海隆控股有限公司*

Hilong Holding Limited

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

* For identification purpose only

CONTENTS

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of directors (the "**Board**") of Hilong Holding Limited ("**Hilong**", "**we**", "**us**", "**our**" or the "**Company**"), I hereby present the annual report of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2021 to our shareholders.

RESULTS

In 2021, international crude oil prices that were once suppressed by COVID-19 rose substantially due to factors such as the global economic recovery and the serious supply shortage of crude oil, the workload and orders of the oil and gas industry also increased. In 2021, Hilong recorded a total revenue of RMB2,917 million, representing an increase of about 11% compared with that of 2020, and recorded a net profit of RMB47.6 million. While vigorously exploring the market and actively striving for orders, the Company has taken various measures to reduce capital expenditure, reduce cost and increase efficiency. The Company also attaches great importance to cash flow management, so as to maintain stable operation in a complex market environment.

YEAR UNDER REVIEW

In 2021, other than the slight decrease in revenue of oilfield equipment manufacturing and services segment, the other three business segments of Hilong achieved revenue growth in varying degrees.

The revenue of the oilfield equipment manufacturing and services segment was RMB1,205 million, representing a year-on-year decrease of 8%. Influenced by numerous factors, including the persistent COVID-19 in the world and the fluctuation in the oil and gas industry, upstream customers were still cautious in investing and purchasing oilfield equipment, the market competition remained fierce. And the Company also proactively selected its customers, ordinary drill pipes mainly satisfied the needs of high-quality customers, with a focus on cash flow management. Hilong's drill pipes and OCTG coating business have focused on providing customized high-end products and services to high-end customers, and also actively adjusts its strategy, explore new business fields to meet the needs of different customers.

The oilfield services segment recorded a total revenue of RMB845 million, representing an increase of 24% compared to that in 2020. In 2021, with the gradual advancement of global vaccination, the oil price showed a significant upward trend, and the oil services industry began to recover. Hilong was infiltrating into the overseas oil services market. In the complex and highly competitive market environment, Hilong ensured the stability of the production and operation order of the segment and realized the steady improvement of performance. The utilization rate of our drilling and workover rigs in the whole year was significantly higher than that of 2020 and successfully bid for a turnkey contract of drilling service in Iraq. The technical service team successfully operated many businesses, trading service business also achieved new breakthroughs.

The line pipe technology and services segment achieved a total revenue of RMB389 million, representing a significant year-on-year increase of 53%. In 2021, the overall workload of this segment was heavy, and the contract amount of each business reached a record high. Corrosion-resistant pipeline coating and concrete-weighted coating businesses firmly held the core customers, successfully secured the orders for many key projects. Our pipeline inspection services developed rapidly and successfully won many projects in the domestic market, and we also actively promoted our overseas business. The performance of our information technology business was also taken to a higher level.

The overall operation of the offshore engineering services segment was stable, and all projects ran smoothly. We recorded a total revenue of RMB478 million, representing a significant increase of 26% compared to that in 2020. Hilong team successfully completed the deep excavation and backfilling of four worldclass channels in the second dry season construction of Bangladesh's submerged pipeline laying project in 2021, the comprehensive business strength shown by Hilong team has won high recognition from all parties involved in the project. During the reporting period, the company successfully carried out some offshore wind power projects, which contributed to the Company's continuous and stable cash flow. In addition, Hilong also successfully participated in a vessel leasing service project.

PROSPECTS

In 2022, with the gradual weakening of the impact of the pandemic and the rise of global energy demand, the price of crude oil continues to rise, which is bound to drive the further growth of industry investment and workload. China has entered the fourth year in implementing the seven-year action plan for oil and gas industry which spans from 2019 to 2025. In general, the domestic and foreign oil and gas industry markets are promising. Hilong, as an industry leader in many subdivided fields, will fully grasp the market opportunities brought by the recovery of the global oil and gas industry and the continuous increase of domestic oil and gas exploration and development. In terms of the drill pipes business, Hilong will adopt differentiated marketing strategies for different customers in domestic market, and continue to position itself in high-end products and markets. In terms of overseas markets, Hilong will continue to maintain its strategic cooperation relationship with existing important business partners, actively expand new large customers and focus on the development of high-end market and strive for more orders of high value-added products. For OCTG coating business, the Company intends to continuously improve the penetration and market coverage in the whole industry, and proactively carry out production and sales functions through diversification and differentiation to satisfy the customized needs of high-end customers. For oil services business, Hilong will actively make greater breakthroughs in the Middle East, Africa and other regions, and make every effort to improve the utilization rate of existing drilling and workover rigs. In addition, we will strengthen market development, and seek business expansion and transformation on the basis of existing mature businesses. In February 2022, the Company successfully signed the first turnkey drilling contract in Iraq. In terms of trading business, the Company will explore ideas and develop more new trading products further expand its business. The line pipe technology and services sector will grasp the market opportunities brought by the domestic oil and gas pipeline network construction, and will continue to develop overseas projects based on existing core customers. Our pipeline inspection services will control domestic businesses and explore overseas opportunities. For offshore engineering services, the emphasis will be placed on capturing potential business opportunities from CNOOC's "seven-year action plan" and the offshore wind power industry. At the same time, we will make full use of the joint venture platform to consolidate the Southeast Asian market and pay attention to project opportunities in the Middle East and other regions.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to extend my sincere gratitude to our shareholders, management team and staff. Neither the Group's past achievement nor its future development would have been possible without their support and contribution.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

Ms. Zhang Shuman (張姝嫚)
Dr. Yang Qingli (楊慶理)
Mr. Cao Hongbo (曹宏博)

Independent Non-executive Directors

Mr. Wang Tao (王濤)
Mr. Wong Man Chung Francis (黃文宗)
Mr. Shi Zheyan (施哲彥)

