Hilong Holding Limited
海隆控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1623)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2022

FINANCIAL HIGHLIGHTS

- Revenue was approximately RMB3,736.1 million, representing an increase of approximately 28.1% as compared with 2021.
- Gross profit was approximately RMB1,067.0 million, representing an increase of approximately 18.8% as compared with 2021. Gross profit margin was 28.6% in 2022, representing a decrease of approximately 2.2% as compared with 2021.
- Profit for the year was approximately RMB145.8 million, as compared to the profit for the year of RMB47.6 million in 2021. Profit attributable to equity owners of the Company for the year was approximately RMB141.0 million, as compared to the profit attributable to equity owners of RMB44.2 million in 2021.
- Basic earnings per share was approximately RMB0.08, as compared to the basic earnings per share of RMB0.03 in 2021.

The Board resolved not to recommend any dividend for the year ended 31 December 2022.

* *For identification purposes only*

The board (the "**Board**") of directors (the "**Directors**") of Hilong Holding Limited (the "**Company**") is pleased to announce the consolidated annual results of the Company and its subsidiaries (collectively, the "**Group**" or "**Hilong**" or "**us**") prepared according to the Hong Kong Financial Reporting Standards ("**HKFRS**") for the year ended 31 December 2022 with the comparative figures as follows:

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2022

	Note	**Year ended 31 December 2022** *RMB'000*	2021 *RMB'000*
Revenue	*3*	**3,736,078**	2,916,922
Cost of sales		**(2,669,159)**	(2,018,603)
Gross profit		**1,066,919**	898,319
Selling and marketing expenses		**(113,688)**	(110,133)
Administrative expenses		**(467,121)**	(425,306)
Net (provision for)/reversal of impairment losses on receivables and contract assets		**(77,211)**	16,763
Other income		**14,015**	8,852
Other gains – net	*6*	**272,277**	71,852
Operating profit		**695,191**	460,347
Finance income		**5,336**	5,550
Finance costs		**(495,503)**	(323,337)
Finance costs – net	*7*	**(490,167)**	(317,787)
Share of profit of investments accounted for using equity method		**5,799**	768
Profit before income tax		**210,823**	143,328
Income tax expense	*8*	**(65,069)**	(95,733)
Profit for the year		**145,754**	47,595
Profit attributable to:			
Equity owners of the Company		**140,976**	44,249
Non-controlling interests		**4,778**	3,346
		145,754	47,595
Earnings per share attributable to the equity owners of the Company for the year (expressed in RMB per share)			
– Basic earnings per share	*9*	**0.0831**	0.0261
– Diluted earnings per share	*9*	**0.0831**	0.0261

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2022

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
Profit for the year	**145,754**	47,595
Other comprehensive profit/(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	**18**	2,375
Currency translation differences	**166,375**	(105,504)
Other comprehensive profit/(loss) for the year, net of tax	**166,393**	(103,129)
Total comprehensive profit/(loss) for the year	**312,147**	(55,534)
Attributable to:		
Equity owners of the Company	**307,707**	(58,993)
Non-controlling interests	**4,440**	3,459
	312,147	(55,534)

CONSOLIDATED BALANCE SHEET
As at 31 December 2022

		As at 31 December	
	Note	**2022**	2021
		RMB'000	*RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**2,533,230**	2,381,624
Right-of-use assets		**51,850**	51,223
Intangible assets		**219,364**	210,219
Investments accounted for using equity method		**93,847**	93,231
Deferred income tax assets		**183,586**	158,224
Other long-term assets		**105,659**	50,778
		3,187,536	2,945,299
Current assets			
Inventories		**1,174,154**	1,050,881
Contract assets		**188,301**	131,063
Financial assets at fair value through other comprehensive income		**52,059**	132,897
Derivative financial instruments		**–**	1,499
Trade and other receivables	*4*	**1,784,960**	1,663,545
Prepayments		**470,280**	429,371
Current income tax recoverable		**69,542**	28,067
Restricted cash		**95,755**	60,379
Cash and cash equivalents		**778,440**	628,805
		4,613,491	4,126,507
Total assets		**7,801,027**	7,071,806
EQUITY			
Capital and reserve attributable to equity owners of the Company			
Ordinary shares	*11*	**141,976**	141,976
Other reserves		**1,309,078**	1,301,869
Currency translation differences		**(268,560)**	(435,273)
Retained earnings		**2,140,692**	2,006,907
		3,323,186	3,015,479
Non-controlling interests		**31,788**	27,348
Total equity		**3,354,974**	3,042,827

CONSOLIDATED BALANCE SHEET (CONT.)
As at 31 December 2022

	Note	**As at 31 December** **2022** ***RMB'000***	2021 *RMB'000*
LIABILITIES			
Non-current liabilities			
Borrowings		**2,546,163**	2,432,509
Lease liabilities		**14,620**	11,655
Deferred income tax liabilities		**36,660**	36,345
Deferred revenue		**61,509**	44,350
		2,658,952	2,524,859
Current liabilities			
Trade and other payables	*5*	**1,033,268**	736,348
Contract liabilities		**126,512**	109,673
Current income tax liabilities		**53,541**	44,796
Borrowings		**569,197**	607,352
Lease liabilities		**4,524**	5,892
Deferred revenue		**59**	59
		1,787,101	1,504,120
Total liabilities		**4,446,053**	4,028,979
Total equity and liabilities		**7,801,027**	7,071,806

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

	Capital and reserves attributable to equity owners						
	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	141,976	1,289,746	1,972,406	(329,656)	3,074,472	43,826	3,118,298
Profit for the year	–	–	44,249	–	44,249	3,346	47,595
Other comprehensive gains/(losses)	–	2,375	–	(105,617)	(103,242)	113	(103,129)
Total comprehensive income/(loss) for the year	–	2,375	44,249	(105,617)	(58,993)	3,459	(55,534)
Appropriation to statutory reserve	–	9,748	(9,748)	–	–	–	–
Dividends declared to non-controlling interests of subsidiaries	–	–	–	–	–	(20,297)	(20,297)
Disposal of subsidiaries	–	–	–	–	–	360	360
As at 31 December 2021	141,976	1,301,869	2,006,907	(435,273)	3,015,479	27,348	3,042,827
As at 1 January 2022	**141,976**	**1,301,869**	**2,006,907**	**(435,273)**	**3,015,479**	**27,348**	**3,042,827**
Profit for the year	**–**	**–**	**140,976**	**–**	**140,976**	**4,778**	**145,754**
Other comprehensive gains/(losses)	**–**	**18**	**–**	**166,713**	**166,731**	**(338)**	**166,393**
Total comprehensive income for the year	**–**	**18**	**140,976**	**166,713**	**307,707**	**4,440**	**312,147**
Appropriation to statutory reserve	**–**	**7,191**	**(7,191)**	**–**	**–**	**–**	**–**
As at 31 December 2022	**141,976**	**1,309,078**	**2,140,692**	**(268,560)**	**3,323,186**	**31,788**	**3,354,974**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

1 GENERAL INFORMATION OF THE GROUP

Hilong Holding Limited (the "**Company**") was incorporated in the Cayman Islands on 15 October 2008 as an exempted company with limited liability under the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (hereinafter collectively referred to as the "**Group**") are principally engaged in manufacturing and distribution of oil and gas drilling equipment and coating materials, and provision of coating, oilfield and offshore engineering services.

