697	(57,334)	43,069	6,813	49,882
Appropriation to statutory reserve		–	5,250	(5,250)	–	–	–	–
As at 31 December 2020		100,000	530,891	377,346	(55,571)	952,666	63,126	1,015,792

		(Unaudited) 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 2021		100,000	530,891	377,346	(55,571)	952,666	63,126	1,015,792
Profit for the year		–	–	248,992	–	248,992	2,545	251,537
Changes in the fair value of financial assets at fair value through other comprehensive income		–	381	–	–	381	–	381
Currency translation difference		–	–	–	(7,406)	(7,406)	–	(7,406)
Total comprehensive income/(loss) for the year		–	381	248,992	(7,406)	241,967	2,545	244,512
Appropriation to statutory reserve		–	9,591	(9,591)	–	–	–	–
Capital injection from a shareholder	*2(l)*	–	203,670	–	–	203,670	–	203,670
Deemed distribution in respect of business combination under common control	*2((m), (n))*	–	(170,407)	–	–	(170,407)	–	(170,407)
Divest certain assets to a subsidiary newly established by the parent company of the Company		(20,000)	(101,648)	–	–	(121,648)	–	(121,648)
Dividends provided for or paid by the Target Company		–	–	(103,480)	–	(103,480)	(20,297)	(123,777)
As at 31 December 2021		80,000	472,478	513,267	(62,977)	1,002,768	45,374	1,048,142
As at 1 January 2022		80,000	472,478	513,267	(62,977)	1,002,768	45,374	1,048,142
Profit for the period		–	–	99,397	–	99,397	4,265	103,662
Changes in the fair value of financial assets at fair value through other comprehensive income		–	21	–	–	21	–	21
Currency translation difference		–	–	–	118,997	118,997	–	118,997
Total comprehensive income for the period		–	21	99,397	118,997	218,415	4,265	222,680
As at 30 September 2022		80,000	472,499	612,664	56,020	1,221,183	49,639	1,270,822
As at 1 January 2021		100,000	530,891	377,346	(55,571)	952,666	63,126	1,015,792
Profit for the period		–	–	85,164	–	85,164	2,605	87,769
Changes in the fair value of financial assets at fair value through other comprehensive income		–	400	–	–	400	–	400
Currency translation difference		–	–	–	856	856	–	856
Total comprehensive income/(loss) for the period		–	400	85,164	856	86,420	2,605	89,025
Capital injection from shareholder	*2(l)*	–	203,670	–	–	203,670	–	203,670
Deemed distribution in respect of business combination under common control	*2((m), (n))*	–	(170,407)	–	–	(170,407)	–	(170,407)
Dividends declared		–	–	(103,480)	–	(103,480)	–	(103,480)
As at 30 September 2021		100,000	564,554	359,030	(54,715)	968,869	65,731	1,034,600

E. UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended 31 December			(Unaudited) Nine months ended 30 September	
	2019	2020	2021	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cash flows from operating activities					
Cash generated from operations	37,703	68,878	493,634	316,951	132,386
Income tax paid	(25,010)	(14,244)	(17,521)	(13,140)	(14,195)
Net cash generated from operating activities	12,693	54,634	476,113	303,811	118,191
Cash flows from investing activities					
Proceeds from disposal of property, plant and equipment	11,241	3,726	3,327	6,042	4,187
Dividends received	3,344	3,227	2,773	2,773	1,384
Purchases of property, plant and equipment	(44,341)	(22,914)	(30,476)	(17,631)	(16,811)
Purchases of intangible assets	(497)	(255)	(372)	(825)	(11)
Capital reduction to an associate	–	–	–	–	3,800
Advances to related parties	(99,857)	(81,721)	(294,060)	(233,203)	(13,589)
Repayment of advances by related parties	115,162	17,897	7,999	7,943	18,296
Net proceeds from disposal of subsidiaries of the Group	1,694	2,000	103,480	103,480	–
Net cash used in investing activities	(13,254)	(78,040)	(207,329)	(131,421)	(2,744)
Cash flows from financing activities					
Proceeds from borrowings	30,000	136,797	194,005	194,005	200,932
Repayments of borrowings	(24,111)	(30,126)	(115,749)	(48,360)	(179,985)
Interest paid	(2,237)	(3,593)	(8,734)	(6,394)	(12,027)
Principal element of lease payments	(2,430)	(642)	(637)	(473)	(475)
Advances provided by related parties	127,439	42,008	96,424	96,402	18,140
Repayments of advances provided by related parties	(66,656)	(139,351)	(202,874)	(194,754)	(31,263)

				(Unaudited)	
				Nine months ended	
	Years ended 31 December			**30 September**	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Proceeds from capital injection *(Notes 2(l))*	–	–	126,124	–	–
Payments for business combination under common control *(Notes 2(c), 2(e), 2(f), 2(j), 2(k), 2(m), 2(n))*	–	–	(300,890)	(170,561)	–
Acquisition of non-controlling interests *(Note 2(a))*	–	(4,200)	–	–	–
Dividends paid	(2,841)	(5,950)	(69,661)	(68,480)	–
Net cash generated from/(used in) financing activities	59,164	(5,057)	(281,992)	(198,615)	(4,678)
Net increase/(decrease) in cash and cash equivalents	58,603	(28,463)	(13,208)	(26,225)	110,769
Exchange (losses)/gains on cash and cash equivalents	(3)	(1,004)	–	6	4,698
Cash and cash equivalents at beginning of the year/period	56,217	114,817	85,350	85,350	72,142
Cash and cash equivalents at end of the year/period	114,817	85,350	72,142	59,131	187,609

NOTES TO THE UNAUDITED HISTORICAL FINANCIAL INFORMATION

1. General information

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.

On 31 March 2023, Hilong Group of Companies Ltd., an indirect wholly-owned subsidiary of the Company incorporated in the PRC with limited liability (the "Vendor"), and Shanghai Hilong Shine New Material Co., Ltd., a company incorporated in the PRC with limited liability (the "Purchaser") entered into an equity transfer agreement ("Equity Transfer Agreement"), pursuant to which the Vendor conditionally agreed to sell, and the Purchaser conditionally agreed to acquire, certain of the Group's businesses,which comprises multi-functional coating materials and coating services, inspection services and maintenance services for various pipes utilized in oil and gas drilling and transmission processes in the PRC as well as overseas markets (the "Target Business") which will be effected by sale of the 100% of the equity interest in Hilong Pipeline Engineering Technology Service Co., Ltd., an indirect wholly-owned subsidiary of the Company incorporated in the PRC with limited liability (the "Target Company") at the consideration of approximately RMB700 million (the "Proposed Disposal"), subject to the terms and conditions of the Equity Transfer Agreement. Upon Completion, the Company will not hold any interest in the Target Company, and the Target Company will cease to be a subsidiary of the Company.

2. Reorganization

Prior to the reorganization (the "Reorganization") described below, the Target Business was conducted by the Target Company, its subsidiaries and other companies within the Group. Pursuant to the reorganization from 2019 to 2021, other companies within the Group engaged in the Target Business were transferred to and held by the Target Company.

Reorganization of domestic companies

(a) Hilong Technology Limited, a subsidiary of the Company, acquired 8.04% equity in Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd., from a third-party company on 3 September 2019 at a consideration of RMB4,984,000, of which RMB784,000 was paid by Hilong Group of Companies Ltd., and the remaining balance of RMB4,200,000 was settled in January 2020.

(b) Hilong Group of Companies Ltd., a parent company of the Target Company, acquired 49% equity in Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd from a third-party company on 3 September 2019, at a consideration of RMB25,140,000, of which RMB9,340,000 was paid in 2020 and the remaining balance of RMB15,800,000 was settled in 2021.

(c) Hilong Technology Limited acquired 17.18% equity in Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd. from a fellow subsidiary of the Company on 30 September 2019 at a consideration of HKD 20,822,973.40 (equivalent to RMB18,782,822), which was settled in August 2021.

(d) The Target Company disposed 55% equity in Hilong Pipeline Engineering Technology Service Taicang Co., Ltd., a subsidiary of the Target Company, to third parties on 25 September 2019 at a consideration of RMB4,000,000, of which RMB2,000,000 was collected in 2019, and the remaining consideration was collected in 2020.

(e) Hilong Technology Limited acquired 30% equity in Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd. from a fellow subsidiary of the Company on 1 December 2019 at a consideration of HKD 9,598,071.75 (equivalent to RMB7,888,000), which was settled in August 2021.

(f) Hilong Technology Limited acquired 25% equity in Keaote Oil Engineering & Technology Co., Ltd. from a fellow subsidiary of the Company on 10 December 2019 at a consideration of HKD 7,332,105.70 (equivalent to RMB6,593,396), which was settled in August 2021.

(g) In 2019, Hilong Group of Companies Ltd., injected capital of RMB20,000,000 in the form of land and buildings, and capital of RMB30,000,000 in the form of equity including 100% equity in Hilong Petroleum Products Technical Services (Shanghai) Co., Ltd., 55% equity in Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co.,Ltd., 100% equity in Shanghai Hilong Special Steel Pipe Co., Ltd., 100% equity in Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd., 100% equity in Shenglong Oil and Gas Pipeline Inspection Technology Co., Ltd., 100% equity in Sichuan Hilong Petroleum Technology Co., Ltd. and 100% equity in Hilong Group (Shanghai) Information Technology Company to the Target Group.

Reorganization of overseas companies

(h) On 2 April 2019, Hilong Technology Limited set up Hilong USA Technology Holding Corporation in the USA.

(i) Hilong USA Technology Holding Corporation acquired 100% equity in Texas Internal Pipe Coating LLC and Hilong TIPC asset management LLC from a fellow subsidiary of the Company on 30 September 2019 at a consideration of USD10,116,000 (equivalent to RMB71,549,456) and USD1 (equivalent to RMB7), respectively. As at 30 September 2022, the considerations had not been settled.

(j) Hilong Technology Limited acquired 100% equity respectively in Technomash LLC from fellow subsidiaries of the Company on 16 July 2019 at considerations totalling RUB1,044,051,987 (equivalent to RMB114,525,000). The amount was settled in August 2021.

(k) Hilong Technology Limited acquired 100% equity in Hilong Petroleum Pipe Service (Orenburg) Limited Liability Company and Hilong Petroleum Pipe Service (Surgut) LLC from a fellow subsidiary of the Company on 16 July 2019 at a consideration of RUB 10,300 (equivalent to RMB1,130) and RUB 15,088,776 (equivalent to RMB1,655,124) respectively. The amounts were settled in August 2021.

(l) The parent company of Hilong Technology Limited injected USD31,435,900 (equivalent to RMB203,670,000) to Hilong Technology Limited in 2021. As at 31 December 2021, USD19,500,000 (equivalent to RMB126,124,000) was paid, and the remaining amount had not been settled as at 30 September 2022.

(m) The Target Company acquired 99% equity in Hilong Technology Limited from a fellow subsidiary of the Company on 30 June 2021 at a consideration of USD26,307,600 (equivalent to RMB168,700,102). The amount was settled in 2021.

(n) The Target Company acquired 100% equity in Hilong New Material Limited from a fellow subsidiary of the Company on 30 June 2021 at a consideration of USD265,732.94 (equivalent to RMB1,707,000). The amount was settled in 2021.

Pursuant to the Reorganization, the Target Company became the holding company of the companies comprising the Target Group.

3. Basis of preparation

The Historical Financial Information has been prepared in accordance with paragraph 14.68(2)(a)(i)(A) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rule"), and solely for the purposes of inclusion in this circular. It does not contain sufficient information to constitute a complete set of financial statements as described in Hong Kong Accounting Standard 1 "Presentation of Financial Statements" issued by the Hong Kong Institute of Certified Public Accountants and should be read in connection with the annual report of the Company for the year ended 31 December 2021.

The unaudited Historical Financial Information has been prepared by the directors of the Company in accordance with the same accounting policies as those adopted by the Group in the preparation of the consolidated financial statements of the Group for the relevant periods, including the application of new HKFRSs. The consolidated financial statements of the Group have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP

In connection with the Disposal and to separate the Target Business and the business of the Remaining Group, the Target Group had gone through the following major restructuring steps during the period from 1 January 2021 to the execution of the Equity Transfer Agreement (collectively, the "Restructuring"):

1) On 15 June, 2021, the Target Company divested its land rights and real property rights (i.e. manufacturing plant) pursuant to a corporate separation agreement and the relevant assets were transferred to a new indirect wholly-owned subsidiary established by the Company which was completed on November 4, 2021.

2) On 31 August, 2021, the Target Company transferred its 100% equity interest in Hilong Group (Shanghai) Information Technology Co., Ltd., a then subsidiary of the Company primarily engaging in information technology and artificial intelligence, to the Remaining Group at a consideration of RMB47,479,877.70. The transfer was completed on September 16, 2021.

3) On 24 September, 2021, the Target Company transferred its entire 30% equity interest in Shanghai Hilong Special Steel Pipe Co., Ltd., a company principally engaged in various construction and development businesses, to the Remaining Group at a consideration of RMB44,000,000. The transfer was completed on October 31, 2021.

4) On 30 September, 2021, Technomash LLC ("Technomash"), an indirect wholly-owned subsidiary of the Target Company, transferred fixed assets, raw materials and auxiliary materials, and finished products and semi-finished products in relation to its drilling business to the wholly-owned subsidiary of the Remaining Group, Drilling Technology Limited liability Company, at a consideration of RUB888,296,916.04. The transfer was completed in October 2021.

5) On 15 December, 2022, the Target Company declared a dividend of RMB68,000,000. On 6 January, 2023, the Target Company declared a dividend of RMB271,000,000. The aggregate amount of RMB339,000,000 has not been paid.

The unaudited pro forma financial information of the Remaining Group (the "Unaudited Pro Forma Financial Information") presented below is prepared to illustrate (a) the financial position of the Remaining Group as if the Proposed Disposal and the Restructuring had been completed on 30 June 2022; (b) the results and cash flows of the Remaining Group for the year ended 31 December 2021 as if the Proposed Disposal and the Restructuring had been completed on 1 January 2021; and (c) the results and cash flows of the Remaining Group for the six months ended 30 June 2022 as if the Proposed Disposal and the Restructuring had been completed on 1 January 2022. This unaudited pro forma financial information has been prepared for illustrative purposes only and because of its hypothetical nature, it may not purport to represent the true picture of the financial position of the Remaining Group as at 30 June 2022 or at any future date had the Proposed Disposal and the Restructuring been completed on 30 June 2022 or the results and cash flows of the Group for the year ended 31 December 2021 and for the six months ended 30 June 2022 or for any future period had the Proposed Disposal and the Restructuring been completed on 1 January 2021 or 1 January 2022, respectively.

The Unaudited Pro Forma Financial Information is prepared based on the unaudited consolidated statement of financial position of the Group as at 30 June 2022, and the unaudited consolidated income statement, the unaudited consolidated statement of comprehensive income and the unaudited consolidated statement of cash flows of the Group for the six months ended 30 June 2022 extracted from the unaudited consolidated financial statements of the Group for the six months ended 30 June 2022 as set out in the 2022 interim report of the Company; the audited consolidated income statement, the audited consolidated statement of comprehensive income and the audited consolidated statement of cash flows of the Group for the year ended 31 December 2021 extracted from the audited consolidated financial statements of the Group for the year ended 31 December 2021 as set out in the 2021 annual report of the Company; and the unaudited historical financial information of the Target Group as set out in Appendix II to this circular after giving effect to the pro forma adjustments described in the notes prepared in accordance with Rules 4.29 and 14.68(2)(a)(ii) of the Listing Rules.

Unaudited Pro Forma Consolidated Statement of Financial Position of the Remaining Group

	Consolidated balance sheet of the Group as at 30 June 2022	Pro forma adjustments						Unaudited pro forma consolidated balance sheet of the Remaining Group as at 30 June 2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2a*	*Note 2b*	*Note 2c*	*Note 2d*	*Note 2e*	*Note 2f*	
Assets								
Non-current assets								
Property, plant and equipment	2,484,227	(284,808)	–	3,775	–	–	–	2,203,194
Intangible assets	231,344	(79,667)	–	–	–	–	–	151,677
Right-of-use assets	47,682	(7,149)	–	–	–	–	–	40,533
Investments accounted for using equity method	86,503	(46,200)	–	–	–	–	–	40,303
Deferred income tax assets	183,351	(61,923)	–	51,854	–	–	–	173,282
Other long-term assets	71,616	(5,710)	–	–	–	–	–	65,906
	3,104,723	(485,457)	–	55,629	–	–	–	2,674,895
Current assets								
Inventories	1,416,363	(194,491)	–	3,805	–	–	–	1,225,677
Trade and other receivables	2,092,594	(1,811,711)	–	2,045,228	–	–	–	2,326,111
Prepayment	402,552	(62,114)	–	–	–	–	–	340,438
Financial assets at fair value through other comprehensive income	47,835	(8,751)	–	–	–	–	–	39,084
Current income tax recoverable	37,056	–	–	–	–	–	–	37,056
Contract assets – current	179,576	–	–	–	–	–	–	179,576
Cash and cash equivalents	519,003	(59,922)	339,000	–	700,000	–	–	1,498,081
Restricted cash	30,666	–	–	–	–	–	–	30,666
	4,725,645	(2,136,989)	339,000	2,049,033	700,000	–	–	5,676,689
Total assets	7,830,368	(2,622,446)	339,000	2,104,662	700,000	–	–	8,351,584

	Consolidated balance sheet of the Group as at 30 June 2022	Pro forma adjustments						Unaudited pro forma consolidated balance sheet of the Remaining Group as at 30 June 2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2a*	*Note 2b*	*Note 2c*	*Note 2d*	*Note 2e*	*Note 2f*	
EQUITY								
Capital and reserve attributable to equity holders of the Company								
Share capital	141,976	(80,000)	–	80,000	–	–	–	141,976
Other reserves	1,301,893	(472,499)	–	(80,000)	–	–	–	749,394
Retained earnings	2,060,965	(618,674)	439,000	(276,406)	700,000	(58,587)	(6,707)	2,239,591
Currency translation differences	(113,234)	(64,219)	–	–	–	–	–	(177,453)
	3,391,600	(1,235,392)	439,000	(276,406)	700,000	(58,587)	(6,707)	2,953,508
Non-controlling interests	29,159	(46,554)	–	–	–	–	–	(17,395)
Total equity	3,420,759	(1,281,946)	439,000	(276,406)	700,000	(58,587)	(6,707)	2,936,113
LIABILITIES								
Non-current liabilities								
Borrowings	2,650,315	(89,964)	–	–	–	–	–	2,560,351
Lease liabilities	9,638	(284)	–	–	–	–	–	9,354
Deferred income tax liabilities	36,795	(13,037)	–	–	–	–	–	23,758
Deferred revenue	41,496	(9,320)	–	–	–	–	–	32,176
	2,738,244	(112,605)	–	–	–	–	–	2,625,639

	Consolidated balance sheet of the Group as at 30 June 2022	Pro forma adjustments						Unaudited pro forma consolidated balance sheet of the Remaining Group as at 30 June 2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2a*	*Note 2b*	*Note 2c*	*Note 2d*	*Note 2e*	*Note 2f*	
Current liabilities								
Deferred revenue	16,775	(59)	–	–	–	–	–	16,716
Derivative financial instruments	2,656	–	–	–	–	–	–	2,656
Trade and other payables	941,928	(1,050,586)	(100,000)	2,368,797	–	–	6,707	2,166,846
Lease liabilities	4,948	(616)	–	–	–	–	–	4,332
Current income tax liabilities	39,213	(35,672)	–	–	–	58,587	–	62,128
Contract liabilities – current	129,028	(20,966)	–	12,271	–	–	–	120,333
Borrowings	536,817	(119,996)	–	–	–	–	–	416,821
	1,671,365	(1,227,895)	(100,000)	2,381,068	–	58,587	6,707	2,789,832
Total Liabilities	4,409,609	(1,340,500)	(100,000)	2,381,068	–	58,587	6,707	5,415,471
Total equity and liabilities	7,830,368	(2,622,446)	339,000	2,104,662	700,000	–	–	8,351,584

Unaudited Pro Forma Consolidated Income Statement of the Remaining Group

	Consolidated income statement of the Group for the period ended 30 June 2022	Pro forma adjustments				Unaudited pro forma consolidated income statement of the Remaining Group for the year ended 30 June 2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 3a*	*Note 3b*	*Note 3c*	*Note 3d*	
Revenue	1,703,243	(489,563)	–	195,431	–	1,409,111
Cost of sales	(1,246,369)	302,237	–	(199,245)	–	(1,143,377)
Gross profit	456,874	(187,326)	–	(3,814)	–	265,734
Selling and marketing expenses	(63,615)	20,338	–	–	–	(43,277)
Administrative expenses	(209,852)	63,765	–	(2,014)	6,707	(154,808)
Impairment on receivables and contract assets	(47,561)	66,803	–	(106,474)	–	(87,232)
Other gain/(loss) – net	221,870	(79,425)	439,000	–	(26,745)	554,700
Operating profit	357,716	(115,845)	439,000	(112,302)	(33,452)	535,117
Finance income	1,346	(410)	–	–	–	936
Finance costs	(287,291)	8,841	–	–	–	(278,450)
Finance cost – net	(285,945)	8,431	–	–	–	(277,514)
Share of profit of associates	(1,895)	4	–	–	–	(1,891)

	Consolidated income statement of the Group for the period ended 30 June 2022	Pro forma adjustments				Unaudited pro forma consolidated income statement of the Remaining Group for the year ended 30 June 2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 3a*	*Note 3b*	*Note 3c*	*Note 3d*	
Profit before income tax	69,876	(107,410)	439,000	(112,302)	(33,452)	255,712
Income tax expense	(13,912)	823	–	22,916	(58,587)	(48,760)
Profit for the period	55,964	(106,587)	439,000	(89,386)	(92,039)	206,952
Profit attributable to:						
Equity holders of the company	54,058	(105,407)	439,000	(89,386)	(92,039)	206,226
Non-controlling interests	1,906	(1,180)	–	–	–	726
	55,964	(106,587)	439,000	(89,386)	(92,039)	206,952

Unaudited Pro Forma Consolidated Statement of Comprehensive Income of the Remaining Group

	Consolidated statement of Comprehensive income of the Group for the period ended 30 June 2022	Pro forma adjustments				Unaudited pro forma consolidated statement of comprehensive income of the Remaining Group for the period ended 30 June 2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 3a*	*Note 3b*	*Note 3c*	*Note 3d*	
Profit for the period	55,964	(106,587)	439,000	(89,386)	(92,039)	206,952
Other comprehensive income/(loss):						
Items that may be reclassified to profit or loss						
Changes in the fair value of financial assets at fair value through other comprehensive income	24	(21)	–	21	–	24
Currency translation differences	321,944	(127,196)	–	–	–	194,748
Other comprehensive income/(loss) for the period, net of tax	321,968	(127,217)	–	21	–	194,772
Total comprehensive income/(loss) for the period	377,932	(233,804)	439,000	(89,365)	(92,039)	401,724
Attributable to:						
Equity holders of the company	376,121	(232,624)	439,000	(89,365)	(92,039)	401,093
Non-controlling interests	1,811	(1,180)	–	–	–	631
	377,932	(233,804)	439,000	(89,365)	(92,039)	401,724

Unaudited Pro Forma Consolidated Statement of Cash Flows of the Remaining Group

	Consolidated statement of cash flows of the Group for the period ended 30 June 2022	Pro forma adjustments				Unaudited pro forma consolidated statement of cash flows of the Remaining Group for the period ended 30 June 2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 3a*	*Note 3b*	*Note 3c*	*Note 3d*	
Cash flow from operating activities						
Cash generated from operations	47,961	4,515	–	–	–	52,476
Income tax paid	(53,807)	13,500	–	–	–	(40,307)
Net cash (used in)/generated from operating activities	(5,846)	18,015	–	–	–	12,169
Cash flow from investing activities						
Proceeds from disposal of property, plant and equipment	10,508	(4,187)	–	–	–	6,321
Purchases of property, plant and equipment	(58,786)	5,972	–	–	–	(52,814)
Purchases of intangible assets	(3,862)	11	–	–	–	(3,851)
Advances to related parties	(1,524)	32,439	–	(69,698)	–	(38,783)
Repayment of advances by related parties	–	(15,133)	–	25,305	–	10,172
Capital reduction from an associate	3,800	(3,800)	–	–	–	–
Net proceeds from disposal of Target Group	–	–	–	–	693,293	693,293
Dividends received	1,033	(1,033)	339,000	–	–	339,000
Net cash (used in)/generated from investing activities	(48,831)	14,269	339,000	(44,393)	693,293	953,338

	Consolidated statement of cash flows of the Group for the period ended 30 June 2022	Pro forma adjustments				Unaudited pro forma consolidated statement of cash flows of the Remaining Group for the period ended 30 June 2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 3a*	*Note 3b*	*Note 3c*	*Note 3d*	
Cash flows from financing activities						
Proceeds from borrowings	455,940	(173,895)	–	–	–	282,045
Repayments of borrowings	(384,346)	179,985	–	–	–	(204,361)
Principal element of lease payments	(3,612)	312	–	–	–	(3,300)
Interest paid	(137,058)	8,794	–	–	–	(128,264)
Advances provided by related parties	–	(37,259)	–	69,698	–	32,439
Repayments of advances provided by related parties	–	10,172	–	(25,305)	–	(15,133)
Net cash outflow arising from security deposit for bank borrowings	(7,180)	–	–	–	–	(7,180)
Net cash (used in)/ generated from financing activities	(76,256)	(11,891)	–	44,393	–	(43,754)
Net (decrease)/increase in cash and cash equivalents	(130,933)	20,393	339,000	–	693,293	921,753
Effects of exchange rate changes on cash and cash equivalents	21,131	(8,173)	–	–	–	12,958
Cash and cash equivalents at beginning of the period	628,805	(72,142)	–	–	–	556,663
Cash and cash equivalents at end of the period	519,003	(59,922)	339,000	–	693,293	1,491,374

Unaudited Pro Forma Consolidated Income Statement of the Remaining Group

	Consolidated income statement of the Group for the year ended 31 December 2021	Pro forma adjustments						Unaudited pro forma consolidated income statement of the Remaining Group for the year ended 31 December 2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 4a*	*Note 4b*	*Note 4c*	*Note 4d*	*Note 4e*	*Note 4f*	
Revenue	2,916,922	(1,246,831)	–	821,726	–	2,988	–	2,494,805
Cost of sales	(2,018,603)	898,242	–	(841,571)	–	–	(4,386)	(1,966,318)
Gross profit	898,319	(348,589)	–	(19,845)	–	2,988	(4,386)	528,487
Selling and marketing expenses	(110,133)	54,725	–	–	–	–	–	(55,408)
Administrative expenses	(425,306)	121,104	–	(3,501)	(6,746)	(9,345)	–	(323,794)
Impairment on receivables and contract assets	16,763	(37,086)	–	70,525	–	–	–	50,202
Other income	8,852	(4,146)	–	–	–	–	–	4,706
Other gain/(loss) – net	71,852	(72,835)	439,000	–	205,396	–	–	643,413
Operating profit	460,347	(286,827)	439,000	47,179	198,650	(6,357)	(4,386)	847,606
Finance income	5,550	(379)	–	–	–	–	–	5,171
Finance costs	(323,337)	7,714	–	–	–	–	–	(315,623)
Finance cost – net	(317,787)	7,335	–	–	–	–	–	(310,452)
Share of profit of associates	768	(2,153)	–	–	–	–	–	(1,385)

	Consolidated income statement of the Group for the year ended 31 December 2021	Pro forma adjustments						Unaudited pro forma consolidated income statement of the Remaining Group for the year ended 31 December 2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 4a*	*Note 4b*	*Note 4c*	*Note 4d*	*Note 4e*	*Note 4f*	
Profit before income tax	143,328	(281,645)	439,000	47,179	198,650	(6,357)	(4,386)	535,769
Income tax expense	(95,733)	30,108	–	(15,715)	(64,125)	1,589	877	(142,999)
Profit for the year	47,595	(251,537)	439,000	31,464	134,525	(4,768)	(3,509)	392,770
Profit attributable to:								
Equity holders of the company	44,249	(248,992)	439,000	31,464	134,525	(4,768)	(3,509)	391,969
Non-controlling interests	3,346	(2,545)	–	–	–	–	–	801
	47,595	(251,537)	439,000	31,464	134,525	(4,768)	(3,509)	392,770

Unaudited Pro Forma Consolidated Statement of Comprehensive Income of the Remaining Group

	Consolidated statement of Comprehensive income of the Group for the year ended 31 December 2021	Pro forma adjustments						Unaudited pro forma consolidated statement of comprehensive income of the Remaining Group for the year ended 31 December 2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 4a*	*Note 4b*	*Note 4c*	*Note 4d*	*Note 4e*	*Note 4f*	
Profit for the year	47,595	(251,537)	439,000	31,464	134,525	(4,768)	(3,509)	392,770
Other comprehensive (loss)/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	2,375	(381)	–	–	–	–	–	1,994
Currency translation differences	(105,504)	7,406	–	–	–	–	–	(98,098)
Other comprehensive (loss)/income for the year, net of tax	(103,129)	7,025	–	–	–	–	–	(96,104)
Total comprehensive (loss)/income for the year	(55,534)	(244,512)	439,000	31,464	134,525	(4,768)	(3,509)	296,666
Attributable to:								
Equity holders of the company	(58,993)	(241,967)	439,000	31,464	134,525	(4,768)	(3,509)	295,752
Non-controlling interests	3,459	(2,545)	–	–	–	–	–	914
	(55,534)	(244,512)	439,000	31,464	134,525	(4,768)	(3,509)	296,666

Unaudited Pro Forma Consolidated Statement of Cash Flows of the Remaining Group

	Consolidated statement of cash flows of the Group for the year ended 31 December 2021	Pro forma adjustments					Unaudited pro forma consolidated statement of cash flows of the Remaining Group for the year ended 31 December 2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 4a*	*Note 4b*	*Note 4c*	*Note 4d*	*Note 4e*	
Cash flow from operating activities							
Cash generated from operations	516,214	(493,634)	–	–	–	2,988	25,568
Income tax paid	(62,399)	17,521	–	–	–	(747)	(45,625)
Net cash generated from/(used in) operating activities	453,815	(476,113)	–	–	–	2,241	20,057
Cash flow from investing activities							
Proceeds from disposal of property, plant and equipment	15,460	(3,327)	–	–	–	–	12,133
Purchases of property, plant and equipment	(139,869)	30,476	–	–	–	–	(109,393)
Purchases of intangible assets	(1,438)	372	–	–	–	–	(1,066)
Advances to related parties	(30,772)	294,060	–	(390,484)	–	–	(127,196)
Repayment of advances by related parties	–	(7,999)	–	210,873	–	–	202,874
Net proceeds from disposal of subsidiaries of the Group	106,480	(103,480)	–	–	–	–	3,000
Net proceeds from disposal of Target Group	–	–	–	–	693,254	–	693,254
Net cash inflow arising from financial instruments	23,816	–	–	–	–	–	23,816
Dividends received	2,773	(2,773)	339,000	69,661	–	–	408,661
Net cash (used in)/generated from investing activities	(23,550)	207,329	339,000	(109,950)	693,254	–	1,106,083

	Consolidated statement of cash flows of the Group for the year ended 31 December 2021			Pro forma adjustments			Unaudited pro forma consolidated statement of cash flows of the Remaining Group for the year ended 31 December 2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 4a*	*Note 4b*	*Note 4c*	*Note 4d*	*Note 4e*	
Cash flows from financing activities							
Proceeds from borrowings	604,641	(194,005)	–	–	–	–	410,636
Acquisition of non-controlling interests	(15,800)	–	–	–	–	–	(15,800)
Payments for business combination under common control	–	300,890	–	(300,890)	–	–	–
Proceeds from business combination under common control	–	–	–	170,561	–	–	170,561
Proceeds from capital injection	–	(126,124)	–	126,124	–	–	–
Capital injected to the Target Group	–	–	–	(126,124)	–	–	(126,124)
Repayments of borrowings	(738,303)	115,749	–	–	–	–	(622,554)
Principal element of lease payments	(10,761)	637	–	–	–	–	(10,124)
Interest paid	(330,908)	8,734	–	–	–	–	(322,174)
Advances provided by related parties	–	(96,424)	–	359,712	–	–	263,288
Repayments of advances provided by related parties	–	202,874	–	(210,873)	–	–	(7,999)
Dividends paid	–	69,661	–	(69,661)	–	–	–
Net cash outflow arising from security deposit for bank borrowings	(1,314)	–	–	–	–	–	(1,314)
Net cash (used in)/ generated from financing activities	(492,445)	281,992	–	(51,151)	–	–	(261,604)

	Consolidated statement of cash flows of the Group for the year ended 31 December 2021	Pro forma adjustments					Unaudited pro forma consolidated statement of cash flows of the Remaining Group for the year ended 31 December 2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 4a*	*Note 4b*	*Note 4c*	*Note 4d*	*Note 4e*	
Net (decrease)/increase in cash and cash equivalents	(62,180)	13,208	339,000	(161,101)	693,254	2,241	824,422
Effects of exchange rate changes on cash and cash equivalents	(6,478)	–	–	–	–	–	(6,478)
Cash and cash equivalents at beginning of the year	697,463	(85,350)	–	–	–	–	612,113
Cash and cash equivalents at end of the year	628,805	(72,142)	339,000	(161,101)	693,254	2,241	1,430,057

Notes to the unaudited pro forma financial information of the remaining group

1. The unaudited consolidated statement of financial position of Hilong Holding Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") as at 30 June 2022 and the unaudited consolidated income statement and unaudited consolidated statement of comprehensive income and consolidated statement of cash flows for the six months ended 30 June 2022 are extracted from the published interim report of the Company for the six months ended 30 June 2022. The consolidated income statement and consolidated statement of comprehensive income and consolidated statement of cash flows for the year ended 31 December 2021 are extracted from the published annual report of the Company for the year ended 31 December 2021.