AUTHORIZED REPRESENTATIVES

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

Mr. Wang Tao (王濤)
(Chairman of Remuneration Committee)
Mr. Wong Man Chung Francis (黃文宗)
Mr. Shi Zheyan (施哲彥)

NOMINATION COMMITTEE

Mr. Wang Tao (王濤)
(Chairman of Nomination Committee)
Mr. Wang Tao (汪濤)
Mr. Shi Zheyan (施哲彥)

COMPANY SECRETARY

Ms. Sham Ying Man (岑影文)

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
Registered Public Interest Entity Auditor

REGISTERED OFFICE

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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712–1716
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183 Queen's Road East, Wan Chai, Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
China Construction Bank, Yuepu Branch
Bank of China, Baoshan Branch
Industrial & Commercial Bank of China, Baoshan Branch
Shanghai Pudong Development Bank, Baoshan Branch

STOCK CODE

1623

WEBSITE

www.hilonggroup.com

FINANCIAL REVIEW

Revenue

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

	Year ended 31 December			
	2021		2020	
	RMB'000	**%**	RMB'000	%
Oilfield equipment manufacturing and services				
– Drill pipes	**753,315**	**25.8**	834,424	31.8
– Oil country tubular goods ("**OCTG**") coating services	**310,305**	**10.6**	282,832	10.8
– Drill pipe components	**30,679**	**1.1**	39,224	1.5
– Hardbanding	**24,587**	**0.8**	13,064	0.5
– Others	**85,873**	**2.9**	137,587	5.2
Subtotal	**1,204,759**	**41.2**	1,307,131	49.8
Line pipe technology and services				
– OCTG coating materials	**14,082**	**0.5**	16,321	0.6
– Oil and gas line pipe coating materials	**6,118**	**0.2**	4,150	0.2
– Oil and gas line pipe coating services	**168,566**	**5.8**	90,286	3.4
– Corrosion Resistant Alloy ("**CRA**") lined pipe	**11,587**	**0.4**	11,137	0.4
– Concrete Weighted Coating ("**CWC**") services	**112,471**	**3.9**	79,974	3.0
– Pipeline inspection services	**75,903**	**2.6**	51,971	2.0
Subtotal	**388,727**	**13.4**	253,839	9.6
Oilfield services	**845,282**	**29.0**	683,782	26.1
Offshore engineering services	**478,154**	**16.4**	378,285	14.5
Total revenue	**2,916,922**	**100.0**	2,623,037	100.0

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

	Year ended 31 December			
	2021		2020	
	RMB'000	**%**	RMB'000	%
The PRC	**854,339**	**29.3**	487,433	18.6
Russia, Central Asia and East Europe	**757,464**	**26.0**	826,858	31.5
South Asia and Southeast Asia	**420,130**	**14.4**	504,095	19.2
North and South America	**363,518**	**12.5**	230,057	8.8
Middle East	**333,663**	**11.4**	432,770	16.5
Africa	**179,368**	**6.1**	141,824	5.4
Others	**8,440**	**0.3**	–	–
Total	**2,916,922**	**100.0**	2,623,037	100.0

Revenue increased by RMB293.9 million, or 11.2%, from RMB2,623.0 million in 2020 to RMB2,916.9 million in 2021. Such increase was mainly due to the increase in revenue from oilfield services segment and line pipe technology and services segment, and was partly offset by the decrease in revenue from oilfield equipment manufacturing and services segment.

Oilfield equipment manufacturing and services. Revenue from the oilfield equipment manufacturing and services segment decreased by RMB102.3 million, or 7.8%, from RMB1,307.1 million in 2020 to RMB1,204.8 million in 2021. Such decrease primarily reflected a decrease in revenue derived from drill pipes sales and drill pipes rental business.

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

	Year ended 31 December	
	2021	2020
Sales of drill pipes		
– International market		
– volume (tonnes)	**30,719**	36,791
– unit price (RMB/tonne)	**19,259**	20,903
Subtotal (RMB'000)	**591,617**	769,041
– The PRC market		
– volume (tonnes)	**10,502**	3,998
– unit price (RMB/tonne)	**15,397**	16,354
Subtotal (RMB'000)	**161,698**	65,383
Total (RMB'000)	**753,315**	834,424

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

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

Revenue from OCTG coating services increased by RMB27.5 million, or 9.7%, from RMB282.8 million in 2020 to RMB310.3 million in 2021. The increase was mainly due to the recovery of certain oil and gas companies in 2021.

Line pipe technology and services. Revenue from line pipe technology and services segment increased by RMB134.9 million, or 53.1%, from RMB253.8 million in 2020 to RMB388.7 million in 2021. Such increase primarily reflected an increase in the revenue derived from oil and gas line pipe coating services and concrete weighted coating (CWC) services. The increase in revenue derived from oil and gas line pipe coating services and CWC services was mainly reflected the Company's ability to undertake more projects and develop new customers.

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

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

Cost of Sales/Services

Cost of sales/services increased by RMB89.5 million, or 4.6%, from RMB1,929.1 million in 2020 to RMB2,018.6 million in 2021.

Gross Profit and Gross Profit Margin

As a result of the foregoing, gross profit increased by RMB204.3 million, or 29.4%, from RMB694.0 million in 2020 to RMB898.3 million in 2021. Gross profit margin was 30.8% in 2021, increased by 4.3% from that in 2020.

Selling and Marketing Expenses

Selling and marketing expenses decreased by RMB9.8 million, or 8.2%, from RMB119.9 million in 2020 to RMB110.1 million in 2021. These expenses, amounting to 3.8% of revenue in 2021, were lower than 4.6% in 2020.

Administrative Expenses

Administrative expenses increased by RMB26.5 million, or 6.6%, from RMB398.8 million in 2020 to RMB425.3 million in 2021. Such increase primarily reflected the increase in consulting expenses and research and development expenses.