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

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

2.1.1 New and amended standards adopted by the Group

The Group has applied the following amendments or annual improvements for the first time for their annual reporting period commencing 1 January 2022:

- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to HKAS 16
- Onerous Contracts – Cost of Fulfilling a Contract – Amendments to HKAS 37
- Annual Improvements to HKFRS Standards 2018-2020
- Reference to the Conceptual Framework – Amendments to HKFRS 3
- Covid-19 Related Rent Concessions beyond 30 June 2021 – Amendment to HKFRS 16 (March 2021) (the "**HKFRS 16 Amendment (March 2021)**")
- Amendments to AG 5 Merger Accounting for Common Control Combinations

The amendments or annual improvements listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

2.1.2 New standards and interpretations not yet adopted

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for 31 December 2022 reporting periods and have not been early adopted by the group. These standards, amendments or interpretations are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

		Effective for annual periods beginning on or after
HKAS 1 (Amendments)	Classification of Liabilities as Current or Non-current	1 January 2023
HKAS 12 (Amendments)	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
HKFRS 8 (Amendments)	Definition of Accounting Estimates	1 January 2023
HKAS 1 and HKFRS Practice Statement 2 (Amendments)	Disclosure of Accounting Policies	1 January 2023
HKFRS 17	Insurance contracts	1 January 2023
HK Int 5 (2020)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2023
HKFRS 10 and HKAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

3 SEGMENT INFORMATION

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

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

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

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

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

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

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

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

(a) Revenue

The revenue of the Group for the years ended 31 December 2022 and 2021 are set out as follows:

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
Oilfield equipment manufacturing and services	**2,210,065**	1,204,759
Line pipe technology and services	**354,857**	388,727
Oilfield services	**1,057,479**	845,282
Offshore engineering services	**113,677**	478,154
	3,736,078	2,916,922

(b) Segment information

The segment information provided to senior executive management for the reportable segments as at and for the year ended 31 December 2022 is as follows:

	Year ended 31 December 2022				
Business segment	**Oilfield equipment manufacturing and services** *RMB'000*	**Line pipe technology and services** *RMB'000*	**Oilfield services** *RMB'000*	**Offshore engineering services** *RMB'000*	**Total** *RMB'000*
Revenue					
Segment revenue	**2,305,726**	**485,061**	**1,083,975**	**113,677**	**3,988,439**
Inter-segment sales	**(95,661)**	**(130,204)**	**(26,496)**	**–**	**(252,361)**
Revenue from external customers	**2,210,065**	**354,857**	**1,057,479**	**113,677**	**3,736,078**
Revenue from contracts with customers:					
– at a point in time	**1,725,904**	**37,212**	**253,515**	**–**	**2,016,631**
– over time	**460,319**	**317,645**	**803,964**	**113,677**	**1,695,605**
	2,186,223	**354,857**	**1,057,479**	**113,677**	**3,712,236**
Revenue from other sources:					
– rental income	**23,842**	**–**	**–**	**–**	**23,842**
	2,210,065	**354,857**	**1,057,479**	**113,677**	**3,736,078**
Results					
Segment gross profit /(loss)	**741,898**	**81,314**	**359,332**	**(115,625)**	**1,066,919**
Segment profit/(loss)	**719,638**	**(37,466)**	**190,348**	**(125,194)**	**747,326**
Corporate overheads					**(52,135)**
Operating profit					**695,191**
Finance income					**5,336**
Finance costs					**(495,503)**
Share of profit of investments accounted for using equity method					**5,799**
Profit before income tax					**210,823**
Other information					
Depreciation of property, plant and equipment	**56,372**	**16,678**	**135,047**	**49,752**	**257,849**
Depreciation of right-of-use assets	**4,228**	**–**	**–**	**2,977**	**7,205**
Amortisation of intangible assets	**8,107**	**632**	**439**	**10**	**9,188**
Capital expenditure	**73,851**	**12,307**	**130,515**	**34,277**	**250,950**

Business segment	Oilfield equipment manufacturing and services *RMB'000*	Line pipe technology and services *RMB'000*	Oilfield services *RMB'000*	Offshore engineering services *RMB'000*	Total *RMB'000*
	As at 31 December 2022				
Segment assets	**3,429,597**	**650,655**	**2,164,723**	**1,462,205**	**7,707,180**
Investments accounted for using equity method					**93,847**
Total assets					**7,801,027**
Total liabilities *(a)*	**3,498,195**	**365,427**	**471,951**	**110,480**	**4,446,053**

(a) As at 31 December 2022, the Senior Notes of USD360,388,000 (31 December 2021: USD377,345,000) was included in the total liabilities of oilfield equipment manufacturing and services segment.

The segment information provided to senior executive management for the reportable segments as at and for the year ended 31 December 2021 is as follows:

	Year ended 31 December 2021				
Business segment	Oilfield equipment manufacturing and services *RMB'000*	Line pipe technology and services *RMB'000*	Oilfield services *RMB'000*	Offshore engineering services *RMB'000*	Total *RMB'000*
Revenue					
Segment revenue	1,234,926	493,788	845,282	478,154	3,052,150
Inter-segment sales	(30,167)	(105,061)	–	–	(135,228)
Revenue from external customers	1,204,759	388,727	845,282	478,154	2,916,922
Revenue from contracts with customers:					
– at a point in time	715,086	62,703	172,763	–	950,552
– over time	441,847	321,701	672,519	333,760	1,769,827
	1,156,933	384,404	845,282	333,760	2,720,379
Revenue from other sources:					
– rental income	47,826	4,323	–	144,394	196,543
	1,204,759	388,727	845,282	478,154	2,916,922
Results					
Segment gross profit	437,662	134,553	293,912	32,192	898,319
Segment profit	141,282	120,700	229,735	29,473	521,190
Corporate overheads					(60,843)
Operating profit					460,347
Finance income					5,550
Finance costs					(323,337)
Share of profit of investments accounted for using equity method					768
Profit before income tax					143,328
Other information					
Depreciation of property, plant and equipment	81,142	27,929	110,919	47,508	267,498
Depreciation of right-of-use assets	4,045	1,162	3,391	2,977	11,575
Amortisation of intangible assets	6,864	661	271	15	7,811
Capital expenditure	59,936	258	64,568	67,825	192,587

Business segment	Oilfield equipment manufacturing and services *RMB'000*	Line pipe technology and services *RMB'000*	Oilfield services *RMB'000*	Offshore engineering services *RMB'000*	Total *RMB'000*
	As at 31 December 2021				
Segment assets	2,988,768	714,445	1,891,543	1,383,819	6,978,575
Investments accounted for using equity method					93,231
Total assets					7,071,806
Total liabilities	3,237,325	345,231	378,381	68,042	4,028,979

(c) Geographical segments

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

	Year ended 31 December	
	2022 *RMB'000*	2021 *RMB'000*
Russia, Central Asia and East Europe	**1,085,507**	757,464
Middle East	**953,334**	333,663
The PRC	**627,086**	854,339
North and South America	**607,035**	363,518
South Asia and Southeast Asia	**234,163**	420,130
Africa	**222,330**	179,368
Others	**6,623**	8,440
	3,736,078	2,916,922

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

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
The PRC	**1,518,394**	1,469,110
Middle East	**571,888**	344,191
North and South America	**231,642**	264,628
Russia, Central Asia and East Europe	**202,306**	226,418
South Asia and Southeast Asia	**143,758**	201,834
Africa	**136,456**	136,885
	2,804,444	2,643,066

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

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
Middle East	**103,617**	2,801
The PRC	**82,757**	113,591
Russia, Central Asia and East Europe	**37,997**	59,057
North and South America	**23,628**	2,645
South Asia and Southeast Asia	**2,936**	1,519
Africa	**15**	12,974
	250,950	192,587

(d) Assets and liabilities related to contracts with customers

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

	Notes	**31 December 2022** ***RMB'000***	31 December 2021 *RMB'000*
Current contract assets relating to offshore engineering and inspection services	*(i)*	**188,850**	131,346
Loss allowance		**(549)**	(283)
Total contract assets		**188,301**	131,063
Non-current asset recognised for costs incurred to fulfil a contract	*(iii)*	**80,984**	25,919
Contract liabilities – Sales and service contracts	*(i), (ii)*	**126,512**	109,673

(i) ***Significant changes in contract assets and liabilities***

Contract assets are recorded for the provision of offshore engineering services and inspection services. The Group also recognised a loss allowance for contract assets as at 31 December 2022.

Contract liabilities are recorded for the payments received in advance of the performance under the contracts which are mainly from sales of goods and provision of services. The increase in contract liabilities as at 31 December 2022 was mainly due to the increase in the advances from customers.

(ii) ***Revenue recognised in relation to contract liabilities***

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

	31 December 2022 *RMB'000*	31 December 2021 *RMB'000*
Revenue recognised that was included in the contract liability balance at the beginning of the year		
– Sales of goods	**72,645**	34,920
– Provision of service	**37,028**	30,822
	109,673	65,742

Contract liability that is non-current, with amount of RMB34,302,000 as at 31 December 2022 (31 December 2021: RMB15,731,000), is included in "Deferred revenue-Mobilisation fees".

(iii) ***Assets recognised from costs to fulfil a contract***

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

	2022 *RMB'000*	2021 *RMB'000*
Asset recognised from costs incurred to fulfil oilfield service contracts as at 31 December	**80,984**	25,919
Amortisation recognised as cost of providing services during the period	**12,141**	17,274

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

4 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
Trade receivables *(i)*	**1,656,660**	1,526,001
– Due from related parties	**15,392**	10,512
– Due from third parties	**1,641,268**	1,515,489
Less: provision for loss allowance of receivables *(ii)*	**(99,969)**	(129,166)
Trade receivables – net	**1,556,691**	1,396,835
Other receivables *(iii)*	**225,523**	263,964
Dividend receivables	**2,746**	2,746
Trade and other receivables – net	**1,784,960**	1,663,545

As at 31 December 2022 and 2021, the carrying amounts of the trade and other receivables of the Group, approximated their fair values.