2. The following pro forma adjustments have been made to the unaudited pro forma consolidated statement of financial position, assuming the Proposed Disposal and the Restructuring, had taken place on 30 June 2022:

   (a) The adjustments represent the de-recognition of assets and liabilities of the Target Group as at 30 June 2022. The assets and liabilities of the Target Group are extracted from the unaudited consolidated statement of financial position of the Target Group set out in Appendix II to this Circular.

   (b) Pursuant to the Restructuring, the dividend of RMB339,000,000 was distributed by the Target Group to the Remaining Group in December 2022 and January 2023, respectively before the Proposed Disposal. For the purpose of this unaudited pro forma financial information, it is assumed that the dividend distribution had taken place on 30 June 2022.

   Pursuant to the debt waiver agreement entered into between Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd ("Shanghai Tube-Cote"), a subsidiary of the Target Group, and Hilong Group of Companies Ltd. ("Hilong Group"), a subsidiary of the Remaining Group, Shanghai Tube-Cote agrees to waive other payables of RMB100,000,000 to Shanghai Tube-Cote by Hilong Group on the date of the Proposed Disposal. For the purpose of this unaudited pro forma financial information, it is assumed that the waiver had taken place on 30 June 2022.

   Other than the aforementioned dividend and the debt waiver agreement before the Proposed Disposal, other reorganization steps pursuant to the Restructuring have been completed as at 30 June 2022.

   (c) The adjustment represents the intra-group balances between the Target Group and the Remaining Group which were eliminated on consolidation.

   (d) The adjustment represents consideration received of RMB700 million for the Proposed Disposal.

   (e) The adjustment represents the estimated income tax expense in connection with the Proposed Disposal in respect of RMB58,587,000. The estimated income tax expense is estimated based on the taxable income on disposal and the tax losses carried forward of the immediate holding company of the Target company as at 31 December 2021 which can be offset against the taxable amount.

   (f) The adjustment represents estimated transaction costs such as professional fees of lawyer, auditor appraiser and other charges that are directly attributable to the Proposed Disposal.

3. The following pro forma adjustments have been made to the unaudited pro forma consolidated income statement and unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flows for the six months ended 30 June 2022, assuming the Proposed Disposal and the Restructuring had taken place on 1 January 2022:

   (a) The adjustments represent the exclusion of operating results/cash flows of the Target Group for the six months ended 30 June 2022, assuming the Proposed Disposal had taken place on 1 January 2022. The operating results and cash flows of the Target Group are extracted from the unaudited consolidated income statement, unaudited consolidated statement of comprehensive income and unaudited consolidated statement of cash flows of the Target Group set out in Appendix II to this circular, respectively.

(b) The adjustment represents the dividend income of RMB339,000,000 to the Remaining Group from the Target Group and the waiver of other payables of RMB100,000,000 by the Remaining Group to the Target Group pursuant to the Restructuring, assuming that the dividend distribution and the waiver had taken place on 1 January 2022 for the purpose of this unaudited pro forma financial information.

(c) The adjustment represents intra-group transactions between the Target Group and the Remaining Group which are eliminated on consolidation.

(d) The adjustments represent the financial impacts the Proposed Disposal assuming the Proposed Disposal had taken place on 1 January 2022 and is calculated as follows:

	RMB'000
Consideration	700,000
Less: Adjusted carrying value of net assets of the Target Group as at 1 January 2022 after the Restructuring *(note 1)*	(563,768)
Less: Cumulative translation difference excluded from disposal of the Target group	(62,977)
Subtotal	73,255
Less: Estimated transaction costs attributable to the Proposed Disposal *(note 2)*	(6,707)
Estimated Gain on the Proposed Disposal for the six months ended 30 June 2022	66,548
Estimated income tax expense in connection with the Proposed Disposal *(note 3)*	(58,587)

note 1: Reconciliation of adjusted carrying value of net assets of the Target Group as at 1 January 2022 after the Restructuring.

	RMB'000
Carrying value of net assets of the Target Group as at 1 January 2022	1,002,768
Adjusted by the following items pursuant to the Restructuring:	
Less: The waiver of other payables to Shanghai Tube-Cote by Hilong Group	(100,000)
Less: cash dividend	(339,000)
Adjusted carrying value of net assets of the Target Group as at 1 January 2021 after the Restructuring	563,768

note 2: The estimated transaction costs attributable to the Proposed disposal amounting to RMB6,707,000 will be borne by the Remaining Group and are assumed to be settled in cash.

note 3: The estimated income tax expense is estimated based on the taxable income on disposal and the tax losses carried forward of the immediate holding company of The Target company as at 1 January 2022 which can be offset against the taxable amount.

4. The following pro forma adjustments have been made to the unaudited pro forma consolidated income statement and unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2021, assuming the Proposed Disposal and the Restructuring had taken place on 1 January 2021:

(a) The adjustments represent the exclusion of operating results/cash flows of the Target Group for the year ended 31 December 2021, assuming the Proposed Disposal had taken place on 1 January 2021. The operating results and cash flows of the Target Group are extracted from the unaudited consolidated income statement, unaudited consolidated statement of comprehensive income and unaudited consolidated statement of cash flows of the Target Group set out in Appendix II to this circular, respectively.

(b) The adjustment represents the dividend income of RMB339,000,000 to the Remaining Group from the Target Group and the waiver of other payables of RMB100,000,000 by the Remaining Group to the Target Group pursuant to the Restructuring, assuming that the dividend distribution and the waiver had taken place on 1 January 2021 for the purpose of this unaudited pro forma financial information.

(c) The adjustment represents intra-group transactions between the Target Group and the Remaining Group which are eliminated on consolidation.

(d) The adjustments represent the financial impacts on the Proposed Disposal assuming the Proposed Disposal had taken place on 1 January 2021 and is calculated as follows:

	RMB'000
Consideration	700,000
Less: Adjusted carrying value of net assets of the Target Group as at 1 January 2021 after the Restructuring *(note 1)*	(339,033)
Less: Cumulative translation difference excluded from disposal of the Target group	(55,571)
Subtotal	305,396
Less: Estimated transaction costs attributable to the Proposed Disposal *(note 2)*	(6,746)
Estimated Gain on the Proposed Disposal for the six months ended 31 December 2021	298,650
Estimated income tax expense in connection with the Proposed Disposal *(note 3)*	(64,125)

note 1: Reconciliation of adjusted carrying value of net assets of the Target Group as at 1 January 2021 after the Restructuring.

	RMB'000
Carrying value of net assets of the Target Group as at 1 January 2021	952,666
Adjusted by the following items pursuant to the Restructuring:	
Less: land rights and real property rights	(128,656)
Less: 100% equity interest in Hilong Group (Shanghai) Information Technology Company *(note 4)*	(6,811)
Less: 30% equity interest in Shanghai Hilong Special Steel Pipe Co., Ltd. *(note 5)*	(37,944)
Less: certain fixed assets, raw materials and auxiliary materials, and finished products and semi-finished products in relation to drilling business of Technomash	(1,222)
Less: The waiver of other payables to Shanghai Tube-Cote by Hilong Group	(100,000)
Less: cash dividend	(339,000)
Adjusted carrying value of net assets of the Target Group as at 1 January 2021 after the Restructuring	339,033

note 2: The estimated transaction costs attributable to the Proposed disposal amounting to RMB6,746,000 will be borne by the Remaining Group and are assumed to be settled in cash.

note 3: The estimated income tax expense is estimated based on the taxable income on disposal and the tax losses carried forward of the immediate holding company of The Target company as at 1 January 2021 which can be offset against the taxable amount.

note 4: Pursuant to the Restructuring, the Remaining Group acquired 100% equity interest in Hilong Group (Shanghai) Information Technology Company from the Target Group of at a consideration of RMB47,479,877.70 in September 2021. As at 31 December 2021, the consideration amounting to RMB47,479,877.70 was not settled. The adjustment represents the loss of disposal of the Target Group, assuming that the disposal had taken place on 1 January 2021 for the purpose of this unaudited pro forma financial information.

note 5: On 25 June 2021, the Target Group's 70% equity interest in Shanghai Hilong Special Steel Pipe Co., Ltd. engaged in business not relating to the Target Business, was disposed to an independent third party at a consideration of RMB103,480,000. Since then, the Target Group held only 30% equity interest in Shanghai Hilong Special Steel Pipe Co., Ltd. Pursuant to the Restructuring, the Remaining Group acquired the 30% equity interest in Shanghai Hilong Special Steel Pipe Co., Ltd. from the Target Group at a consideration of RMB44,000,000 in October 2021. As at 31 December 2021, the consideration amounting to RMB44,000,000 was not settled.

(e) Pursuant to the Restructuring, the Target Group divested certain land rights and real property rights and payables related to the fixed assets to a subsidiary newly established by the Remaining Group under a corporate separation agreement in November 2021. After the separation, the Remaining Group leased the real property to the Target Group since 1 January 2022. The adjustments represent the (i) additional depreciation or amortization of the land rights and real property rights acquired by the Remaining Group from the Target Group pursuant to the Restructuring before the Proposed Disposal, (ii) related rental income to be earned by the Remaining Group in respect of the rental arrangement between the Remaining Group and the Target after the transfer of the land rights and real property rights and (iii) and their tax impacts, assuming that the acquisition and the rental arrangement had taken place on 1 January 2021 for the purpose of this unaudited pro forma financial information.

(f) Pursuant to the Restructuring, the Remaining Group acquired certain fixed assets, raw materials and auxiliary materials, and finished products and semi-finished products in relation to drilling business of Technomash from the Target Group at a consideration of RUB888,296,916.04 (equivalent to approximately RMB75,920,217.78) in October 2021. The adjustments represent the depreciation of these fixed assets for the Remaining Group, assuming that the acquisition had taken place on 1 January 2021. As at 31 December 2021, the consideration was not settled.

The following is the text of a report on the unaudited pro forma financial information of the Remaining Group received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

羅兵咸永道

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of Hilong Holding Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Hilong Holding Limited (the "Company") and its subsidiaries (collectively the "Group") excluding Hilong Pipeline Engineering Technology Service Co., Ltd. and its subsidiaries (the "Disposal Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 30 June 2022, the unaudited pro forma consolidated income statements, the unaudited pro forma consolidated statements of comprehensive income and the unaudited pro forma consolidated statements of cash flows for the year ended 31 December 2021 and the six months ended 30 June 2022, and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages III-1 to III-20 of the Company's circular dated 31 March 2023, in connection with the proposed disposal of the Disposal Group (the "Transaction") by the Company. The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described on pages III-1 to III-20 of the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the Transaction on the Group's financial position as at 30 June 2022, and the Group's financial performance and cash flows for the year ended 31 December 2021 and the six months ended 30 June 2022 as if the Transaction had taken place at 30 June 2022, 1 January 2021 and 1 January 2022 respectively. As part of this process, information about the Group's financial position, financial performance and cash flows has been extracted by the Directors from the Group's consolidated financial statements for the year ended 31 December 2021, which an audit report has been published, and the Group's interim financial information for the six months ended 30 June 2022 set out in the interim report, on which no audit or review report has been published.

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Directors' Responsibility for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7, *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control (HKSQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, issued by the HKICPA and accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Transaction at 30 June 2022, 1 January 2021 and 1 January 2022 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and

- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 31 March 2023

The following discussion should be read in conjunction with the financial information of the Group and the historical financial information and operating data included in this circular. The financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards.

Set out below is the management discussion and analysis of the business, financial results and position of the Remaining Group for each of the financial years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022 prepared on the basis that the Target Group is not consolidated, and the Company has no ownership interest in the Target Group.

(a) For the six months ended June 30, 2022 (the "2022 Period")

Revenue increased by RMB177.7 million, or 15.0%, from RMB1,185.0 million for the six months ended June 30, 2021 (the "**2021 Period**") to RMB1,362.7 million for the 2022 Period. Such increase was mainly due to the increase in revenue from oilfield equipment manufacturing and services segment, and was partly offset by the decrease in revenue from Offshore engineering services segment.

Drill pipe-related business

Revenue from sales of drill pipes in the international market increased by RMB489.7 million, or 177.8%, from RMB275.4 million for the 2021 Period to RMB765.1 million for the 2022 Period. The increase primarily reflected an increase of 117.8% in the volume of drill pipes sold from 14,446 tonnes for the 2021 Period to 31,461 tonnes for the 2022 Period and a 27.6% increase in average selling price sold in the international market from RMB19,061 per tonne for the 2021 Period to RMB24,319 per tonne for the 2022 Period. The increase in the sales volume primarily reflected the large demands from the Middle East and Russian markets and the Company's strategy to put more effort into long-term cooperation with prestigious customers in the international market.

Revenue from sales of drill pipes in the PRC market decreased by RMB123.7 million, or 83.5%, from RMB148.2 million for the 2021 Period to RMB24.5 million for the 2022 Period. The decrease primarily reflected a 84.5% decrease in the volume of drill pipes sold in the PRC market, from 9,273 tonnes for the 2021 Period to 1,434 tonnes for the 2022 Period, and to a lesser extent, a 7.1% increase in average selling price sold in the PRC market from RMB15,980 per tonne for the 2021 Period to RMB17,118 per tonne for the 2022 Period. The decrease in the sales volume primarily reflected that the Company utilized part of domestic capacity to satisfy the requirement of high margin drill pipe's orders in the international market. The increase in average selling price primarily reflected the guideline price of American Petroleum Institute ("API") drill pipe products based on the annual bid of both CNPC and Sinopec Group increased in the 2022 Period compared to that in the 2021 Period.

Oilfield services business

Revenue from the oilfield services segment increased by RMB24.4 million, or 5.6%, from RMB434.1 million for the 2021 Period to RMB458.5 million for the 2022 Period. Such increase was mainly reflected the recovery of the utilization rate of drilling rigs for the 2022 Period as compared to that for the 2021 Period.

Offshore engineering services

Revenue from the offshore engineering service segment for the 2022 Period primarily represented the revenue from the Bengal Project.

Cost of Sales/Services

Cost of sales/services increased by RMB198.1 million, or 22.1%, from RMB895.0 million for the 2021 Period to RMB1,093.1 million for the 2022 Period.

Gross Profit and Gross Profit Margin

As a result of the foregoing, gross profit decreased by RMB20.5 million, or 7.1%, from RMB290.0 million for the 2021 Period to RMB269.5 million for the 2022 Period. Gross profit margin was 24.5% for the 2021 Period, decreased by 4.7% from that for the 2022 Period.

Other Gains/(Losses) – Net

The Remaining Group recognized a net gain of RMB142.4 million for the 2022 Period and net loss of RMB29.9 million for the 2021 Period. The net gain recognised for the 2022 Period reflected the exchange gain from the operating activities as a combined result of the appreciation of the Ruble, United States Dollar ("USD") and Hong Kong Dollar ("HKD"). The net loss recognised for the 2021 Period reflected an exchange loss from the operating activities as a combined results of the depreciation of USD and HKD.

Finance Costs – Net

Finance costs – net increased by RMB140.0 million, or 101.8%, from RMB137.5 million for the 2021 Period to RMB277.5 million for the 2022 Period. Such increase primarily reflected (i) an exchange loss of RMB124.0 million from the financing activities resulting from the appreciation of USD, while for the 2021 Period the exchange gain was RMB24.0 million; (ii) partly offset by that the interest expense from borrowings decreased from RMB166.3 million for the 2021 Period to RMB159.0 million for the 2022 Period.

Losses before Income Tax

As a result of the foregoing, the Remaining Group recognised losses before income tax of RMB57.6 million for the 2021 Period and losses before income tax of RMB171.1 million for the 2022 Period.

Income Tax Expense

The Remaining Group recognized income tax expense of RMB13.1 million in for the 2022 Period and RMB25.3 million for the 2021 Period. Effective tax rate was approximately -7.6% for the 2022 Period and -43.8% for the 2021 Period, the increase of effective tax rate mainly reflected the unbalanced distribution of profit among the Group's subsidiaries.

Liquidity and Financial Resources

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

	For the six months ended June 30,	
	2022	**2021**
	RMB'000	*RMB'000*
Net cash generated from operating activities	12,169	74,548
Net cash (used in)/generated from investing activities	(51,868)	180,760
Net cash used in financing activities	(70,841)	(168,257)
Net (decrease)/increase in cash and cash equivalents	(110,540)	87,051
Exchange gains/(losses) on cash and cash equivalents	12,958	(2,998)
Cash and cash equivalents at beginning of the year	556,663	612,113
Cash and cash equivalents at end of the year	459,081	696,166

As at June 30, 2022, cash and cash equivalents are mainly in RMB, USD, RUB, PKR and CAD.

The maturity profile of borrowings of the Remaining Group was as follows:

	As at June 30, 2022
	RMB million
Within 1 year	416.82
1-2 years	42.44
2-3 years	2,517.70
Above 3 years	0.21
Total	2,977.17

As at June 30, 2022, the Remaining Group's committed banking facilities amount to approximately RMB348.20 million.

As at June 30, 2022, the Remaining Group's bank borrowings of approximately RMB2,868.29 million were obtained at fixed rate.

The Remaining Group's borrowings were denominated in the following currencies:

	As at June 30, 2022
	RMB million
RMB	315.33
USD	2,635.93
RUB	25.70
CAD	0.21
EUR	–
Total	2,977.17

As at June 30, 2022, there are no seasonality of borrowing requirements for the Remaining Group.

Operating Activities

Net cash generated from operating activities for the 2022 Period was RMB12.2 million, representing cash generated from operation of RMB52.5 million, offset by the income tax payment of RMB40.3 million.

Net cash generated from operating activities for the 2021 Period was RMB74.5 million, representing cash generated from operation of RMB81.4 million, offset by the income tax payment of RMB6.9 million.

Investing Activities

Net cash used in investing activities for the 2022 Period was RMB51.9 million, primarily reflecting payment of RMB52.8 million for the purchase of property, plant and equipment.

Net cash generated from investing activities for the 2021 Period was RMB180.8 million, primarily reflecting proceeds from disposal of subsidiaries of the Group of RMB194.9 million.

Financing Activities

Net cash used in financing activities for the 2022 Period was RMB70.8 million, primarily reflecting (i) the repayment of borrowings of RMB204.4 million, (ii) interest payment of RMB128.3 million, and (iii) net cash outflow arising from security deposit for bank borrowings of RMB7.2 million, partly offset by proceeds of borrowings of RMB282.0 million.

Net cash used in financing activities for the 2021 Period was RMB168.3 million, primarily reflecting (i) the repayment of borrowing of RMB387.9 million, (ii) the interest payment of RMB273.5 million, and (iii) the lease payment of RMB18.2 million, partially offset by proceeds of RMB286.4 million from borrowings.

Capital expenditures

Capital expenditures were RMB52.3 million and RMB51.7 million for the 2021 Period and for the 2022 Period, respectively. The decrease in capital expenditures for the Interim Period was mainly due to the decrease in maintenance expenditures in the oilfield services segment, partly offset by the increase in maintenance capital expenditures of Hilong 106 vessel.

Contingent liabilities

As at June 30, 2022, the Remaining Group had no contingent liabilities (31 December 2021: Nil).

Pledge of Assets

As at June 30, 2022, the Remaining Group has pledged 17 drilling rigs as collateral in connection with the 2024 Notes. 3 drilling rigs are in operation in Nigeria, 5 drilling rigs are in operation in Ecuador, 2 drilling rigs are in operation in Ukraine, 1 drilling rig is in operation in Ethiopia and 6 drilling rigs are in operation in Pakistan.

Gearing ratio

As at June 30, 2022, the gearing ratio (calculated as net debt divided by total capital) of the Remaining Group was 53.90%.

Foreign Exchange

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD. Foreign exchange risk arises from recognised assets and liabilities in foreign operations. The conversion of RMB into foreign currencies, including the USD, has been based on rates set by the People's Bank of China. On 21 July 2005, the PRC government changed its decade-old policy of pegging the value of RMB to the USD. Under this policy, RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in an approximately 17.2% appreciation of RMB against the USD from 21 July 2005 to June 30, 2022. There remains significant pressure on the PRC government to adopt more flexible currency policy, which could result in more fluctuated exchange rate of the RMB against USD. The Group may consider entering into currency hedging transactions to further manage its exposure to fluctuations in exchange rates, or nature hedging by active matching the currency structure of monetary assets and liabilities. However, the effectiveness of such transactions may be limited. The revenue denominated in USD represented 54.5% and 54.8% of the total revenue of the Group for the 2022 Period and for the 2021 Period, respectively.

Staff and Remuneration Policy

As at June 30, 2022, the total number of full-time employees employed by the Remaining Group was 2,133 (31 December 2021: 1,974). The following table sets forth the number of the Remaining Group's full-time employees by area of responsibility as at June 30, 2022:

On-site workers	1,419
Administrative	178
Engineering and technical support	396
Research and development	57
Sales, marketing and after-sales services	53
Company management	30
Total	2,133

Employee costs excluding the Directors' remuneration totaled RMB221.8 million for the 2022 Period.

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

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

(b) For the financial year ended December 31, 2021

Revenue increased by RMB172.6 million, or 8.8%, from RMB1,956.4 million in 2020 to RMB2,129.0 million in 2021. Such increase was mainly due to the increase in revenue from oilfield services segment, and was partly offset by the decrease in revenue from oilfield equipment manufacturing and services segment.

Drill pipe-related business

Revenue from sales of drill pipes in the international market decreased by RMB177.4 million, or 23.1%, from RMB769.0 million in 2020 to RMB591.6 million in 2021. The decrease primarily reflected a decrease of 16.5% in the volume of drill pipes sold from 36,791 tonnes in 2020 to 30,719 tonnes in 2021. Such decrease in the sales volume reflected the delayed demands by customers in overseas market as a consequence of the outbreak of COVID-19.

Revenue from sales of drill pipes in the PRC market increased by RMB96.3 million, or 147.3%, from RMB65.4 million in 2020 to RMB161.7 million in 2021. The increase primarily reflected a 162.7% increase in the volume of drill pipes sold in the PRC market from 3,998 tonnes in 2020 to 10,502 tonnes in 2021, and to a lesser extent, a 5.9% decrease in the average selling price sold in the PRC market from RMB16,354 per tonne in 2020 to RMB15,397 per tonne in 2021. The increase in the sales volume primarily reflected that the Company put more emphasis on cooperation with customers in PRC market resulting from the recovery of certain oil and gas companies in 2021. While the decrease in average selling price primarily reflected the guideline price of American Petroleum Institute ("API") drill pipe products based on annual bid of both CNPC and Sinopec Group decreased in 2021 compared to that in 2020.

Oilfield services business

Revenue from the oilfield services segment increased by RMB161.5 million, or 23.6%, from RMB683.8 million in 2020 to RMB845.3 million in 2021. Such increase was mainly reflected the recovery of the utilization rate of drilling rigs in 2021 as compared to 2020.

Offshore engineering services

Revenue from the offshore engineering service segment in 2021 primarily represented the revenue of RMB259.5 million from the Bengal Project and RMB129.4 million from the offshore wind power construction project.

Cost of Sales/Services

Cost of sales/services decreased by RMB10.8 million, or 0.7%, from RMB1,590.1 million in 2020 to RMB1,579.3 million in 2021.

Gross Profit and Gross Profit Margin

As a result of the foregoing, gross profit increased by RMB183.4 million, or 50.1%, from RMB366.3 million in 2020 to RMB549.7 million in 2021. Gross profit margin was 25.8% in 2021, increased by 7.1% from that in 2020.

Other Losses – Net

The Remaining Group recognized a net loss of RMB1.0 million in 2021 and net loss of RMB162.9 million in 2020. The net loss recognised in 2021 reflected an exchange loss of RMB66.7 million from the operating activities as a combined result of the depreciation of the Ruble, USD and HKD, partly offset by the proceeds of 50.0 million from insurance indemnity. The net loss recognised in 2020 reflected an exchange loss of RMB175.5 million from the operating activities as a combined results of the depreciation of the Ruble, USD and HKD.

Finance Costs – Net

Finance costs – net increased by RMB224.1 million, or 259.3%, from RMB86.4 million in 2020 to RMB310.5 million in 2021. Such increase primarily reflected (i) the interest expense on Senior Notes and other borrowing and the issuance cost of the 2024 Notes (as defined in the Group's 2021 annual report) from RMB261.8 million in 2020 to RMB379.2 million in 2021, (ii) an exchange gain of RMB56.7 million from the financing activities resulting from the depreciation of USD, while in 2020 the exchange gain was RMB159.1 million from the financing activities resulting from the depreciation of USD.

Losses before Income Tax

As a result of the foregoing, the Remaining Group recognised losses before income tax of RMB345.3 million in 2020 and losses before income tax of RMB134.2 million in 2021.

Income Tax Expense

The Remaining Group recognized income tax expense of RMB57.9 million in 2020 and RMB65.6 million in 2021. Effective tax rate was approximately -16.8% in 2020 and -48.9% in 2021, the decrease of effective tax rate mainly reflected the unbalanced distribution of profit among the Group's subsidiaries.

Liquidity and Financial Resources

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

	For the financial year ended December 31,	
	2021	**2020**
	RMB'000	*RMB'000*
Net cash generated from operating activities	370,213	127,063
Net cash used in investing activities	(102,282)	(10,539)
Net cash used in financing activities	(316,903)	(148,904)
Net decrease in cash and cash equivalents	(48,972)	(32,380)
Exchange losses on cash and cash equivalents	(6,478)	(23,868)
Cash and cash equivalents at beginning of the year	612,113	668,361
Cash and cash equivalents at end of the year	556,663	612,113

As at December 31, 2021, cash and cash equivalents are mainly in RMB, USD, RUB, PKR and CAD.

The maturity profile of borrowings of the Remaining Group was as follows:

	As at December 31, 2021
	RMB million
Within 1 year	411.77
1-2 years	39.16
2-3 years	2,388.27
Above 3 years	5.08
Total	2,844.28

As at December 31, 2021, the Remaining Group's committed banking facilities amount to approximately RMB260.10 million.

As at December 31, 2021, the Remaining Group's bank borrowings of approximately RMB2,721.92 million were obtained at fixed rate.

The Remaining Group's borrowings were denominated in the following currencies:

	As at December 31, 2021
	RMB million
RMB	373.73
USD	2,470.35
RUB	–
CAD	0.20
EUR	–
Total	2,844.28

As at December 31, 2021, there are no seasonality of borrowing requirements for the Remaining Group.

Operating Activities

Net cash generated from operating activities in 2021 was RMB370.2 million, representing cash generated from operation of RMB415.1 million, offset by the income tax payment of RMB44.9 million.

Net cash generated from operating activities in 2020 was RMB127.1 million, representing cash generated from operation of RMB190.7 million, offset by the income tax payment of RMB63.6 million.

Investing Activities

Net cash used in investing activities in 2021 was RMB102.3 million, primarily reflecting payment of RMB109.4 million for the purchase of property, plant and equipment.

Net cash used in investing activities in 2020 was RMB10.5 million, primarily reflecting (i) payment of RMB15.8 million for purchases of property, plant and equipment, (ii) RMB23.8 million for purchases of intangible assets, and (iii) net cash outflow arising from financial instruments of RMB23.0 million, partially offset by proceeds of RMB52.0 million from disposal of property, plant and equipment.

Financing Activities

Net cash used in financing activities in 2021 was RMB316.9 million, primarily reflecting (i) the repayment of borrowing of RMB627.2 million, (ii) the interest payment and the 2024 Notes issuance cost payment of RMB149.8 million, and (iii) the lease payment of RMB10.1 million, partially offset by proceeds of RMB415.3 million from borrowings.

Net cash used in financing activities in 2020 was RMB148.9 million, primarily reflecting (i) the repayment of borrowing of RMB579.3 million, (ii) the interest payment of RMB92.6 million, and (iii) the lease payment of RMB21.6 million, partially offset by (i) proceeds of RMB530.5 million from borrowings, and (ii) net cash inflow of RMB10.8 million arising from security deposit for bank borrowing.

Capital expenditures

Capital expenditures were RMB49.0 million and RMB175.4 million in 2020 and 2021, respectively. The increase in capital expenditures in 2021 was mainly due to the increasing maintenance capital expenditures of Hilong 106 vessel and the recovery of overseas business in the oilfield services segment.

Pledge of Assets

As at December 31, 2021, the Remaining Group has pledged 17 drilling rigs as collateral in connection with the 2024 Notes. 3 drilling rigs are in operation in Nigeria, 5 drilling rigs are in operation in Ecuador, 2 drilling rigs are in operation in Ukraine, 1 drilling rig is in operation in Ethiopia and 6 drilling rigs are in operation in Pakistan.

Gearing ratio

As at December 31, 2021, the gearing ratio (calculated as net debt divided by total capital) of the Remaining Group was 52.94%.