Other Gains/(Losses) – Net

The Group recognised net gain of RMB71.9 million in 2021 and net loss of RMB187.3 million in 2020. The net gain recognised 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, United States Dollar ("**USD**") and Hong Kong Dollar ("**HKD**"). The net loss recognised in 2020 reflected an exchange loss of RMB175.5 million from the operating activities as a combined results of the depreciation of the Ruble, USD and HKD.

Finance Costs – Net

Finance costs – net increased by RMB227.2 million, or 250.8%, from RMB90.6 million in 2020 to RMB317.8 million in 2021. Such increase primarily reflected (i) the interest expense on Senior Notes and other borrowing and the issuance cost of the 2024 Notes from RMB261.8 million in 2020 to RMB379.2 million in 2021, (ii) an exchange gain of RMB56.7 million from the financing activities resulting from the depreciation of USD, while in 2020 the exchange gain was RMB159.1 million from the financing activities resulting from the depreciation of USD.

Profit before Income Tax

As a result of the foregoing, the Group recognised losses before income tax of RMB229.8 million in 2020 and profit before income tax of RMB143.3 million in 2021.

Income Tax Expense

The Group recognised income tax expense of RMB68.9 million in 2020 and RMB95.7 million in 2021. Effective tax rate was approximately –30.0% in 2020 and 66.8% in 2021, the increase of effective tax rate mainly reflected (i) the unbalanced distribution of profit among the Group's subsidiaries and (ii) the increase of tax losses of subsidiaries not recognised.

Profit for the year attributable to equity owners of the Company

As a result of the foregoing, the Group recognised loss for the period attributable to equity owners of the Company of RMB298.8 million in 2020 and profit for the period attributable to equity owners of the Company of RMB44.2 million in 2021.

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	
	2021 RMB'000	2020 RMB'000
Inventory	**1,050,881**	1,001,255
Turnover days of inventory (in days)[1]	**186**	177

(1) Turnover days of inventory for a year equals average inventory divided by total cost of sales and then multiplied by 366 and 365 for each of the years ended 31 December 2020 and 2021. 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 2020 to 31 December 2021 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	
	2021 RMB'000	2020 RMB'000
Trade receivables		
– Due from third parties	**1,515,489**	1,638,347
– Due from related parties	**10,512**	10,102
– Less: Provision for impairment of receivables	**(129,166)**	(204,516)
Trade receivables – net	**1,396,835**	1,443,933
Other receivables		
– Due from third parties	**140,432**	139,156
– Due from related parties	**123,532**	96,196
Other receivables	**263,964**	235,352
Dividend receivables	**2,746**	2,746
Total	**1,663,545**	1,682,031

The trade receivables of RMB1,694,000 (31 December 2020: RMB4,118,000) of the Group were used to secure borrowings from financial institutions as at 31 December 2021.

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	
	2021 RMB'000	2020 RMB'000
Trade receivables, net		
– Within 90 days	**702,057**	614,800
– Over 90 days and within 180 days	**211,797**	154,954
– Over 180 days and within 360 days	**157,964**	237,912
– Over 360 days and within 720 days	**163,462**	305,019
– Over 720 days	**161,555**	131,248
	1,396,835	1,443,933
Turnover days of trade receivables, net[(1)]	**178**	246

(1) Turnover days of trade receivables for a year equals average trade receivables divided by revenue and then multiplied by 366 and 365 for each of the years ended 31 December 2020 and 2021. 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	
	2021	2020
As at 1 January	**204,516**	105,269
Provision for receivables loss allowance	**54,787**	131,994
Reversal for loss allowance on individually doubtful trade receivables	**(76,868)**	–
Write-off of loss allowance	**(53,269)**	(32,747)
As at 31 December	**129,166**	204,516

The decrease in turnover days of trade receivables from 246 days as at 31 December 2020 to 178 days as at 31 December 2021 primarily reflected that settlement for trade receivables due from certain oil and gas companies in the international market was more active and accelerated in 2021.

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	
	2021 **RMB'000**	2020 RMB'000
Bills payable	**8,426**	11,017
Trade payables		
– Due to related parties	**19,664**	18,083
– Due to third parties	**435,402**	426,206
Other payables		
– Due to related parties	**9,017**	26,331
– Due to third parties	**60,423**	140,779
Staff salaries and welfare payables	**33,680**	31,934
Interest payables	**35,067**	169,401
Accrued taxes other than income tax	**116,293**	59,538
Dividends payable	**10,496**	10,496
Other liabilities	**7,880**	13,008
	736,348	906,793

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	
	2021 **RMB'000**	2020 RMB'000
Trade payables, gross		
– Within 90 days	**282,231**	287,653
– Over 90 days and within 180 days	**164,173**	133,833
– Over 180 days and within 360 days	**2,110**	16,630
– Over 360 days and within 720 days	**3,210**	4,524
– Over 720 days	**3,342**	1,649
	455,066	444,289
Turnover days of trade payables[(1)]	**81**	105

(1) Turnover days of trade payables for a year equals average trade payables divided by total cost of sales and then multiplied by 366 and 365 for each of the years ended 31 December 2020 and 2021. 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	
	2021 RMB'000	2020 RMB'000
Net cash generated from operating activities	**453,815**	20,530
Net cash used in investing activities	**(23,550)**	(24,755)
Net cash used in financing activities	**(492,445)**	(56,618)
Net decrease in cash and cash equivalents	**(62,180)**	(60,843)
Exchange losses on cash and cash equivalents	**(6,478)**	(24,872)
Cash and cash equivalents at beginning of the year	**697,463**	783,178
Cash and cash equivalents at end of the year	**628,805**	697,463

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

Operating Activities

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.

Net cash generated from operating activities in 2020 was RMB20.5 million, representing cash generated from operation of RMB98.4 million, offset by the income tax payment of RMB77.9 million.

Investing Activities

Net cash used in investing activities in 2021 was RMB23.6 million, primarily reflecting payment of RMB139.9 million for the purchase 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.