The trade receivables of RMB8,969,000 (31 December 2021: RMB1,694,000) of the Group were used to secure borrowings from financial institutions as at 31 December 2022.

As at 31 December 2022 and 2021, the carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
– RMB	**433,557**	471,748
– USD	**792,388**	753,417
– RUB	**444,091**	320,683
– AED	**44,423**	36,755
– CAD	**27,550**	32,899
– Other currencies	**42,951**	48,043
	1,784,960	1,663,545

* RUB – Russian Rouble, AED – the United Arab Emirates Dirham, CAD – Canadian Dollar.

(i) The aging analysis of trade receivables based on invoice date, before provision for loss allowance, as at 31 December 2022 and 2021 was as follows:

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
Trade receivables, gross		
– Within 90 days	**1,058,256**	703,557
– Over 90 days and within 180 days	**270,982**	211,797
– Over 180 days and within 360 days	**129,575**	163,731
– Over 360 days and within 720 days	**61,789**	191,528
– Over 720 days	**136,058**	255,388
	1,656,660	1,526,001

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

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
As at 1 January	**(129,166)**	(204,516)
Provision for receivables loss allowance	**(62,444)**	(54,787)
Reversal of impairment on individually doubtful trade receivables	**–**	76,868
Write-off of loss allowance	**91,641**	53,269
As at 31 December	**(99,969)**	(129,166)

(iii) Details of other receivables are as follows:

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
Due from related parties	**113,051**	123,532
Deposits	**37,104**	56,354
Staff advances	**19,219**	15,970
Value added tax refund	**11,832**	8,169
Others	**44,317**	59,939
	225,523	263,964

5 TRADE AND OTHER PAYABLES

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
Bills payable	**5,121**	8,426
Trade payables:	**677,867**	455,066
– Due to third parties	**658,541**	435,402
– Due to related parties	**19,326**	19,664
Other payables:	**88,225**	69,440
– Due to related parties	**23,763**	9,017
– Due to third parties	**64,462**	60,423
Staff salaries and welfare payables	**55,183**	33,680
Interest payables	**33,439**	35,067
Accrued taxes other than income tax	**156,678**	116,293
Dividends payable	**10,496**	10,496
Other liabilities	**6,259**	7,880
	1,033,268	736,348

As at 31 December 2022 and 2021, all trade and other payables of the Group were non-interest bearing, and their carrying amounts, excluding the interest payables, staff salaries and welfare payables and accrued taxes other than income tax which are not financial liabilities, approximated their fair values due to their short maturities.

As at 31 December 2022 and 2021, trade and other payables were denominated in the following currencies:

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
– RMB	**532,701**	433,788
– USD	**280,751**	185,532
– RUB	**160,852**	67,063
– AED	**34,443**	21,063
– CAD	**187**	454
– Other currencies	**24,334**	28,448
	1,033,268	736,348

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

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
Trade payables, gross		
– Within 90 days	**486,171**	282,231
– Over 90 days and within 180 days	**184,827**	164,173
– Over 180 days and within 360 days	**1,593**	2,110
– Over 360 days and within 720 days	**2,163**	3,210
– Over 720 days	**3,113**	3,342
	677,867	455,066

6 OTHER GAINS – NET

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
Net gains on disposal of subsidiaries *(a)*	**1**	91,882
Insurance indemnity *(b)*	**–**	50,026
Gains on disposal of property, plant and equipment – net	**4,228**	6,955
Exchange gains/(losses)	**265,357**	(76,746)
Others	**2,691**	(265)
	272,277	71,852

(a) On 28 June 2022, Hilong Oil Service Ltd. transferred its 100% equity interest of Hilong Oriente Co., Ltd. to a third party with nominal consideration. The Group recorded a gain of approximately RMB1,000 from the disposal.

On 1 June 2021, Hilong Group of Companies Ltd. transferred its 95% equity interest of Nantong Hilong Steel Pipe Co., Ltd. to a third party at a consideration of RMB3,000,000. The Group recorded a gain of approximately RMB7 million from the disposal. All of the consideration has been received in 2021.

On 25 June 2021, Hilong Pipeline Engineering Technology Service Co., Ltd. transferred its 70% equity interest of Shanghai Hilong Special Steel Pipe Co., Ltd. to a third party at a consideration of RMB103,480,000. The Group recorded a gain of approximately RMB58 million from the disposal. All of the consideration has been received in 2021. After the disposal, the Group held 30% equity interest of Shanghai Hilong Special Steel Pipe Co., Ltd, which becomes an associate of the Group. The Group remeasured the 30% equity interest of Shanghai Hilong Special Steel Pipe Co., Ltd and recorded a gain of approximately RMB27 million.

(b) On 10 December 2021, Hilong Oil Service & Engineering Ecuador CIA. Ltd. received an insurance claim of USD7,072,641 (equivalent to RMB50,026,000), which was compensate for the loss of the rig crashed into the sea.

7 FINANCE COSTS – NET

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
Finance income:		
– Interest income derived from bank deposits	**5,336**	3,612
– Fair value gains on financial assets at FVPL	**–**	439
– Fair value gains on cross currency swap	**–**	1,499
	5,336	5,550
Finance costs:		
– Interest expense on Senior Notes and other borrowings	**(333,468)**	(272,046)
– Exchange (losses)/gains	**(221,480)**	56,736
– Fair value loss on cross currency swap	**(9,750)**	–
– Interest expense on lease liabilities	**(1,280)**	(888)
– Issuance cost of the 2024 Notes	**–**	(107,139)
– Gains on repurchasing the 2024 Notes	**70,475**	–
	(495,503)	(323,337)
Finance costs – net	**(490,167)**	(317,787)

8 INCOME TAX EXPENSE

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
Current income tax	**90,453**	60,804
Deferred income tax	**(25,384)**	34,929
Income tax expense	**65,069**	95,733

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

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
Profit before tax	**210,823**	143,328
Tax calculated at statutory tax rates applicable to each Group entity	**(30,462)**	52,729
Tax effect of:		
Expenses not deductible for tax purpose	**3,644**	2,251
Income not subject to tax	**(19,954)**	(11,859)
Additional deduction for research and development expenses	**(12,387)**	(9,737)
Tax effect of reduced tax rate	**–**	205
Utilisation of previously unrecognised tax losses	**(11,152)**	(11,174)
Tax losses of subsidiaries not recognised	**135,380**	73,318
Tax charge	**65,069**	95,733

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

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

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

Enterprises incorporated in other places (other than the Mainland China) are subject to income tax rates ranging from 15% to 35% prevailing in the places in which these enterprises operated for the year ended 31 December 2022 and 2021.

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

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

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

Pursuant to the Arrangement between the Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respects to Taxes on Income, a lower 5% withholding tax rate can be applied if the immediate holding companies of the PRC subsidiaries are established in Hong Kong and can be considered as a "beneficial owner". Hilong Energy Limited ("**Hilong Energy**") is a Hong Kong registered company and is the immediate holding company of the PRC subsidiaries, which has successfully applied for and been qualified as a "beneficial owner". Given the above, the local tax authority approved Hilong Group of Companies Ltd., the PRC holding company of all other subsidiaries in the PRC, to use a 5% withholding tax rate when it distributed its profits to Hilong Energy from 2019 to 2021. As at 31 December 2022, Hilong Energy is in the process of renewal of the qualification.

Meanwhile, pursuant to the resolutions of the Board of Directors of Hilong Group of Companies Ltd. dated 31 December 2022 and 31 December 2021, all the earnings generated by the Company's wholly-owned PRC subsidiaries will all be permanently reinvested. Accordingly, deferred income tax liabilities of RMB2,206,000 (2021: RMB5,473,000) have not been recognised for withholding tax that would be payable on the unremitted earnings generated by the Company's PRC subsidiaries for the years ended 31 December 2022. As at 31 December 2022, deferred income tax liabilities of RMB79,126,000 (31 December 2021: RMB80,169,000) have not been recognised for the withholding tax that would otherwise be payable on the unremitted earnings of RMB1,582,520,000 (31 December 2021: RMB1,603,380,000).

Additional deduction for research and development expenses

Pursuant to the CIT Law, an additional tax deduction relating to research and development expenses incurred is allowed, after the approval by the tax authorities is obtained. This additional allowed deduction is calculated at 100% of the actual research and development expenses incurred from 1 January 2021.