Foreign Exchange

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD. Foreign exchange risk arises from recognised assets and liabilities in foreign operations. The conversion of RMB into foreign currencies, including the USD, has been based on rates set by the People's Bank of China. On 21 July 2005, the PRC government changed its decade-old policy of pegging the value of RMB to the USD. Under this policy, RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in an approximately 21.3% appreciation of RMB against the USD from 21 July 2005 to 31 December 2021. There remains significant pressure on the PRC government to adopt more flexible currency policy, which could result in more fluctuated exchange rate of the RMB against USD. The Group may consider entering into currency hedging transactions to further manage its exposure to fluctuations in exchange rates, or nature hedging by active matching the currency structure of monetary assets and liabilities. However, the effectiveness of such transactions may be limited. The revenue denominated in USD represented 54.2% and 52.3% of the total revenue of the Group in 2020 and 2021, respectively.

Staff and Remuneration Policy

As at December 31, 2021 the total number of full-time employees employed by the Remaining Group was 1,974 (31 December 2020: 1,863). The following table sets forth the number of the Remaining Group's full-time employees by area of responsibility as at December 31, 2021:

On-site workers	1,324
Administrative	179
Engineering and technical support	359
Research and development	30
Sales, marketing and after-sales services	54
Company management	28
Total	1,974

Employee costs excluding the Directors' remuneration totaled RMB446.0 million for the financial year ended December 31, 2021.

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

Material acquisitions, disposals and significant investment

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

(c) For the financial year ended December 31, 2020

Revenue decreased by RMB1,059.4 million, or 35.1%, from RMB3,015.7 million in 2019 to RMB1,956.3 million in 2020. Such decrease was mainly due to the decrease in revenue from oilfield services segment and oilfield equipment manufacturing and services segment, and was partly offset by the increase in revenue from offshore engineering services.

Drill pipe-related business

Revenue from sales of drill pipes in the international market increased by RMB1.0 million, or 0.1%, from RMB768.0 million in 2019 to RMB769.0 million in 2020. The increase primarily reflected an increase of 1.2% in the unit price of drill pipes sold from RMB20,662 per tonne in 2019 to RMB20,903 per tonne in 2020. Such increase indicated that the company has sold more high-end drill pipes in Middle East and Russian market and that the Company put more emphasis on long-term cooperation with prestigious customers in international market.

Revenue from sales of drill pipes in the PRC market decreased by RMB255.7 million, or 79.6%, from RMB321.1 million in 2019 to RMB65.4 million in 2020. The decrease primarily reflected a 79.3% decrease in the volume of drill pipes sold in the PRC market from 19,284 tonnes in 2019 to 3,998 tonnes in 2020, and a 1.8% slight decrease in the average selling price sold in the PRC market from RMB16,653 per tonne in 2019 to RMB16,354 per tonne in 2020. The decrease in the sales volume primarily reflected the deferred capital and operating expenses of certain oil and gas companies in the PRC market. The decrease in the average selling price primarily reflected the decrease of the guideline price of API drill pipe products based on annual bid of both CNPC and Sinopec Group in 2020 compared to that in 2019.

Oilfield services business

Revenue from the oilfield services segment decreased by RMB599.5 million, or 46.7%, from RMB1,283.3 million in 2019 to RMB683.8 million in 2020. Such decrease was mainly due to the lower utilization rate of drilling rigs in 2020 as compared to 2019 as a consequence of the outbreak of COVID-19.

Offshore engineering services

Revenue from the offshore engineering service segment in 2020 primarily represented the revenue of RMB314.7 million from the Bengal Project and RMB63.6 million from the offshore wind power construction project.

Cost of Sales/Services

Cost of sales/services decreased by RMB615.9 million, or 27.9%, from RMB2,205.9 million in 2019 to RMB1,590.0 million in 2020.

Gross Profit and Gross Profit Margin

As a result of the foregoing, gross profit decreased by RMB443.5 million, or 54.8%, from RMB809.8 million in 2019 to RMB366.3 million in 2020. Gross profit margin was 18.7% in 2020, decreased by 8.1% from that in 2019.

Other Gains/(Losses) – Net

The Remaining Group recognized net loss of RMB162.9 million in 2020 and net gain of RMB83.7 million in 2019. The net loss recognized in 2020 reflected an exchange loss of RMB175.5 million from the operating activities as a combined result of the depreciation of the Ruble, USD and HKD. The net gain recognized 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 and Hong Kong Dollar.

Finance Costs – Net

Finance costs – net decreased by RMB191.5 million, or 68.9%, from RMB278.0 million in 2019 to RMB86.5 million in 2020. Such decrease primarily reflected (i) an exchange gain of RMB159.1 million from the financing activities resulting from the depreciation of USD, while in 2019 the exchange loss was RMB29.7 million from the financing activities resulting from the appreciation of USD and HKD; and (ii) the finance income increased from RMB3.5 million in 2019 to RMB13.7 million in 2020, and was partly offset by an increase in the interest expense on Senior Notes and other borrowing from RMB246.1 million in 2019 to RMB261.8 million in 2020.

Profit/(Loss) before Income Tax

As a result of the foregoing, the Remaining Group recognised profit before income tax of RMB127.2 million in 2019 and losses before income tax of RMB345.3 million in 2020.

Income Tax Expense

The Remaining Group recognized income tax expense of RMB93.1 million in 2019 and RMB57.9 million in 2020. Effective tax rate was approximately 73.2% in 2019 and -16.8% in 2020, the decrease of effective tax rate mainly reflected the further imbalance of the subsidiaries' profit.

Liquidity and Financial Resources

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

	For the financial year ended December 31,	
	2020	**2019**
	RMB'000	*RMB'000*
Net cash generated from operating activities	127,063	326,603
Net cash used in investing activities	(10,539)	(186,314)
Net cash used in financing activities	(148,904)	(81,862)
Net (decrease)/increase in cash and cash equivalents	(32,380)	58,427
Exchange (losses)/gains on cash and cash equivalents	(23,868)	4,413
Cash and cash equivalents at beginning of the year	668,361	605,521
Cash and cash equivalents at end of the year	612,113	668,361

As at December 31, 2020, cash and cash equivalents are mainly in RMB, USD, RUB, PKR and CAD.

The maturity profile of borrowings of the Remaining Group was as follows:

	As at December 31, 2020
	RMB million
Within 1 year	2,988.34
1-2 years	–
2-3 years	–
Above 3 years	0.21
Total	2,988.55

As at December 31, 2020, the Remaining Group's committed banking facilities amount to approximately RMB280.34 million.

As at December 31, 2020, the Remaining Group's bank borrowings of approximately RMB2,825.42 million were obtained at fixed rate.

The Remaining Group's borrowings were denominated in the following currencies:

	As at December 31, 2020
	RMB million
RMB	462.09
USD	2,526.25
RUB	–
CAD	0.21
EUR	–
Total	2,988.55

As at December 31, 2020, there are no seasonality of borrowing requirements for the Remaining Group.

Operating Activities

Net cash generated from operating activities in 2020 was RMB127.1 million, representing cash generated from operation of RMB190.7 million, offset by the income tax payment of RMB63.6 million.

Net cash generated from operating activities in 2019 was RMB326.6 million, representing cash generated from operation of RMB375.9 million, offset by the income tax payment of RMB49.3 million.

Investing Activities

Net cash used in investing activities in 2020 was RMB10.5 million, primarily reflecting (i) payment of RMB15.8 million for purchases of property, plant and equipment, (ii) RMB23.8 million for purchases of intangible assets, and (iii) net cash outflow arising from financial instruments of RMB23.0 million, partially offset by proceeds of RMB52.0 million from disposal of property, plant and equipment.

Net cash used in investing activities in 2019 was RMB186.3 million, primarily reflecting (i) payment of RMB174.6 million for purchases of property, plant and equipment, and (ii) RMB21.6 million for purchases of intangible assets, partially offset by proceeds of RMB9.9 million from disposal of property, plant and equipment.

Financing Activities

Net cash used in financing activities in 2020 was RMB148.9 million, primarily reflecting (i) the repayment of borrowing of RMB579.3 million, (ii) the interest payment of RMB92.6 million, and (iii) the lease payment of RMB21.6 million, partially offset by (i) proceeds of RMB530.5 million from borrowings, and (ii) net cash inflow of RMB10.8 million arising from security deposit for bank borrowings.

Net cash used in financing activities in 2019 was RMB81.9 million, primarily reflecting (i) the repayment of borrowing of RMB773.2 million, (ii) the interest payment of RMB231.7 million, and (iii) the dividends payment of RMB12.5 million, partially offset by (i) proceeds of RMB920.0 million from borrowings, and (ii) net cash inflow of RMB36.5 million arising from security deposit for bank borrowings.

Capital expenditures

Capital expenditures were RMB230.0 million and RMB49.0 million in 2019 and 2020 respectively. The decrease in capital expenditures in 2020 was mainly due to that there are only maintenance capital expenditures in 2020 of each segment.

Gearing ratio

As of 31 December 2020, the gearing ratio (calculated as net debt divided by total capital) of the Remaining Group was 52.27%.

Foreign Exchange

The Remaining Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD. Foreign exchange risk arises from recognized assets and liabilities in foreign operations. The conversion of RMB into foreign currencies, including the USD, has been based on rates set by the People's Bank of China. On 21 July 2005, the PRC government changed its decade-old policy of pegging the value of RMB to the USD. Under this policy, RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in an approximately 19.5% appreciation of RMB against the USD from 21 July 2005 to 31 December 2020. 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 Remaining Group may consider entering into currency hedging transactions to further manage its exposure to fluctuations in exchange rates, or nature hedging by active matching the currency structure of monetary assets and liabilities. However, the effectiveness of such transactions may be limited. The revenue denominated in USD represented 55.9% and 54.2% of the total revenue of the Remaining Group in 2019 and 2020, respectively.

Staff and Remuneration Policy

As at December 31, 2020 the total number of full-time employees employed by the Remaining Group was 1,863 (December 31, 2019: 2,193). The following table sets forth the number of the Remaining Group's full-time employees by area of responsibility as at December 31, 2020:

On-site workers	1,192
Administrative	216
Engineering and technical support	319
Research and development	37
Sales, marketing and after-sales services	70
Company management	29
Total	1,863

Employee costs excluding the Directors' remuneration totaled RMB417.9 million for the financial year ended December 31, 2020.

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

(d) For the financial year ended December 31, 2019

Revenue increased by RMB310.0 million, or 11.5%, from RMB2,705.8 million in 2018 to RMB3,015.8 million in 2019. Such increase was mainly due to the increase in revenue from oilfield equipment manufacturing and services segment and oilfield services segment.

Drill pipe-related business

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 Remaining 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 API drill pipe products based on annual bid of both CNPC and Sinopec Group in 2019 compared to that in 2018.

Oilfield services business

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 RMB210.1 million, or 10.5%, from RMB1,995.8 million in 2018 to RMB2,205.9 million in 2019.

Gross Profit and Gross Profit Margin

As a result of the foregoing, gross profit increased by RMB99.8 million, or 14.1%, from RMB710.0 million in 2018 to RMB809.8 million in 2019. Gross profit margin was 26.9% in 2019, which remained generally the same as that in 2018.

Other Gain – Net

The Remaining Group recognized net gain of RMB83.7 million in 2019 and net gain of RMB85.6 million in 2018. The net gain recognized in 2019 reflected an exchange gain of RMB98.6 million from the operating activities as a combined result of the appreciation of the Ruble, USD and HKD. The net gain recognized 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 RMB30.4 million, or 9.9%, from RMB308.3 million in 2018 to RMB277.9 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 RMB96.0 million in 2018 to RMB127.2 million in 2019.

Income Tax Expense

The Remaining Group recognized income tax expense of RMB72.5 million in 2018 and RMB93.1 million in 2019, respectively. Effective tax rate was approximately 75.6% in 2018 and 73.2% in 2019.

Liquidity and Financial Resources

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

	For the financial year ended December 31,	
	2019	**2018**
	RMB'000	*RMB'000*
Net cash generated from operating activities	326,603	385,057
Net cash used in investing activities	(186,314)	(438,562)
Net cash (used in)/generated from financing activities	(81,862)	311,753
Net increase in cash and cash equivalents	58,427	258,248
Exchange gains on cash and cash equivalents	4,413	3,445
Cash and cash equivalents at beginning of the year	605,521	343,828
Cash and cash equivalents at end of the year	668,361	605,521

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

The maturity profile of borrowings of the Remaining Group was as follows:

	As at December 31, 2019
	RMB million
Within 1 year	1,681.99
1-2 years	40.51
2-3 years	1,397.79
Above 3 years	92.77
Total	3,213.06

As at December 31, 2019, the Remaining Group's committed banking facilities amount to approximately RMB418.20 million.

As at December 31, 2019, the Remaining Group's bank borrowings of approximately RMB3,001.25 million were obtained at fixed rate.

The Remaining Group's borrowings were denominated in the following currencies:

	As at December 31, 2019
	RMB million
RMB	358.38
USD	2,807.79
RUB	–
CAD	–
EUR	46.89
Total	3,213.06

As at December 31, 2019, there are no seasonality of borrowing requirements for the Remaining Group.

Operating Activities

Net cash generated from operating activities in 2019 was RMB326.6 million, representing cash generated from operation of RMB375.9 million, offset by the income tax payment of RMB49.3 million.

Net cash generated from operating activities in 2018 was RMB385.1 million, representing cash generated from operation of RMB481.0 million, offset by the income tax payment of RMB95.9 million.

Investing Activities

Net cash used in investing activities in 2019 was RMB186.3 million, primarily reflecting (i) the payment of RMB174.6 million for purchases of property, plant and equipment, (ii) the payment of RMB21.7 million for purchases of intangible assets, partially offset by the proceeds of RMB9.9 million from disposal of property, plant and equipment.

Net cash used in investing activities in 2018 was RMB438.6 million, primarily reflecting (i) the payment of RMB428.2 million for purchases of property, plant and equipment, (ii) the payment of RMB20.5 million for purchases of intangible assets, partially offset by the proceeds of RMB2.2 million from disposal of property, plant and equipment.

Financing Activities

Net cash used in financing activities in 2019 was RMB81.9 million, primarily reflecting (i) the repayment of the borrowings of RMB773.3 million, (ii) the interest payment of RMB231.7 million, and (iii) the dividends payment of RMB12.5 million, partially offset by (i) the proceed of RMB920.0 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 RMB311.8 million, primarily reflecting the repayment of borrowings of RMB497.3 million and the interest payment of RMB203.4 million, partially offset by the proceeds of RMB1,003.0 million from borrowings.

Capital expenditures

Capital expenditures were RMB531.0 million and RMB230.0 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.

Gearing ratio

As of December 31, 2019, the gearing ratio (calculated as net debt divided by total capital) of the Remaining Group was 47.43%.

Foreign Exchange

The Remaining 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 recognized 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 Remaining 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 54.6% and 55.9% of the total revenue of the Remaining Group in 2018 and 2019, respectively.

Staff and Remuneration Policy

As at December 31, 2019 the total number of full-time employees employed by the Remaining Group was 2,193 (December 31, 2018: 2,168). The following table sets forth the number of the Remaining Group's full-time employees by area of responsibility as at December 31, 2019:

On-site workers	1,414
Administrative	200
Engineering and technical support	409
Research and development	92
Sales, marketing and after-sales services	48
Company management	30
Total	2,193

Employee costs excluding the Directors' remuneration totaled RMB527.7 million for the financial year ended December 31, 2019.

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

Material acquisitions, disposals and significant investment

On September 3, 2019, Hilong Group of Companies entered into an equity interest transfer agreement with UMW Petropipe (L) Ltd. ("UMW"), whereby Hilong Group of Companies agreed to acquire from UMW and UMW agreed to sell to Hilong Group of Companies 49% of its entire equity interest in Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd. (上海圖博可特石油管道塗層有限公司) at a consideration of RMB23,800,000. On September 3, 2019, Hilong Technology Limited ("Hilong Technology"), a wholly-owned subsidiary of the Company, entered into an equity interest transfer agreement with UMW, whereby Hilong Technology agreed to acquire from UMW and UMW agreed to sell to Hilong Technology 8.04% of its entire equity interest in Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co. Ltd. (江蘇圖博可特曙光塗層有限公司) at a consideration of RMB4,200,000. For further details, please refer to the Company's announcement dated September 3, 2019.

This asset valuation report is prepared in accordance with the Standards for Asset Appraisal of PRC (《中國資產評估準則》)

Asset Valuation Report on the Entire Value of Shareholders' Equity of Hilong Pipeline Engineering Technology Service Co., Ltd.* (海隆管道工程技術服務有限公司) in Relation to the Proposed Transfer of Equity Interests held in Hilong Pipeline Engineering Technology Service Co., Ltd. by Hilong Group of Companies Ltd.* (海隆石油工業集團有限公司)

DONG ZHOU PING BAO ZI [2022] NO. 1248

(Report and Annexes)
Volume 1 of 1

Shanghai Orient Appraisal Co., Ltd.
December 29, 2022

Disclaimer

1. This asset valuation report is prepared in accordance with the Basic Rules for Asset Appraisal (《資產評估基本準則》) issued by the Ministry of Finance and the Standards for Asset Valuation Practices (《資產評估執業準則》)and the Code of Professional Ethics (《職業道德準則》)issued by China Appraisal Society.

2. The principal or other users of the asset valuation report shall use this asset valuation report in accordance with the provisions of laws and administrative regulations and the scope of use specified herein. If the principal or other users of this asset valuation report use the asset valuation report in violation of the foregoing provisions, the asset appraisal institution and the asset valuation professionals shall not be liable.

3. The asset valuation report shall only be used by the principal, other users of the asset valuation report as agreed in the asset valuation commission contract and users of the asset valuation report as stipulated in laws and administrative regulations. Save as aforesaid, no other institutions or individuals shall become users of the asset valuation report.

4. Users of the asset valuation report shall correctly understand and use the valuation conclusion which is not equal to the realizable price of the appraisal subject and shall not be regarded as a guarantee for the realizable price of the appraisal subject.

5. Users of the asset valuation report shall pay attention to assumptions for the establishment of valuation conclusion, description of special matters and limitations of use in the asset valuation report.

6. The asset appraisal institution and its asset valuation professionals shall abide by laws, administrative regulations and the asset valuation standards, adhere to the principles of independence, objectivity and impartiality, and assume responsibility for the asset valuation report issued according to laws.

7. We have no existing or expected interests in the appraisal subject of this asset valuation report. There is no existing or expected interest in the relevant parties, and therefore there is no prejudice against the relevant parties.

8. The list of assets and liabilities involved in the appraisal subject shall be declared by the principal and the appraised entity and confirmed by their signatures, seals or otherwise permitted by laws. According to the Asset Appraisal Law of the People's Republic of China (《中華人民共和國資產評估法》), "the principal shall be responsible for the authenticity, integrity and legality of the ownership certificates, financial and accounting information as well as other materials provided by them."

9. We have conducted on-site investigation on the appraisal subject and the assets involved. Necessary attention has been paid to the legal ownership of the appraisal subject and the assets involved, and the legal ownership information of the assets involved has been verified. Matters that have been found that may have a significant impact on the valuation conclusion have been truthfully disclosed in this asset valuation report, and the principal and other relevant parties have been requested to improve their title to meet the requirements for issuing the asset valuation report. However, we only express opinions on the value of the appraisal subject and the assets involved, and we have no right to guarantee their legal ownership in any form. This report shall not be used as any form of title certificate.

10. Our investigation on physical assets such as equipment and buildings (structures) is normally limited to their apparent quality, conditions of use and maintenance and does not include the covered, hidden and parts which are difficult to be observed inside. We are unable to and have not accepted the engagement to carry out professional and technical inspection and appraisal on the internal quality of the above assets. Our valuation is based on the information provided by the principal and other relevant parties. If there are defects in the internal quality of the appraisal subject, the valuation conclusion of this asset valuation report may be affected to varying degrees.

Asset Valuation Report
(Contents)

CONTENTS V-4

SUMMARY V-6

MAIN TEXT V-8

I. PRINCIPAL, APPRAISED ENTITY AND OTHER USERS OF THE ASSET VALUATION REPORT V-8

(I) Profile of Principal V-8

(II) Profile of Appraised Entity V-9

(III) Relationship between the Principal and the Appraised Entity . V-18

(IV) Other Users of the Asset Valuation Report V-18

II. PURPOSE OF VALUATION V-19

III. APPRAISAL SUBJECT AND SCOPE OF VALUATION V-19

IV. TYPE AND DEFINITION OF VALUE V-28

V. VALUATION BENCHMARK DATE V-28

VI. BASIS OF VALUATION V-28

(I) Basis of Economic Activity V-28

(II) Legal Basis V-28

(III) Basis of Valuation Standards V-30

(IV) Basis of Asset Ownership V-31

(V) Pricing Basis of Valuation V-31

(VI) Other References V-32

VII. VALUATION APPROACHES V-33

(I) Overview of Valuation Approaches V-33

(II) Selection of Valuation Approaches V-33

(III) Introduction of the Asset-based Approach V-35

VIII. EXECUTION OF VALUATION PROCEDURE V-48

IX. VALUATION ASSUMPTIONS V-51

(I) Basic Assumptions V-51

(II) General Assumptions V-52

X. VALUATION CONCLUSION V-53

(I) Relevant Valuation Results V-53

(II) Changes between the Valuation Conclusion and Carrying Amount and Reasons V-54

(III) Other Factors to be Considered Relating to the Valuation Conclusion V-56

(IV) Validity of the Valuation Conclusion V-56

(V) Other Notes to the Valuation Conclusion V-56

XI. DESCRIPTION OF SPECIAL MATTERS V-57

XII. RESTRICTIONS ON THE USE OF VALUATION REPORT V-60

XIII. DATE OF ISSUANCE OF THE VALUATION REPORT V-61

THE ENTIRE VALUE OF SHAREHOLDERS' EQUITY OF HILONG PIPELINE ENGINEERING TECHNOLOGY SERVICE CO., LTD.* (海隆管道工程技術服務有限公司) IN RELATION TO THE PROPOSED TRANSFER OF EQUITY INTERESTS HELD IN HILONG PIPELINE ENGINEERING TECHNOLOGY SERVICE CO., LTD. BY HILONG GROUP OF COMPANIES LTD.* (海隆石油工業集團有限公司)

ASSET VALUATION REPORT

Dong Zhou Ping Bao Zi [2022] No. 1248
Summary

Special notice: This asset valuation report only provides value reference for economic activities described in the report. The following contents are extracted from the main text of the asset valuation report. In order to understand the details of this valuation and correctly understand the valuation conclusion, you should read the main text of this valuation report.

Upon the engagement, subject to laws, administrative regulations and asset valuation standards, and on the principles of independence, objectivity and impartiality, Shanghai Orient Appraisal Co., Ltd. conducted an appraisal on the appraisal subject under the economic activities, based on appropriate valuation approaches and necessary valuation process. The summary of the asset valuation report is as follows:

Principal: Hilong Group of Companies Ltd.

Appraised Entity: Hilong Pipeline Engineering Technology Service Co., Ltd.

Valuation Purpose: Equity transfer

Economic Activities: Pursuant to the Asset Valuation Commission Contract, Hilong Group of Companies Ltd. proposed to transfer its equity interest in Hilong Pipeline Engineering Technology Service Co., Ltd..

Appraisal Subject: The entire value of shareholders' equity of the appraised entity

Scope of Valuation: Total assets and liabilities of the appraised entity, specifically including current assets, non-current assets and liabilities. The total carrying amount of all assets, liabilities and shareholder's equity included in the parent company's financial statements declared by the Appraised Entity amounted to RMB1,238,671,751.00, RMB384,594,228.00 and RMB854,077,523.00.

On consolidated financial statement basis at benchmark date, book value of assets is RMB2,330,200,000.00, book value of liabilities is RMB1,282,078,000.00, book value of shareholders' equity is RMB1,048,142,000.00, of which the equity attributable to the owners of the parent company is RMB1,002,768,000.00.

Type of Value: Market value

Valuation Benchmark Date: December 31, 2021

Valuation Approaches: The asset-based approach is adopted, and the conclusion of this valuation report is based on the valuation results under the asset-based approach.

Valuation Conclusion: After the valuation, the entire value of shareholders' equity in the appraised entity is RMB1,004,515,767.59, being RENMINBI ONE BILLION FOUR MILLION FIVE HUNDRED AND FIFTEEN THOUSAND SEVEN HUNDRED AND SIXTY SEVEN POINT FIFTY NINE ONLY.

Validity Period of the Valuation Conclusion: the validity period shall be one year from the valuation benchmark date, i.e. effective until December 30, 2022.

Special matters:

The users of the valuation report should pay attention to the potential impact of the following special matters on the valuation conclusion when using this valuation report and give full consideration to such impact when making self-decisions and conducting economic activities based on this report:

(I) Incomplete or Defective Key Information Such as Ownership:

The factories of Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd. which have obtained the real estate ownership certificates are built on collective land, with the land area of 31,415 square metres and gross floor area of 8,284 square metres. The land is for industrial purpose but the land use right is accounted as collective land. Pursuant to the Land Administration Law, collective land is used for constructing residential houses of villagers and starting township enterprises, which may be subject to the risk of land resumption. It should be brought to the attention of the report users that the impact of this risk on the valuation has not been taken in consideration for this valuation.

(II) Major subsequent events:

Hilong Pipeline Engineering Technology Service Co., Ltd. made a decision on December 15, 2022: to distribute RMB68 million of the undistributed profits of Hilong Pipeline Engineering Technology Service Co., Ltd. on December 15, 2022.

The special matters above may have impacts on the conclusion for this valuation and it should be brought to the attention of the report users to pay due attention when conducting this economic activity. In addition, users of the valuation report should also pay attention to the valuation assumptions and the impact of subsequent important matters on the conclusion of this valuation set out in the main text of the valuation report and use this valuation report properly.

THE ENTIRE VALUE OF SHAREHOLDERS' EQUITY OF HILONG PIPELINE ENGINEERING TECHNOLOGY SERVICE CO., LTD.* (海隆管道工程技術服務有限公司) IN RELATION TO THE PROPOSED TRANSFER OF EQUITY INTERESTS HELD IN HILONG PIPELINE ENGINEERING TECHNOLOGY SERVICE CO., LTD. BY HILONG GROUP OF COMPANIES LTD.* (海隆石油工業集團有限公司)

ASSET VALUATION REPORT

Dong Zhou Ping Bao Zi [2022] No. 1248
Main text

To Hilong Group of Companies Ltd.

Upon acceptance of the commission of the Company, subject to laws, administrative regulations and asset valuation standards, and on the principles of independence, objectivity and impartiality, Shanghai Orient Appraisal Co., Ltd. conducted an appraisal on the market value of Hilong Pipeline Engineering Technology Service Co., Ltd. as at December 31, 2021 in relation to its equity interests in Hilong Pipeline Engineering Technology Service Co., Ltd. proposed to be transferred by Hilong Group of Companies Ltd, based on asset-based approach and necessary valuation process. The asset valuation is reported as follows:

I. PRINCIPAL, APPRAISED ENTITY AND OTHER USERS OF THE ASSET VALUATION REPORT

(I) Profile of Principal

Company name: Hilong Group of Companies Ltd. (referred to as the "Principal")

Chinese name: 海隆石油工業集團有限公司

Address of the company: Building 3, No. 1825 Luodong Road, Baoshan District, Shanghai

Legal representative: Wang Tao (汪濤)

Registered capital: RMB150,000,000

Type of the company: Limited liability company (wholly-owned by Hong Kong, Macao or Taiwan legal persons)

Scope of business: production of pipeline coating, welding wire, welding flux, coiled tubing, set of equipment for mobile gas station, heat shrink sleeve (belt), oil drilling and production equipment and accessories, thread processing and thread protectors, oil tubing, casing pipe, drill pipes, drill collar, extra-weight drill pipe and tool joints and other finished products and semi-finished products as well as petroleum pipeline; pipeline anti-corrosion treatment; provision of related technical services; sales and lease of self-produced products.

(II) Profile of Appraised Entity

Company name: Hilong Pipeline Engineering Technology Service Co., Ltd.* (海隆管道工程技術服務有限公司) (referred to as "Appraised Entity" or "the Company")

Company type: Limited liability company (sole proprietorship investment by foreign investment company)

Operation premise: No. 1825, Luodong Road, Baoshan Industrial Zone

Legal representative: Xue Zhijun (薛志軍)

Date of establishment: November 9, 2005

1. Company history and shareholder structure

(1) Initial establishment

Hilong Pipeline Engineering Technology Service Co., Ltd. was established on November 9, 2005 (formerly known as "Shanghai Hilong Anti-Corrosion Technology Engineering Co., Ltd." (上海海隆防腐技術工程有限公司)), with an initial registered capital of RMB5 million, of which Yuan Pengbin (袁鵬斌), Zhao Min (趙敏), Chen Jinbo (陳錦波), Shaanxi Ante Technology Engineering Company Limited (陝西安特技術工程有限公司) and Beijing Huashi Hailong Petroleum Machine Equipment Co., Ltd. held 5%, 5%, 5%, 22% and 63%, respectively. The shareholder structure and equity ratio were as follows:

No.	Shareholder's name	Capital contribution *(RMB'0,000)*	Shareholding proportion
1	Yuan Pengbin	25.00	5.00%
2	Zhao Min	25.00	5.00%
3	Chen Jinbo	25.00	5.00%
4	Shaanxi Ante Technology Engineering Company Limited	110.00	22.00%
5	Beijing Huashi Hailong Petroleum Machine Equipment Co., Ltd.	315.00	63.00%
	Total	**500.00**	**100.00%**

(2) Several share transfers

On October 13, 2006, Beijing Huashi Hailong Petroleum Machine Equipment Co., Ltd. transferred all 63% equity interests held by it to Shanghai Hilong Petroleum Equipment Co., Ltd. (上海海隆石油裝備有限公司). Subsequently, the shareholder Shanghai Hilong Petroleum Equipment Co., Ltd. changed its name to Hilong Group of Companies Ltd. After the above equity change, the shareholder structure and equity ratio were as follows:

No.	Shareholder's name	Capital contribution *(RMB'0,000)*	Shareholding proportion
1	Yuan Pengbin	25.00	5.00%
2	Zhao Min	25.00	5.00%
3	Chen Jinbo	25.00	5.00%
4	Shaanxi Ante Technology Engineering Company Limited	110.00	22.00%
5	Hilong Group of Companies Ltd.	315.00	63.00%
	Total	**500.00**	**100.00%**

On July 5, 2007, Hilong Group of Companies Ltd. transferred 3% equity interests held by it to Liu Yizhuang (劉義壯). After the above equity change, the shareholder structure and equity ratio were as follows:

No.	Shareholder's name	Capital contribution *(RMB'0,000)*	Shareholding proportion
1	Yuan Pengbin	25.00	5.00%
2	Zhao Min	25.00	5.00%
3	Chen Jinbo	25.00	5.00%
4	Shaanxi Ante Technology Engineering Company Limited	110.00	22.00%
5	Hilong Group of Companies Ltd.	300.00	60.00%
6	Liu Yizhuang	15.00	3.00%
	Total	**500.00**	**100.00%**

(3) The first capital increase

On February 19, 2008, the registered capital of the Company was increased from RMB5 million to RMB10 million. After the capital increase, the shareholder structure and equity ratio were as follows:

No.	Shareholder's name	Capital contribution *(RMB'0,000)*	Shareholding proportion
1.	Yuan Pengbin	50.00	5.00%
2.	Zhao Min	50.00	5.00%
3.	Chen Jinbo	50.00	5.00%
4	Shaanxi Ante Technology Engineering Company Limited	220.00	22.00%
5	Hilong Group of Companies Ltd.	600.00	60.00%
6	Liu Yizhuang	30.00	3.00%
	Total	**1,000.00**	**100.00%**

(4) The last equity change

On February 12, 2011, Hilong Group of Companies Ltd., a shareholder, acquired the shares held by all other shareholders and therefor became the sole shareholder of the Company. After the above equity change, the shareholder structure and equity ratio were as follows:

No.	Shareholder's name	Capital contribution *(RMB'0,000)*	Shareholding proportion
1	Hilong Group of Companies Ltd.	1,000.00	100.00%
	Total	**1,000.00**	**100.00%**

(5) The second capital increase

On June 18, 2012, the registered capital of the Company was increased from RMB10 million to RMB50 million in the form of cash contribution. After the capital increase, the shareholder structure and equity ratio were as follows:

No.	Shareholder's name	Capital contribution *(RMB'0,000)*	Shareholding proportion
1	Hilong Group of Companies Ltd.	5,000.00	100.00%
	Total	**5,000.00**	**100.00%**

On July 2, 2014, the Company's name was changed from "Shanghai Hilong Anti-Corrosion Technology Engineering Co., Ltd." to the current name "Hilong Pipeline Engineering Technology Service Co., Ltd.".