Net cash used in investing activities in 2020 was RMB24.8 million, primarily reflecting (i) payment of RMB38.7 million for purchases of property, plant and equipment, (ii) RMB24.0 million for purchases of intangible assets, and (iii) net cash outflow arising from financial instruments of RMB23.0 million, partially offset by proceeds of RMB55.8 million from disposal of property, plant and equipment and proceeds of RMB2.0 million from disposal of subsidiaries of the Group.

Financing Activities

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.

Net cash used in financing activities in 2020 was RMB56.6 million, primarily reflecting (i) the repayment of borrowing of RMB609.4 million, (ii) the interest payment of RMB96.1 million, and (iii) the lease payment of RMB22.3 million, partially offset by (i) proceeds of RMB667.3 million from borrowings, and (ii) net cash inflow of RMB10.8 million arising from security deposit for bank borrowings.

Capital Expenditures

Capital expenditures were RMB101.0 million and RMB192.6 million in 2020 and 2021, respectively. The increase in capital expenditures in 2021 was mainly due to the increasing maintenance capital expenditures of Hilong 106 vessel and the recovery of overseas business in the oilfield services segment.

Indebtedness

As at 31 December 2021, the outstanding indebtedness of RMB3,039.9 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	
	2021 **RMB'000**	2020 RMB'000
Non-current		
Bank borrowings – secured	**162,162**	25,764
2024 Notes – secured	**2,347,987**	–
Less: Current portion of non-current borrowings – secured	**(77,640)**	(2,090)
	2,432,509	23,674
Current		
Bank borrowings – secured	**529,712**	157,145
Bank borrowings – unsecured	**–**	19,352
2020 Notes	**–**	1,077,352
Cross-default Borrowings	**–**	1,845,902
Current portion of non-current borrowings – secured	**77,640**	2,090
	607,352	3,101,841
	3,039,861	3,125,515

As at 31 December 2021, bank borrowings of RMB2,917.5 million were obtained at fixed rate (31 December 2020: RMB2,962.3 million).

The bank borrowings of RMB13.5 million (31 December 2020: RMB47.5 million) were secured by certain bank deposits of the Group, with a carrying amount of RMB4.1 million as at 31 December 2021 (31 December 2020: RMB2.4 million).

The borrowings of RMB30,704,000 (31 December 2020: RMB12,640,000) from financial institution were secured by trade receivables of RMB1,694,000 (31 December 2020: RMB4,118,000) of the Group as at 31 December 2021.

The bank borrowings of RMB104,784,000 (31 December 2020: RMB70,969,000) were secured by bank acceptance bills and commercial acceptance bills of the Group as at 31 December 2021.

In 2018, Hilong Oil Service Co., Ltd. ("**Hilong Oil Service**") 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 2021, USD33,545,000 were drawn down, out of which USD13,860,000 had been repaid in past years and 2021. The remaining principals will be repayable from 2022 to 2025.

References are made to the 2020 annual report and 2021 interim report of the Company in relation to the Debt Restructuring. On 20 May 2021, the Company announced that the Debt Restructuring was completed on 18 May 2021, the Existing Notes had been cancelled and 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. Accordingly, the Company made an application to the Stock Exchange for the withdrawal of the listing of the 2022 Notes and the 2022 Notes had been delisted with effect from 27 May 2021. As at 31 December 2021, there were no Existing Notes in issue.

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

The gearing ratios as at 31 December 2021 and 31 December 2020 are as follows:

	As at 31 December	
	2021 RMB'000	2020 RMB'000
Total borrowings	**3,039,861**	3,125,515
Add: Lease liabilities	**17,547**	27,981
Less: Cash and cash equivalents	**(628,805)**	(697,463)
Restricted cash	**(60,379)**	(77,616)
Financial assets at fair value through profit or loss	**–**	(23,377)
Net debt	**2,368,224**	2,355,040
Total equity	**3,042,827**	3,118,298
Total capital	**5,411,051**	5,473,338
Gearing ratio	**43.77%**	43.03%

Foreign Exchange

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD. Foreign exchange risk arises from recognised assets and liabilities in foreign operations. The conversion of RMB into foreign currencies, including the USD, has been based on rates set by the People's Bank of China. On 21 July 2005, the PRC government changed its decade-old policy of pegging the value of RMB to the USD. Under this policy, RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in an approximately 21.3% appreciation of RMB against the USD from 21 July 2005 to 31 December 2021. There remains significant pressure on the PRC government to adopt more flexible currency policy, which could result in more fluctuated exchange rate of the RMB against USD. The Group may consider entering into currency hedging transactions to further manage its exposure to fluctuations in exchange rates, or nature hedging by active matching the currency structure of monetary assets and liabilities. However, the effectiveness of such transactions may be limited. The revenue denominated in USD represented 41.7% and 40.6% of the total revenue of the Group in 2020 and 2021, respectively.

Staff and Remuneration Policy

As at 31 December 2021, the total number of full-time employees employed by the Group was 2,920 (31 December 2020: 2,820). The following table sets forth the number of the Group's full-time employees by area of responsibility as at 31 December 2021:

On-site workers	1,832
Administrative	441
Engineering and technical support	429
Research and development	101
Sales, marketing and after-sales services	89
Company management	28
	2,920

Employee costs excluding the Directors' remuneration totaled RMB574.7 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 report, none of the share options granted has been exercised.

BUSINESS REVIEW

In 2021, international crude oil prices that were once suppressed by COVID-19 rose substantially due to the global economic recovery and the serious supply shortage of crude oil; the workload and orders of the oil and gas industry also increased. However, because of the constraints of multiple factors, including the ever-changing pandemic, the fluctuations in the international oil and gas industry, the rising prices of bulk raw materials and the accelerated transformation of the energy industry, the overall recovery of the global oil and gas industry continues to face a multitude of challenges.