9 EARNINGS PER SHARE

Basic earnings per share

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

	Year ended 31 December	
	2022	2021
Profit attributable to equity owners of the Company *(RMB'000)*	**140,976**	44,249
Weighted average number of ordinary shares in issue *(thousands of shares)*	**1,696,439**	1,696,439
Basic earnings per share *(RMB per share)*	**0.0831**	0.0261

Diluted earnings per share

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

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

As at 31 December 2022, there were 15,350,700 (31 December 2021: 15,350,700) share options outstanding related to 2013 Share Option Scheme. For the years ended 31 December 2022 and 31 December 2021, as the average market share price of the ordinary shares during the years was lower than the exercise price, the impact on earnings per share was anti-dilutive.

10 DIVIDENDS

The Directors have determined that no dividend will be proposed for the year ended 31 December 2022 (2021: Nil).

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

11 ORDINARY SHARES

	Issued and fully paid up		
	Number of ordinary shares	**Nominal value of ordinary shares** *(In HKD)*	**Equivalent nominal value of ordinary shares** *(In RMB)*
As at 31 December 2021 and 31 December 2022	1,696,438,600	169,643,860	141,975,506

	Authorised share capital		
	Number of ordinary shares	**Nominal value of ordinary shares** *(In HKD)*	**Equivalent nominal value of ordinary shares** *(In RMB)*
As at 31 December 2021 and 31 December 2022	30,000,000,000	3,000,000,000	2,510,709,895

12 EVENTS AFTER THE BALANCE SHEET DATE

On 31 March 2023, the Company entered into an equity transfer agreement with a related party controlled by the controlling shareholder (the "**Purchaser**"), whereby the Company conditionally agreed to sell and the Purchaser conditionally agreed to acquire certain of the Group's businesses comprising 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**") at the Consideration of RMB700 million, subject to the terms and conditions of the agreement. As at the approval date of these consolidated financial statements, the transaction has not been completed.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Revenue

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

	Year ended 31 December			
	2022		2021	
	RMB'000	*%*	*RMB'000*	*%*
Oilfield equipment manufacturing and services				
– Drill pipes	**1,621,705**	**43.4**	753,315	25.8
– Oil country tubular goods ("**OCTG**") coating services	**467,818**	**12.5**	310,305	10.6
– Drill pipe components	**11,302**	**0.3**	30,679	1.1
– Hardbanding	**29,522**	**0.8**	24,587	0.8
– Others	**79,718**	**2.1**	85,873	2.9
Subtotal	**2,210,065**	**59.1**	1,204,759	41.2
Line pipe technology and services				
– OCTG coating materials	**12,056**	**0.3**	14,082	0.5
– Oil and gas line pipe coating materials	**4,620**	**0.1**	6,118	0.2
– Oil and gas line pipe coating services	**116,746**	**3.1**	168,566	5.8
– Corrosion Resistant Alloy ("**CRA**") lined pipe	**211**	**–**	11,587	0.4
– Concrete Weighted Coating ("**CWC**") services	**150,215**	**4.0**	112,471	3.9
– Pipeline inspection services	**71,009**	**1.9**	75,903	2.6
Subtotal	**354,857**	**9.4**	388,727	13.4
Oilfield services	**1,057,479**	**28.4**	845,282	29.0
Offshore engineering services	**113,677**	**3.1**	478,154	16.4
Total revenue	**3,736,078**	**100.0**	2,916,922	100.0

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

	Year ended 31 December			
	2022		2021	
	RMB'000	*%*	*RMB'000*	*%*
Russia, Central Asia and East Europe	**1,085,507**	**29.1**	757,464	26.0
Middle East	**953,334**	**25.5**	333,663	11.4
The PRC	**627,086**	**16.8**	854,339	29.3
North and South America	**607,035**	**16.2**	363,518	12.5
South and Southeast Asia	**234.163**	**6.3**	420,130	14.4
Africa	**222,330**	**6.0**	179,368	6.1
Others	**6,623**	**0.1**	8,440	0.3
Total	**3,736,078**	**100.0**	2,916,922	100.0

Revenue increased by RMB819.2 million, or 28.1%, from RMB2,916.9 million in 2021 to RMB3,736.1 million in 2022. Such increase was mainly due to the increase in revenue from oilfield equipment manufacturing and services segment and oilfield services segment, and was partly offset by the decrease in revenue from offshore engineering services segment.

Oilfield equipment manufacturing and services. Revenue from the oilfield equipment manufacturing and services segment increased by RMB1,005.3 million, or 83.4%, from RMB1,204.8 million in 2021 to RMB2,210.1 million in 2022. Such increase primarily reflected the increase in revenue derived from drill pipes sales and OCTG coating services.

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

	Year ended 31 December	
	2022	2021
Sales of drill pipes		
– International market		
– volume *(tonnes)*	**60,459**	30,719
– unit price *(RMB/tonne)*	**25,209**	19,259
Subtotal *(RMB'000)*	**1,524,134**	591,617
– The PRC market		
– volume *(tonnes)*	**5,609**	10,502
– unit price *(RMB/tonne)*	**17,397**	15,397
Subtotal *(RMB'000)*	**97,571**	161,698
Total *(RMB'000)*	**1,621,705**	753,315

Revenue from sales of drill pipes in the international market increased by RMB932.5 million, or 157.6%, from RMB591.6 million in 2021 to RMB1,524.1 million in 2022. The increase primarily reflected an increase of 96.8% in the volume of drill pipes sold from 30,719 tonnes in 2021 to 60,459 tonnes in 2022. Such increase in the sales volume primarily reflected the large demands from the Middle East, North America and Russian markets and the Company's strategy to put more effort into long-term cooperation with prestigious customers in international market.

Revenue from sales of drill pipes in the PRC market decreased by RMB64.1 million, or 39.6%, from RMB161.7 million in 2021 to RMB97.6 million in 2022. The decrease primarily reflected a 46.6% decrease in the volume of drill pipes sold in the PRC market from 10,502 tonnes in 2021 to 5,609 tonnes in 2022, and to a lesser extent, a 13.0% increase in the average selling price sold in the PRC market from RMB15,397 per tonne in 2021 to RMB17,397 per tonne in 2022. 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. While the increase 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 increased in 2022 compared to that in 2021.

Revenue from OCTG coating services increased by RMB157.5 million, or 50.8%, from RMB310.3 million in 2021 to RMB467.8 million in 2022. The increase was mainly due to the increased demands of OCTG coating services in the international market.

Line pipe technology and services. Revenue from line pipe technology and services segment decreased by RMB33.8 million, or 8.7%, from RMB388.7 million in 2021 to RMB354.9 million in 2022. Such decrease primarily reflected a decrease in the revenue derived from oil and gas line pipe coating services. The decrease in revenue derived from oil and gas line pipe coating services was mainly due to the postponement of on-site execution of some projects because of the outbreak of COVID-19 in Shanghai.

Oilfield services. Revenue from the oilfield services segment increased by RMB212.2 million, or 25.1%, from RMB845.3 million in 2021 to RMB1,057.5 million in 2022. Such increase mainly reflected the increase in revenue from trade services and the recovery of the utilization rate of drilling rigs in 2022 as compared to 2021.

Offshore engineering services. Revenue from the offshore engineering service segment in 2022 mainly represented the revenue derived from the Bengal Project.

Cost of Sales/Services

Cost of sales/services increased by RMB650.6 million, or 32.2%, from RMB2,018.6 million in 2021 to RMB2,669.2 million in 2022.

Gross Profit and Gross Profit Margin

As a result of the foregoing, gross profit increased by RMB168.7 million, or 18.8%, from RMB898.3 million in 2021 to RMB1,067.0 million in 2022. Gross profit margin was 28.6% in 2022, decreased by 2.2% from that in 2021.

Selling and Marketing Expenses

Selling and marketing expenses increased by RMB3.6 million, or 3.3%, from RMB110.1 million in 2021 to RMB113.7 million in 2022. These expenses, amounting to 3.0% of revenue in 2022, were lower than 3.8% in 2021.

Administrative Expenses

Administrative expenses increased by RMB41.8 million, or 9.8%, from RMB425.3 million in 2021 to RMB467.1 million in 2022. Such increase primarily reflected the increase in staff costs and travelling expense.

Other Gains – Net

The Group recognized net gain of RMB272.3 million in 2022 and net gain of RMB71.9 million in 2021. The net gain recognized in 2022 reflected the exchange gain of RMB265.4 million from the operating activities as a combined result of the appreciation of the Ruble and United States Dollar ("**USD**"). The net gain recognized in 2021 reflected the proceeds of 91.8 million from disposal of subsidiaries and the proceeds of 50.0 million from insurance indemnity, partly offset by an exchange loss of RMB76.7 million from the operating activities as a combined result of the depreciation of the Ruble, USD and Hong Kong Dollar ("**HKD**").