(6) The third capital increase

On September 24, 2019, according to the Articles of Association, the registered capital of the Company was increased from RMB50 million to RMB70 million, and the newly increased capital contribution of RMB20 million was from Hilong Group of Companies Ltd., including land use rights of RMB12.4 million and RMB7.6 million in kind. After the capital increase, the shareholder structure and shareholding proportion were as follows:

No.	Shareholder's name	Capital contribution *(RMB'0,000)*	Shareholding proportion
1	Hilong Group of Companies Ltd.	7,000.00	100.00%
	Total	**7,000.00**	**100.00%**

(7) The fourth capital increase

On December 2, 2019, according to the Amendment to the Articles of Association, the registered capital of the Company was increased from RMB70 million to RMB100 million, and the newly increased capital contribution of RMB30 million was from Hilong Group of Companies Ltd. in the form of equity. After the capital increase, the shareholder structure and equity ratio were as follows:

No.	Shareholder's name	Capital contribution *(RMB'0,000)*	Shareholding proportion
1	Hilong Group of Companies Ltd.	10,000.00	100.00%
	Total	**10,000.00**	**100.00%**

(8) Change of registered capital

On June 15, 2021, Hilong Group of Companies Ltd., the sole shareholder of Hilong Pipeline Engineering Technology Service Co., Ltd., divided Hilong Pipeline Engineering Technology Service Co., Ltd. into Hilong Pipeline Engineering Technology Service Co., Ltd. and Hailong Zhizao (Shanghai) Consulting Management Co., Ltd. The registered capital of Hilong Pipeline Engineering Technology Service Co., Ltd. before the division was RMB100 million, and the registered capital of Hilong Pipeline Engineering Technology Service Co., Ltd. after the division was RMB80 million.

After the change of the registered capital, the shareholder structure and equity ratio were as follows:

No.	Shareholder's name	Capital contribution *(RMB'0,000)*	Shareholding proportion
1	Hilong Group of Companies Ltd.	8,000.00	100.00%
	Total	**8,000.00**	**100.00%**

After the change of the registered capital, the registered capital and equity structure of the Company have not changed as of the valuation benchmark date.

2. *Company Portfolio*

Hilong Pipeline Engineering Technology Service Co., Ltd. is a scientific and technological enterprise integrating internal and external coating of gas pipeline, concrete counterweight coating, robot internal filler coating, and research on anticorrosion technology of petroleum pipeline, which provides perfect pipeline technical service. Before separation, the company was located at No. 1825, Luodong Road, Baoshan Industrial Park, Shanghai, covering an area of nearly 90 mu, including 40 mu of professional pipe yard. The business scope includes: permitted projects – construction works (including corrosion-resistant pipeline coating construction, pipeline processing, installation, detection, maintenance and technical services, professional anticorrosion and insulation construction); general projects – processing and sales of lining corrosion-resistant alloy composite steel tubes; general goods storage services (excluding dangerous chemicals and other items requiring approval); technology import and export; goods import and export. The company has been awarded the titles of "Shanghai High-tech Enterprise" and "Shanghai Small Giant Cultivation Enterprise", and won the National Innovation Fund and two high-tech achievements transformation projects before separation. It completed more than 30 technical development projects and obtained more than 20 patents and utility models.

3. *Overview of Equity Investment*

Details of the 8 equity investments in the Appraised Entity on the valuation benchmark date are as follows:

No.	Name of the investee	Company type	Registered capital	Shareholding percentage %	Notes
1	Anshan Hidlong Anti-corrosion Engineering Co., Ltd. (鞍山海得隆防腐工程有限公司)	Limited liability company (invested or controlled by natural person)	RMB2 million	35.02%	
2	Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd. (上海圖博可特石油管道塗層有限公司)	Limited liability company (sole proprietorship investment by foreign investment company)	RMB26 million	100.00%	Please refer to note 1 for details of its long-term equity investment
3	Sichuan Hilong Petroleum Technology Co., Ltd. (四川海隆石油技術有限公司)	Limited liability company (sole proprietorship invested or controlled by natural person)	RMB20 million	100.00%	
4	Panjin Tube-Cote Pipe Coating Co., Ltd. (盤錦圖博可特派普塗層有限公司)	Other limited liability company	RMB10 million	55.00%	
5	Shenglong Oil and Gas Pipeline Inspection Technology Co., Ltd. (盛隆石油管檢測技術有限公司)	Limited liability company (sole proprietorship invested or controlled by non-natural person)	RMB50 million	100.00%	
6	Hilong Petroleum Products Technical Services (Shanghai) Co., Ltd. (海隆石油產品技術服務(上海)有限公司)	Limited liability company (sole proprietorship invested or controlled by natural person)	RMB60 million	100.00%	

No.	Name of the investee	Company type	Registered capital	Shareholding percentage %	Notes
7	HILONG TECHNOLOGY LTD	Limited liability company	HK$100 +US$31,435,900	99.00%	Please refer to note 2 for details of its long-term equity investment
8	HILONG NEW MATERIAL LTD	Limited liability company	HK$1	100.00%	Please refer to note 3 for details of its long-term equity investment

Note 1: Details of equity investments in Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd. (上海圖博可特石油管道塗層有限公司) on the valuation benchmark date are as follows:

No.	Name of the investee	Date of investment	Shareholding percentage %
1	Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd. (西安長慶圖博可特石油管道塗層有限公司)	2006/9/26	45%
2	Tianjin Tube-Cote Petroleum Pipe Coating Co., Ltd. (天津圖博可特石油管道塗層有限公司)	2006/9/18	100%
3	Shanxi Hilong Oil Technology Co., Ltd.* (山西海隆石油技術有限公司)	2008/1/7	40%
4	Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd. (江蘇圖博可特曙光塗層有限公司)	2005/1/13	41%

Note 2: Details of equity investments in HILONG TECHNOLOGY LTD on the valuation benchmark date are as follows:

No.	Name of the investee	Shareholding percentage
1	Hilong USA Technology Holding Corp.	100%
2	Technomash LLC (Russia)	100%
3	Hilong Petroleum Pipeline Service (Surgut) LLC	100%
4	Hilong Petroleum Pipe Service (Orenburg) LLC	100%
5	Shanxi Hilong Oil Technology Co., Ltd.* (山西海隆石油技術有限公司)	25%
6	Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd. (江蘇圖博可特曙光塗層有限公司)	25.2162%
7	Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd. (山東勝利油田物華圖博可特管道塗層有限公司)	30%

Note 3: Details of equity investments in HILONG NEW MATERIAL LTD on the valuation benchmark date are as follows:

No.	Name of the investee	Shareholding percentage
1	Hilong Technology LTD	1%

4. *Assets, liabilities and financial condition of the Company*

(1) As of the valuation benchmark date, assets of the parent totaled RMB1,238,671.8 thousand, liabilities totaled RMB384,594.2 thousand, and the shareholders' equity amounted to RMB854,077.5 thousand. The Company's assets, liabilities and financial position in the previous year and as at the valuation benchmark date are as follows:

Assets, liabilities and financial condition of the parent

Unit: ten thousand (same below)

Item	December 31, 2020	December 31, 2021
Total assets	120,346.47	123,867.18
Liabilities	22,140.17	38,459.42
Net assets	98,206.31	85,407.75

Item	2020	2021
Operating revenue	23,263.80	33,758.14
Operating profit	5,159.18	2,270.50
Net profit	4,365.33	9,606.73

(2) Assets, liabilities and financial condition under the consolidated financial statements:

Consolidated assets, liabilities and financial condition

Item	December 31, 2020	December 31, 2021
Total assets	225,231.60	233,022.00
Liabilities	123,652.40	128,207.80
Net assets	101,579.20	104,814.20
Net assets attributable to the parent	95,266.60	100,276.80

Item	2020	2021
Operating revenue	129,553.60	124,683.10
Operating profit	11,467.20	28,682.70
Net profit	10,451.00	25,153.70
Net profit attributable to the parent	9,769.70	24,899.20

The data above are extracted from the special review report issued by PricewaterhouseCoopers.

(III) Relationship between the Principal and the Appraised Entity

The Principal, Hilong Group of Companies Ltd. (海隆石油工業集團有限公司), is the sole shareholder of the Appraised Entity.

(IV) Other Users of the Asset Valuation Report

Pursuant to the asset valuation commission contract, the users of this asset valuation report shall be the Principal, the relevant management and supervisory units, other users of the asset valuation report as agreed in the commission contract, and users of the asset valuation report as required by national laws and administrative regulations. No other third party shall become a lawful user of this asset valuation report by virtue of receiving it.

II. PURPOSE OF VALUATION

Pursuant to the Asset Valuation Commission Contract, Hilong Group of Companies Ltd. (海隆石油工業集團有限公司) proposed to transfer its equity interests in Hilong Pipeline Engineering Technology Service Co., Ltd. (海隆管道工程技術服務有限公司). The purpose of this valuation is to reflect the market value of the entire shareholders' equity of Hilong Pipeline Engineering Technology Service Co., Ltd. (海隆管道工程技術服務有限公司) as of the valuation benchmark date and to provide a value reference for this economic activity.

This economic activity has been approved by the board of directors of Hilong Group of Companies Ltd. (海隆石油工業集團有限公司).

III. APPRAISAL SUBJECT AND SCOPE OF VALUATION

(I) Appraisal Subject

The appraisal subject is the value of the entire shareholders' equity of the Appraised Entity. The appraisal subject is consistent with the economic activity to be implemented.

(II) Scope of Valuation

The scope of valuation covers all assets and liabilities of the Appraised Entity, including current assets, non-current assets and liabilities, etc. The total carrying amount of all assets included in the parent company's financial statements declared by the Appraised Entity is RMB1,238,671,751.00, the total carrying amount of liabilities is RMB384,594,228.00, and the shareholders' equity is RMB854,077,523.00.

On consolidated financial statement basis at benchmark date, total book value of assets is RMB2,330,200,000.00, total book value of liabilities is RMB1,282,078,000.00, book value of shareholders' equity is RMB1,048,142,000.00, of which the equity attributable to the owners of the parent company is RMB1,002,768,000.00.

The scope of the valuation commissioned is consistent with the scope of the valuation involved in the proposed economic activity.

The carrying amount of assets and liabilities within the scope of valuation has been reviewed by PricewaterhouseCoopers.

(III) Main Details of the Appraised Assets

The appraised assets within the scope of this valuation are mainly current assets and non-current assets, of which non-current assets mainly include investments in associates, property, plant and equipment, intangible assets, etc. Details are as follows:

1. Current Assets

Current assets consist primarily of monetary funds, receivables and other receivables, payments in advance, inventories, etc.

2. Investments in Associates (Subsidiaries)

There are 8 investments in associates (subsidiaries), which are listed as follows:

No.	Name of the investee	Company type	Registered capital	Shareholding percentage %	Note
1	Anshan Hidlong Anti-Corrosion Engineering Co. Ltd. (鞍山海得隆防腐工程有限公司)	Limited liability company (invested or controlled by natural person)	RMB2 million	35.02%	
2	Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd. (上海圖博可特石油管道塗層有限公司)	Limited liability company (sole proprietorship investment by foreign investment company)	RMB26 million	100.00%	Please refer to note 1 for details of its long-term equity investment
3	Sichuan Hilong Petroleum Technology Co., Ltd. (四川海隆石油技術有限公司)	Limited liability company (sole proprietorship invested or controlled by natural person)	RMB20 million	100.00%	
4	Panjin Tube-Cote Pipe Coating Co., Ltd. (盤錦圖博可特派普塗層有限公司)	Other limited liability company	RMB10 million	55.00%	
5	Shenglong Oil and Gas Pipe Inspection Technology Co., Ltd. (盛隆石油管檢測技術有限公司)	Limited liability company (sole proprietorship invested or controlled by non-natural person)	RMB50 million	100.00%	

No.	Name of the investee	Company type	Registered capital	Shareholding percentage %	Note
6	Hilong Petroleum Products Technical Service (Shanghai) Co., Ltd. (海隆石油產品技術服務(上海)有限公司)	Limited liability company (sole proprietorship invested or controlled by natural person)	RMB60 million	100.00%	
7	HILONG TECHNOLOGY LTD	Limited liability company	HKD100 + USD31,435,900	99.00%	Please refer to note 2 for details of its long-term equity investment
8	HILONG NEW MATERIAL LTD	Limited liability company	HKD1	100.00%	Please refer to note 3 for details of its long-term equity investment

Note 1: Details of equity investments of Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd. (上海圖博可特石油管道塗層有限公司) on benchmark date are as follows:

No.	Name of the investee	Date of investment	Shareholding percentage %
1	Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd. (西安長慶圖博可特石油管道塗層有限公司)	2006/9/26	45%
2	Tianjin Tube-Cote Petroleum Pipe Coating Co., Ltd. (天津圖博可特石油管道塗層有限公司)	2006/9/18	100%
3	Shanxi Hilong Oil Technology Co., Ltd.* (山西海隆石油技術有限公司)	2008/1/7	40%
4	Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd. (江蘇圖博可特曙光塗層有限公司)	2005/1/13	41%

Note 2: Details of equity investments of HILONG TECHNOLOGY LTD on benchmark date are as follows:

No.	Name of the investee	Shareholding percentage
1	Hilong USA Technology Holding Corp.	100%
2	Technomash LLC (Russia)	100%
3	Hilong Petroleum Pipeline Service (Surgut) LLC	100%
4	Hilong Petroleum Pipe Service (Orenburg) LLC	100%
5	Shanxi Hilong Oil Technology Co., Ltd. (山西海隆石油技術有限公司)	25%
6	Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd. (江蘇圖博可特曙光塗層有限公司)	25.2162%
7	Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd. (山東勝利油田物華圖博可特管道塗層有限公司)	30%

Note 3: Details of equity investments of HILONG NEW MATERIAL LTD on benchmark date are as follows:

No.	Name of the investee	Shareholding percentage
1	Hilong Technology LTD	1%

3. *Property, Plant and Equipment – Equipment*

Equipment assets are classified as machinery equipment, vehicles and electronic equipment by purpose. Among them, the equipment category comprises a total of 505 units (sets), mainly including steel pipe internal corrosion protection production lines; vehicles represent cars, commercial vehicles and vans; and electronic equipment mainly includes computers, air conditioners, printers, photocopiers, servers and switches. The above equipment was mainly purchased between 2006 and 2021 and is currently in normal use.

4. *Property, Plant and Equipment – Construction in Progress – Equipment*

Construction in progress – The carrying amount of equipment was RMB1,795,442.13, which was a new production line established by the Company.

5. *Intangible Assets*

No.	Content or name	Date of acquisition	Legal/ expected useful life	Original recorded value	Carrying amount
	Total				10,618,812.00
1	Patents (a composite steel pipe with a corrosion-resistant alloy layer overlaid on the inner wall of the end, etc.)	2012-10-31	10	1,724,126.21	129,309.29
2	IT control system software for steel pipe coating production	2020-03-12	10	417,475.73	340,938.61
3	R&D project: H2S/CO2 resistant coating technology for pipe end surfacing	2017-12-11		10,148,564.00	10,148,564.00

(IV) Other Intangible Assets Declared by Appraised Entity

Other intangible assets declared by the Appraised Entity mainly include patents, software copyrights and registered trademarks not recorded in the books.

The intangible assets not reflected in the books of the Appraised Entity as of the valuation benchmark date involved 43 patents, 2 software copyrights and 2 registered trademarks, the holder of which is the Appraised Entity and will be included in the valuation scope. Details of which are as follows:

1. *Patents*

No.	Name of invention	Patent Category	Legal Status	Application No.	Application Date
1	A kind of electric shock proof external anti-corrosive coating leak detection device for weight coating prefabricated steel pipe	utility model	authorized	CN202120422354.0	2021-02-26
2	A kind of pipe inner wall flux cored wire for surfacing welding with high hardness and high wear resistance	invention patent	substantive review	CN202111326594.1	2021-11-10
3	A kind of steel pipe inner wall cleaning device	utility model	authorized	CN202021804934.8	2020-08-26
4	A kind of steel pipe alkaline washing device	utility model	authorized	CN202021807320.5	2020-08-26

No.	Name of invention	Patent Category	Legal Status	Application No.	Application Date
5	A kind of steel pipe inner wall cleaning device and steel pipe inner wall alkaline cleaning process	invention patent	pending substantive review of application	CN202010869633.1	2020-08-26
6	A kind of steel pipe alkaline cleaning device and steel pipe alkaline cleaning process	invention patent	pending substantive review of application	CN202010868321.9	2020-08-26
7	A kind of directional crossing pipe structure with protective layer	utility model	authorized	CN201922205853.X	2019-12-11
8	A kind of concrete cube specimen preparation mould	utility model	authorized	CN201920878517.9	2019-06-12
9	A kind of thickening equipment for large diameter longitudinal welded pipe welding seam	utility model	authorized	CN201920767633.3	2019-05-27
10	A kind of coating pipe separation cutting tool	utility model	authorized	CN201920767624.4	2019-05-27
11	Pickling treatment device and treatment method before epoxy powder spraying of steel pipe	invention patent	authorized	CN201710568728.8	2017-07-13
12	A kind of fully automatic marking device for coating steel pipe centre colour ring	utility model	authorized	CN201721777342.X	2017-12-19
13	Processing equipment for concrete counterweight pipe for subsea use	utility model	authorized	CN201721685153.X	2017-12-07
14	A kind of strong anti-corrosion stainless steel pipe	utility model	authorized	CN201721675282.0	2017-12-06
15	A kind of concrete counterweight trolley	utility model	authorized	CN201721587720.8	2017-11-24
16	A kind of mechanical grinding type descaling device for steel pipe	utility model	authorized	CN201721587746.2	2017-11-24
17	A kind of equidistant divider	utility model	authorized	CN201721561853.8	2017-11-21
18	A kind of self-purifying powder silo	utility model	authorized	CN201721111750.1	2017-09-01

No.	Name of invention	Patent Category	Legal Status	Application No.	Application Date
19	Thick coating epoxy insulation anti-corrosion paint	invention patent	authorized	CN201610089787.2	2016-02-18
20	Processing equipment and technics for concrete counterweight pipe for subsea use	invention patent	substantive review	CN201711281293.5	2017-12-07
21	A kind of patching free anti-corrosion steel pipe which is resistant to H2S and CO2	utility model	authorized	CN201721198515.2	2017-09-19
22	A kind of steel pipe outer wall grinding equipment and grinding system	utility model	authorized	CN201721127790.5	2017-09-05
23	A kind of lining composite steel pipe socket connecting system	utility model	authorized	CN201721042945.5	2017-08-21
24	A kind of high temperature indentation hardness tester for anti-corrosion coating of metal pipeline	utility model	authorized	CN201721101764.5	2017-08-31
25	A shot blasting spindle system for sand blasting machine	utility model	authorized	CN201720946616.7	2017-08-01
26	A kind of auxiliary system for steel pipe anti-corrosion coating	utility model	authorized	CN201720946618.6	2017-08-01
27	Pickling treatment device for steel pipe before epoxy powder spraying	utility model	authorized	CN201720846114.7	2017-07-13
28	A kind of ferrule pipe end connector	utility model	authorized	CN201720824812.7	2017-07-10
29	A kind of lining composite steel pipe socket connecting system and socket connecting method	invention patent	substantive review	CN201710716297.5	2017-08-21
30	A kind of inner coating steel pipe and its manufacturing method	invention patent	substantive review	CN201710722847.4	2017-08-22
31	Phenolic epoxy coating for corrosion resistance under insulation layer	invention patent	authorized	CN201610089788.7	2016-02-18

No.	Name of invention	Patent Category	Legal Status	Application No.	Application Date
32	Nano-microsphere modified high weathering resistance fluorocarbon coating	invention patent	authorized	CN201410806773.9	2014-12-23
33	A kind of steel pipe with ultra-thick polyolefin anti-corrosion coating	utility model	authorized	CN201520706859.4	2015-09-14
34	A kind of pipeline coating water-cooling device	utility model	pending late payment of annual fees	CN201520118488.8	2015-02-28
35	A kind of steel pipe inner wall blowing device	utility model	authorized	CN201420688351.1	2014-11-18
36	Continuous paperless recording system sand bath type cathodic stripping tester	utility model	authorized	CN201420727118.X	2014-11-28
37	A kind of high-strength pipe end wear-resistant and dustproof polyurethane pipe cap	utility model	authorized	CN201420727249.8	2014-11-28
38	A polypropylene high temperature indentation test device	utility model	authorized	CN201420701551.6	2014-11-21
39	A kind of thermal insulation and heat preservation heavy-duty coating with low thermal conductivity and its preparation method	invention patent	authorized	CN201110307864.4	2011-10-12
40	Rusty coating for oil well pipe	invention patent	authorized	CN200910195915.1	2009-09-18
41	Low temperature curing temperature resistant heavy anti-corrosion coating	invention patent	authorized	CN200910195914.7	2009-09-18
42	A kind of low temperature curing coating of epoxy anti-corrosion powder for oil and gas pipeline above X80 grade	invention patent	authorized	CN200810041412.4	2008-08-05
43	Natural gas pipeline resistance reduction and wear-resistant coating	invention patent	authorized	CN200910195911.3	2009-09-18

2. *Software Copyrights*

No.	Date of registration approval	Full name of software	Abbreviation of software	Registration number	Classification number	Version	Date of first publication
1	2018-09-10	Millimeter wave radar monitoring and early warning system	–	2018SR727218	30200-0000	V1.0	2018/9/10
2	2016-06-13	Hilong offshore petroleum pipeline laying simulation software	HPLS	2016SR140452	30200-5600	V1.0	2016/6/13

3. *Registered Trademarks*

No.	Application Date	Trademark	Trademark name	Registration number	International classification	Trademark status	Date of registration notice
1	2008-01-28		graphics	6531506	02-pigments and paints	trademark registered	2010-03-28
2	2007-05-18		graphics	6054981	02-pigments and paints	trademark registered	2010-01-28

(V) Type and Number of Off-The-Book Assets Declared by the Appraised Entity

No off-the-book assets have been declared by the Appraised Entity.

(VI) Types, Quantity and Carrying Amount of Assets in Reports Issued by Other Organizations

This asset valuation report does not include references to the conclusions of reports issued by other organizations.

IV. TYPE AND DEFINITION OF VALUE

The type of value of the valuation subject is determined to be the market value.

Market value refers to the estimated value of the valuation object in an arm's-length transaction made in the ordinary course of business on the valuation benchmark date between a willing buyer and a willing seller who has each acted rationally and without compulsion.

An "arm's length transaction" is a transaction between parties who have no specific or special relationship, that is, a transaction between parties who are assumed to be unrelated and acting independently of each other.

V. VALUATION BENCHMARK DATE

The asset valuation benchmark date of this project is December 31, 2021.

The valuation benchmark date is determined by the asset appraiser in consultation with the appointer after taking into account the need for the implementation of the economic activity, the advantages provided by the information at the end of the accounting period and changes in interest rates and exchange rates before and after the valuation benchmark date.

VI. BASIS OF VALUATION

This valuation is conducted in accordance with the below valuation bases:

(I) Basis of Economic Activity

1. Asset Valuation Commission Contract.

(II) Legal Basis

1. Asset Appraisal Law of the People's Republic of China (Adopted at the 21st Meeting of the Standing Committee of the Twelfth National People's Congress of the People's Republic of China on July 2, 2016);

2. Company Law of the People's Republic of China (Amended at the 6th Session of the Standing Committee of the Thirteenth National People's Congress of the People's Republic of China on October 26, 2018);

3. Financial Supervision and Management Measures of Assets Evaluation Industry (Order No. 86 of Ministry of Finance, as amended by Order No. 97 of Ministry of Finance);

4. Land Administration Law of the People's Republic of China (Amended at the 12th Meeting of the Standing Committee of the Thirteenth National People's Congress on August 26, 2019);

5. Urban Real Estate Administration Law of the People's Republic of China (Amended at the 12th Meeting of the Standing Committee of the Thirteenth National People's Congress on August 26, 2019);

6. Enterprise Income Tax Law of the People's Republic of China (Amended for the second time at the 7th Meeting of the Standing Committee of the Thirteenth National People's Congress on December 29, 2018);

7. Decision of the State Council on Repealing the Interim Regulation of the PRC on Business Tax and Amending the Interim Regulations of the PRC on Value-Added Tax (Order No. 691 of the State Council);

8. Detailed Rules for the Implementation of the Interim Regulations of the People's Republic of China on Value Added Tax (Order No. 50 of the Ministry of Finance and the State Administration of Taxation, as amended by Order No. 65 of the Ministry of Finance and the State Administration of Taxation in 2011);

9. Notice on Carrying out Pilot Operation of Change from Business Tax to Value-added Tax (Cai Shui [2016] No. 36);

10. Notice of the Ministry of Finance and the State Administration of Taxation on Adjusting Value-added Tax Rates (Cai Shui [2018] No. 32);

11. Announcement on Relevant Policies for Deepening the Value-Added Tax Reform (Announcement No. 39 2019 of the Ministry of Finance, the State Taxation Administration and the General Administration of Customs);

12. Trademark Law of the People's Republic of China (Amended for the fourth time at the 10th Meeting of the Standing Committee of the Thirteenth National People's Congress on April 23, 2019);

13. Patent Law of the People's Republic of China (Amended for the fourth time at the 22nd Meeting of the Standing Committee of the Thirteenth National People's Congress on October 17, 2020);

14. Copyright Law of the People's Republic of China (Amended for the third time at the 23rd Meeting of the Standing Committee of the Thirteenth National People's Congress on November 11, 2020);

15. Other laws and regulations relating to the valuation practice.

(III) Basis of Valuation Standards

1. Basic Standards on Assets Valuation (Cai Zi [2017] No. 43);

2. Code of Ethics for Assets Valuation (Zhong Ping Xie [2017] No. 30);

3. Quality Control Guidance on the Business of Asset Valuation Agency (Zhong Ping Xie [2017] No. 46);

4. Practice Guidelines for Asset Valuation – Asset Valuation Procedures (Zhong Ping Xie [2018] No. 36);

5. Practice Guidelines for Asset Valuation – Asset Valuation Entrustment Contract (Zhong Ping Xie [2017] No. 33);

6. Practice Guidelines for Asset Valuation – Asset Valuation Report (Zhong Ping Xie [2018] No. 35);

7. Practice Guidelines for Asset Valuation – Asset valuation methods (Zhong Ping Xie [2019] No. 35);

8. Guiding Opinions on Types of Value under Asset Valuation (Zhong Ping Xie [2017] No. 47);

9. Guiding Opinions on Legal Ownership of the Asset Valuation Object (Zhong Ping Xie [2017] No. 48);

10. Practice Guidelines for Asset Valuation – Enterprise Value (Zhong Ping Xie [2018] No. 38);

11. Practice Guidelines for Asset Valuation – Machinery Equipment (Zhong Ping Xie [2017] No. 39);

12. Practice Guidelines for Asset Valuation – Real Estate (Zhong Ping Xie [2017] No. 38);

13. Practice Guidelines for Asset Valuation – Intangible Assets (Zhong Ping Xie [2017] No. 37);

14. Guidelines for Valuation of Intellectual Property Rights (Zhong Ping Xie [2017] No. 44);

15. Guiding Opinions on Valuation of Patent Assets (Zhong Ping Xie [2017] No. 49);

16. Guiding Opinions on Valuation of Trademark Assets (Zhong Ping Xie [2017] No. 51);

17. Guiding Opinions on Valuation of Copyright Assets (Zhong Ping Xie [2017] No. 50);

18. Practice Guidelines for Asset Valuation – Engagement of Experts and Relevant Reports (Zhong Ping Xie [2017] No. 35);

19. Practice Guidelines for Asset Valuation – Asset Valuation File (Zhong Ping Xie [2018] No. 37).

(IV) Basis of Asset Ownership

1. Real Estate Ownership Certificate;

2. Patent certificate or notice of patent application;

3. Copyright certificate;

4. Certificate of trademark registration;

5. Vehicle registration certificate;

6. Purchase contracts or certificates of major assets;

7. Ledgers for fixed assets, books, etc.;

8. Documents proving the ownership of the foreign investment (investment contract or agreement, share registration certificate);

9. Other title-related certificates.

(V) Pricing Basis of Valuation

1. The latest loan prime rate (LPR) as authorized by the National Interbank Funding Center;

2. The current benchmark interest rate table of the People's Bank of China for deposits and loans in effect at the benchmark date;

3. Middle rates of exchange published by the Administration of Foreign Exchange under the People's Bank of China effective on the valuation benchmark date;

4. Machinery and electrical instrument quotation handbook published by China Machine Press;

5. Online vehicle price information from www.chinacar.com.cn;

6. Available online price information of equipment;

7. Rating Standard for the Condition of Houses issued by the Ministry of Construction;

8. Website of China Urban Land Price Dynamic Monitor;

9. Accounting statements, books and vouchers and asset valuation returns provided by the Appraised Entity and its management as of the valuation benchmark date;

10. Historical annual financial statements and review reports of the Appraised Entity;

11. Information on financial data and capital market from the Flush Information System (同花順資訊系統);

12. On-site survey records and other relevant valuation information collected by the asset appraiser.

(VI) Other References

1. Common Methods and Parameters for Assets Appraisal (China Machine Press 2011 edition);

2. Provisions on the Standards for Compulsory Retirement of Motor Vehicles (2012 Order No. 12 of the Ministry of Commerce, National Development and Reform Commission, the Ministry of Public Security and the Ministry of Environmental Protection);

3. Pricing Specification for Construction Works Quantity List (GB50500-2013);

4. Shanghai Construction and Decoration Work Budget Quota (2016);

5. Shanghai Installation Work Budget Quota (2016);

6. The Notice on the Implementation of the Conversion of Business Tax into Value-Added Tax in the Construction Industry to Adjust the Pricing Basis for Construction Works in the City (《關於實施建築業營業税改增值税調整本市建設工程計價依據的通知》) of Shanghai;

7. Technical statistics of Shanghai Dongzhou Assets Appraisal Co., Ltd. (上海東洲資產評估有限公司);

8. Other relevant references.

VII. VALUATION APPROACHES

(I) Overview of Valuation Approaches

According to the Basic Standards for Assets Valuation, the valuation approaches used to determine the value of assets include three basic approaches and their derivatives, namely the market approach, the income approach and the cost approach.

In accordance with the Practice Guidelines for Asset Valuation – Enterprise Value, there are three basic approaches that can be used to perform a valuation on enterprise value: the income approach, the market approach and the asset-based approach:

The income approach refers to a valuation approach that determines the value of the appraisal subject through capitalization or discounting of expected income. The adoption of income approach in appraising enterprise value emphasizes the overall expected profitability of the enterprise.