Despite the adverse external market environment, the Company's overall operations in 2021 remained stable. Driven by a number of positive factors, Hilong's performance improved in 2021. During the reporting period, Hilong recorded a total revenue of RMB2,917 million, representing an increase of about 11% compared with that of 2020. Supported by the gradual pick-up of orders, the three segments oil field services, line pipe technology and services and offshore engineering services achieved revenue growth in varying degrees. While vigorously exploring the market and actively striving for orders, the Company has taken various measures to reduce capital expenditure, reduce cost and increase efficiency by refining management throughout the Group. The Company also attaches great importance to cash flow management, takes active accounts receivable and inventory management measures, and gives priority to cooperating with customers with good collection records, so as to maintain stable operation in a complex market environment. During the reporting period, Hilong successfully completed its debt restructuring, which provided a relatively loose external environment for business remodeling and development in the next few years.

Oilfield Equipment Manufacturing and Services

During the reporting period, the revenue of the oilfield equipment manufacturing and services segment was RMB1,205 million, representing a year-on-year decrease of 8%. Influenced by numerous factors, including the persistent COVID-19 in the world, the fluctuation in the oil and gas industry and the trend of developing new energy, upstream customers were still cautious in investing and purchasing oilfield equipment, including drilling tool and coatings. The market competition remained fierce, and the Company also proactively selected its customers. Ordinary drill pipes mainly satisfied the needs of high-quality customers, with a focus on cash flow management. Customers are price sensitive and prefer to purchase basic products and services. At the same time, in order to survive, some competitors strive for customers by lowering the bidding price, resulting in the decline of the overall price level of the market. In addition, the obvious rise of raw material prices and transportation costs and the extension of transportation cycle caused by the pandemic have affected the profitability of Hilong's oilfield equipment in the short term. Over the years, Hilong's drill pipes and OCTG coating business have focused on providing customized high-end products and services to high-end customers, and always adhered to the development strategy with quality and continuous technological innovation as the core driving force. In order to adapt to the current market environment, the Company also actively adjusts its strategy. While adhering to high-end customers, high-end products and customized routes, the Company will actively explore new business fields such as OCTG coating for ground gathering and transmission pipelines, special-shaped components, so as to meet the needs of different customers. At present, it has achieved initial results in domestic and foreign markets. During the reporting period, the Company obtained the supply contract of sulfur-resistant drill pipes from ADNOC Drilling Company PJSC ("**ADNOC Drilling**") in the United Arab Emirates, and we will provide high-end drill pipes for land drilling rigs, elevating drilling platforms and island drilling rigs operated by ADNOC Drilling. The total consideration of the supply contract is approximately USD69 million.

Oilfield Services

During the reporting period, in terms of the oil field services segment, we recorded a total revenue of RMB845 million, representing a year-on-year increase of 24%. In 2021, with the gradual advancement of global vaccination, the oil price showed a significant upward trend, and the oil services industry began to recover. Hilong was infiltrating into the overseas oil services market. In the complex and highly competitive market environment, Hilong implemented all-round normalized control of the pandemic, strengthened market development, gave full play to the synergy among drilling and workover services, technical services and trade services, ensured the stability of the production and operation order of the segment and realized the steady improvement of performance. With the efforts of the drilling and workover service team, the utilization rate of our drilling and workover rigs in the whole year was significantly higher than that of 2020, and the inter well relocation and installation cycle of the Company was significantly shorter than that of 2020. At the same time, the Company successfully bid for the turnkey contract of drilling from Kuwait Energy Iraq Ltd. ("**KE Iraq**"), and made an important breakthrough in business in Iraq market. During the reporting period, the project management level, comprehensive operation performance and customer satisfaction of Hilong's multiple drilling and workover service teams were further improved. For example, HL-15 drilling team provided drilling services to Orionoil Er S.A. in Ecuador and won first place in the comprehensive assessment of all contractors; In Iraq, the HL-99 and HL-100 teams are among the best in our customer BP IRAQ N.V.'s ranking of drilling and workover rigs with excellent performance and efficient operation performance. As a result of effective pandemic control, they became the only one customer service provider whose continuous operation had not been affected by the pandemic. The technical service team has successfully operated many businesses, including rock fragments processing service, drilling mud service, directional well service, well cementation service and casting down service, and the team will continue to actively explore diversified business fields including well completion and production increase, drilling speed and efficiency improvement, oilfield environmental protection, etc. In terms of trade service business, new contracts with over double the amount of 2020 were entered into in Ecuador, and achieved a new breakthrough in the trade of accessories in addition to tubing and casing. In addition, Hilong has successfully completed the qualification certification of many large international customers, and it achieved the extension or renewal of many contracts to accumulate strength for further development in the future.

Line Pipe Technology and Services

During the reporting period, the line pipe technology and services segment achieved a total revenue of RMB389 million, representing a significant year-on-year increase of 53%. In 2021, the overall workload of this sector was heavy, and the contract amount of each business reached a record high. Corrosion-resistant pipeline coating and concrete-weighted coating businesses firmly held the core customers. During the reporting period, they successfully won the bid for many key projects from large customers. For example, Zhejiang Provincial Energy Group Company Ltd.* (浙江省能源集團有限公司), Zhejiang Petroleum & Chemical Co, Ltd.* (浙江石油化工有限公司) and the Company signed a series of corrosion-resistant pipeline coating and concrete-weighted coating service contracts. Hilong and Baoshan Steel Co., Ltd.* (寶山鋼鐵股份有限公司) have always maintained close cooperation, and we signed multiple sales contracts in 2021. During the reporting period, the Company was shortlisted in the supplier system of BASF (China) Co., Ltd.* (巴斯夫(中國)有限公司) and the annual service supplier system of Shaanxi Yanchang Petroleum (Group) Co., Ltd.* (陝西延長石油(集團)有限責任公司), and certified by TotalEnergies, laying a solid foundation for further developing international and domestic markets and exploring potential customers and orders. Our pipeline inspection services developed rapidly and successfully won many projects in the domestic market. The inner inspection equipment of the Company has been recognised by many domestic companies, and we also actively promoted our overseas business. Various types and sizes of inspection equipment have been successfully developed or put into use, further diversifying our equipment and improving the hardware strength of the Company. During the reporting period, in terms of the information technology business, we signed a number of contracts in relation to industrial intelligent sensing products and industrial Internet platform. The performance of our information technology business was taken to a higher level.