Finance Costs – Net

Finance costs – net increased by RMB172.4 million, or 54.2%, from RMB317.8 million in 2021 to RMB490.2 million in 2022. Such increase primarily reflected an exchange loss of RMB221.5 million from the financing activities resulting from the appreciation of USD, while in 2021 the exchange gain was RMB56.7 million from the financing activities resulting from the depreciation of USD, and was partly offset by (i) the increase of gains on repurchasing the 2024 Notes of RMB70.5 million in 2022; and (ii) the decrease of interest expense on Senior Notes and other borrowing and the issuance cost of 2024 Notes from RMB379.2 million in 2021 to RMB333.5 million in 2022.

Profit before Income Tax

As a result of the foregoing, the Group recognized profit before income tax of RMB143.3 million in 2021 and profit before income tax of RMB210.8 million in 2022.

Income Tax Expense

The Group recognized income tax expense of RMB95.7 million in 2021 and RMB65.1 million in 2022. Effective tax rate was approximately 66.8% in 2021 and 30.9% in 2022, the decrease of effective tax rate mainly reflected the increase of deferred income tax.

Profit for the year attributable to equity owners of the Company

As a result of the foregoing, the Group recognized profit for the period attributable to equity owners of the Company of RMB44.2 million in 2021 and profit for the period attributable to equity owners of the Company of RMB141.0 million in 2022.

Inventories

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

	As at/for the year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
Inventory	**1,174,154**	1,050,881
Turnover days of inventory (in days)[1]	**152**	186

[1] Turnover days of inventory for a year equals average inventory divided by total cost of sales and then multiplied by 365 for each of the years ended 31 December 2021 and 2022. Average inventory equals inventory balance at the beginning of the year plus inventory balance at the end of the year, divided by two.

The increase of inventories from 31 December 2021 to 31 December 2022 reflected on the increasing reserve for new orders in overseas market.

Trade and Other Receivables

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

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
Trade receivables		
– Due from third parties	**1,641,268**	1,515,489
– Due from related parties	**15,392**	10,512
– Less: Provision for impairment of receivables	**(99,969)**	(129,166)
Trade receivables – net	**1,556,691**	1,396,835
Other receivables		
– Due from third parties	**112,472**	140,432
– Due from related parties	**113,051**	123,532
Other receivables	**225,523**	263,964
Dividend receivables	**2,746**	2,746
Total	**1,784,960**	1,663,545

The trade receivables of RMB8,969,000 (31 December 2021: RMB1,694,000) of the Group were used to secure borrowings from financial institutions as at 31 December 2022.

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

	As at/for the year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
Trade receivables, net		
– Within 90 days	**1,055,178**	702,057
– Over 90 days and within 180 days	**270,982**	211,797
– Over 180 days and within 360 days	**122,830**	157,964
– Over 360 days and within 720 days	**56,397**	163,462
– Over 720 days	**51,304**	161,555
	1,556,691	1,396,835
Turnover days of trade receivables, net[1]	**144**	178

[1] Turnover days of trade receivables for a year equals average trade receivables divided by revenue and then multiplied by 365 for each of the years ended 31 December 2021 and 2022. Average trade receivables equals balance of trade receivables less provision for impairment of receivables at the beginning of the period or year plus balance at the end of the period or year, divided by two.

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

	Year ended 31 December	
	2022	2021
As at 1 January	**129,166**	204,516
Provision for receivables loss allowance	**62,444**	54,787
Reversal for loss allowance on individually doubtful trade receivables	**–**	(76,868)
Write-off of loss allowance	**(91,641)**	(53,269)
As at 31 December	**99,969**	129,166

The decrease in turnover days of trade receivables from 178 days as at 31 December 2021 to 144 days as at 31 December 2022 primarily reflected that settlement for trade receivables due from certain oil and gas companies in the international market was more active and accelerated in 2022.

Trade and Other Payables

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

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
Bills payable	**5,121**	8,426
Trade payables		
– Due to related parties	**19,326**	19,664
– Due to third parties	**658,541**	435,402
Other payables		
– Due to related parties	**23,763**	9,017
– Due to third parties	**64,462**	60,423
Staff salaries and welfare payables	**55,183**	33,680
Interest payables	**33,439**	35,067
Accrued taxes other than income tax	**156,678**	116,293
Dividends payable	**10,496**	10,496
Other liabilities	**6,259**	7,880
	1,033,268	736,348

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

	As at/for the year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
Trade payables, gross		
– Within 90 days	**486,171**	282,231
– Over 90 days and within 180 days	**184,827**	164,173
– Over 180 days and within 360 days	**1,593**	2,110
– Over 360 days and within 720 days	**2,163**	3,210
– Over 720 days	**3,113**	3,342
	677,867	455,066
Turnover days of trade payables[1]	**77**	81

[1] Turnover days of trade payables for a year equals average trade payables divided by total cost of sales and then multiplied by 365 for each of the years ended 31 December 2021 and 2022. Average trade payables equals to balance of trade payables at the beginning of the year plus balance at the end of the year, divided by two.

Liquidity and Financial Resources

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

	Year Ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
Net cash generated from operating activities	**556,153**	453,815
Net cash used in investing activities	**(103,102)**	(23,550)
Net cash used in financing activities	**(320,973)**	(492,445)
Net increase/(decrease) in cash and cash equivalents	**132,078**	(62,180)
Exchange gains/(losses) on cash and cash equivalents	**17,557**	(6,478)
Cash and cash equivalents at beginning of the year	**628,805**	697,463
Cash and cash equivalents at end of the year	**778,440**	628,805

As at 31 December 2022, cash and cash equivalents are mainly in RMB, USD, RUB, AED and CAD.

Operating Activities

Net cash generated from operating activities in 2022 was RMB556.2 million, representing cash generated from operation of RMB678.8 million, offset by the income tax payment of RMB122.6 million.

Net cash generated from operating activities in 2021 was RMB453.8 million, representing cash generated from operation of RMB516.2 million, offset by the income tax payment of RMB62.4 million.

Investing Activities

Net cash used in investing activities in 2022 was RMB103.1 million, primarily reflecting payment of RMB139.1 million for purchases of property, plant and equipment, partially offset by proceeds of RMB42.9 million from disposal of property, plant and equipment.

Net cash used in investing activities in 2021 was RMB23.6 million, primarily reflecting payment of RMB139.9 million for purchases of property, plant and equipment, partially offset by (i) proceeds of RMB106.5 million from disposal of subsidiaries; and (ii) proceeds of RMB15.5 million from disposal of property, plant and equipment.

Financing Activities

Net cash used in financing activities in 2022 was RMB321.0 million, primarily reflecting (i) the repayment of borrowing of RMB662.0 million, (ii) the interest payment of RMB285.4 million, and (iii) the payment of repurchase of Senior Notes of RMB50.2 million, partially offset by proceeds of RMB675.4 million from borrowings.

Net cash used in financing activities in 2021 was RMB492.4 million, primarily reflecting (i) the repayment of borrowing of RMB738.3 million, (ii) the interest payment and the 2024 Notes issuance cost payment of RMB330.9 million, (iii) the payment of acquisition of non-controlling interests of RMB15.8 million, and (iv) the lease payment of RMB10.7 million, partially offset by proceeds of RMB604.6 million from borrowings.

Capital Expenditures

Capital expenditures were RMB192.6 million and RMB251.0 million in 2021 and 2022 respectively. The increase in capital expenditures in 2022 was mainly due to the recovery of overseas business in the oilfield services segment.

Indebtedness

As at 31 December 2022, the outstanding indebtedness of RMB3,115.4 million was mainly denominated in USD and RMB. The following table sets forth breakdown of the indebtedness as at the dates indicated:

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
Non-current		
Bank borrowings – secured	**92,428**	162,162
2024 Notes – secured	**2,496,567**	2,347,987
Less: Current portion of non-current borrowings – secured	**(42,832)**	(77,640)
	2,546,163	2,432,509
Current		
Bank borrowings – secured	**526,365**	529,712
Current portion of non-current borrowings – secured	**42,832**	77,640
	569,197	607,352
	3,115,360	3,039,861

As at 31 December 2022, bank borrowings of RMB3,020.9 million were obtained at fixed rate (31 December 2021: RMB2,917.5 million).

The bank borrowings of RMB50.8 million (31 December 2021: RMB13.5 million) were secured by certain bank deposits of the Group, with a carrying amount of RMB16.3 million as at 31 December 2022 (31 December 2021: RMB4.1 million).