The market approach refers to a valuation method that compares the appraisal subject with comparable listed companies or comparable transaction cases to determine the value of the appraisal subject. The adoption of market approach in appraising enterprise value is characterized by the direct selection of valuation data from the market and strong persuasiveness of the valuation results.

The asset-based approach refers to a valuation approach that uses the balance sheet as at the valuation benchmark date of the Appraised Entity as the basis for determining the value of the appraisal subject by reasonably appraising the value of the enterprise's on-balance sheet and identifiable off-balance sheet assets and liabilities. The adoption of the asset-based approach in appraising enterprise value may lead to situations where not each asset and liability can be fully identified and appraised individually.

(II) Selection of Valuation Approaches

In accordance with the Practice Guidelines for Asset Valuation – Enterprise Value, "when performing any valuation of enterprise value, the applicability of the three basic asset valuation approaches, namely the income approach, the market approach and the cost approach (asset-based approach), shall be analyzed based on the purpose of valuation, the appraisal subject, the type of value, the collection of information, etc. to select appropriate valuation approach". "If different valuation approaches are suitable for valuation of enterprise value, asset valuation professionals shall adopt two or more valuation approaches for their valuation".

The basic idea of the asset-based approach is to rebuild or replace the asset being appraised in its current condition, with the potential investor being willing to pay no more than the current acquisition and construction cost of the asset at the time he or she decides to invest in the asset. The valuation project satisfies the requirements of the asset-based approach, i.e., the appraised asset is in continuing use or is assumed to be in continuing use, and historical operating information is available. The adoption of the asset-based approach satisfies the requirements of the type of value of the valuation.

The income approach is to evaluate an asset from the perspective of expected profitability of the asset, which can fully reflect the overall value of an enterprise, and the valuation results are reliable and persuasive. The management of the Appraised Entity is of the view that the multi-functional coating materials and coating services that the Appraised Entity is engaged in are mainly used for OCTG and pipes utilized in oil and gas drilling and transmission processes. The income-based approach focuses on evaluating the profitability of enterprises. This approach is influenced by multiple factors, such as the overall supply and demand relationship of the industry in which the Target Group operates, geopolitical risks, uncertainty in the Target Group's overseas business, especially the business in Russia, is affected by significant fluctuation in energy price and exchange rate risk caused by the uncertainty of the Russia-Ukraine conflict, there are many limitations to the assumptions for profit forecast. Other uncertain factors include the actions of major oil producing countries and other energy prices, are beyond the company's control. There is significant uncertainty in future performance of the Target Group, and it is difficult to use the income-based approach effectively and accurately.

Two commonly used specific methods under the market approach are listed companies comparison and transaction cases comparison. The preconditions for the adoption of the market approach are a developed, fair and active open market with sufficient market information and the availability of comparable transactions on the open market. According to the inquiry, among those Hong Kong listed companies which are in the same industry as the Appraised Entity, there are few listed companies that are comparable in terms of product type, business model, enterprise scale, asset allocation, future growth and other aspects. Furthermore, there are few equity transactions with similar industry characteristics and business model in the property rights exchange market recently, and information such as relevant transaction background and the operating financial data of transaction cases is not publicly available, so there are no basic conditions for adopting market approach for the valuation.

In summary, it is determined that the asset-based approach will be adopted for the valuation.

(III) Introduction of the Asset-based Approach

The asset-based approach specifically refers to the method of adding up the appraised value of the various elemental assets that make up a business and subtracting the appraised value of the liabilities to arrive at the value of the total shareholders' equity of the enterprise.

The valuation approach of each major asset and liability category is as follows:

1. Cash and cash equivalents

Cash and cash equivalents include cash, bank deposits and other monetary capital. Cash and bank deposits in RMB are valued at their verified amounts. The appraised value of cash and bank deposits in foreign currencies are determined by multiplying the verified carrying amount of the foreign currency by the exchange rate between the Renminbi and foreign currency on the benchmark date.

2. Receivables and other receivables

Receivables specifically include trade receivables, bills receivable and other receivables, etc. On the basis of verification of the receivables, the appraised value is determined on the basis of the estimated probable recoverable amount of each item, net of appraised risk of loss. The appraised risk of loss is 0% for full collection of the receivables from related parties based on good reasons. For those amounts that cannot be collected with solid proofs or with extra-long aging, the risk of loss is appraised to be 100%. If it is probable that a portion of the receivables is unrecoverable and the unrecoverable amount is hard to determine, we have analyzed the amount, period of and reason for overdue, recovery status, the funding, creditworthiness and operation and management of the debtor based on historic information and current investigation to determine the appraised value of the receivables using accounting methods for provision for bad debts after deducting the appraised risk of loss. The item "provision for bad debts" in the statement is calculated as zero.

3. Prepayments

On the basis of checking the consistency of the subsidiary ledger, the general ledger and the appraisal declaration form, the assessor randomly checked the time when the business occurred and verified relevant bills. After the above procedure, the assessor is of the view that the carrying amount is true and could be used to determine the appraised value.

4. Inventories

Inventories include raw materials, turnover materials in stock and outsourcing-processed materials, etc. The specific evaluation approaches are as follows:

(1) Raw materials

For raw materials, valuation is mainly carried out using the market price, and the appraised value is equivalent to the purchase price on market (excluding tax) and other reasonable costs.

(2) Turnover materials in stock

Turnover materials in stock are mainly raw materials and packing materials used by enterprises in their production and operation. The accounts are consistent with the vouchers and actual situations after checking relevant account books and vouchers and verifying the storage location according to the list of turnover materials in stock provided by the Company's financial personnel. It has been checked that the circulation of turnover materials in stock was fast and there was no significant fluctuation in the recent prices. The appraised value shall be determined according to the carrying amount since the carrying amount is basically approximate to the current market price.

(3) Outsourcing-processed materials

Outsourcing-processed materials are materials processed by commissioned processing unit. The assessor has checked relevant commissioned processing contract and confirmed that the quantity was basically consistent. The valuation approach of outsourcing-processed materials is the same as that of raw materials.

5. Investment in associates

Where overall asset appraisal can be implemented on the investment in wholly-owned and holding companies according to relevant practice standards, the appraised value of investment in each associate shall be calculated separately according to the shareholding ratio in the invested enterprises after evaluation has been conducted with appropriate evaluation approaches.

1. For some investment in wholly-owned and holding companies, the appraised value shall be determined according to the appraised value of the net assets of the Appraised Entity combined with the shareholding ratio after overall evaluation on it following the analysis of its statements.

2. For investment in joint stock companies, the appraised value shall be determined according to the verified amount of the net assets in the balance sheet of the invested enterprise on the benchmark date combined with the shareholding ratio, as the Appraised Entity does not have effective control right.

6. Real estate

According to Practice Guidelines for Asset Valuation – Real Estate, real estate is defined as land, buildings and other fixtures attached to land. Real estate is usually accounted for under investment property, fixed assets, construction in progress and intangible assets.

When performing real estate valuation, the valuation approach shall be selected based on the specific circumstances by analyzing the applicability of the three basic valuation approaches, namely the market approach, the income approach and the cost approach, as well as the derivative methods, such as the hypothetical development method (假設開發法) and the land datum value method (基準地價修正法).

Effective from May 1, 2016, business tax was replaced by VAT nationwide, and the construction industry, real estate industry, financial industry and living service industry are subject to VAT instead of business tax. As VAT is a tax excluded in price, the appraised value of the real estate involved in the appraisal subject does not include VAT.

▲ Market Approach: Following the principle of comparability, comparable transaction cases are selected as the reference object, and the market value of the real estate of the appraisal subject is obtained by adjusting the trading conditions, transaction dates and real estate conditions of the reference object.

Of which: The adjustment to the trading condition is to adjust the price of the reference object under actual trading conditions to the value under normal trading conditions. The adjustment to the transaction date is to adjust the price of the reference object on the transaction date to the value on the valuation benchmark date. The adjustment to the real estate conditions is to adjust the price of the reference object under its conditions to the value of the appraisal subject under its conditions, which can be divided into adjustment to location condition, adjustment to ownership condition and adjustment to physical condition.

▲ Income Approach: The market value of real estate of the appraisal subject is determined by discounting the net rental income over the future income period of the real estate to its present value using an appropriate discount rate.

Of which: The future income period is determined based on the remaining economic life of the building, the remaining useful life of the corresponding land use right, and the requirements of relevant laws and regulations; the net rental income is future net income determined based on the objective and fair market rent, deducting relevant fees and taxes to be incurred. Where there is a lease restriction, the agreed rental rate is used during the lease term and the normal objective rental rate is used beyond the lease term.

▲ Cost Approach: The market value of the real estate of the appraisal subject is obtained by appraising the buildings, structures and the corresponding land use rights separately and adding the total value.

The cost approach is generally adopted for buildings, while the market approach, cost approximation method, hypothetical development method and land datum value method are the main valuation approaches for land use rights. An appropriate valuation approach shall be selected based on the specific conditions of the appraisal subject and the availability of information on the valuation data.

(1) Cost approximation method: The market value of the land is determined by the sum of objective costs incurred in developing the land in the area in which the land is to be appraised, plus certain interest, profits, taxes and fees payable and land appreciation income.

(2) Hypothetical development method: Also known as the residual method, the reverse method or the prospective development method, is a method of deducting the necessary expenditure and accrued profit in relation to the subsequent development from the real estate value after the development is completed to obtain the value of the appraisal subject. The essence of the hypothetical development method is to obtain the value of the appraisal object based on the expected value of the real estate after development.

(3) Land datum value method: Also known as the benchmark land price coefficient correction method, is a method of using benchmark land price and the benchmark land price correction system with the principle of substitution to compare the regional and individual conditions of the land to be appraised with the average conditions of the region where the land is situated and subject to certain correction to the benchmark land price with a corresponding correction coefficient chosen against the benchmark land price correction system, thereby arriving at the value of appraisal subject as at valuation benchmark date.

Buildings:

Buildings include buildings, structures and other ancillary facilities, pipes and drains, etc. The counterparty has adopted the cost approach in appraising buildings:

The cost approach is an asset valuation adopting the idea of reconstructing or replacing the appraisal subject's buildings and structures under existing conditions, i.e. by deducting relevant depreciation (physical depreciation, functional depreciation, and economic depreciation) from the reconstruction or replacement costs, to determine the value of appraisal subject. The calculation formula is as follows:

Appraised value = replacement cost – physical depreciation – functional depreciation – economic depreciation

= Replacement cost x depreciation rate

(1) Determination of replacement cost

The replacement cost of a building (structure) is the renewal or replacement cost, which generally consists of: the replacement value of construction and installation works (excluding VAT), amortised investment and other expenses (excluding VAT) and the capital cost.

A. Replacement value of construction and installation works

The re-budgeting method is applied to large, high value and important buildings (structures), i.e. the replacement value of the construction and installation works of buildings is determined based on the volume of the construction works settled, various local and industry charging standards, relevant charging documents and adjusted by reference to the prices of labour and major materials at the valuation benchmark date.

The "unit cost adjustment method" is applied to general buildings (structures), i.e. the replacement unit cost of a unit area (or length) is determined based on the costs of the construction and installation works of the buildings concerned as published by relevant departments, or the construction and installation cost of an appraised example, and corrected and adjusted by adding amortized investment costs.

B. Amortised investment

Amortized investment mainly includes management fees of project construction units, survey and design fees, project supervision fees and environmental impact assessment fees, etc., which are determined in accordance with the pricing documents issued by state ministries that are valid on the valuation benchmark date.

C. Capital cost

Capital cost is calculated for the reasonable construction period of the Appraised Entity's investment in fixed assets or the reasonable construction period of the building (structure) with reference to the applicable loan market quotation rate (LPR) published by the National Interbank Funding Center on the evaluation base date, assuming the construction funds are evenly invested during the construction period of the project.

(2) Determination of integrated depreciation rate

Integrated depreciation rate is determined with the weighted average between the depreciation rate using the line method and the depreciation rate using the scoring method.

(3) Determination of appraised value

Appraised value = replacement cost × integrated depreciation rate

Intangible asset – land use rights:

The market approach and the benchmark land price method are applied to the appraisal of the land use rights in this valuation.

Buildings – overseas:

For properties located in the U.S., the evaluation is recognized based on the latest market price of the properties published by the U.S. government.

Cost approach is used for the evaluation for properties located in Russia, the calculating formula is:

Appraised values of assets = replacement price per unit area × building area × depreciation rate

(1) Replacement price per unit area

The evaluation mainly adopts the index adjustment method, in which: the amount of buildings and structures is the original carrying amount provided by the enterprise, and adjusted by non-food price index of the country provided by Hithink RoyalFlush iFinD to determine the replacement cost of building installations.

(2) Building area

Building area of the building is determined according to the building area recorded in the real estate certificate.

(3) Depreciation rate

Due to the pandemic situation, it is not practical to carry out on-site inspection, depreciation rate under the length of life approach is adopted in the evaluation based on the recent photos of the buildings provided by the company while confirming the appraisal subject is currently in normal use.

Calculating formula:

Depreciation rate = remaining useful life ÷ (remaining useful life + used life) × 100%

Used life: the used life is calculated according to the year and month of the building.

Remaining useful life: the remaining useful life is determined according to the durability standards of the building issued by relevant departments.

7. Equipment assets

According to the Practice Guidelines for Asset Valuation – Machinery Equipment, when performing any valuation of machinery equipment, the applicability of the three basic asset valuation approaches, namely the cost approach, the market approach and the income approach, shall be analyzed based on the purpose of valuation, the appraisal subject, the type of value, the collection of information, etc. to select the valuation approach. The cost approach is mainly adopted in the evaluation through the analysis of the characteristics, uses and data collection of various types of equipment involved.

Through the analysis of the characteristics, uses and data collection of various types of equipment involved of the appraised entity, the replacement cost approach is mainly adopted in the evaluation.

▲ Cost approach: an asset valuation approach according to the idea of rebuilding or replacing the equipment of the appraisal subject under the conditions at the current time point, i.e. the value of the appraisal subject is determined based on the objectively necessary cost based on the general productivity level of the society, deducting the relevant depreciation (physical depreciation, functional depreciation and economic depreciation).

Generally, replacement cost is the updated replacement cost, including direct cost, indirect cost, capital cost, tax and reasonable profit.

Appraised value = replacement cost – physical depreciation – functional depreciation – economic depreciation

= replacement cost × integrated depreciation rate

(1) Machine equipment and other electronic equipment

A. Determination of replacement cost

The replacement cost of machine equipment is composed of equipment purchase price, transportation and miscellaneous expenses, installation and commissioning expenses, preliminary engineering and other expenses, capital costs, etc., (or may be determined by necessary and reasonable cost, profit and relevant taxes, etc. occurred during the purchase and construction). For electronic and other equipment with a small value, which has no need to install (or is installed by the seller) and the transportation cost is low, the replacement cost shall be directly determined by reference to the current purchase price on the market without tax.

According to the relevant provisions under the Provisional Regulations of the People's Republic of China on Value-Added Tax (《中華人民共和國增值稅暫行條例》) (Order No. 538 of the State Council of the People's Republic of China), which came into effect on January 1, 2009, Rules for Implementation of Provisional Regulations of the People's Republic of China on Value-Added Tax (《中華人民共和國增值稅暫行條例實施細則》) (Order No. 50 of the State Taxation Administration of the Ministry of Finance), Notice of Ministry of Finance and State Taxation Administration on Some Problems in the National Implementation of the Reform of VAT Transformation (《財政部，國家稅務總局關於全國實施增值稅轉型改革若干問題的通知》) (Cai Shui [2008] No. 170) and the relevant requirements in the Notice on the Deduction of Input Tax on Fixed Assets (《關於固定資產進項稅額抵扣問題的通知》) of Ministry of Finance and State Administration of Taxation (Cai Shui (2009) No. 113), from January 1, 2009, the input tax of fixed assets purchased or self-made by taxpayer of VAT may be deducted with the special VAT invoice, the special payment certificate for import VAT of customs and the settlement document of transportation expenses from the output tax. Therefore, in the evaluation, all the replacement cost of equipment that meets the above conditions does not include VAT.

Formula of full replacement cost:

Full replacement price of equipment (excluding VAT) = Purchase price of equipment (excluding VAT) + transportation and miscellaneous expenses (excluding VAT) + installation and testing fees (excluding VAT) + advance works and other fees (excluding VAT) + capital costs

For lower value electronic and other equipment without installation requirement (or where the seller is responsible for installation) and with lower transportation costs, the replacement cost is determined with reference to prevailing market purchase price excluding tax.

① Determination of purchase price of equipment

The purchase price of large critical equipment shall be determined by consulting with manufacturers, agents and distributors of the equipment on the market price in effect on the valuation benchmark date or by reference to recent contract prices for similar equipment on the valuation benchmark date, while the purchase price of small and medium-sized equipment shall be determined by the equipment quotation information on the valuation benchmark date; equipment with no available direct market quotation information shall be determined mainly by reference to the prevailing market purchase price of similar equipment.

② Determination of transportation and miscellaneous expenses, installation and commissioning expenses, preliminary engineering and other expenses

△ Transportation and miscellaneous expenses, installation and commissioning expenses are reasonably determined with reference to the relevant provisions of the Method for the Establishment of Budget Estimates and Various Budget Estimates Indicators for Mechanical Industry Construction Projects (《機械工業建設項目概算編製辦法及各項概算指標》), the Handbook of Commonly Used Data and Parameters for Asset Appraisal (《資產評估常用數據與參數手冊》) and relevant installation quotas.

△ If the corresponding equipment foundation is independent or inseparable from the building, the equipment foundation cost is considered in the asset valuation of buildings and structures, and in other cases, the equipment foundation cost is considered in the equipment installation and commissioning expenses.

△ For small equipment without installation requirement, installation and commissioning expenses are not considered.

△ Preliminary engineering and other expenses are determined in accordance with the quotations in effect on the valuation benchmark date issued by the state ministries.

③ Determination of the capital costs

The cost of capital is calculated based on the reasonable construction period of the installation, commissioning or construction of the equipment, with reference to the loan prime rate (LPR) of the loan market for the same period announced by the National Interbank Funding Center on the valuation benchmark date, assuming that the capital funds are evenly invested during the construction period.

B. Determination of integrated depreciation rate

△ Integrated depreciation rate = theoretical depreciation rate × adjustment coefficient K

Where: theoretical depreciation rate = remaining useful life ÷ (used life + remaining useful life) × 100%

Adjustment coefficient K=K1×K2×K3×K4×K5

Various adjustment coefficients are mainly determined after conducting survey on the original manufacturing quality of the equipment, the operating status and failure frequency of the equipment, the maintenance (including major repairs), the utilization rate of the equipment, and the environmental conditions of the equipment.

△ In general, the integrated depreciation rate of simple equipment is determined directly by the theoretical depreciation rate or observed value.

C. Determination of appraised value

Appraised value = full replacement cost × integrated depreciation rate

(2) *Transport vehicle equipment*

A. Determination of replacement cost

The replacement cost of transportation vehicle equipment is determined based on its market price as of the valuation benchmark date, taking into account vehicle purchase tax and new vehicle registration fees in accordance with the Laws on Vehicle Purchase Tax of the People's Republic of China (《中華人民共和國車輛購置稅法》) and relevant local documents.

B. Determination of integrated depreciation rate

Pursuant to the relevant requirements of the Provisions on the Standards for Compulsory Retirement of Motor Vehicles (《機動車強制報廢標準規定》) (2012 Order No. 12 of the Ministry of Commerce, National Development and Reform Commission, the Ministry of Public Security and the Ministry of Environmental Protection), the integrated depreciation rate of the equipment is reasonably determined by combining the economic useful life and economic mileage of motor vehicles as estimated and determined in the Reference Table of Economic Useful Life of Motor Vehicles ("車輛經濟使用年限參考表") of the Common Parameter Handbooks of Assets Valuation (《資產評估常用參數手冊》), with the year depreciation rate as the basic depreciation rate of the vehicle and the actual mileage as the correction factor of the utilisation rate of the vehicle, and correcting the basic depreciation rate based on other different factors.

C. Determination of appraised value

Appraised value = replacement cost × integrated depreciation rate

8. Construction in progress

We will collect relevant approval documents for the project and inspect the progress of the project on site to understand the progress of payment and the composition of carrying amount. We will verify the reasonableness of the preliminary expenses and other expenses, analyze and estimate the cost of construction by comparing project settlement data submitted by the project supervision, the current local construction cost estimates, charging standards and the market price of construction materials on the valuation benchmark date, and calculate the cost of capital based on the sum of preliminary expenses and construction cost with a reasonable construction period.

For projects under construction with a relatively short period of time between the commencement of construction and the valuation benchmark date, the remaining value excluding unreasonable expenditures therein will be taken as the appraised value based on the reported amount of construction in progress after verification of accounts.

9. Intangible assets – other intangible assets

Intangible assets are mainly computer application software and patented technology, copyrights and trademarks, etc. In accordance with the Standards of Practice on Asset Valuation – Intangible Assets (《資產評估執業標準－無形資產》), the valuation methods determining the value of intangible assets include three basic approaches, namely three basic methods, namely the market approach, the income approach and the cost approach, as well as their derivative methods. A reasonable valuation method is selected after a thorough understanding of the relevant circumstances of the appraisal subject and the information collected and an analysis of the applicability of the above three basic methods.

▲ The income approach: On the basis of information obtained from the intangible asset of the appraisal subject, the expected income generated from the intangible asset or its similar intangible asset based on the historical implementation and future application prospects of the intangible asset and the business operations of the enterprise where the intangible asset has been implemented or is proposed to be implemented, the market value of the appraisal subject is estimated using a discount rate that is consistent with the expected income.

- ▲ The market approach: Based on the knowledge that an active market exists for the intangible asset or similar intangible asset of the appraisal subject, the market value of the intangible asset of the appraisal subject is obtained by collecting transaction information such as market trading prices, trading hours, and trading conditions of comparable transactions of similar intangible assets on a comparable basis, and making necessary adjustments to the transaction information.

- ▲ The cost approach: Based on all the inputs used to create an intangible asset, we consider the extent to which the value of the intangible asset is related to its cost, determine its replacement cost by calculating its reasonable cost, profit, and related taxes, and take into account depreciation factors to obtain the market value of the appraisal subject intangible asset.

After a full understanding of the intangible assets, we found that there is no historical implementation operation of the analyzed relevant intangible assets or its similar intangible assets, and the Appraised Entity currently has no future operation application plan, thus making it difficult to estimate expected income; in the meantime, there is no active transaction market for similar intangible assets (or comparable transaction cases of similar intangible assets on a comparable basis), so the cost approach was adopted to obtain the market value of the intangible asset of the appraisal subject.

- ▲ Computer application software: For purchased computer application software sold on the market on the valuation benchmark date, the market price on the valuation benchmark date shall be taken as the appraised value; for purchased computer application software that is sold on the market but the version has been upgraded on the valuation benchmark date, the market value on the valuation benchmark date from which the software upgrade fee is deducted shall be taken as the appraisal value.

10. Development expenses

By investigating the reasons for the occurence of development expenses, reviewing relevant contracts, book-keeping certificates and other information, we found that the development expenses occurred within six months from the valuation benchmark date, and the appraised value was confirmed after excluding unreasonable cost expenditures based on verification of the carrying amount.

11. Deferred income tax assets

Deferred income tax assets are deductible temporary differences arising from differences between the accounting standards and tax laws of an enterprise in the subsequent measurement of its accounting assets. In this valuation, the valuation of deferred tax assets is recalculated and recognized based on the valuation treatment of the corresponding accounts after investigating the content and formation of deferred tax assets.

12. Other non-current assets

Other non-current assets represent software license fees and technical service fees paid in advance by the enterprises and the appraised value thereof was determined after verification of their carrying amount.

13. Liabilities

Liabilities mainly comprise current and non-current liabilities. On the basis of verification, the appraised value of each liability is determined based on the number of debtors and amount of liabilities that the Appraised Entity would actually be required to assume after the economic activity for which the liabilities are appraised has been conducted.

VIII. EXECUTION OF VALUATION PROCEDURE

We have implemented the valuation procedure for this project in accordance with the PRC Asset Valuation Standards and the relevant principles and regulations of the National Asset Valuation Standards. The entire valuation procedure is divided into the following four stages:

(I) Preparation of valuation

1. Upon acceptance of the engagement for this project, discuss and reach an agreement with the Principal on valuation purpose, valuation scope, valuation benchmark date and other issues, enter into a business commission contract, and formulate asset valuation plan for this project.

2. Collaborate with enterprises in asset stocktaking, guide and assist enterprises with declaration of asset within the valuation scope and prepare documents and information necessary for asset valuation.

(II) On-site Assessment

According to the overall schedule of the engagement, the on-site assessment and investigation is from early February to mid-April 2022. After selecting the appropriate valuation methodology for this valuation, the following on-site assessment is conducted:

1. Verification and validation of the assets and related information declared by the enterprise in the scope of valuation:

    (1) Listen to overall enterprise introduction given by staff of the Principal and Appraised Entity, together with introduction of the history and status of assets to be appraised, so as to have an overall picture about the enterprise' internal system, operating position and use of assets;

    (2) Review the asset-declaration statements for valuation provided by the enterprise, verify with relevant financial records and work with the enterprise to make adjustment or provide supplemental information when issues are identified;

    (3) Conduct on-site inspection and spot check on physical assets based on the asset-declaration statements for valuation;

    (4) Review and collect the title documents of assets to be appraised, check the title information provided by the Appraised Entity and verify the ownership of the assets. For assets with defects, request the Appraised Entity to verify and confirm the ownership and the title dispute, if any;

    (5) Analyze and develop specific valuation methods for each type of assets based on the actual conditions and characteristics of the assets under valuation;

    (6) For equipment, buildings and land use rights assets, understand the management system and actual implementation, as well as corresponding maintenance, alteration and expansion, review and collect relevant technical data, contracts, budget data, completion inspection data, and land planning files, etc. For general-purpose equipment, conduct market research and inquire about price information; for buildings, properties and land use rights, research and collect information on market conditions, property transaction cases and local construction costs;

    (7) Understand the cost structure, history and future revenue of the intangible assets involved, as well as information on the market conditions of the corresponding products;

(8) For liabilities within valuation scope, the main focus is to understand the actual liabilities to be assumed by the Appraised Entity.

2. By understanding of the historical operation of the Appraised Entity, its current operating status and the real status of the industry in which it operates, judge the likely development trend of the enterprise over a period of time in the future, the details of which are as follows:

(1) Understand the legal situation relating to the continuing operations of the Appraised Entity mainly in respect of its articles of association, investment and capital contribution agreements, place of operation and ability to operate;

(2) Understand the accounting system implemented by the Appraised Entity, depreciation policy for fixed assets, accounting for inventory costs and accounting method for issued inventory, etc., the tax rate implemented and tax status, debt, borrowings and cost of debts in recent years;

(3) Understand the Appraised Entity's business type, operation model and historical operating results including the percentage of the revenue from its principal operations, the distribution of its major customers, and its connected transactions with connected persons;

(4) Obtain financial information such as audited balance sheets, income statements, cash flow statements and product income and cost breakdown sheets for recent years;

(5) Understand the allocation and actual utilization of the enterprise's assets, analyze relevant surplus assets and non-operating assets and liabilities, and reach consensus with the enterprise's management;

(6) Understand the number and basic information of comparable enterprises in the same industry as the Appraised Entity or affected by the same economic factors and their comparable market transactions;

(III) Valuation result summary

Analyze, summarize and collate the valuation data collected during the on-site valuation survey as necessary to form basis for valuation and estimate; select correct formulas and reasonable valuation parameters based on the selected valuation method to form a preliminary valuation result; summarize the preliminary valuation conclusions and analyze the reasonableness of the valuation conclusions when it is confirmed that there is no duplication or omission of valuation in the scope of assets under valuation.

(IV) Preparation and submission of the report

Prepare the preliminary asset valuation report based on the above works performed; exchange views with the Principal on the contents of the preliminary valuation report; revise and improve the asset valuation report after taking into account all relevant views communicated; and submit a formal Asset Valuation Report to the Principal after completing the enterprise's internal audit procedures.

IX. VALUATION ASSUMPTIONS

Asset valuer followed the following assumptions and restrictions in this valuation:

(I) Basic Assumptions

1. Transaction assumption

The transaction assumption assumes that all assets to be evaluated are in the process of transaction, and the asset valuer will make estimation in a simulated market according to the transaction conditions of assets to be evaluated. The transaction assumption is one of the most fundamental assumptions for the implementation of the asset valuation.

2. Open market assumption

The open market assumption is an assumption about the market conditions into which an asset is intended to enter and what effects the asset will receive under such market conditions. An open market is a fully developed and comprehensive market condition and a competitive market with willing buyers and sellers, where buyers and sellers are on equal footing and have access to adequate market information, and where transactions between buyers and sellers are conducted under voluntary, rational, non-compulsory or unrestricted conditions. The open market assumption is based on the assumption that assets are publicly tradable in the market.

3. Enterprise going concern assumption

The enterprise going concern assumption assumes that the Appraised Entity can legally continue its production and operation business as they are within the foreseeable future operating period under the existing asset resources conditions and there will be no major adverse changes in the operating conditions.

4. Assumption about the use of an asset for its existing purpose

The assumption about the use of an asset for its existing purpose assumes that the assets will continue to be used for their current purpose. Firstly, it is assumed that the assets within the scope of valuation are in use. Then it is assumed that the assets will continue to be used for the current purpose and mode of use without considering asset use conversion or optimal utilization conditions.

(II) General Assumptions

1. This valuation assumes that there will be no unforeseeable significant adverse changes in the external economic environment, including the relevant laws, macroeconomic, financial and industrial policies prevailing in China after the valuation benchmark date, and that there will be no significant impact caused by other human force majeure and unforeseeable factors.

2. This valuation does not consider the impact on the Appraised Entity's valuation conclusion of any collateral or guarantee that the Appraised Entity and its assets may assume in the future, or any additional price that may be paid as a result of special transactions.

3. It is assumed that there will be no significant changes in the socio-economic environment in which the Appraised Entity is located or the fiscal and taxation policies in place, such as taxes and tax rates, and that the credit policy, interest rate, exchange rate and other financial policies will be generally stable.

4. The current and future business operations of the Appraised Entity are and will be legal and in compliance with the relevant provisions of its business license and articles of association.

5. Patents that are still in the substantive examination stage will be included in the scope of patent valuation if it is verified with the Appraised Entity that there are no substantial obstacles to obtaining the patent rights of such patents.

The valuation conclusion of this Asset Valuation Report is established at the valuation benchmark date under the above assumptions, and in the event of any significant changes in the above assumptions, the undersigning asset valuer and the appraisal institution shall not be liable for deriving a different valuation conclusion as a result of the change in the assumptions.

X. VALUATION CONCLUSION

In accordance with the national regulations on valuation of assets, we have implemented necessary valuation procedures based on the principles of independence, impartiality and objectivity to obtain a valuation conclusion of the market value of the shareholders' entire interest of the Appraised Entity as at the valuation benchmark date in accordance with the valuation purpose, valuation assumptions and limitations described in this report.

(I) Relevant valuation results

1. Asset-based approach valuation

The valuation of the value of the entire interest of the corporate shareholders using the asset-based approach resulted in the following valuation of the Appraised Entity on the valuation benchmark date:

On the valuation benchmark date, the carrying amount of interests of the Appraised Entity's shareholders is RMB854,077,500, while the appraised value is RMB1,004,515,800, representing an appraised increase of RMB150,438,300 and an appreciation rate of 17.61%. Of which: the carrying amount of total assets is RMB1,238,671,700, while the appraised value is RMB1,387,117,200, representing an appraised increase of RMB150,438,300 and an appreciation rate of 12.15%. The carrying amount of liabilities is RMB384,594,100 with an appraised value of RMB384,594,100 and no change.