Offshore Engineering Services

During the reporting period, the overall operation of the offshore engineering services segment was stable, and all projects ran smoothly. We recorded a total revenue of RMB478 million, representing a significant year-on-year increase of 26%. Following the excellent completion of the first dry season construction of Bangladesh's submerged pipeline laying project, Hilong team successfully completed the deep excavation and backfilling of four worldclass channels in the second dry season construction in 2021 under various kinds pressures generated by the complexity of construction technologies and the increased uncertainty of construction period caused by the pandemic, setting a world record of 11.9 meter deep trench excavation on the seabed, and completed the repair of damaged pipelines with high efficiency in only 7 days. The comprehensive business strength shown by Hilong team has won high recognition from all parties involved in the project. This segment always follows spontaneity, endeavored to explore more diversified business opportunities, made breakthroughs in fields other than oil and gas industry, and successfully entered the offshore wind power installation market. Hilong offshore engineering team provides vessel leasing and operation-related services for the offshore wind power engineering project of the Xiamen branch of CCCC Third Navigation Engineering Bureau Co., Ltd.* (中交第三航務工程局有限公司), and cooperates with Jiangsu Huaxicun Offshore Engineering Service Co., Ltd.* (江蘇華西村海洋工程服務有限公司) to carry out wind power business. Wind power projects have contributed to the Company's continuous and stable cash flow. In addition, Hilong also fully leveraged the resources of its partners to participate in a vessel leasing service project in Russia, and the required lifting and pipe-laying vessel successfully participated in the corresponding submarine pipeline laying operation during the reporting period.

Technology Research and Development

Hilong always adheres to the development strategy of scientific and technological innovation and attaches great importance to scientific and technological research and development investment and the transformation of achievements. In 2021, every business segment of the Company set up at least a project, and some progress was made. In terms of drill pipes business, drill pipes with special buckle such as HLIST39/HLIST54 were certified by our customers, laying a solid foundation for entering the high-end market in the Middle East. We carried out the development of titanium alloy drill pipes to the full, completed the product and process optimization of 120S High Strength Sulfur-Resistant Drill Pipes, completed the trial of the production line of 125S High Strength Sulfur-Resistant Drill Pipes, completed the corrosion resistance research of HLU165 High Strength Drill Pipes and significantly improved their performance. We focused on promoting the technical development of drill pipes with radio frequency identification tags and drilling tool information management system, and significant progress was made. In terms of OCTG coating, the equipment and process technology development test of the large diameter special-shaped pipeline in-wall coating customized for the Middle East market has been carried out smoothly, and phased results have been achieved. Great technological breakthroughs have been made in the development of super-thermostable OCTG powder coating. Significant achievements have also been made in the development of antifouling and anti-wax precipitation coating and oil casting shock-resistant coating, which are on trial. In terms of pipeline inspection business, we have completed the development, testing, processing and transformation of various sizes of deformable inspection equipment and multiple-unit inspection equipment. Hilong will continue to consolidate its technological advantages, adhere to the development strategy of scientific and technological innovation, and drive future development with science and technology.

MATERIAL ACQUISITIONS OR DISPOSALS

References are made to the announcement of the Company dated 18 June 2021, and circular dated 29 September 2021 in relation to the disposal. On 18 June 2021, Hilong Pipeline Engineering Technology Service Co., Ltd.* (海隆管道工程技術服務有限公司) ("**Seller**"), Shanghai Jintang Industry Co., Ltd.* (上海金鏜實業有限公司) ("**Purchaser**") and Shanghai Hilong Special Steel Pipe Co., Ltd.* (上海海隆特種鋼管有限公司) ("**Target Company**") entered into the Equity Transfer Agreement, pursuant to which the Seller had agreed to dispose of the 70% equity interest held by the Seller in the Target Company for a total consideration of RMB103,480,000. Upon completion, the Company held 30% equity interest in the Target Company, and the Target Company ceased to be a subsidiary of the Company and the financial information of the Target Company will no longer be consolidated into the Group's consolidated financial statements.

Save as disclosed above, the Company did not have any other material acquisition or disposal of subsidiaries, associates, joint ventures or significant investment during the year ended 31 December 2021.

OUTLOOK

In 2022, in terms of the international market, with the gradual weakening of the impact of the pandemic and the rise of global energy demand, and under the influence of geopolitics, undersupply and other factors, the price of crude oil continues to rise, setting a new record in recent years, which is bound to drive the further growth of industry investment and workload, and then drive the recovery of the prosperity of oil and gas industry. The rising trend of bulk raw material prices has also dropped, and the sales price of products/services has also increased after a period of market adjustment. The oilfield equipment supply and oilfield services market will continue to recover. In the domestic market, the implementation of the 2019-2025 Seven-Year E&P Action Plan of China's oil and gas industry has entered its fourth year. China's crude oil production has increased and stabilized, and natural gas production is rising rapidly. In July 2021, the "A Work Progress Meeting for Significantly Enhancing Oil and Gas Exploration and Development in 2021" convention showed that China will vigorously enhance oil and gas exploration and development, indicating that the high-quality development of China's domestic oil and gas industry would reach a new level. At the same time, the goal of "we aim to have CO_2 emissions peak before 2030 and achieve carbon neutrality before 2060" proposed by China will further promote the development of domestic natural gas in China. In general, the domestic and foreign oil and gas industry markets are promising. Hilong, as an industry leader in many subdivided fields, will fully grasp the market opportunities brought by the recovery of the global oil and gas industry and the continuous increase of domestic oil and gas exploration and development.