The borrowings of RMB70,808,000 (31 December 2021: RMB30,704,000) from financial institution were secured by trade receivables of RMB8,969,000 (31 December 2021: RMB1,694,000) of the Group as at 31 December 2022.

The bank borrowings of RMB16,315,000 (31 December 2021: RMB104,784,000) were secured by bank acceptance bills and commercial acceptance bills of the Group as at 31 December 2022.

In 2018, Hilong Oil Service Co., Ltd. entered into a USD loan facility agreement amounted to USD36,000,000, which was insured by China Export & Credit Insurance Corporation ("**SINO SURE**", a national policy insurance institution), and enjoyed preferential interest rate. As at 31 December 2022, USD33,545,000 were drawn down, out of which USD19,980,000 had been repaid in past years and 2022. The remaining principals will be fully repayable from 2023 to 2025.

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

Gearing Ratio

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

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

The gearing ratios as at 31 December 2022 and 31 December 2021 are as follows:

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
Total borrowings	**3,115,360**	3,039,861
Add: Lease liabilities	**19,144**	17,547
Less: Cash and cash equivalents	**(778,440)**	(628,805)
Restricted cash	**(95,755)**	(60,379)
Net debt	**2,260,309**	2,368,224
Total equity	**3,354,974**	3,042,827
Total capital	**5,615,283**	5,411,051
Gearing ratio	**40.25%**	43.77%

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 14.0% appreciation of RMB against the USD from 21 July 2005 to 31 December 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 40.6% and 46.1% of the total revenue of the Group in 2021 and 2022, respectively.

Staff and Remuneration Policy

As at 31 December 2022, the total number of full-time employees employed by the Group was 3,245 (31 December 2021: 2,920). The following table sets forth the number of the Group's full-time employees by area of responsibility as at 31 December 2022:

On-site workers	2,054
Administrative	456
Engineering and technical support	473
Research and development	136
Sales, marketing and after-sales services	93
Company management	33
	3,245

Employee costs excluding the Directors' remuneration totaled RMB678.0 million.

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

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

BUSINESS REVIEW

In 2022, international crude oil price remained high, and capital expenditure within the oil and gas industry increased significantly, resulting in increased workload and orders. Under such market environment, Hilong actively expanded in both international and domestic markets, and implemented comprehensive measures amid the adverse effects of the COVID-19 pandemic. The Company's overall operations in 2022 remained stable and achieved improvements in its business performance to a relatively large extent. During the reporting period, the Company recorded a total revenue of RMB3,736 million, representing an increase of 28% compared with 2021. Supported by the sufficiency of orders on hand, the revenue from the two segments namely oilfield equipment manufacturing and services and oilfield services increased.

In April and May 2022, a flare-up in COVID-19 cases have led to lockdowns in Shanghai, which posed immense challenges to the production and operation of Hilong. The lockdowns resulted in an increase in our costs, especially transportation costs to a large extent, which in turn hampered the profitability of the Company for the first half of the year. Before lockdown started, the Company strengthened risk prediction and response measures, and arranged some front-line team to stay in factories to continue production while ensuring the workforce's safety and wellbeing are safeguarded. The Company prioritized and ensured the timely delivery of orders where delivery time was tight, allowing fundamental operations and minimizing losses. An increase in inventory stock to cope with any emergency such as lockdown also led to temporary increase in inventory, causing negative effect to the operating cash flow during the first half of 2022.

After the lockdown in Shanghai was fully lifted in early June 2022 and the gradual easing of the COVID-19 measures in China subsequently, the impact of the pandemic on Hilong was reduced. While vigorously exploring the market and actively striving for orders, the Company adopted cost control measures to reduce cost and increase efficiency. The Company also strengthened its cash flow management, took active accounts receivable and inventory management measures, and covered the cash flow targets which were not completed in the first half of 2022. During the reporting period, the Company secured a number of important orders, establishing a sound foundation for operations next year.

Oilfield Equipment Manufacturing and Services

During the reporting period, the revenue of the oilfield equipment manufacturing and services segment was RMB2,210 million, representing a significant increase of 83% compared with 2021. Under the international easing of control policies on the COVID-19 pandemic as well as the Russo-Ukrainian War resulting in Western energy sanctions against Russia leading to global energy supply tensions, upstream capital expenditures began to increase, the global oil and gas drilling activities further recovered, and the demand for oilfield equipment within the industry increased significantly. Production volumes increased significantly in both the Company's drill pipe and OCTG coating businesses from 2021. Drill pipe products reported substantial increase in sales from 2021. The sales volume for various segments of coating business increased substantially from the corresponding period last year, including tubing and casing coating, drill pipe coating, line pipe coating, tank coating and other special-shaped pipe coating etc. Over the years, Hilong has continued to develop advanced technology and upgrade production processes, and is committed to providing high-quality drill pipe products and first-class OCTG coating services for the global high-end market. The performance of these products and the quality of services have reached the international first-class level and have been highly recognized by customers in both domestic and international markets. While exploring the high-end market and ensuring the quality of products and services, the Company adheres to the development strategy of technological innovation as the core driving force, and attaches great importance to technological research and development and talent echelon construction, so that the Company has the ability to adapt to evolving market changes and meet the customized needs of different customers.

In late March 2022, the Canadian International Trade Tribunal and the Canada Border Services Agency initiated litigations with respect to damages and investigations into the anti-dumping and anti-subsidizing of drill pipes and heavy weight drill pipes exported from China to Canada. As the only drill pipe enterprise respondent from China, with our strenuous efforts and through the submission of a series of detailed facts and data, we won the case at the preliminary ruling stage, and defended the sophistication of our technologies and competitiveness in the international market. By virtue of this ruling, Hilong has not only enhanced its brand image in the Canadian market and the US market, but also gained deeper recognition from customers for its comprehensive ability as a world-class drilling tool company, which will play a very favorable long-term role positive for Hilong's development in Canada, the US and even other markets in the Americas. During the reporting period, Hilong signed a series of contracts with Ensign US Southern Drilling LLC, Ventura Petroleo S.A., Precision Drilling Corporation, Bonanza Drilling Inc., XTO Energy Inc, National Drilling & Services Company LLC and ConocoPhillips in respect of drill pipes and coating services. In particular, the contract of coating services signed with ConocoPhillips signified Hilong's first cooperation with another high-end large-scale petroleum company in the United States. Further, the Company also obtained large contracts from ADNOC, a company based in United Arab Emirates, regarding sour service drill pipes; and achieved business breakthrough with the entry of Hilong V150 drill pipes into South American and European markets for the first time. Signing these contracts and executing these projects not only marked greater breakthrough in the expansion of Hilong in the markets of South America and North America and the Middle East, showing the business opportunities that Hilong acquired in the new EU market and the continuity of Hilong's strategy to expand into the international market, but also further consolidated the penetration of Hilong's coating and drill pipe business in the international market. It also illustrated the industry's recognition of the performance and quality of drill pipe products of Hilong and its coating service level also met the expectations of major oil and gas companies in the Americas and Middle East.

Oilfield Services

During the reporting period, the oilfield services segment recorded a total revenue of RMB1,057 million, representing a growth of 25% compared with 2021. In 2022, with the increase of crude oil prices, upstream enterprises had strong momentum to increase production, and the increase in capital expenditure brought substantial benefits to the oil service industry. Capitalizing on favorable conditions including the increase in capital expenditure at the upstream of the industry, Hilong penetrated into and optimized the overseas oil services market. By means of coordinating different business units in drilling and workover services, technical services and trade services, the Company fully displayed the synergistic effects among different business segments, ensuring the stable growth of the segment as a whole. With the efforts of Hilong's drilling and workover service team, the utilization rate of our drilling and workover rigs as a whole continued to increase compared with 2021, and a number of drilling rigs under standby were revitalized. The Company also secured a number of new contracts for other drilling rigs in operation or renewed or extended contracts for these drilling rigs. At the same time, active efforts were made to expand turnkey drilling projects. In Iraq, HL22 fleet has safely completed all work on the first drilling and completion turnkey well. During the reporting period, the comprehensive operation performance, QHSE management level and customer satisfaction level of Hilong's multiple drilling and workover service teams continued to be enhanced. For example, the two HL58/59 fleets set new records of block drilling cycles for three times in Oman, and were preferentially selected to undertake construction in gas fields of high difficulty level, and won recognition and cash awards. The two HL99/100 fleets set a record for the fastest well workover cycle in Iraq at Rumaila. HL9 fleet broke two local records for the shortest relocation and installation cycle and the shortest drilling cycle in Pakistan. The technical service team has successfully operated many businesses, including environmental technology services based on rock fragments and industrial waste liquid processing, production enhancement technology based on nanofluids flooding, refined managed pressure drilling (MPD) technology, directional and horizontal well drilling and other comprehensive technical services, and will further develop more diversified technical services businesses including well completion and production increase, drilling speed and efficiency improvement, oilfield environmental protection, rotary steering technology. In terms of trade service business, the amount of new contracts signed in 2022 doubled that of 2021, securing sufficient projects for the year. New breakthroughs were made in new customer development and external cooperation. Furthermore, Hilong also completed the qualification certification of a number of prestigious international customers, and started the registration of the Libyan branch, getting well-prepared for exploring new market opportunities in Africa.