As the major assets of the Appraised Entity, Hilong Pipeline Engineering Technology Service Co., Ltd., were long-term investments, the appraisers conducted the preliminary valuation using the asset-based approach for all the controlled subsidiaries within the scope of consolidation, and the carrying amount of long-term investments in controlled subsidiaries in the parent company's statements was the original investment accounted for using the cost method, which resulted in the appraised increase. The shareholders' equity attributable to the parent company in the consolidated statements is consistent with the appraisal items, therefore, the carrying amount of shareholders' equity attributable to the parent company in the consolidated statements of the Company is RMB1,002,768,000, while the appraised value is RMB1,004,515,800, representing an appraised increase of RMB1,747,800 and an appreciation rate of 0.17%.

The value of the total shareholders' equity of the Appraised Entity is assessed to be RMB1,004,515,767.59, being RENMINBI ONE BILLION FOUR MILLION FIVE HUNDRED AND FIFTEEN THOUSAND SEVEN HUNDRED AND SIXTY SEVEN YUAN AND FIFTY NINE CENT.

The valuation conclusion is based on the above valuation work.

(II) Changes between the valuation conclusion and carrying amount and reasons

An analysis of major changes in the valuation conclusion, of which asset-based approach is adopted this time, is as follows:

Summary of the evaluation results of asset-based approach

Valuation benchmark date： December 31 2021 Unit: RMB10,000

No.	Item	Carrying amount	Appraised value	Change	Appreciation rate %
1	Current assets	55,800.73	55,800.73	0.00	0.00
2	Non-current assets	68,066.43	83,110.26	15,043.83	22.10
3	Including: available-for-sale financial assets, net	0.00	0.00	0.00	
4	Held-to-maturity investments, net	0.00	0.00	0.00	
5	Long-term receivables, net	0.00	0.00	0.00	
6	Investment in associates/subsidiaries, net	64,125.43	77,971.68	13,846.25	21.59
7	Investment properties, net	0.00	0.00	0.00	
8	Property, plant and equipment, net	1,796.67	2,806.43	1,009.76	56.20
9	Engineering materials, net	0.00	0.00	0.00	
10	Productive biological assets, net	0.00	0.00	0.00	
11	Lease prepayments (land use rights), net	0.00	0.00	0.00	
12	Intangible assets, net	1,061.88	1,249.71	187.83	17.69
13	Development expenses	0.00	0.00	0.00	

No.	Item	Carrying amount	Appraised value	Change	Appreciation rate %
14	Goodwill, net	0.00	0.00	0.00	
15	Long term prepaid expenses	0.00	0.00	0.00	
16	Deferred income tax assets	967.07	967.07	0.00	0.00
17	Other non-current assets	115.38	115.38	0.00	0.00
18	Total assets	123,867.16	138,910.99	15,043.83	12.15
19	Current liabilities	38,459.41	38,459.41	0.00	0.00
20	Non-current liabilities	0.00	0.00	0.00	
21	Total liabilities	38,459.41	38,459.41	0.00	0.00
22	Net assets (ownership interest)	85,407.75	100,451.58	15,043.83	17.61

Due to Hilong Pipeline Engineering Technology Service Co., Ltd., the Appraised Entity whose principal assets are long term investments, in long term investments under parent company's financial statements, cost approach is adopted for the carrying amount of holding subsidiaries if it is the original investments, resulting in the appreciation rate of valuation incorrect. As the interests of shareholders attributable to parent company in the consolidated financial statements are consistent with appraised items, the carrying amount of shareholders' interests attributable to parent company in the company's consolidated financial statements is RMB1,002,768,000, while the appraised value is RMB1,004,515,800, representing an increased value of RMB1,747,800 and the appreciation rate of 0.17%.

(1) Investments in associates/subsidiaries

The carrying amount of investments in associates/subsidiaries is RMB641,254,300, while the appraised value is RMB779,716,800, representing an increased value of RMB138,462,500 and the appreciation rate of 21.59%. Due to Hilong Group of Companies Ltd., the Appraised Entity whose principal assets are investments in associates/subsidiaries, in investments in associates/subsidiaries under parent company's financial statements, cost approach is adopted for holding subsidiaries' original investment costs recognized as carrying amount, and the appreciation of fixed assets attributable to holding subsidiaries is not stated, resulting in an increased value.

(2) Property, plant and equipment

The carrying amount of property, plant and equipment is RMB17,966,700, while the appraised value is RMB28,064,300, representing an increased value of RMB10,097,600 and the appreciation rate of 56.20%. The depreciation of a corporate is based on specified terms, while the depreciation rate and appraised value are based on the actual conditions of property, plant and equipment in the valuation.

(3) Intangible assets

The carrying amount of corporate intangible assets is RMB10,618,800, while the appraised value is RMB12,497,100, representing an increased value of RMB1,878,300 and the appreciation rate of 17.69%, mainly due to the appreciation of off-balance-sheet intangible assets.

(III) Other factors to be considered relating to the valuation conclusion

Given that the Appraised Entity itself is an unlisted company, and the appraisal subject is the entire value of shareholders' equity, the impact of control and liquidity is not considered in the course of the valuation using asset-based approach, and the final valuation conclusion does not take into account of the impact of control and liquidity.

(IV) Validity of the valuation conclusion

In accordance with the current valuation standards, the valuation conclusion revealed in this valuation report is based on the fact that there have been no significant changes in the valuation assumptions set out in this report, and this valuation report conclusion may normally only be used if the period between the implementation date of the economic activities and the valuation benchmark date is not more than one year, i.e. the valuation conclusion is valid from December 31, 2021 to December 30, 2022.

The conclusion of this valuation report may not be used beyond the above validity period to implement economic activities.

(V) Other notes to the valuation conclusion

During the validity period of the valuation conclusion after the valuation benchmark date, if there is any change in the amount of assets and the valuation criteria involved in the appraisal subject, the Principal may deal with it in accordance with the following principles:

1. When there is a change in the amount of assets, the amount of assets should be adjusted according to the original valuation approach;

2. The Principal shall promptly engage a qualified asset appraisal institution to re-determine the appraised value when there is any change in the asset pricing standards that significantly impact the asset valuation result;

3. The Principal shall give due consideration to any changes in the amount of assets and the pricing standards after the valuation benchmark date when implementing the economic activities.

XI. DESCRIPTION OF SPECIAL MATTERS

When using this valuation report, the users shall pay due attention to the possible impact of the following special matters on the valuation conclusion, and give full consideration of such matters when making their own decisions and implementing the economic activities based on this report:

(I) Incomplete or defective key information such as ownership:

The factories of Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd., for which real estate ownership certificates have been obtained, are built on collective-owned land, with a land area of 31,415 sq.m. and gross floor area of 8,284 sq.m. The land is for industrial purpose but the right-of-use land is accounted as collective-owned land. According to Land Administration Law, collective-owned land is used for constructing residential houses of villagers and starting township enterprises, which may be subject to the risk of land resumption. It should be brought to the attention of the report users that the impact of this risk on the valuation has not been taken into account for this valuation.

(II) Other key information not provided by the principal:

Nil.

(III) Uncertain factors including pending matters and legal disputes as at valuation benchmark date:

The asset valuer was not aware of uncertain factors such as pending matters and legal disputes existing in the enterprise as of the valuation benchmark date. The Principal and the Appraised Entity also expressly stated that there were no uncertain issues such as pending matters and legal disputes.

(IV) Important use of expert work and related reports:

1. Use of professional reports:

In the course of performing this valuation, we have obtained the following professional reports through lawful means, and have utilized the relevant contents of the professional reports with careful reference:

(1) The special review report issued by PricewaterhouseCoopers;

The type of book assets and the book amount of this asset valuation report have been reviewed by PricewaterhouseCoopers, which has issued the special review report. The asset valuation professionals have analyzed and judged the financial statements in accordance with the requirements for their use under the valuation methods adopted, but it is not the responsibility of the asset valuation professionals to express a professional opinion as to whether the relevant financial statements fairly reflect the financial position and current operating results and cash flows of the enterprise as at the valuation benchmark date.

(V) Major subsequent events:

Hilong Pipeline Engineering Technology Service Co., Ltd. made a decision on December 15, 2022: to distribute RMB68 million of the undistributed profits of Hilong Pipeline Engineering Technology Service Co., Ltd. on December 15, 2022.

(VI) Evaluation procedure restrictions, remedial measures taken by appraisal institution and their impact on the evaluation conclusion:

Nil.

(VII) Nature and amount of guarantees, leases and contingent liabilities (contingent assets) and their relationship with the appraisal subject;

The land occupied by buildings of Shanxi Hilong Oil Technology Co., Ltd. was leased from Shanxi Tangrong Machinery Manufacturing Co., Ltd., locating at No. 168, Fenglei Street, Houma City, with a land area of 30.255 mu and a lease term commencing from January 1, 2021 and ending on December 31, 2022. The annual rent for the land is RMB249,755.03.

The land occupied by the buildings of Jiangsu Tube-cote Shuguang Coating Co., Ltd. was leased from Jiangsu Shuguang Group Co., Ltd., locating at Shuguang Industrial Park, Baimi Town, Jiangyan City, Jiangsu Province, China, with a land area of 29,988 sq.m., of which 5,320 sq.m. was used for the factories and 1,923 sq.m. for the auxiliary buildings. The lease term commences from October 1, 2003 and ends on September 30, 2023. The annual rent for the land and factories is RMB720,000.

The factories operated by Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd. were leased from Pipe & Drilling Tools Manufacture Co., Ltd., situating in the yard of Paipu Company (派普公司) in Petro & High-Tech Industrial Park, Panjin Economic Development Zone. Among which, one building covers an area of 5,000 sq.m. and is a steel structured factory; another building covers an area of 200 sq.m. and is a concrete structured building. The lease contract is renewable on a yearly basis. The contract for the year 2021 was signed on January 1 2021, with the agreed annual rent of RMB550,000.00.

On May 13, 2021, Hilong Pipeline Engineering Technology Service Co., Ltd. entered into a borrowing contract with Baoshan sub-branch of Bank of Beijing Co., Ltd., for borrowings from May 28, 2021 to May 13, 2022. As of the valuation benchmark date, the balance of borrowings is RMB10 million with an interest rate of 4.46%. On March 4, 2021, Hilong Pipeline Engineering Technology Service Co., Ltd. signed a borrowing contract with Baoshan sub-branch of Shanghai Pudong Development Bank Co., Ltd. for borrowings from March 4, 2021 to March 3, 2022. As of the valuation benchmark date, the balance of borrowings is RMB44.4 million with an interest rate of 4.35%. On March 4, 2021, Hilong Pipeline Engineering Technology Service Co., Ltd. signed a borrowing contract with Shanghai Pudong Development Bank Co., Ltd. for borrowings from May 24, 2021 to May 23, 2022. As of the valuation benchmark date, the balance of borrowings is RMB25 million with an interest rate of 4.35%. On March 16, 2021, Hilong Pipeline Engineering Technology Service Co., Ltd. signed a borrowing contract with Shanghai Pudong Development Bank Co., Ltd. for borrowings from March 16, 2021 to March 15, 2022. As of the valuation benchmark date, the balance of borrowings is RMB35 million with an interest rate of 4.35%. On April 22, 2021, Hilong Petroleum Products Technical Services (Shanghai) Co., Ltd. signed a borrowing contract with Baoshan Branch of Shanghai Rural Commercial Bank for borrowings from April 23, 2021 to April 22, 2022. As of the valuation benchmark date, the balance of borrowings is RMB20 million with an interest rate of 5.25%. All the above five borrowings are guaranteed by Hilong Group of Companies Ltd., the parent company of the Appraised Entity, as guarantee.

Save for the above disclosed matters, the valuer did not find any other related matters through on-site investigation. However, due to the limitations of the asset valuer's verification methods and the concealment caused by guarantees and contingent liabilities (assets), the appraisal institution cannot issue a definitive opinion on the completeness of the above matters.

(VIII) Deficiencies in the economic activities corresponding to this asset valuation that may have a material effect on the valuation conclusion:

Nil.

(IX) Other Matters Requiring Explanation

1. In this asset valuation report, all tables or textual expressions denominated in RMB ten thousands, any difference between the total amount and the sum of the individual sub-values is due to rounding off.

2. As the domestic outbreak of COVID-19 pandemic began in late January 2020, most places have initiated first or second-level response to pandemic prevention, and officials have called on people to reduce their mobility. In view of this objective reason, we can't conduct on-site inspection for the companies abroad where the project located. The valuer maximized the use of alternative procedures to remedy the missing on-site inspection work content and communicated with the customer on this matter through emails and other means. We believe that the above measures adopted will, to a certain extent, offset the effect of the lack of on-site verification procedures, and the limitations of this valuation procedure would not have a material effect on the valuation conclusion.

The user of the valuation report shall pay due attention to the impact of the aforesaid special matters on the valuation conclusion when using this asset valuation report.

XII. RESTRICTIONS ON THE USE OF VALUATION REPORT

(I) This asset valuation report shall only be used for the purposes of valuation and economic activities as set out herein.

(II) The appraisal institution and the asset valuer shall not be liable if the Principal or other users fail to use this asset valuation report in accordance with the provisions of laws and administrative regulations and the scope of use set out in this asset valuation report.

(III) Except for the Principal, other users of the asset valuation report as agreed in the asset valuation commission contract and the users of the asset valuation report as stipulated in the laws and administrative regulations, no other institution or individual shall be the user of this report.

(IV) The user of the asset valuation report shall correctly understand and use the valuation conclusion. The valuation conclusion is not equivalent to the realizable price of the appraisal subject, and the valuation conclusion shall not be considered as a guarantee of the realizable price of the appraisal subject.

(V) If this appraisal project involves state-owned assets and is required to comply with the filing and approval procedures of the State-owned Assets Supervision and Administration Department in accordance with the relevant regulations, this valuation report shall be filed with the State-owned Assets Supervision and Administration Department before it can be formally used, and the valuation conclusion shall only apply to the economic activities shown in this report.

(VI) This asset valuation report contains certain annexes and appraisal schedules, all of which also constitute an important part of this report, but shall be valid only when used in conjunction with the body of this report. The appraisal institution and the asset valuer assume no obligation or responsibility for any use other than that for which it is used, such as being shown to the non-asset valuation report user or the non-asset valuation report user who otherwise has access to this report, and do not provide further consultation in connection with this report, nor do they provide testimony, appear in court or otherwise hearings in legal proceedings, and reserve the right to pursue the non-asset valuation report user the losses incurred as a result.

(VII) The right to interpret the contents of this asset valuation report shall rest with the appraisal institution, and no other entity or department shall have the right to interpret it, unless otherwise expressly and specifically provided for in national laws and regulations; any extract, quote or disclosure of the whole or part of the contents of the valuation report in the public media shall be subject to the written consent of the appraisal institution and the undersigning valuer of the report after the appraisal institution has reviewed the relevant contents, except as stipulated in laws and regulations and as otherwise agreed by the relevant parties.

XIII. DATE OF ISSUANCE OF THE VALUATION REPORT

The asset valuation report date is the date on which the valuation conclusion is formed and this asset valuation report date is December 23, 2022.

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Appraisal institution	Shanghai Orient Appraisal Co., Ltd.
Signature of asset valuer	Wanyi Pan (潘婉怡)
	Yingfang Wang (王盈芳)
Valuation report date	December 23, 2022
Company address	19F, Pacific Enterprise Center, No. 889, West Yan'an Road, Shanghai, PRC (200050)
Tel	021-52402166 (switchboard) 021-62252086 (fax)
Website	www.dongzhou.com.cn

ASSET VALUATION REPORT
(Report Annexes)

Project Name	Entire Shareholders' Interests of Hilong Pipeline Engineering Technology Service Co., Ltd. Involved in Equity Interests Held in Hilong Pipeline Engineering Technology Service Co., Ltd. to be Transferred by Hilong Group of Companies Ltd.
Report No.	Dong Zhou Ping Bao Zi [2022] No. 1248

No. Annexes Name

1. Business Licenses of the Principal and the Appraised Entity
2. The Special Review Report of the Appraised Entity
3. Commitment Letter of the Principal and Relevant Parties
4. The Asset Valuation Commission Contract
5. Business License of Shanghai Orient Appraisal Co., Ltd.
6. License on Conducting Securities Business and Asset Appraisal of Shanghai Orient Appraisal Co., Ltd.
7. Certificate on Asset Valuation of Shanghai Orient Appraisal Co., Ltd.
8. Qualification Certificates of the Asset Valuer Responsible for the Valuation Business
9. Commitment Letter of the Appraisal Institution and Asset Valuer

Supplemental Analysis Report on Entire Value of Shareholders' Equity of Hilong Pipeline Engineering Technology Service Co., Ltd.* (海隆管道工程技術服務有限公司) in Relation to the Proposed Transfer of Equity Interests held in Hilong Pipeline Engineering Technology Service Co., Ltd. by Hilong Group of Companies Ltd.* (海隆石油工業集團有限公司)

DONG ZHOU ZI BAO ZI [2023] NO. 0511

(Report and Annexes)
Volume 1 of 1

Shanghai Orient Appraisal Co., Ltd.

March 29, 2023

Supplemental Analysis Report
(Contents)

CONTENTS V-64

SUMMARY 3

I. PRINCIPAL, APPRAISED ENTITY AND OTHER USERS OF THE REPORT V-65

(I) Profile of Principal V-65

(II) Profile of Appraised Entity V-66

(III) Relationship between the Principal and the Appraised Entity V-70

(IV) Other Users of the Analysis Report V-70

II. PURPOSE OF ANALYSIS V-70

III. ANALYSIS SUBJECT AND SCOPE OF ANALYSIS V-71

IV. TYPE AND DEFINITION OF VALUE V-79

V. BENCHMARK DATE V-80

VI. ANALYSIS APPROACHES V-80

VII. ANALYSIS METHODOLOGY V-80

VIII. EXECUTION OF ANALYSIS PROCEDURE V-87

IX. ANALYSIS ASSUMPTIONS V-89

(I) Basic Assumptions V-89

(II) General Assumptions V-90

X. ANALYSIS CONCLUSION V-92

(I) Relevant Analysis Results V-92

(II) Other Notes to the Analysis Conclusion V-95

(III) Validity of the Analysis Conclusion V-95

XI. DESCRIPTION OF SPECIAL MATTERS V-96

XII. RESTRICTIONS ON THE USE OF REPORT V-97

SUPPLEMENTAL ANALYSIS REPORT ON ENTIRE VALUE OF SHAREHOLDERS' EQUITY OF HILONG PIPELINE ENGINEERING TECHNOLOGY SERVICE CO., LTD.* (海隆管道工程技術服務有限公司) IN RELATION TO THE PROPOSED TRANSFER OF EQUITY INTERESTS HELD IN HILONG PIPELINE ENGINEERING TECHNOLOGY SERVICE CO., LTD. BY HILONG GROUP OF COMPANIES LTD.* (海隆石油工業集團有限公司)

Dong Zhou Zi Bao Zi [2023] No. 0511

Upon the engagement, subject to laws and administrative regulations, and on the principles of independence, objectivity and impartiality, Shanghai Orient Appraisal Co., Ltd. conducted a supplemental analysis on the entire value of shareholders' equity of Hilong Pipeline Engineering Technology Service Co., Ltd.* (海隆管道工程技術服務有限公司), based on appropriate analysis approaches and necessary analysis process. The value analysis and results are reported as follows:

I. PRINCIPAL, APPRAISED ENTITY AND OTHER USERS OF THE REPORT

(I) Profile of Principal

Company name: Hilong Group of Companies Ltd. (referred to as the "Principal")

Chinese name: 海隆石油工業集團有限公司

Address of the company: Building 3, No. 1825 Luodong Road, Baoshan District, Shanghai

Legal representative: Wang Tao (汪濤)

Registered capital: RMB150,000,000

Type of the company: Limited liability company (wholly-owned by Hong Kong, Macao or Taiwan legal persons)

Scope of business: production of pipeline coating, welding wire, welding flux, coiled tubing, set of equipment for mobile gas station, heat shrink sleeve (belt), oil drilling and production equipment and accessories, thread processing and thread protectors, oil tubing, casing pipe, drill pipes, drill collar, extra-weight drill pipe and tool joints and other finished products and semi-finished products as well as petroleum pipeline; pipeline anti-corrosion treatment; provision of related technical services; sales and lease of self-produced products.

(II) Profile of Appraised Entity

Company name: Hilong Pipeline Engineering Technology Service Co., Ltd.* (海隆管道工程技術服務有限公司) (referred to as "Appraised Entity" or "the Company")

Company type: Limited liability company (sole proprietorship investment by foreign investment company)

Operation premise: No. 1825, Luodong Road, Baoshan Industrial Zone

Legal representative: Xue Zhijun (薛志軍)

Date of establishment: November 9, 2005

1. Shareholder structure of the Company

The shareholder structure and equity ratio as of the benchmark date were as follows:

No.	**Shareholder's name**	**Capital contribution** *(RMB'0,000)*	**Shareholding proportion**
1	Hilong Group of Companies Ltd.	8,000.00	100.00%
	Total	**8,000.00**	**100.00%**

2. Company Profile

Hilong Pipeline Engineering Technology Service Co., Ltd. is a scientific and technological enterprise integrating internal and external coating of gas pipeline, concrete counterweight coating, robot internal filler coating, and research on anticorrosion technology of petroleum pipeline, which provides perfect pipeline technical service. Before separation, the Company was located at No. 1825, Luodong Road, Baoshan Industrial Park, Shanghai, covering an area of nearly 90 mu, including 40 mu of professional pipe yard. The business scope includes: permitted projects – construction works (including corrosion-resistant pipeline coating construction, pipeline processing, installation, detection, maintenance and technical services, professional anticorrosion and insulation construction); general projects – processing and sales of lining corrosion-resistant alloy composite steel tubes; general goods storage services (excluding dangerous chemicals and other items requiring approval); technology import and export; goods import and export. The Company has been awarded the titles of "Shanghai High-tech

Enterprise" and "Shanghai Small Giant Cultivation Enterprise", and won the National Innovation Fund and two high-tech achievements transformation projects before separation. It completed more than 30 technical development projects and obtained more than 20 patents and utility models.

3. *Overview of Equity Investment*

Details of the 8 equity investments in the Appraised Entity on the benchmark date are as follows:

No.	Name of the investee	Company type	Registered capital	Shareholding percentage %	Notes
1	Anshan Hidlong Anti-corrosion Engineering Co., Ltd. (鞍山海得隆防腐工程有限公司)	Limited liability company (invested or controlled by natural person)	RMB2 million	35.02%	
2	Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd. (上海圖博可特石油管道塗層有限公司)	Limited liability company (sole proprietorship investment by foreign investment company)	RMB26 million	100.00%	Please refer to note 1 for details of its long-term equity investment
3	Sichuan Hilong Petroleum Technology Co., Ltd. (四川海隆石油技術有限公司)	Limited liability company (sole proprietorship invested or controlled by natural person)	RMB20 million	100.00%	
4	Panjin Tube-Cote Pipe Coating Co., Ltd. (盤錦圖博可特派普塗層有限公司)	Other limited liability company	RMB10 million	55.00%	
5	Shenglong Oil and Gas Pipeline Inspection Technology Co., Ltd. (盛隆石油管檢測技術有限公司)	Limited liability company (sole proprietorship invested or controlled by non-natural person)	RMB50 million	100.00%	
6	Hilong Petroleum Products Technical Services (Shanghai) Co., Ltd. (海隆石油產品技術服務(上海)有限公司)	Limited liability company (sole proprietorship invested or controlled by natural person)	RMB60 million	100.00%	

No.	Name of the investee	Company type	Registered capital	Shareholding percentage %	Notes
7	HILONG TECHNOLOGY LTD	Limited liability company	HK$100 +US$31,435,900	99.00%	Please refer to note 2 for details of its long-term equity investment
8	HILONG NEW MATERIAL LTD	Limited liability company	HK$1	100.00%	Please refer to note 3 for details of its long-term equity investment

Note 1: Details of equity investments in Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd. (上海圖博可特石油管道塗層有限公司) on the benchmark date are as follows:

No.	Name of the investee	Date of investment	Shareholding percentage %
1	Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd. (西安長慶圖博可特石油管道塗層有限公司)	2006/9/26	45%
2	Tianjin Tube-Cote Petroleum Pipe Coating Co., Ltd. (天津圖博可特石油管道塗層有限公司)	2006/9/18	100%
3	Shanxi Hilong Oil Technology Co., Ltd.* (山西海隆石油技術有限公司)	2008/1/7	40%
4	Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd. (江蘇圖博可特曙光塗層有限公司)	2005/1/13	41%

Note 2: Details of equity investments in HILONG TECHNOLOGY LTD on the benchmark date are as follows:

No.	Name of the investee	Shareholding percentage
1	Hilong USA Technology Holding Corp.	100%
2	Technomash LLC (Russia)	100%
3	Hilong Petroleum Pipeline Service (Surgut) LLC	100%
4	Hilong Petroleum Pipe Service (Orenburg) LLC	100%
5	Shanxi Hilong Oil Technology Co., Ltd.* (山西海隆石油技術有限公司)	25%
6	Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd. (江蘇圖博可特曙光塗層有限公司)	25.2162%
7	Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd. (山東勝利油田物華圖博可特管道塗層有限公司)	30%

Note 3: Details of equity investments in HILONG NEW MATERIAL LTD on the benchmark date are as follows:

No.	Name of the investee	Shareholding percentage
1	Hilong Technology LTD	1%

4. *Assets, liabilities and financial condition of the Company*

As of the benchmark date, assets of the parent totaled RMB1,298,583.3 thousand, liabilities totaled RMB434,606.2 thousand, and the shareholders' equity amounted to RMB863,977.1 thousand.

On consolidated financial statement basis, book value of assets is RMB2,280,948 thousand, book value of liabilities is RMB1,253,369 thousand, book value of shareholders' equity is RMB1,027,579 thousand, of which the equity attributable to the owners of the parent company is RMB982,553 thousand.

The Company's assets, liabilities and financial position in the previous year and as at the benchmark date are as follows:

Assets, liabilities and financial condition of consolidated financial statement

Unit: ten thousand (same below)

Item	December 31, 2020	December 31, 2021	March 31, 2022
Total assets	225,231.60	233,022.00	228,094.80
Liabilities	123,652.40	128,207.80	125,336.90
Net assets	101,579.20	104,814.20	102,757.90
Net assets attributable to the owners of the parent company	95,266.60	100,276.80	98,255.30

Item	2020	2021	January to March, 2022
Operating revenue	129,553.60	124,683.10	26,620.41
Operating profit	11,467.20	28,682.70	252.17
Net profit	10,451.00	25,153.70	240.66
Net profit attributable to the owners of the parent company	9,769.70	24,899.20	275.45

Assets, liabilities and financial condition of the parent

Unit: ten thousand (same below)

Item	December 31, 2020	December 31, 2021	March 31, 2022
Total assets	120,346.47	123,867.18	129,858.33
Liabilities	22,140.17	38,459.42	43,460.62
Net assets	98,206.31	85,407.75	86,397.71

Item	2020	2021	January to March, 2022
Operating Revenue	23,263.80	33,758.14	4,966.44
Operating Profit	5,159.18	2,270.50	1,040.99
Net profit	4,365.33	9,606.73	889.39

The data for 2020-2021 above has been reviewed by PricewaterhouseCoopers and the unaudited statements as of March 31, 2022 was provided by the enterprise.

(III) Relationship between the Principal and the Appraised Entity

The Principal, Hilong Group of Companies Ltd. (海隆石油工業集團有限公司), is the sole shareholder of the Appraised Entity.

(IV) Other Users of the Analysis Report

Pursuant to the commission contract, the user of this report shall be the Principal, the relevant management and supervisory units, other users of the report as agreed in the commission contract, and users of the report as required by national laws and administrative regulations. No other third party shall become a lawful user of this report by virtue of receiving it.

II. PURPOSE OF ANALYSIS

Shanghai Orient Appraisal Co., Ltd. has issued the report of Dongzhou Ping Bao Zi [2022] No. 1248 on December 23, 2022. As of December 30, 2022, the above report has expired for more than one year. According to the requirements of the Principal, the appraisal company will provide value analysis services for the proposed transfer of equity interest in Hilong Pipeline Engineering Technology Service Co., Ltd. (海隆管道工程技術服務有限公司) held by Hilong Group of Companies Ltd. and will issue a supplementary analysis report with March 31, 2022 as the benchmark date of value analysis. Such supplementary analysis report will make a comparative analysis of the changes in the value of the assets involved in the value analysis as of December 31, 2021 and March 31, 2022 and the reasons for the differences as well as a judgment on the accuracy of the original valuation conclusion as of December 31, 2021, so as to provide a reference basis for determining the transfer base price.

III. ANALYSIS SUBJECT AND SCOPE OF ANALYSIS

(I) Analysis Subject

The analysis subject is the value of the entire shareholders' equity of the Appraised Entity.

(II) Scope of Analysis

The scope of valuation covers all assets and liabilities of the Appraised Entity as at December 31, 2021 and March 31, 2022, including current assets, non-current assets and liabilities, etc. As at December 31, 2021, the total carrying amount of all assets included in the parent company's statements declared by the Appraised Entity was RMB1,238,671,751.00, the total carrying amount of liabilities was RMB384,594,228.00, and the shareholders' equity was RMB854,077,523.00.

On the consolidated financial statement basis, carrying amount of assets amounted to RMB2,330,200,000.00, carrying amount of liabilities amounted to RMB1,282,078,000.00, and the carrying amount of shareholders' equity amounted to RMB1,048,142,000.00, of which equity attributable to the owners of the parent company amounted to RMB1,002,768,000.00.

As at March 31, 2022, the total carrying amount of all assets declared by the Appraised Entity was RMB1,298,583,290.45, the total carrying amount of liabilities was RMB434,606,214.84, and the shareholders' equity was RMB863,977,075.61. On the consolidated financial statements basis, carrying amount of assets amounted to RMB2,280,948,000.00, carrying amount of liabilities amounted to RMB1,253,369,000.00, and the carrying amount of shareholders' equity amounted to RMB1,027,579,000.00, of which equity attributable to the owners of the parent company amounted to RMB982,553,000.00.

The scope of the valuation commissioned is consistent with the scope of the valuation involved in the proposed economic activity.

The carrying amount of assets and liabilities as at December 31, 2021 within the scope of valuation has been reviewed by PricewaterhouseCoopers; and the carrying amount of assets and liabilities as at March 31, 2022 provided by the enterprise has not been audited.

(III) Main Details of the Appraised Assets

The appraised assets within the scope of this valuation are mainly current assets and non-current assets, of which non-current assets mainly include investments in associates, property, plant and equipment, intangible assets, etc. Details are as follows:

1. *Current Assets*

Current assets consist primarily of monetary funds, receivables and other receivables, payments in advance, inventories, etc.