In terms of the domestic drill pipes market, Hilong will adopt differentiated marketing strategies for different customers, continue to position itself in high-end products and markets, and focus on the development and promotion of sulfur-resistant drill pipes, titanium alloy drill pipes and high-end special buckle and other drilling tool products. In the North American market, Hilong will continue to maintain its strategic cooperation relationship with existing important business partners including Ensign Drilling Inc., actively expand new large customers and continuously obtain stable orders in the region. In the Middle East market, while following up with existing customers and implementing orders for the new year, Hilong will continue to focus on the development of high-end market and strive for more orders of high value-added products. We actively seek high-quality and economical pipe material sources in the Russian and Central Asian markets, reduce manufacturing costs, focus on following up core large customers, and maintain the stable development of local production and sales activities of drilling tool products in Russia; At the same time, we will continue to pay attention to the changes in the geopolitical situation and strictly achieve compliance and steady operation.

For OCTG coating business, the Company intends to continuously improve the penetration and market coverage in the whole industry of its domestic and overseas markets, and proactively carry out production and sales functions through diversification and differentiation to satisfy the customized needs of high-end customers.

For oil services business, Hilong will make every effort to expand new markets, new customers and new projects, strive to make greater breakthroughs in the Middle East, Africa and other regions, and make every effort to improve the utilization rate of existing drilling and workover rigs. We will strengthen market development, make full use of external resources, and seek business expansion and transformation on the basis of existing mature businesses. In February 2022, the Company signed a drilling service contract with KE Iraq, which is the turnkey contracting for providing drilling services for three oil wells, with a total contract amount of about USD33.1 million. This is the first turnkey contract project obtained by Hilong Oil Service in Iraq, marking the further development of Hilong Oil Service in drilling contract service. In order to seize opportunities, this section will establish a targeted technical service product line, so that the Company has the technical team and technical ability to continuously provide drilling and workover contract services. At the same time, in order to effectively grasp the market opportunities brought by the new round of domestic oil and gas development, the Company is actively obtaining the qualification certification of domestic core customers, and strive to provide domestic customers with diversified high-end oilfield services covering drilling and workover and technical services. In terms of trade business, while implementing existing customer orders and firmly grasping the follow-up cooperation opportunities of existing key customers, the Company will explore ideas and develop more new trade products in addition to tubing and casing to further expand its trade business. In addition, we will strive to form an interconnection with other businesses, help drilling and workforce services, technical services and foreign cooperation, and further enhance customer stickiness.

The line pipe technology and services segment will grasp the market opportunities brought by the domestic oil and gas pipeline network construction, and will continue to develop overseas projects based on existing core customers. Our pipeline inspection services will control domestic businesses and explore overseas opportunities, and strive to further improve the Company's performance in 2022.

Offshore engineering services will continue to maintain close cooperation with CNOOC Limited ("**CNOOC**"), the domestic core customer. In the future, we will further maintain CNOOC system customers and fully grasp the potential market opportunities contained in CNOOC's "Seven-Year Action Plan". Conforming to the direction and trend of offshore engineering market, the Company will also actively expand customers outside CNOOC system, strengthen market development in international and domestic markets, and focus on business opportunities in offshore wind power engineering construction market. At the same time, we make full use of the joint venture platform Ocentra Offshore Pte. Ltd. to consolidate the Southeast Asian market and pay attention to project opportunities in the Middle East and other regions.

DIRECTORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

The Board consists of eight Directors, including two Executive Directors, three Non-executive Directors, and three Independent Non-executive Directors. The table below sets forth the information regarding the Board:

Name	Age	Management Position
ZHANG Jun (張軍)	54	Chairman, Executive Director and Executive Chairman
WANG Tao (汪濤)	58	Executive Director and Chief Executive Officer
ZHANG Shuman (張姝嫚)	48	Non-executive Director
YANG Qingli (楊慶理)	65	Non-executive Director
CAO Hongbo (曹宏博)	58	Non-executive Director
WANG Tao (王濤)	75	Independent Non-executive Director
WONG Man Chung Francis (黃文宗)	57	Independent Non-executive Director
SHI Zheyan (施哲彥)	65	Independent Non-executive Director

Executive Directors

Mr. ZHANG Jun (張軍), aged 54, is an Executive Director, the chairman of the Board and executive chairman of the Company. He is also a substantial and controlling shareholder of the Company. He has been a director of the Company since 15 October 2008 and was appointed as an Executive Director on 2 December 2010. Mr. Zhang served as the chief executive officer of the Company from 2 December 2010 to 15 December 2017, responsible for the overall business operations and strategy formulation of the Company. He was re-designated to executive chairman of the Company on 15 December 2017, responsible for the overall strategic planning of the Group, new market development, and capital market related and investor relations management. Mr. Zhang serves as the director of Hilong Group of Companies Ltd. (海隆石油工業集團有限公司), the director of Hilong Marine Engineering (Hong Kong) Limited and the director of Hilong Petroleum Marine Engineering Technical Services (Hong Kong) Limited. He also serves as the director/senior management of other subsidiaries of the Group. Mr. Zhang has over 31 years of experience in the petroleum industry. From 2001 to 2007, he was engaged in the formation of several subsidiaries of the Group. Mr. Zhang began his career in the petroleum industry at First Machinery Factory of Huabei Petroleum Administration Bureau (華北石油管理局第一機械廠), a subsidiary of China National Petroleum Corporation, which is a state-owned enterprise, in 1990 upon graduation from Hebei Radio and TV University (河北廣播電視大學). He served as a technician and participated in the introduction of the first petroleum drill pipe coating production line from the United States into China in 1993. During his employment with First Machinery Factory of Huabei Petroleum Administration Bureau, Mr. Zhang held a number of positions, including vice general manager. During his service as vice general manager, he was responsible for the financial, operational and infrastructural management of the factory. He resigned from the factory in 2001 to fully focus on the management of the Group. Mr. Zhang received a Diploma in Mechanical Manufacturing Process and Equipment from Hebei Radio and TV University in 1990. In 2009, he was a "Top 10 Influential Leader in China's Petroleum and Petrochemistry Equipment Manufacturing Industry in 2009 (2009 中國石油石化裝備製造業十大最具影響力領軍人物)", a title conferred by the National Energy Commission (國家能源委員會). Mr. Zhang is the elder brother of Ms. ZHANG Shuman, Non-executive Director of the Company, and the younger brother-in-law of Mr. CAO Hongbo, Non-executive Director of the Company and the elder brother of Mr. CAO Yuhong, senior management of the Company. He is also the sole director of Hilong Group Limited, the substantial and controlling shareholder of the Company.