Line Pipe Technology and Services

During the reporting period, the line pipe technology and services segment recorded a total revenue of RMB355 million, representing a decrease of 9% from 2021. The Company firmly captured its core customers in the line pipe coating and concrete-weighted coating business, and obtained a number of major projects from prestigious customers during the reporting period. As a result of unfavorable factors such as the lockdown during the outbreak of COVID-19 in Shanghai, the delivery of some orders was delayed during the reporting period, resulting in a slight decline in revenue for the year. Subsequently, with the lifting of lockdown and gradual easing of pandemic control policies in China, the Company's performance was no longer affected. The marketing and management team of Hilong continued to strengthen market development efforts in China and actively explored overseas markets to seek new customers and orders. The Company signed multiple contracts in the domestic market. During the reporting period, with its expertise in technology solutions, Hilong distinguished itself among other industry players and successfully entered into a contract in relation to water cycle testing platform project of Shandong Special Equipment Testing Institute Group Company Limited (山東省特種設備檢驗研究院集團有限公司). The is the Company's first project of designing sizable water cycle testing platform in China and symbolizes a new breakthrough of its pipeline inspection technology and services business in the domestic market. In terms of the information technology business, the Company is actively exploring conducting IT/digitalized business with operators, and is expected to gain new market space in intelligent control platforms such as large refining bases, oil and gas stations and city gas in the future.

Offshore Engineering Services

During the reporting period, the offshore engineering services segment recorded a total revenue of RMB114 million, representing a decrease of 76% from 2021. In 2022, affected by unfavorable factors such as the sharp decrease in workload of the domestic wind power market and the pandemic lockdown, the securing of projects from the market faced tremendous challenges and the workload on hand was not sufficient. During the reporting period, under the pressure of the pandemic, the Company successfully completed the wrapping up of Bangladesh's pipeline laying project and collation and submission of information regarding work completion. The Bohai Kenli and Bozhong construction projects in which we cooperated with Offshore Oil Engineering Company Limited are proceeding smoothly and orderly. The laying of a number of ocean pipelines has been successfully completed. We also won the bid for CGN offshore wind power installation turnkey project and MUBADALA project of pipeline laying in Thailand. Moreover, the Company is waiting for bid evaluation results of several projects, laying a good foundation for the construction and operation of contracts in 2023. At the same time, the Company highly emphasized timely cash inflow, continuously exploring opportunities for cost reduction and efficiency enhancement. Reasonable arrangements were made for the collection of payment of completed projects, and satisfactory results were achieved. The overhaul and maintenance of the barge was completed under a cost-saving approach, maintaining good barge equipment working status. Through in-depth analysis of the past nine years of experience and the adaption to latest trends in the market, the Company has well-positioned to further its operations upgrade. The Company also actively promotes organizational changes, the introduction of key core personnel and the market expansion of new businesses, so as to lay a good foundation for the Company enhance and streamline corporate governance, speeding up decision-making and become a light asset business based on enhancement in soft power of technology.

Technology Research and Development

Hilong has been implementing the strategy of promoting sustainable development of the enterprise through technological innovation, and has continued to make efforts regarding technological innovation and scale application of major products, establishing a scientific R&D project management system and a perfect innovation incentive mechanism, making breakthroughs in core technologies of the industry continuously. In 2022, every business segment of the Company had either set up R&D projects, or achieved some progress in phases in respect of R&D projects. In terms of drilling tool products, R&D of projects including research of HLNST special screw heads has been completed, the results of which met expected objectives, and the Company is currently carrying out focused promotion in regions including the United States and Canada and has obtained orders. The Company conducted in-depth research and application of HL 125S/130S/135MS high strength sour service drill pipes, and has achieved substantial results. Among which, the Company has signed large orders in US dollars in respect of HL 125S sour service drill pipes. We have completed the software development of information management of drill pipes with radio frequency identification tags. Currently, we have received orders for drill pipes with radio frequency identification tags in the Middle East. In terms of OCTG coating, we completed the optimization and improvement of the product formula for corrosion-resistant coating in HiNex5100 integrated oil casing, which is expected to significantly improve production efficiency and reduce the rate of consumables. Significant progress was also made in the research, production and application of inner coating for low-surface-processed pipes solely for oil. Acceptance has been completed for the functional development of rubber-based materials and application in coating materials and the modified material has been applied to the primer in actual production, with good application results to meet the Company's production needs. In terms of line pipe coating, we undertook the development of anti-corrosion coating peeling process and equipment, which is expected to reduce the processing cost and safety risk of end-of-life coatings. In terms of concrete weighted pipe coating, we completed numerous research tests including smooth treatment test, steam raising test, and steel slag proportioning test in order to meet the higher concrete weighted requirements of customers in the future. In terms of the pipeline inspection business, we completed the design and testing of 3-inch pipeline inertial mapping tester, 4-inch pipeline deformation and magnetic leakage tester, 20-inch magnetic leakage tester, and have made some progress. In terms of information technology business, research of technology for intelligent patrolling robots has made some progress. The Company was granted 2 invention patents and 1 utility model patent in 2022, and successfully applied for several government projects such as Shanghai SME technology innovation funds. In terms of offshore engineering, Hilong has carried out research and development of patented technologies such as subsea pipeline flexure repair technology application research, application research of survey and mapping in marine engineering and deep-water berthing dock. Hilong will continue to solidify its technological strengths, focus on customer needs and lead technological development, adhere to the development strategy of scientific and technological innovation, and leverage upon technological reformation to build a distinctive industry chain and advantage. At present, 7 companies within Hilong have been granted the "Highly Specialized and Innovative" (專精特新) corporate identity of Shanghai.

OUTLOOK

In 2023, in terms of the international market, the international oil price may still face great pressure at the beginning of the year due to the concern that the economy may be entering into recession as a result of multiple factors such as the rising USD interest rates, influence of the geopolitical tension between Russia and Ukraine and possible repeated outbreaks of COVID-19. However, the first monthly oil report released by the International Energy Agency at the beginning of the year also pointed out that the global oil demand is expected to reach a record high in 2023 and will boost the price of crude oil in the second half of this year. The oil price is expected to remain at a high level throughout the year, which is bound to bring sufficient workload to the global oil service industry. Driven by high oil prices, the oil and gas industry show good signs of recovery. In general, companies in the industry seize this opportunity to implement their plans to increase reserves and production as soon as possible. Hilong also made continuous efforts to increase its market development. It has secured a relatively satisfactory number of orders, and the workload is expected to be sufficient throughout 2023. In the domestic market, as China has entered the fifth year in implementing the seven-year action plan for oil and gas industry which spans from 2019 to 2025, domestic crude oil production has become stable and natural gas production continued to increase rapidly. The convening of the "Conference on Promoting the Enhancement of Oil and Gas Exploration and Development" (大力提升油氣勘探開發力度工作推進會) in 2021 reflects the government's determination to increase oil and gas exploration, development and investment, which indicates that oil and gas exploration and development activities in China will continue to be active, especially the enhancement of exploration and development of unconventional shale oil and gas. Furthermore, China's goals of "striving to achieve carbon peak by 2030 and carbon neutrality by 2060" (力爭2030年實現碳達峰、2060年實現碳中和) will also be a driving force for the further development. In summary, the domestic and international oil and gas industry markets are promising. Being an industry leader in many subdivided fields, Hilong will fully grasp the market opportunities for cost reduction and efficiency enhancement, and improve its core competitiveness through lean management and technological innovation, so as to further explore profitability.