2. *Investments in Associates (Subsidiaries)*

There are 8 investments in associates (subsidiaries), which are listed as follows:

No.	Name of the investee	Company type	Registered capital	Shareholding percentage %	Note
1	Anshan Hidlong Anti-Corrosion Engineering Co. Ltd. (鞍山海得隆防腐工程有限公司)	Limited liability company (invested or controlled by natural person)	RMB2 million	35.02%	
2	Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd. (上海圖博可特石油管道塗層有限公司)	Limited liability company (sole proprietorship investment by foreign investment company	RMB26 million	100.00%	Please refer to note 1 for details of its long-term equity investment
3	Sichuan Hilong Petroleum Technology Co., Ltd. (四川海隆石油技術有限公司)	Limited liability company (sole proprietorship invested or controlled by natural person)	RMB20 million	100.00%	
4	Panjin Tube-Cote Pipe Coating Co., Ltd. (盤錦圖博可特派普塗層有限公司)	Other limited liability company	RMB10 million	55.00%	
5	ShengLong Oil and Gas Pipe Inspection Technology Co., Ltd. (盛隆石油管檢測技術有限公司)	Limited liability company (sole proprietorship invested or controlled by non-natural person)	RMB50 millions	100.00%	

No.	Name of the investee	Company type	Registered capital	Shareholding percentage %	Note
6	Hilong Petroleum Products Technical Service (Shanghai) Co., Ltd. (海隆石油產品技術服務(上海)有限公司)	Limited liability company (sole proprietorship invested or controlled by natural person)	RMB60 million	100.00%	
7	HILONG TECHNOLOGY LTD	Limited liability company	HKD100 + USD31,435,900	99.00%	Please refer to note 2 for details of its long-term equity investment
8	HILONG NEW MATERIAL LTD	Limited liability company	HKD1	100.00%	Please refer to note 3 for details of its long-term equity investment

Note 1: Details of equity investments of Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd. (上海圖博可特石油管道塗層有限公司) on benchmark date are as follows:

No.	Name of the investee	Date of investment	Shareholding Percentage %
1	Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd. (西安長慶圖博可特石油管道塗層有限公司)	2006/9/26	45%
2	Tianjin Tube-Cote Petroleum Pipe Coating Co., Ltd. (天津圖博可特石油管道塗層有限公司)	2006/9/18	100%
3	Shanxi Hilong Oil Technology Co., Ltd.* (山西海隆石油技術有限公司)	2008/1/7	40%
4	Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd. (江蘇圖博可特曙光塗層有限公司)	2005/1/13	41%

Note 2: Details of equity investments of HILONG TECHNOLOGY LTD on benchmark date are as follows:

No.	**Name of the investee**	**Shareholding percentage**
1	Hilong USA Technology Holding Corp.	100%
2	Technomash LLC (Russia)	100%
3	Hilong Petroleum Pipeline Service (Surgut) LLC	100%
4	Hilong Petroleum Pipe Service (Orenburg) LLC	100%
5	Shanxi Hilong Oil Technology Co., Ltd.* (山西海隆石油技術有限公司)	25%
6	Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd. (江蘇圖博可特曙光塗層有限公司)	25.2162%
7	Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd. (山東勝利油田物華圖博可特管道塗層有限公司)	30%

Note 3: Details of equity investments of HILONG NEW MATERIAL LTD on benchmark date are as follows:

No.	**Name of the investee**	**Shareholding percentage**
1	Hilong Technology LTD	1%

3. *Property, Plant and Equipment – Equipment*

Equipment assets are classified as machinery equipment, vehicles and electronic equipment by purpose. Among them, the equipment category comprises a total of 505 units (sets), mainly including steel pipe internal corrosion protection production lines; vehicles represent cars, commercial vehicles and vans; and electronic equipment mainly includes computers, air conditioners, printers, photocopiers, servers and switches. The above equipment was mainly purchased between 2006 and 2021 and is currently in normal use.

4. *Property, Plant and Equipment – Construction in Progress – Equipment*

Construction in progress – The carrying amount of equipment was RMB3,437,786.30, which was a new production line established by the Company.

5. *Intangible Assets*

No.	Content or name	Date of acquisition	Legal/ expected useful life	Original recorded value	Carrying amount
	Total				10,805,621.27
1	Patents (a composite steel pipe with a corrosion-resistant alloy layer overlaid on the inner wall of the end, etc.)	2012-10-31	10	1,724,126.21	71,838.41
2	IT control system software for steel pipe coating production	2020-03-12	10	417,475.73	330,501.73
3	R&D project: H2S/CO2 resistant coating technology for pipe end surfacing	2017-12-11		10,403,281.13	10,403,281.13

(IV) Other Intangible Assets Declared by Appraised Entity

Other intangible assets declared by the Appraised Entity mainly include patents, software copyrights and registered trademarks not recorded in the books.

The intangible assets not reflected in the books of the Appraised Entity as of the valuation benchmark date involved 43 patents, 2 software copyrights and 2 registered trademarks, the holder of which is the Appraised Entity and will be included in the valuation scope. Details of which are as follows:

1. *Patents*

No.	Name of invention	Patent Category	Legal Status	Application No.	Application Date
1	A kind of electric shock proof external anti-corrosive coating leak detection device for weight coating prefabricated steel pipe	utility model	authorized	CN202120422354.0	2021-02-26
2	A kind of pipe inner wall flux cored wire for surfacing welding with high hardness and high wear resistance	invention patent	substantive review	CN202111326594.1	2021-11-10
3	A kind of steel pipe inner wall cleaning device	utility model	authorized	CN202021804934.8	2020-08-26

No.	Name of invention	Patent Category	Legal Status	Application No.	Application Date
4	A kind of steel pipe alkaline washing device	utility model	authorized	CN202021807320.5	2020-08-26
5	A kind of steel pipe inner wall cleaning device and steel pipe inner wall alkaline cleaning process	invention patent	pending substantive review of application	CN202010869633.1	2020-08-26
6	A kind of steel pipe alkaline cleaning device and steel pipe alkaline cleaning process	invention patent	pending substantive review of application	CN202010868321.9	2020-08-26
7	A kind of directional crossing pipe structure with protective layer	utility model	authorized	CN201922205853.X	2019-12-11
8	A kind of concrete cube specimen preparation mould	utility model	authorized	CN201920878517.9	2019-06-12
9	A kind of thickening equipment for large diameter longitudinal welded pipe welding seam	utility model	authorized	CN201920767633.3	2019-05-27
10	A kind of coating pipe separation cutting tool	utility model	authorized	CN201920767624.4	2019-05-27
11	Pickling treatment device and treatment method before epoxy powder spraying of steel pipe	invention patent	authorized	CN201710568728.8	2017-07-13
12	A kind of fully automatic marking device for coating steel pipe centre colour ring	utility model	authorized	CN201721777342.X	2017-12-19
13	Processing equipment for concrete counterweight pipe for subsea use	utility model	authorized	CN201721685153.X	2017-12-07
14	A kind of strong anti-corrosion stainless steel pipe	utility model	authorized	CN201721675282.0	2017-12-06
15	A kind of concrete counterweight trolley	utility model	authorized	CN201721587720.8	2017-11-24
16	A kind of mechanical grinding type descaling device for steel pipe	utility model	authorized	CN201721587746.2	2017-11-24

No.	Name of invention	Patent Category	Legal Status	Application No.	Application Date
17	A kind of equidistant divider	utility model	authorized	CN201721561853.8	2017-11-21
18	A kind of self-purifying powder silo	utility model	authorized	CN201721111750.1	2017-09-01
19	Thick coating epoxy insulation anti-corrosion paint	invention patent	authorized	CN201610089787.2	2016-02-18
20	Processing equipment and technics for concrete counterweight pipe for subsea use	invention patent	substantive review	CN201711281293.5	2017-12-07
21	A kind of patching free anti-corrosion steel pipe which is resistant to H2S and CO2	utility model	authorized	CN201721198515.2	2017-09-19
22	A kind of steel pipe outer wall grinding equipment and grinding system	utility model	authorized	CN201721127790.5	2017-09-05
23	A kind of lining composite steel pipe socket connecting system	utility model	authorized	CN201721042945.5	2017-08-21
24	A kind of high temperature indentation hardness tester for anti-corrosion coating of metal pipeline	utility model	authorized	CN201721101764.5	2017-08-31
25	A shot blasting spindle system for sand blasting machine	utility model	authorized	CN201720946616.7	2017-08-01
26	A kind of auxiliary system for steel pipe anti-corrosion coating	utility model	authorized	CN201720946618.6	2017-08-01
27	Pickling treatment device for steel pipe before epoxy powder spraying	utility model	authorized	CN201720846114.7	2017-07-13
28	A kind of ferrule pipe end connector	utility model	authorized	CN201720824812.7	2017-07-10
29	A kind of lining composite steel pipe socket connecting system and socket connecting method	invention patent	substantive review	CN201710716297.5	2017-08-21
30	A kind of inner coating steel pipe and its manufacturing method	invention patent	substantive review	CN201710722847.4	2017-08-22

No.	Name of invention	Patent Category	Legal Status	Application No.	Application Date
31	Phenolic epoxy coating for corrosion resistance under insulation layer	invention patent	authorized	CN201610089788.7	2016-02-18
32	Nano-microsphere modified high weathering resistance fluorocarbon coating	invention patent	authorized	CN201410806773.9	2014-12-23
33	A kind of steel pipe with ultra-thick polyolefin anti-corrosion coating	utility model	authorized	CN201520706859.4	2015-09-14
34	A kind of pipeline coating water-cooling device	utility model	pending late payment of annual fees	CN201520118488.8	2015-02-28
35	A kind of steel pipe inner wall blowing device	utility model	authorized	CN201420688351.1	2014-11-18
36	Continuous paperless recording system sand bath type cathodic stripping tester	utility model	authorized	CN201420727118.X	2014-11-28
37	A kind of high-strength pipe end wear-resistant and dustproof polyurethane pipe cap	utility model	authorized	CN201420727249.8	2014-11-28
38	A polypropylene high temperature indentation test device	utility model	authorized	CN201420701551.6	2014-11-21
39	A kind of thermal insulation and heat preservation heavy-duty coating with low thermal conductivity and its preparation method	invention patent	authorized	CN201110307864.4	2011-10-12
40	Rusty coating for oil well pipe	invention patent	authorized	CN200910195915.1	2009-09-18
41	Low temperature curing temperature resistant heavy anti-corrosion coating	invention patent	authorized	CN200910195914.7	2009-09-18
42	A kind of low temperature curing coating of epoxy anti-corrosion powder for oil and gas pipeline above X80 grade	invention patent	authorized	CN200810041412.4	2008-08-05

No.	Name of invention	Patent Category	Legal Status	Application No.	Application Date
43	Natural gas pipeline resistance reduction and wear-resistant coating	invention patent	authorized	CN200910195911.3	2009-09-18

2. *Software Copyrights*

No.	Date of registration approval	Full name of software	Abbreviation of software	Registration number	Classification number	Version	Date of first publication
1	2018-09-10	Millimeter wave radar monitoring and early warning system	–	2018SR727218	30200-0000	V1.0	2018/9/10
2	2016-06-13	Hilong offshore petroleum pipeline laying simulation software	HPLS	2016SR140452	30200-5600	V1.0	2016/6/13

3. *Registered Trademarks*

No.	Application Date	Trademark	Trademark name	Registration number	International classification	Trademark status	Date of registration notice
1	2008-01-28		graphics	6531506	02 – pigments and paints	trademark registered	2010-03-28
2	2007-05-18		graphics	6054981	02 – pigments and paints	trademark registered	2010-01-28

(V) Type and Number of Off-The-Book Assets Declared by the Appraised Entity

No off-the-book assets have been declared by the Appraised Entity.

IV. TYPE AND DEFINITION OF VALUE

The type of value of the valuation subject is determined to be the market value.

Market value refers to the estimated value of the valuation object in an arm's-length transaction made on the valuation benchmark date between a willing buyer and a willing seller who has each acted rationally and without compulsion.

An "arm's-length transaction" is a transaction between parties who have no specific or special relationship, that is, a transaction between parties who are assumed to be unrelated and acting independently of each other.

V. BENCHMARK DATE

The benchmark date of this project is March 31, 2022.

VI. ANALYSIS APPROACHES

This valuation is conducted based on asset-based approach, with income-based approach as supplementary method.

Introduction of income-based approach: the discounted cash flow method (DCF) is a commonly used method of the income-based approach, which means by estimating the future expected cash flow of an enterprise and adopting an appropriate discount rate, the expected cash flow is converted into the current value to obtain the value of all shareholders' equity. Discounted cash flow method usually includes enterprise free cash flow discount model and equity free cash flow discount model. Asset appraisal professionals will properly select a discounted cash flow model based on the industry, business model, capital structure, and development trend of the appraised entity.

VII. ANALYSIS METHODOLOGY

(I) Asset-based Approach

The benchmark date is March 31, 2022, which is three months from the previous benchmark date December 31, 2021. For non-physical assets and liabilities, their appraised value under the asset-based approach will not be significantly different from their carrying value, therefore, in the analysis of the value of the assets entrusted for valuation, the valuer has only performed revaluation on physical assets and intangible assets. Other assets and liabilities are stated at their carrying value as set out in the statements provided by the enterprise entrusted for valuation.

(II) Income-based Approach

According to the asset composition and business characteristics of the appraised entity and the due diligence of the appraisal, the basic idea of this valuation is based on the accounting statements provided by the appraised entity: firstly, the discounted cash flow method (DCF) is used to estimate the value of operating assets of the entity; plus the value of other non-operating or surplus assets, liabilities and surplus assets on the benchmark date, after deducting interest-bearing debts, to obtain the value of all shareholders' equity of the enterprise.

1. *Valuation Model*

According to the actual situation of the assessed entity, the enterprise's discounted free cash flow model is selected under this discounted cash flow method (DCF). The basic formula is:

Value of all shareholders' equity = Overall enterprise value - value of interest-bearing debt

Where:

(1) Overall enterprise value = value of operating assets + value of surplus asset + value of non-operating asset and liabilities

(2) Value of operating assets = P, the sum of the present value of free cash flow during the specified forecast period + the present value of free cash flow after the specified forecast period, i.e.

$$P = \sum_{i=1}^{n} \frac{F_i}{(1+r)^i} + \frac{F_n*(1+\mathrm{g})}{(r\text{-}\mathrm{g})*(1+r)^n}$$

Where: F_i – amount of free cash flow in the future i-th income period;

n – specified forecast period refers to the period from valuation benchmark date to the time required for an enterprise to reach stable operation;

g – expected annual growth rate of the future income after specified forecast period;

r – the selected discount rate.

2. *Steps of Valuation*

(1) Determine the amount of expected income. The expected future income was derived by the appraised entity based on the human resources, technical level, capital structure, operating conditions, historical performance, development trend of the appraised entity, as well as macroeconomic factors, the current situation and development prospects of the industry.

(2) Determine the future income period. After discussing with the management and analysing and understanding the nature and type of the appraised entity, the status quo and development prospects of the industry in which it operates, agreements and articles of association, operating conditions, asset characteristics and resource conditions, etc., the future income period is determined to be indefinite. At the same time, on the basis of a comprehensive analysis of the remaining economic life of the product or service of the appraised entity and the research and development of substitute products or services, income structure, cost structure, capital structure, capital expenditure, working capital, investment income and risk level, etc., taking into account the macro policies, industry cycles and other factors that affect enterprises entering a stable period, the specified forecast period n is selected as 5 years for the project, and the amount of Fi remains unchanged after the specified forecast period, i.e., the value of g is zero.

(3) Determine the discount rate. According to the principle that the discount rate should be consistent with the expected income, in this valuation, the discount rate selected is weighted average cost of capital (WACC), i.e. the weighted average of the expected rate of return on equity and the expected rate of return on debt after adjustment for income tax, is calculated as:

$$WACC = R_d \times (1\text{-}T) \times W_d + R_e \times W_e$$

Where:

R_d: expected rate of return on debt;

R_e: expected rate of return on equity;

W_d: percentage of debt capital in capital structure;

W_e: percentage of equity capital in capital structure;

T: effective income tax rate of the company.

(i) The expected rate of return on equity is determined using the modified capital asset pricing model (CAPM), and is calculated as:

$$R_e = R_f + \beta_e \times MRP + \varepsilon$$

Where:

R_f: risk-free rate;

MRP: market risk premium;

ε: specific risk/reward ratio;

β_e: expected market risk coefficient of the equity capital of the assessed target;

$$\beta_e = \beta_t \times (1 + (1 - t) \times \frac{D}{E})$$

Where: β_t is the expected unlevered market risk coefficient of comparable companies;

D, E: are the company's own debt capital and equity capital, respectively.

(4) The following is a summary of the key parameters adopted on the valuation date for the weighted average cost of capital of the business enterprise:

Key parameters		As at 31 March 2022
a)	risk-free interest rate	2.80%
b)	market risk premium	6.88%
c)	beta coefficient	0.8133
d)	company-specific risk premium	8.50%
e)	cost of equity	17.50%-17.70%
f)	cost of debt	4.60%
g)	weight of equity value to enterprise value	85.8%-88.10%
h)	weight of debt value to enterprise value	11.90%-14.20%
i)	corporate tax rate	15.00%
weighted average cost of capital		15.7%-15.90%

Notes:

a) The average of the latest 10-year China treasury bond yield was selected as the risk-free interest rate adopted for calculation, which was extracted from the China Government Bond Yield Curve published on the website of China Appraisal Society and provided by the China Government Securities Depository Trust & Clearing Co., Ltd. (CCDC). Considering that the income of the 10-year treasury bond is released every working day, in order to avoid the impact of short-term market sentiment fluctuations on the value, it is calculated in accordance with the latest complete quarterly average value combined with the appraised company's technical specifications and updated every quarter. The value as at the benchmark date was 2.80%.

b) The market risk premium adopted was the market risk premium in China as at the valuation date, which was extracted from the historical risk premium data of China Securities Market Index.

c) The adopted beta coefficient in this valuation was selected with reference to the average β-coefficient index of comparable listed companies that are in the same industry as the underlying enterprise as at the benchmark date. The data source was the RoyalFlush iFinD financial data terminal. The appraised company is principally engaged in multi-functional coating materials and coating services, inspection services and maintenance, and other technical services for various pipelines used in oil and gas drilling and transmission in China and overseas markets. As there was no directly comparable company found after screening in the A Share market and Hong Kong stock market, the valuer expanded the screening scope. The adopted beta coefficient is selected with reference to the average β-coefficient index of listed companies that are in the same industry as the appraised enterprise as at the benchmark date, and the selection criteria are as follows:

   1) The comparable companies must have been listed for at least three years;

   2) The comparable companies only issue A shares in Renminbi;

   Selection of underlying index: CSI 300

   Calculation period: week
   Time frame: 5 years
   Calculation method of return rate: logarithmic return rate
   Exclusion of financial leverage: based on market value ratio
   Industry: Coatings and inks industry

   By using the RoyalFlush iFinD financial data terminal for screening in accordance with the above principles, it was found on its financial data terminal that the weighted average value of the listed companies in the industry after excluding their financial leverage is 0.8133.

d) The company-specific risk premium adopted was determined mainly based on the professional experience of the valuer after considering factors such as the operating risk, management ability and financial risk of the appraised enterprise.

e) The cost of equity was determined based on the capital asset pricing model (CAPM).

f) The cost of debt adopted was calculated with reference to the loan prime rate (LPR)-5-year loan interest rate announced by the National Interbank Funding Center. The cost of debt is determined by the borrowing rate of the financial institution that financed the appraised enterprise. As the interest expense paid in respect of the debt is a tax-deductible item of a business enterprise, the cost of obtaining debt capital by the appraised enterprise is lower than the prescribed rate of return of the debt capital provider.

g) The weight of equity value to enterprise value adopted was calculated based on the real capital structure of the enterprise.

h) The weight of debt value to enterprise value adopted was calculated based on the real capital structure of the enterprise.

i) The corporate tax rate adoption was 15%.

Therefore, the weighted average cost of capital adopted by the business enterprise on the valuation date was 15.70%-15.90%.

(5) Determine the value of surplus asset and assessed net value of non-operating asset and liabilities.

(6) Determine the value of interest-bearing debt.

3. *Valuation Table of Income-based Approach*

Item/Year	Whole year of 2022	2023	2024	2025	2026	2027	2028 and after
				RMB' million			
1. Revenue	**1,081.83**	**923.50**	**940.81**	**963.39**	**986.80**	**986.80**	**986.80**
Less: Cost of sales	733.39	589.79	593.13	606.71	620.81	620.81	620.81
Selling and marketing expenses	38.28	34.31	36.17	37.25	38.36	38.36	38.36
Administrative expenses	142.41	149.50	157.97	161.48	168.30	168.30	168.30
Finance cost	12.86	6.31	6.77	6.68	6.68	6.68	6.68
Add: Other loss	−11.55	0.00	0.00	0.00	0.00	0.00	0.00
Investment income	7.83	4.82	4.82	4.82	4.82	4.82	4.82
2. Operating profit	**151.17**	**148.40**	**151.58**	**156.09**	**157.47**	**157.47**	**157.47**
3. Profit for the year	**151.17**	**148.40**	**151.58**	**156.09**	**157.47**	**157.47**	**157.47**
4. Income tax expense	**22.67**	**22.26**	**22.74**	**23.41**	**23.62**	**23.62**	**23.62**
5. Net profit for the year	**128.49**	**126.14**	**128.85**	**132.68**	**133.85**	**133.85**	**133.85**

Item/Year	Whole year of 2022	2023	2024	2025	2026	2027	2028 and after
				RMB' million			
6. Profit attributable to the parent company	**122.25**	**120.01**	**122.59**	**126.23**	**127.34**	**127.34**	**127.34**
Among which: Realized net profit of the parent company on the benchmark date	2.75						
Add: Depreciation and amortization	31.81	45.07	49.21	52.12	36.37	35.68	35.68
Less: Capital expenditure	35.01	46.21	42.01	25.91	25.91	26.21	35.68
Less: Addition of working capital (loss represented by "–")	–47.89	–73.10	16.97	15.43	15.98	0.00	0.00
7. Free cash flow to equity	**164.19**	**191.97**	**112.82**	**137.01**	**121.82**	**136.81**	**127.34**
Add: Interest expenses of interest-bearing debt after tax	8.46	5.75	6.14	6.06	6.06	6.06	6.06
8. Enterprise free cash flow	**172.65**	**197.72**	**118.96**	**143.07**	**127.88**	**142.87**	**133.40**
Discount rate	15.9%	15.7%	15.8%	15.8%	15.8%	15.8%	15.8%
Discount period (months)	4.5	15.00	27.00	39.00	51.00	63.00	
Discount factor	0.9462	0.8323	0.7190	0.6209	0.5362	0.4630	2.9304
9. Present value of income	**163.36**	**164.56**	**85.53**	**88.83**	**68.57**	**66.15**	**390.92**
	Value of operating asset						**1,027.92**
Add: Assessed value of non-operating asset on benchmark date	145.32	Assessed value of surplus asset	–				
Assessed value of the overall value of the enterprise (after deducting minority interest)							**1,173.24**
Less: Interest-bearing debt	**190.37**	**Assessed value of all shareholders' equity (after deducting minority interest)**					**982.87**(Note 1)

Note 1: Based on the above table, the Target Group was valued at approximately RMB982.87 million. Considering the cash and cash equivalents balance stood at a higher level as of September 30, 2022, the Management of the Company considered to add back a further cash item of RMB54.51 million to the above value. The further cash item was estimated as twice of the cash balance as of March 31, 2022. Accordingly, the adjusted value as at March 31, 2022 under income-based approach is RMB1,037.38 million.

4. *Major Parameter Assumptions of Cash Flow Projection by the Management*

Projection Period

The forecast period starts from the second quarter of year 2022 to year 2027, and year 2028 is perpetual year.

Revenue

During forecast period of 2023-2027, revenue shows a lower compound growth rate. It is mainly due to multiple impacts of uncertainties such as the overall supply and demand relationship of the oil and gas industry, geopolitical risks, overseas business especially in Russia, is affected by significant fluctuation in energy price caused by the uncertainty of the Russia-Ukraine conflict. And extremely low workload in pipeline coating used in transportation process from the end of 2022 also results in the limited overall revenue growth.

Revenue of 2022 decreased by 13.2% or RMB165 million compared with that of 2021. Revenue of 2023 is forecasted to decrease by 14.6% or RMB158 million compared with that of 2022. The decrease in revenue in 2022 and 2023 is mainly due to the reduce in drill pipe trading business between the Target Group and the Remaining Group which has a low gross profit margin.

Cost of sales and gross profit margin

Cost of sales mainly includes material costs, labor costs, manufacturing expenses and service related costs of the Target company's businesses. Considering stability of product and service categories of the Target Group, gross profit margin is estimated between 36% and 38%, which is based on the average gross profit margin of relevant products and services for 2019, 2020, 2021 and 1st quarter of 2022.

Selling and marketing expenses

As advised by the Management, selling and marketing expenses include all relevant items, which mainly represent personnel salaries, business entertainment expenses, market development expenses and other expenses. The proportion of sales and marketing expenses to revenue is basically stable during the forecast period.

Administrative expenses

As advised by the Management, administrative expenses include all relevant items, which mainly represent personnel salaries, research and development expenses and general administrative expenses with stable annual growth.

Income Tax Expenses

The income tax expense is estimated by adopting comprehensive effective rate of 15% as advised by the Management. The income tax rate of 15% is the average rate of the year of 2019, 2020, 2021 and 1st quarter of 2023. The income tax rate of 2021 was arrived at by deducting the gain from disposal of subsidiaries of RMB79 million.

Depreciation Expenses

The depreciation of fixed assets and projected capital expenditure is based on the straight-line method.

Capital Expenditure

According to the extent of machine obsolescence and operational needs, management estimates that capital expenditure is mainly used for acquisition of new production equipment.

Non-operating assets and liabilities

Non-operating assets and liabilities of this valuation include net of non-operating receivables and payables, net of deferred tax assets and deferred tax liabilities and dividend payables, totalling amount of RMB145.32 million, which is added to the enterprise value.

The business of the Target Group is carbon-intensive and heavily influenced by the PRC regulatory policies in energy sector, in particular the country's energy and decarbonization strategies. Particularly, China's 14th Five-Year Plan for scientific and technological innovation in the energy sector envisages the development of advanced renewable energy, new power supply systems, safe and efficient nuclear energy, and digital and intelligent applications in the energy sector before 2025. State leaders also affirmed at the 20th National Congress of the Communist Party of China the target of reaching peak carbon emissions by 2030. Coupled with the uncertainty in geopolitical factors and oil prices, it is expected the Target Group, which engages in traditional manufacturing and carbon-intensive, will be facing increasing competition from renewable and low-carbon energy and may be gradually replaced by cleaner and more efficient alternatives, resulting in a high degree of uncertainty or even decline in the Target Group's financial performance starting 2026 and after.

VIII. EXECUTION OF ANALYSIS PROCEDURE

The entire analysis procedure is divided into the following four stages:

(I) Preparation

1. Upon acceptance of the engagement for this project, discuss and reach an agreement with the Principal on analysis purpose, benchmark date, scope and other issues, enter into a business commission contract, and formulate analysis plan for this project.

2. Collaborate with enterprises in asset stocktaking, guide and assist enterprises with declaration of asset within the valuation scope and prepare documents and information necessary for asset analysis.

(II) Analysis

1. Verification and validation of the assets and related information declared by the enterprise in the scope of analysis:

   (1) Listen to overall enterprise introduction given by staff of the Principal and Appraised Entity, together with introduction of the history and status of assets to be analyzed, so as to have an overall picture about the enterprise' internal system, operating position and use of assets;

   (2) Review the asset-declaration statements for valuation provided by the enterprise, verify with relevant financial records and work with the enterprise to make adjustment or provide supplemental information when issues are identified;

   (3) Conduct on-site inspection and spot check on physical assets based on the asset-declaration statements for valuation;

   (4) Review and collect the title documents of assets to be analyzed, check the title information provided by the Appraised Entity and verify the ownership of the assets. For assets with defects, request the Appraised Entity to verify and confirm the ownership and the title dispute, if any;

   (5) Analyze and develop specific valuation methods for each type of assets based on the actual conditions and characteristics of the assets under analysis;

(6) For equipment, buildings, and land use rights assets, understand the management system and actual implementation, as well as corresponding maintenance, alteration and expansion, review and collect relevant technical data, contracts, budget data, completion inspection data, and land planning files, etc. For general-purpose equipment, conduct market research and inquire about price information; for buildings, properties and land use rights, research and collect information on market conditions, property transaction cases and local construction costs;

(7) Understand the cost structure, history and future revenue of the intangible assets involved, as well as information on the market conditions of the corresponding products;

(8) For liabilities within analysis, the main focus is to understand the actual liabilities to be assumed by the Appraised Entity.

2. By understanding of the historical operation of the Appraised Entity, its current operating status and the real status of the industry in which it operates, judge the likely development trend of the enterprise over a period of time in the future, the details of which are as follows:

(1) Understand the legal situation relating to the continuing operations of the Appraised Entity mainly in respect of its articles of association, investment and capital contribution agreements, place of operation and ability to operate;

(2) Understand the accounting system implemented by the Appraised Entity, depreciation policy for fixed assets, accounting for inventory costs and accounting method for issued inventory, etc., the tax rate implemented and tax status, debt, borrowings and cost of debts in recent years;

(3) Understand the Appraised Entity's business type, business model and historical operating results including the percentage of the revenue from its principal operations, the distribution of its major customers, and its connected transactions with connected persons;

(4) Obtain financial information such as audited balance sheets, income statements, cash flow statements and product income and cost breakdown sheets for recent years.

(III) Result analysis and summary

Analyze, summarize and collate the valuation data collected during the on-site valuation survey as necessary to form basis for analysis and estimate; select correct formulas and reasonable valuation parameters based on the selected analysis method to form a preliminary valuation result; summarize the preliminary analysis conclusions and analyze the reasonableness of the analysis conclusions when it is confirmed that there is no duplication or omission of valuation in the scope of assets under analysis.

(IV) Preparation and submission of the report

Prepare the preliminary asset analysis report based on the above works performed; exchange views with the Principal on the contents of the preliminary analysis report; revise and improve the report after taking into account all relevant views communicated; and submit a formal report to the Principal after completing the enterprise's internal audit procedures.

IX. ANALYSIS ASSUMPTIONS

(I) Basic Assumptions

1. Transaction assumption

The transaction assumption assumes that all assets to be analyzed are in the process of transaction, and the asset valuer will make estimation in a simulated market according to the transaction conditions of assets to be evaluated. The transaction assumption is one of the most fundamental assumptions for the further implementation of the asset valuation.

2. Open market assumption

The open market assumption is an assumption about the market conditions into which an asset is intended to enter and what effects the asset will receive under such market conditions. An open market is a fully developed and comprehensive market condition and a competitive market with willing buyers and sellers, where buyers and sellers are on equal footing and have access to adequate market information, and where transactions between buyers and sellers are conducted under voluntary, rational, non-compulsory or unrestricted conditions. The open market assumption is based on the assumption that assets are publicly tradable in the market.

3. *Enterprise going concern assumption*

The enterprise going concern assumption assumes that the Appraised Entity can legally continue its production and operation business as they are within the foreseeable future operating period under the existing asset resources conditions and there will be no major adverse changes in the operating conditions.

4. *Assumption about the use of an asset for its existing purpose*

The assumption about the use of an asset for its existing purpose assumes that the assets will continue to be used for their current purpose. Firstly, it is assumed that the assets within the scope of valuation are in use. Then it is assumed that the assets will continue to be used for the current purpose and mode of use without considering asset use conversion or optimal utilization conditions.

(II) General Assumptions

1. This analysis assumes that there will be no unforeseeable significant adverse changes in the external economic environment, including the relevant laws, macroeconomic, financial and industrial policies prevailing in China after the valuation benchmark date, and that there will be no significant impact caused by other human force majeure and unforeseeable factors.

2. This analysis does not consider the impact on the Appraised Entity's valuation conclusion of any collateral or guarantee that the Appraised Entity and its assets may assume in the future, or any additional price that may be paid as a result of special transactions.

3. It is assumed that there will be no significant changes in the socio-economic environment in which the Appraised Entity is located or the fiscal and taxation policies in place, such as taxes and tax rates, and that the credit policy, interest rate, exchange rate and other financial policies will be generally stable.

4. The current and future business operations of the Appraised Entity are and will be legal and in compliance with the relevant provisions of its business license and articles of association.

(III) Special Assumptions for the Income Approach Valuation

1. The future income of the Appraised Entity can be reasonably expected and measured in currency; the risk corresponding to the expected income is measurable; the period of future income can be determined or reasonably expected.

2. The current and future management of the Appraised Entity will perform their business and management functions in compliance with laws and with diligence. After the implementation of this economic act, there will be no significant impact on the development of the Company or detriment to the interests of Shareholders, and the Company will continue to maintain the current business and management model as well as management level.

3. In the future forecast period, the core management personnel and technical personnel of the assessed entity are relatively stable, and there will be no major changes that affect the business development and profit realization of the enterprise.

4. The accounting policies adopted by the Appraised Entity after the benchmark date are consistent with the accounting policies adopted at the time of preparation of this report in material aspects.

5. It is assumed that the inflow and outflow of cash flow of the Appraised Entity after the benchmark date are both even.

6. The assessed entity and their subsidiaries have mostly been high-tech enterprises in recent years. It is assumed that the Appraised Entity remains qualified for the recognition as a high-tech enterprise in the future and can continue to enjoy preferential income tax policies.

The valuation conclusion of this Report is established at the valuation benchmark date under the above assumptions, and in the event of any significant changes in the above assumptions, the appraisal institution shall not be liable for deriving a different analysis conclusion as a result of the change in the assumptions.

X. ANALYSIS CONCLUSION

(I) Relevant Analysis Results

1. Asset-based approach

(1) Valuation results as at December 31, 2021

The valuation of the value of the entire interest of the corporate shareholders using the asset-based approach resulted in the following valuation of the Appraised Entity on the valuation benchmark date:

On the valuation benchmark date, the carrying amount of interests of the Appraised Entity's shareholders is RMB854,077,500, while the appraised value is RMB1,004,515,800, representing the appraised increase of RMB150,438,300 and the appreciation rate of

17.61%. Of which: the carrying amount of total assets is RMB1,238,671,700, while the appraised value is RMB1,387,117,200, representing the appraised increase of RMB150,438,300 and the appreciation rate of 12.15%. The carrying amount of liabilities is RMB384,594,100 with an appraised value of RMB384,594,100 and no change.

As the major assets of the Appraised Entity, Hilong Pipeline Engineering Technology Service Co., Ltd., were long-term investments, the appraisers conducted the preliminary valuation using the asset-based approach for all the controlled subsidiaries within the scope of consolidation, and the carrying amount of long-term investments in controlled subsidiaries in the parent company's statements was the original investment accounted for using the cost method, which resulted in the appraised increase.

(2) Valuation results as at March 31, 2022

The valuation of the value of the entire interest of the corporate shareholders using the asset-based approach resulted in the following valuation of the Appraised Entity on the valuation benchmark date:

On the valuation benchmark date, the carrying amount of interests of the Appraised Entity's shareholders is RMB863,977,100, while the appraised value is RMB997,727,100, representing the appraised increase of RMB133,750,000 and the appreciation rate of 15.48%. Of which: the carrying amount of total assets is RMB1,298,583,300, while the appraised value is RMB1,432,333,300, representing the appraised increase of RMB133,750,000 and the appreciation rate of 10.30%. The carrying amount of liabilities is RMB434,606.2,000 with an appraised value of RMB434,606,200 and no change.

3. Analysis on the difference between the valuation conclusions on different benchmark dates

It was concluded that the entire value of Shareholders 'equity decreased from RMB1,004,515,800 as at December 31, 2021 to the appraised value of RMB997,727,100 as at the benchmark date March 31, 2022, representing a decrease of RMB6,788,700 or 0.68%. The lower appraised value as at March 31, 2022, as compared to December 31, 2021 was mainly due to the combined effects of changes in assets, liabilities and gains of the parent company and its fellow subsidiaries between the two valuation benchmark dates, and the revaluation of physical assets and intangible assets.

Based on the above analysis, there is no material change between the current and previous valuations in terms of projects. We are of the view that the conclusion of the report of Dong Zhou Zi Bao Zi [2022] No. 1248 issued on December 23, 2022 is reasonable.

2. *Income-based Approach*

The evaluated entity adopts income-based approach with valuation of RMB982,877,000.

The appraisers only provide valuation and measurement services of the income-based approach, which is based on future profit forecast and cash flow projection provided by the Company's management. The Company shall be responsible for the authenticity, legality and completeness of the above information. We do not express opinions and provide assurance or any form of assurance on the above information.

A sensitivity analysis is prepared to project the results based on the changes of discount rate and revenue.

The following table summarizes the appraised values of the Target Group based on changes of discount rate:

Discount Rate (%)	**Appraised Values** *(RMB'million)*
14.90-15.10	1,032.32
15.30-15.50	1,008.03
15.70-15.90	982.87
16.10-16.40	961.13
16.50-16.80	940.81

The following table summarizes the appraised values of the Target Group based on changes of revenue:

Revenue	**Appraised Values** *(RMB'million)*
Decrease by 5% of each year up to 2028	899.12
Decrease by 3% of each year up to 2028	931.84
Remain unchanged	982.87
Increase by 3% of each year up to 2028	1,036.85
Increase by 5% of each year up to 2028	1,071.48

3. *Analysis between Different Valuation Methods*

Taking March 31, 2022 as the benchmark date, the valuation result using asset-based approach of RMB997,727,100 is higher than the valuation result using income-based approach of RMB982,877,000. The difference of RMB14,850,100 is not significant.

1. Asset-based approach is a method of obtaining the value of all shareholders' equity by subtracting the assessed value of liabilities from the total assessed value of various elements of assets. The enterprise is in a state of continuous operation and has available historical operating data;

2. The income-based approach is based on the expected income of an asset as the value criterion and reflects the operating capacity (profitability) of the asset. This profitability is usually affected by various conditions such as macroeconomic, government control and the effective use of assets.

4. *Selection of Valuation Conclusions*

The income-based approach method focuses on evaluating the profitability of enterprises. This approach is influenced by multiple factors, such as the overall supply and demand relationship of the industry in which the Target Group operates, PRC regulatory policies in energy sector, geopolitical risks, uncertainty in the Target Group's overseas business, especially the business in Russia, which is affected by significant fluctuation in energy price and exchange rate risk caused by the uncertainty of the Russia-Ukraine conflict, and hence there are many limitations to the assumptions for profit forecast. Other uncertain factors include the actions of major oil producing countries and other energy prices, are beyond the company's control. There is certain uncertainty in future performance of the Target Group, and it is difficult to use the income-based method effectively and accurately.

The asset-based approach is to estimate each asset and liability of an enterprise from the perspective of the current reconstruction of its assets and liabilities, and summarizes them to obtain the value of all shareholders' equity. In the current industry environment affected by many factors, it can fairly reflect the value of all shareholders' equity value of the enterprise on the benchmark date, which has better pertinence and accuracy compared to the income-based approach. Therefore, the appraisal conclusion based on the asset-based approach is adopted for this valuation. Although the result of asset-based approach is less than that of income-based approach of RMB14,605,900, or by 1.46%, the asset-based approach is much more reliable than income-based approach.

(II) Other Notes to the Analysis Conclusion

1. When there is a change in the amount of assets, the amount of assets should be adjusted according to the original valuation approach;

2. The Principal shall promptly engage a qualified asset appraisal institution to re-determine the appraised value when there is any change in the asset pricing standards that significantly impact the asset valuation result;

3. The Principal shall give due consideration to any changes in the amount of assets and the pricing standards after the benchmark date when implementing the economic activities.

(III) Validity of the Analysis Conclusion

Validity Period of the Analysis Conclusion is one year from benchmark date.

XI. DESCRIPTION OF SPECIAL MATTERS

When using this valuation report, the users shall pay due attention to the possible impact of the following special matters on the valuation conclusion, and give full consideration of such matters when making their own decisions and implementing the economic activities based on this report:

(I) Incomplete or defective key information such as ownership:

The factories of Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd., for which real estate ownership certificates have been obtained, are built on collective-owned land, with a land area of 31,415 sq.m. and gross floor area of 8,284 sq.m. The land is for industrial purpose but the right-of-use land is accounted as collective-owned land. According to Land Administration Law, collective-owned land is used for constructing residential houses of villagers and starting township enterprises, which may be subject to the risk of land resumption. It should be brought to the attention of the report users that the impact of this risk on the valuation has not been taken into account for this valuation.

(II) Uncertain factors including pending matters and legal disputes as at benchmark date:

The asset valuer was not aware of uncertain factors such as pending matters and legal disputes existing in the enterprise as of the benchmark date. The Principal and the Appraised Entity also expressly stated that there were no uncertain issues such as pending matters and legal disputes.

(III) Other Matters Requiring Explanation

1. The appraisers only provide valuation and measurement services of the income-based approach, which is based on future profit forecast and cash flow projection provided by the Company's management. The Company shall be responsible for the authenticity, legality and completeness of the above information. We do not express opinions and provide assurance or any form of assurance on the above information.

2. In this report, all tables or textual expressions denominated in RMB ten thousands, any difference between the total amount and the sum of the individual sub-values is due to rounding off.

   The user of the report shall pay due attention to the impact of the aforesaid special matters on the analysis conclusion when using this asset valuation report.

XII. RESTRICTIONS ON THE USE OF REPORT

(I) This report shall only be used for the purposes and the economic activities as set out herein.

(II) The appraisal institution and the asset valuer shall not be liable if the Principal or other users fail to use this report in accordance with the provisions of laws and administrative regulations and the scope of use set out in this report.

(III) Except for the Principal, other users of the report as agreed in the asset valuation commission contract and the users of the report as stipulated in the laws and administrative regulations, no other institution or individual shall be the user of this report.

(IV) The user of the report shall correctly understand and use the analysis conclusion. The analysis conclusion is not equivalent to the realizable price of the analysis subject, and the analysis conclusion shall not be considered as a guarantee of the realizable price of the analysis subject.

(V) The right to interpret the contents of this report shall rest with the appraisal institution, and no other entity or department shall have the right to interpret it, unless otherwise expressly and specifically provided for in national laws and regulations; any extract, quote or disclosure of the whole or part of the contents of the report in the public media shall be subject to the written consent of the appraisal institution after the appraisal institution has reviewed the relevant contents, except as stipulated in laws and regulations and as otherwise agreed by the relevant parties.

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

pwc 羅兵咸永道

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE CALCULATIONS OF DISCOUNTED FUTURE ESTIMATED CASH FLOWS IN CONNECTION WITH THE BUSINESS VALUATION OF HILONG PIPELINE ENGINEERING TECHNOLOGY SERVICE CO., LTD.

TO THE BOARD OF DIRECTORS OF HILONG HOLDING LIMITED

We have completed our assurance engagement to report on the calculations of the discounted future estimated cash flows on which the business valuation (the "Valuation") dated 29 March 2023 prepared by Shanghai Orient Appraisal Co., Ltd in respect of the appraisal of the fair value of the 100% equity interests in Hilong Pipeline Engineering Technology Service Co., Ltd. (the "Target Company") is based. The Valuation is set out in Appendix V of the circular of Hilong Holding Limited (the "Company") dated 31 March 2023 (the "Circular") in connection with the disposal by the Company of a 100% equity interest in the Target Company. The Valuation based on the discounted future estimated cash flows is regarded as a profit forecast under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Directors' Responsibility for the Discounted Future Estimated Cash Flows

The directors of the Company are responsible for the preparation of the discounted future estimated cash flows including the bases and assumptions set on pages 10 to 13 of the Circular on which the discounted future estimated cash flows are based. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation of the discounted future estimated cash flows and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

Our Independence and Quality Management

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong SAR, China
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Our firm applies Hong Kong Standard on Quality Management 1 (HKSQM), *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, issued by the HKICPA, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

It is our responsibility, pursuant to paragraph 29(2) of Appendix 1B of the Listing Rules, to express an opinion on the calculations of the discounted future estimated cash flows, and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We are not reporting on the appropriateness and validity of the bases and assumptions on which the discounted future estimated cash flows are based and our work does not constitute any valuation of the Target Company.

We conducted our work in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* issued by the HKICPA. This standard requires that we plan our work to form the opinion.

This assurance engagement involved performing procedures to obtain sufficient appropriate evidence as to whether the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled, in all material respects, in accordance with the bases and assumptions set out on pages 10 to 13 of the Circular. The extent of procedures selected depends on the Reporting Accountant's judgement and our assessment of the engagement risk. Within the scope of our work, we, amongst others, reviewed the arithmetical calculations and the compilation of the discounted future estimated cash flows in accordance with the bases and assumptions.

The discounted future estimated cash flows do not involve the adoption of accounting policies. The discounted future estimated cash flows have been prepared using a set of bases and assumptions that include hypothetical assumptions about future events and management's actions that cannot be confirmed and verified in the same way as past results and that are not necessarily expected to occur. Even if the events anticipated under the hypothetical assumptions described above occur, actual results are still likely to be different from the discounted future estimated cash flows since other anticipated events frequently do not occur as expected and the variation may be material. We are not reporting on the appropriateness and validity of the bases and assumptions on which the discounted future estimated cash flows are based and our work does not constitute any valuation of the Target Company.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, based on the foregoing, so far as the calculations are concerned, the discounted future estimated cash flows, have been properly compiled in all material respects in accordance with the bases and assumptions adopted by the directors of the Company as set out on pages 10 to 13 of the Circular.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 31 March 2023

March 31, 2023

Dear Sirs,

VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION IN RELATION TO THE DISPOSAL OF 100% EQUITY INTEREST IN THE TARGET COMPANY

We refer to the announcement of the Company dated March 31, 2023 (the "**Announcemen**t"), of which this letter forms part. Unless the context otherwise requires, terms defined in the Announcement shall have the same meanings when used herein.

We refer to the Valuation conducted by Shanghai Orient Appraisal Co., Ltd* (上海東洲資產評估有限公司), an independent valuer. The Valuer conducted an asset-based approach valuation and an income-based approach valuation (the "**Income Approach Valuation**") of the Target Group, among which the Income Approach Valuation (which is based on the discounted cash flow forecast) is regarded as a profit forecast under Rule 14.61 of the Listing Rules. The Valuer concluded that the valuation results of the asset-based approach are relatively reliable, and the valuation results derived from the asset-based approach was taken as the Target Group's final Valuation.

We have discussed with the Valuer the different aspects upon which the Valuation was prepared (including the principal and commercial assumptions) and have reviewed the Valuation for which the Valuer is responsible. Pursuant to Rule 14.62 of the Listing Rules, we have engaged PricewaterhouseCoopers, the auditor of the Company, to report on whether the discounted future estimated cash flows in connection with the business valuation of the Target Group, so far as the calculations are concerned, have been properly complied with by the Directors, in all material aspects in accordance with the bases and assumptions as set out in the Valuation Report.

On the basis of the above, we confirm that the Valuation has been made after due and careful enquiry by us.

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

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

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

As at the Latest Practicable Date, save as disclosed below, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were otherwise required to notify the Company and the Stock Exchange pursuant to the Model Code.

(a) Long positions in the Shares of the Company

Name of Director	Capacity	Number of Shares held	Approximate percentage in the Company's issued share capital
Mr. Zhang Jun	Founder and beneficiary of Mr. Zhang's trust/Interest of controlled corporation	710,661,000(1)	
	Founder and beneficiary of three Mr. Zhang's family trusts/Interest of controlled corporation	112,300,800(2)	
	Beneficial owner	1,260,000	
		824,221,800	48.59%

Name of Director	Capacity	Number of Shares held	Approximate percentage in the Company's issued share capital
Ms. Zhang Shuman	Interest of controlled corporation	24,300,000(3)	
	Beneficial owner	692,000	
		24,992,000	1.473%
Mr. Cao Hongbo	Beneficial owner	1,708,000	0.101%
Mr. Wong Man Chung Francis	Beneficial owner	1,288,000	0.076%
Mr. Wang Tao (汪濤)	Beneficial owner	1,200,000	0.071%
Dr. Yang Qingli	Interest of spouse	77,000(4)	0.005%

Notes:

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

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

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

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

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

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

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executives of the Company had or was deemed to have any interests or short positions in shares, underlying shares or debentures of the Company and its associated corporations as recorded in the register required to be maintained under Section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

So far as is known to the Directors or chief executive of the Company, as of the Latest Practicable Date, the persons (other than the Directors or chief executive of the Company) who had interests or short positions in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Long positions in the shares and underlying shares of the Company

Name of substantial shareholder	Capacity	Number of Shares/underlying shares interested	Approximate percentage of the issued share capital of the Company
Hilong Group Limited	Beneficial owner	710,661,000(1)	41.89%
SCTS Capital Pte. Ltd.	Nominee	844,338,000(1)(2)	49.77%
Standard Chartered Trust (Singapore) Limited	Trustee	844,338,000(1)(2)	49.77%
Ms. Gao Xia	Interest of spouse	824,221,800(3)	48.59%

Notes:

(1) 710,661,000 shares are held by Hilong Group Limited, the entire share capital of which is held by SCTS Capital Pte Ltd. which is then wholly-owned by Standard Chartered Trust (Singapore) Limited as trustee of Mr. Zhang's trust. Mr. Zhang Jun is the founder and beneficiary of Mr. Zhang's trust.

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

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

Save as disclosed above, as at the Latest Practicable Date, so far as is known to the Directors or the chief executive of the Company, no other persons (not being a Director or chief executive of the Company) had, or were deemed to have, an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept under section 336 of the SFO.

3. COMPETING BUSINESS

As at the Latest Practicable Date, as far as the Directors are aware, none of the Directors and their respective close associates had any business which competes or may compete, either directly or indirectly, with the business of the Group.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had a service contract with the Company which was not determinable by the Company within one year without payment of compensation, other than statutory compensation.

5. DIRECTORS' INTERESTS IN ASSETS

As at the Latest Practicable Date, so far as the Directors are aware, none of the Directors had any interest, either directly or indirectly, in any asset which has been, since December 31, 2021 (being the date to which the latest published audited consolidated financial statements of the Group were made up) and up to the Latest Practicable Date, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by, or leased to, any member of the Group.

6. DIRECTORS' INTERESTS IN CONTRACT OR ARRANGEMENT OF SIGNIFICANCE

As at the Latest Practicable Date, there were no transactions, arrangements and contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a Director of the Company or his or her connected entities had a material interest, whether directly or indirectly.

7. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since December 31, 2021 (being the date to which the latest published audited consolidated financial statements of the Company were made up).

8. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the Group within the two years immediately preceding the date of this circular and which are, or may be, material to the Group:

1. the Equity Transfer Agreement; and

2. the equity transfer agreement dated June 18, 2021 entered into among Hilong Pipeline Engineering Technology Service Co., Ltd.* (海隆管道工程技術服務有限公司), as seller, Shanghai Jintang Industry Co., Ltd.* (上海金鏜實業有限公司), as purchaser, and Shanghai Hilong Special Steel Pipe Co., Ltd.* (上海海隆特種鋼管有限公司) in relation to the disposal of 70% equity interest in Shanghai Hilong Special Steel Pipe Co., Ltd. for a total consideration of RMB103,480,000.

3. the tenancy agreement dated January 10, 2022 entered into between Hilong Oil Service and Engineering Co., Ltd.* (海隆石油技術服務有限公司) ("**Hilong Oil Service**") as lessee and Beijing Huashi Hailong Oil Investment Co., Ltd.* (北京華實海隆石油投資有限公司) ("**Beijing Huashi Investment**") as lessor in respect of the leasing of office premises located at 20/F., Building 1, 13 Workers' Stadium North Road, Chaoyang District, Beijing, PRC with a total leasing area of 1,850.32 square meters for a term of one year starting from January 1, 2022 to December 31, 2022 at the monthly rental of RMB644,412.49 (excluding utility fees);

4. the tenancy agreement dated January 10, 2022 entered into between Hilong Oil Service as lessee and Beijing Huashi Investment as lessor in respect of the leasing of office premises located at Room 502, 5/F., Building 1, 13 Workers' Stadium North Road, Chaoyang District, Beijing, PRC with a total leasing area of 476.99 square meters for a term of one year starting from January 1, 2022 to December 31, 2022 at the monthly rental of RMB160,608.50 (excluding utility fees);

5. the tenancy agreement dated January 10, 2022 entered into between Hilong Oil Service as lessee and Beijing Huashi Investment as lessor in respect of the leasing of office premises located at Room 503-1, 5/F., Building 1, 13 Workers' Stadium North Road, Chaoyang District, Beijing, PRC with a total leasing area of 126.12 square meters for a term of one year starting from January 1, 2022 to December 31, 2022 at the monthly rental of RMB30,650.84 (excluding utility fees);

6. the tenancy agreement dated January 10, 2022 entered into between Hilong Oil Service as lessee and Beijing Huashi Investment as lessor in respect of the leasing of office premises located at Room 501, 5/F., Building 1, 13 Workers' Stadium North Road, Chaoyang District, Beijing, the PRC with a total leasing area of 276.74 square meters for a term of one year starting from January 1, 2022 to December 31, 2022 at the monthly rental of RMB93,434.34 (excluding utility fees);

7. the tenancy agreement dated January 10, 2022 entered into by Hilong Zhizao (Shanghai) Consulting Management Co., Ltd.* (海隆智造(上海)諮詢管理有限公司)("**Hilong Zhizao Consulting**") and Shanghai Hilong Shine New Material Co., Ltd.* (上海海隆賽能新材料有限公司), pursuant to which Hilong Zhizao Consulting agreed to lease and Shanghai Hilong Shine New Material Co., Ltd. agreed to rent the factory premises located at No. 1825, Luodong Road, Baoshan District, Shanghai, PRC with a total leasing area of 22,135.46 square meters for use as a manufacturing plant for a term of one year commencing from January 1, 2022 at the monthly rental of RMB275,431.46 (excluding management fees and utility fees);

8. the tenancy agreement dated February 7, 2023 entered into between Hilong Oil Service as lessee and Beijing Huashi Investment as lessor in respect of the leasing of office premises located at 20/F., Building 1, 13 Workers' Stadium North Road, Chaoyang District, Beijing, PRC with a total leasing area of 1,850.32 square meters for a term of one year starting from January 1, 2023 to December 31, 2023 at the monthly rental of RMB644,412.49 (excluding utility fees);

9. the tenancy agreement dated February 7, 2023 entered into between Hilong Oil Service as lessee and Beijing Huashi Investment as lessor in respect of the leasing of office premises located at Room 502, 5/F., Building 1, 13 Workers' Stadium North Road, Chaoyang District, Beijing, PRC with a total leasing area of 476.99 square meters for a term of one year starting from January 1, 2023 to December 31, 2023 at the monthly rental of RMB160,608.50 (excluding utility fees);

10. the tenancy agreement dated February 7, 2023 entered into between Hilong Oil Service as lessee and Beijing Huashi Investment as lessor in respect of the leasing of office premises located at Room 503-1, 5/F., Building 1, 13 Workers' Stadium North Road, Chaoyang District, Beijing, PRC with a total leasing area of 126.12 square meters for a term of one year starting from January 1, 2023 to December 31, 2023 at the monthly rental of RMB30,650.84 (excluding utility fees);

11. the tenancy agreement dated February 7, 2023 entered into between Hilong Oil Service as lessee and Beijing Huashi Investment as lessor in respect of the leasing of office premises located at Room 501, 5/F., Building 1, 13 Workers' Stadium North Road, Chaoyang District, Beijing, PRC with a total leasing area of 276.74 square meters for a term of one year starting from January 1, 2023 to December 31, 2023 at the monthly rental of RMB93,434.34 (excluding utility fees); and

12. the tenancy agreement dated February 7, 2023 entered into by Hilong Zhizao Consulting and Shanghai Hilong Shine New Material Co., Ltd., pursuant to which Hilong Zhizao Consulting agreed to lease and Shanghai Hilong Shine New Material Co., Ltd. agreed to rent the factory premises located at No. 1825, Luodong Road, Baoshan District, Shanghai, the PRC with a total leasing area of 22,135.46 square meters for use as a manufacturing plant for a term of one year commencing from 1 January 2023 at the monthly rental of RMB275,431.46 (excluding management fees and utility fees).

9. EXPERTS

The following is the qualification of the expert who has given its opinions or advice which are included in this circular:

Name	**Qualifications**
Rainbow Capital (HK) Limited	a corporation licensed under the SFO to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined under the SFO, being the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the Equity Transfer Agreement and the transactions contemplated thereunder
Shanghai Orient Appraisal Co., Ltd.* (上海東洲資產評估有限公司)	Independent Professional Valuer
PricewaterhouseCoopers	Certified Public Accountants under Professional Accountants Ordinance (Cap. 50) Registered Public Interest Entity Auditor under Accounting and Financial Reporting Council Ordinance (Cap. 588)

As of the Latest Practicable Date, each of Rainbow Capital (HK) Limited, Shanghai Orient Appraisal Co., Ltd. and PricewaterhouseCoopers:

(i) has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and/or report (as the case may be) and references to its names, in the form and context in which they respectively appear;

(ii) did not have any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and

(iii) did not have any direct or indirect interest in any assets which have been, since December 31, 2021 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

The letters and/or report (as the case may be) from each of the above experts is given as of the date of this circular for incorporation herein.

10. LITIGATION

As at the Latest Practicable Date, so far as the Directors are aware, no member of the Group was involved in any litigation or claims of material importance nor was any litigation or claims of material importance known to the Directors to be pending or threatened against any member of the Group.

11. MISCELLANEOUS

(a) Ms. Sham Ying Man is the company secretary of the Company. Ms. Sham Ying Man is a manager of Tricor Services Limited, a global professional service provider specialising in integrated business, corporate and investor services. The company secretary attended sufficient professional training as required under the Listing Rules for the year ended December 31, 2021 to update her skills and knowledge.

(b) The registered office of the Company is located at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands.

(c) The principal place of business of the Company in Hong Kong is situated at 5/F, Manulife Place, 348 Kwun Tong Road, Kowloon, Hong Kong.

(d) The branch share registrar of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited, whose address is situated at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(e) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

12. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (http://en.hilonggroup.com.) from the date of this circular up to and including the date of the EGM:

(a) the annual reports of the Company for the three financial years ended December 31, 2019, 2020 and 2021 and the interim report of the Company for the six months ended June 30, 2022;

(b) the letter from the Independent Board Committee, the text of which is set out in this circular;

(c) the letter from the Independent Financial Adviser, the text of which is set out in this circular;

(d) the review report on the unaudited financial information of the Target Group for the three financial years ended December 31, 2019, 2020 and 2021 and the nine months ended September 30, 2022, set out in Appendix II to this circular;

(e) the report on the unaudited pro forma financial information of the Remaining Group, set out in Appendix III to this circular;

(f) the Valuation Report, the summary of which is set out in Appendix V to this circular;

(g) the report on the calculations of discounted future estimated cash flows in connection with the business valuation of the Target Group, the text of which is set out in Appendix VI to this circular;

(h) the letter from the Board on profit forecast, the text of which is set out in Appendix VII to this circular;

(i) the written consent of the experts referred to in the paragraph headed "9. Experts" in this appendix;

(j) the material contracts referred to in the paragraph headed "8. Material Contracts" in this appendix; and

(k) this circular.

Hilong Holding Limited
海隆控股有限公司*

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

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "EGM") of the shareholders of Hilong Holding Limited (the "Company") will be held at Conference Room, 6th Floor, Hilong Group of Companies Ltd., No.1825 Luodong Road, Baoshan Industrial Zone, Shanghai, China, on Tuesday, April 25, 2023 at 10:00 a.m. for the considering and, if thought fit, passing the following resolution as ordinary resolution of the Company:

ORDINARY RESOLUTION

"**THAT**:

(a) the equity transfer agreement dated March 31, 2023 (the "Equity Transfer Agreement") entered into between Hilong Group of Companies Ltd.* (海隆石油工業集團有限公司), as vendor, and Shanghai Hilong Shine New Material Co., Ltd.* (上海海隆賽能新材料有限公司), as purchaser, in relation to the disposal of 100% equity interest of Hilong Pipeline Engineering Technology Service Co., Ltd.* (海隆管道工程技術服務有限公司) at a consideration of 700 million and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and

(b) any one or more directors of the Company be and is hereby authorised to do all such acts and things and sign all such documents (under seal, if necessary) and to take all such steps as he/she consider, necessary or expedient or desirable in connection with or to give effect to the Equity Transfer Agreement and to implement the transactions contemplated thereunder and to agree to such variation, amendment or waiver as are, in the opinion of the directors of the Company, in the interests of the Company."

By Order of the Board
Hilong Holding Limited
ZHANG JUN
Chairman

Hong Kong, March 31, 2023

* *for identification purpose only*

Notes:

(1) All resolutions at the Meeting will be taken by poll pursuant to article 66 of the articles of association of the Company. The results of the poll will be published on the websites of Hong Kong Exchanges and Clearing Limited and the Company in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

(2) A shareholder of the Company entitled to attend and vote at the Meeting is entitled to appoint another person as his proxy to attend and vote instead of him. A shareholder of the Company who is the holder of two or more shares may appoint more than one proxy to represent him. A proxy need not be a shareholder of the Company. If more than one proxy is so appointed, the appointment shall specify the number of shares in respect of which each such proxy is so appointed.

(3) In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a certified copy thereof, must be deposited at the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not less than 48 hours before the time appointed for the Meeting (i.e. not later than 10:00 a.m. on Sunday, 23 April 2023 (Hong Kong time)) or any adjournment thereof. Completion and delivery of the form of proxy will not preclude a shareholder of the Company from attending and voting in person at the Meeting and at any adjournment thereof and, in such event, the form of proxy will be deemed to be revoked.

(4) For determining the qualification as shareholders of the Company to attend and vote at the Meeting, the register of members of the Company will be closed from Thursday, April 20, 2023 to Tuesday, April 25, 2023, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the Meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, 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 Wednesday, April 19, 2023.

(5) Bad weather arrangement:

 (i) if a black rainstorm warning signal or a typhoon warning signal no. 8 or above or ''extreme conditions'' caused by super typhoons is in force in Hong Kong at any time after 7:30 a.m. (Hong Kong time) on the date of the EGM, the EGM will be automatically adjourned to a later date. The Company will post an announcement on both websites of the Company (http://en.hilonggroup.com) and the Stock Exchange (www.hkexnews.hk) to notify Shareholders of the date, time and location of the adjourned EGM. Shareholders should in any event exercise due care and caution when deciding to attend the EGM in adverse weather conditions. In the event that the EGM is adjourned because of bad weather or other reasons, the book closure period and record date for determination of entitlement to attend and vote at the adjourned EGM will remain the same as stated above; and

 (ii) the EGM will be held as scheduled when an amber or red rainstorm warning signal or typhoon warning signal no. 3 or below is in force in Hong Kong at any time on that day.

As of the date of this notice, the executive directors of the Company are Mr. ZHANG Jun and Mr. WANG Tao (汪濤); the non-executive directors are Ms. ZHANG Shuman, Dr. YANG Qingli, Mr. CAO Hongbo and Dr. Fan Ren Da Anthony; and the independent non-executive directors are Mr. WANG Tao (王濤), Mr. WONG Man Chung Francis and Mr. SHI Zheyan.