In terms of the international drill pipe market, the Company will continue to strengthen the promotion of high value-added products of drilling tools to high-end customers, while ensuring the production quality of special high-end products. The Company will deeply develop high-end markets in the Middle East and America to continuously increase its market share of high-end products and establish a good brand image. At the same time, the Company will also increase the research and development of high-end drill pipe products such as special buckles, high-strength sour service drill pipes and titanium alloy drill pipes and intelligent drill pipes, continue to strengthen the marketing of products such as HLNST Special Buckles, 125S/135MS High Strength Sour Service Drill Pipes, V150 High Strength Drill Pipes and the management system of drill pipes with radio frequency identification tags, explore market opportunities for offshore drill pipes and special well completion and well pipe maintenance in the Gulf of Mexico, and strengthen the development and promotion of new products in the South and Central American markets with Brazil's deep water as the focus. For the domestic drill pipe market, Hilong will actively follow up existing business opportunities and adopt differentiated marketing strategies for different customers, while focusing on the development and promotion of high-end special buckle drilling tools for unconventional oil and gas resource extraction.

For the OCTG coating business, the Company has benefited from the current beneficial environment in overseas markets. With sufficient number of orders in the North American market, the overall production efficiency and operation level of the factories will be improved and the production capacity will be fully expanded to meet the demand from these orders. We will continue to promote localized production and application of coating materials in Russia and its nearby markets. In the Middle Eastern market, we will strive to achieve breakthroughs in the business scale of the line pipe coating and large-diameter non-standard pipe accessory coating in addition to maintaining the production and operation and stable growth of well-established products. Domestically in China, the Company will reduce costs and increase efficiency by enhancing the operation and management in all aspects of coating factories under Hilong. We will increase our market development efforts to deeply cultivate the traditional drilling tool coating and tubing and casing coating markets while seeking growth opportunities for differentiated demand for anti-scaling and anti-wax coatings, ground gathering pipeline coatings and high temperature resistant coatings in different regional markets. The Company will also strive to significantly increase coating sales in the domestic market in the future to gradually form a market scale of differentiated products such as ground line pipes, high temperature resistant, anti-scaling and anti-wax coatings.

Regarding the oil services business, Hilong will fully utilize existing business opportunities and continue to secure for signing of new contracts for well drilling and workover markets of Nigeria, Ecuador and Pakistan. In Iraq and Ecuador, we will actively secure new turnkey drilling contract, and in the Middle East, Africa and Malaysia, we will continue to expand into new markets, reach new customers and make new progress while making every effort to increase the utilization rate of existing drilling and workover rigs. The Company has commenced the registration of a branch in Libya and started conducting on-site research and market development, so as to strive for new business breakthroughs in 2023. In terms of technical service business, on the basis of consolidating the existing business, the Company will actively expand the technical services of directional wells and horizontal wells with RSS (Rotary Steering System) as the core. At the same time, the Company will seek continuous workload, establish a business team, strengthen external cooperation and research for the managed pressure drilling (MPD) service and coiled tubing business, so as to strive for achieving a real breakthrough in well completion and production increase business and the clean energy business. For trading services, we will fully implement our existing projects and orders to ensure satisfaction of Party A in order to lay a solid foundation for the subsequent projects of our key customers, and seek joint operation with other business to support drilling and workover services, technical services as well as external cooperation to further consolidate customer relationships and achieve further business breakthroughs. In addition, the Company will actively seize the opportunity to participate in oil exhibitions in Beijing, Russia, the United States, the Middle East and other places in 2023, so as to pursue and research new technologies and new businesses in domestic and international industries, and strive for further business breakthroughs and development opportunities.

For the line pipe technology and service segment, we will make every effort to organize production and continue to focus on exploring market opportunities brought by the new peak of domestic oil and gas line pipe network construction and developing overseas projects. It is expected that the construction of the Middle East Anticorrosion Company will be completed in 2023. We will not only consolidate domestic pipeline inspection services but also actively seek business opportunities for oil and gas pipeline inspection services in the regions of Asia and Middle East. Moving forward, we intend to significantly increase the Company's overall market share in inspection services through the establishment of a professional sales team, expansion of publicity channels and excellent professional and technical capabilities. In terms of information technology business, the Company will focus on the development of three major technology products, namely industrial intelligent sensors, industrial special robots and IT solutions for safety monitoring of oil and gas stations, and strive to become a leader in industrial Internet technologies, products and solutions in the oil and gas chemical industry in the future.

The offshore engineering services segment will accelerate the construction of its own fundamental capability and enhance the integration capability of upstream and downstream ecological resources. Starting from engineering technology design center and intelligent manufacturing and maintenance center featuring digital delivery, we will intensify market development for EPC Project and speed up the market layout and channel construction in China, Asia Pacific and the Middle East. While ensuring the quality of domestic contracted projects, we will actively make an effort in contracting and implementing projects such as engineering commissioning and digital intelligence in the international market. In 2023, on the basis of continuing stable installation and submerged pipeline laying business, the

Company will also actively expand engineering construction and technical services including offshore oil and gas processing facilities, offshore engineering construction facilities, land-associated gas recovery, land wellhead oil and gas processing and LNG receiving station, and focus on new energy business such as offshore wind power. Meanwhile, Hilong will increase its efforts in talent acquisition, adhere to innovation-driven development and international expansion, and enhance its capabilities in operation, project execution and technology-driven development with a goal to become an engineering technology service company with EPCI (engineering, procurement, construction and installation) integrated service capability and capable of providing cost-effective solutions to the owners, and collaborate closely with leading international technology companies.

Events after the End of the Reporting Period

On 31 March 2023 (after trading hours), Hilong Group of Companies Ltd.* (海隆石油工業集團有限公司) (the "**Vendor**"), an indirect wholly-owned subsidiary of the Company, and Shanghai Hilong Shine New Material Co., Ltd.* (上海海隆賽能新材料有限公司) (the "**Purchaser**"), a connected person of the Company, entered into an equity transfer agreement (the "**Equity Transfer Agreement**"), pursuant to which the Vendor 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 which will be effected by sale of the sale interests (the "**Sale Interests**") (representing 100% of the equity interest in Hilong Pipeline Engineering Technology Service Co., Ltd.* (海隆管道工程技術服務有限公司), an indirect wholly-owned subsidiary of the Company (the "**Target Company**")) at the consideration of RMB700 million, subject to the terms and conditions of the Equity Transfer Agreement (the "**Disposal**"). Upon completion, the Company will not hold any interest in the Target Company, and each member of the Target Company and its subsidiaries will cease to be a subsidiary of the Company. The Disposal by the Vendor and the transactions contemplated under the Equity Transfer Agreement constitute a very substantial disposal and connected transaction for the Company.

For details of the Disposal, please refer to the announcement and circular of the Company in relation to the very substantial disposal and connected transaction of the Company dated 31 March 2023.

Save for the Disposal disclosed above, there were no important events affecting the Company nor any of its subsidiaries since the end of the reporting period and up to the date of this annual results announcement.

CORPORATE GOVERNANCE

Corporate Governance Code

The Company has complied with all the applicable code provisions set out in Part 2 of the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") throughout the year ended 31 December 2022.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code of conduct for dealing in securities of the Company by the Directors. The Company has made specific enquiries to all Directors and all Directors confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2022.

REVIEW OF ANNUAL RESULTS

The audit committee of the Company, consisting of Mr. WONG Man Chung Francis, Mr. WANG Tao (王濤) and Ms. ZHANG Shuman, has reviewed the annual results for the year ended 31 December 2022 before the results were submitted to the Board for approval.

The auditor of the Company, PricewaterhouseCoopers, has agreed that the figures in respect of the Group's annual results for the year ended 31 December 2022 contained in this announcement are consistent with the amounts set out in the Group's audited consolidated financial statements for the year.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

There was no purchase, sale or redemption of the Company's listed securities by the Company nor any of its subsidiaries during the year ended 31 December 2022.

DIVIDENDS

The Board resolved not to recommend any dividend for the year ended 31 December 2022.

ANNUAL GENERAL MEETING AND PERIOD OF CLOSURE OF REGISTER OF MEMBERS

The Company will arrange the time of convening the forthcoming annual general meeting of the Company ("**AGM**") as soon as practicable, and the notice of the AGM will be published and despatched to the Shareholders in a timely manner in accordance with the requirements of the Listing Rules and the articles of association of the Company. Once the date of the AGM is finalized, the Company will publish the period of closure of register of members of the Company in a separate announcement and in the notice of the AGM.

PUBLICATION OF ANNUAL RESULTS

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

The annual report for the year ended 31 December 2022 containing all the information required by the Listing Rules will be despatched to shareholders of the Company and become available on the same websites in due course.

APPRECIATION

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

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

Hong Kong, 31 March 2023

As at the date of this announcement, the executive directors of the Company are Mr. ZHANG Jun and Mr. WANG Tao (汪濤); the non-executive directors are Ms. ZHANG Shuman, 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.