Mr. WANG Tao (汪濤), aged 58, is an Executive Director, chief executive officer and a member of the Nomination Committee of the Company. He was appointed as a Non-executive Director on 2 December 2010 and was re-designated to an Executive Director on 29 March 2012. Mr. Wang served as the executive president of the Company from February 2012 to December 2017, and was re-designated to chief executive officer of the Company on 15 December 2017. He has also served as the director of Hilong Oil Service and Engineering Nigeria Limited since 2010. He also serves as the director of Hilong Group of Companies Ltd. (海隆石油工業集團有限公司), the director of Hilong Marine Engineering (Hong Kong) Limited, the director of Hilong Petroleum Marine Engineering Technical Services (Hong Kong) Limited, and the legal representative of Hilong Group of Companies Ltd.. Mr. Wang also serves as the director/senior management of other subsidiaries of the Group. Mr. Wang has over 33 years of management experience in the petroleum industry, and served as the vice general manager of Hilong Group of Companies Ltd. (海隆石油工業集團有限公司) from 2006 to February 2012 and the director of Hilong Drilling & Supply FZE from December 2009 to May 2016. Prior to joining the Group, Mr. Wang worked for Henan Petroleum Exploration Bureau Geophysical Prospecting Company (河南石油勘探局地球物理勘探公司) from 1980 to 1991, responsible for on-site operation and business administration. From 1991 to 2001, Mr. Wang served as the assistant to general manager of Nanhai Oil Zhuhai Base Company (南海石油珠海基地公司) and general manager of Nanhai Oil Zhuhai Base Petroleum Company (南海石油珠海基地石化公司) from 1997 to 2001. From 2001 to 2003, Mr. Wang served as the vice president of Beijing HTWY Oil & Gas Equipment Corp. (北京恒泰偉業油氣裝備技術有限公司). Mr. Wang was a director of GAC Energy Company, an oil and gas exploration and power supply company, from 2001 to 2006. Mr. Wang received a Diploma in Economics and Management from Northwest University (西北大學) in 1988.

Non-executive Directors

Ms. ZHANG Shuman (張姝嫚), aged 48, is a Non-executive Director and a member of the Audit Committee of the Company. She has been a director of the Company since 15 October 2008 and was appointed as an Executive Director on 2 December 2010. She was re-designated to a Non-executive Director of the Company on 29 March 2012. Ms. Zhang served as the chief strategy officer of the Company from 2 December 2010 to 24 March 2017, primarily responsible for the financial affairs and strategic investment activities of the Group. She also served as the joint company secretary of the Company from 10 February 2011 to 24 March 2017. She also served as a director of Hilong Group of Companies Ltd. (海隆石油工業集團有限公司) from 2008 to August 2021. She has been a director of Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd. (上海圖博可特石油管道塗層有限公司) since 2008. Ms. Zhang has over 25 years of experience in the oil service industry, including the experience as a translator of First Machinery Factory of Huabei Petroleum Administration Bureau (華北石油管理局第一機械廠) from 1996 to 2003. From 2003 to 2006, Ms. Zhang acted as the joint secretary to the board of directors and coordinator of a Chinese joint venture invested by UMW Ace (L) Ltd. Ms. Zhang received a Bachelor's Degree in International Economics Law from China University of Political Science and Law (中國政法大學) in 1997 and an Executive Master of Business Administration degree through a distance learning program organised by Sino-European International Management Institute (中歐國際管理學院) in 2009. She holds a Certificate of Accounting Professional issued by the Beijing Municipal Financial Bureau (北京市財政局). Ms. Zhang is the younger sister of Mr. ZHANG Jun, Executive Director and chairman of the Board, executive chairman and substantial and controlling shareholder of the Company, and the younger sister-in-law of Mr. CAO Hongbo, Non-executive Director of the Company and the elder brother of Mr. CAO Yuhong, senior management of the Company.

Dr. YANG Qingli (楊慶理), aged 65, is a Non-executive Director of the Company. He was appointed as a Non-executive Director on 21 August 2015. Dr. Yang is a senior engineer of professor level. He has over 39 years of experience in operation technologies, practices and management of petroleum engineering. Dr. Yang started his career in 1982 when he joined Changqing Oilfield as a technician of the drilling team. In 1984, he became the deputy manager of No. 2 Drilling Company of Changqing Petroleum Exploration Bureau (長慶石油勘探局第二鑽井公司) and was mainly in charge of technology, production and operation. In 1998, he served as the assistant to the director of Changqing Petroleum Exploration Bureau (the "**Bureau**") where he assisted in managing the Bureau's business operation. From 2000 to 2005, Dr. Yang served as the deputy director and Party Committee Secretary of the Bureau, and was in charge of production, safety management, human resources and stability management. During 2005 to 2008, he served as the director of marketing management department and the director of engineering technology and marketing department of China National Petroleum Corporation ("**CNPC**"), respectively. From 2008 to February 2015, Dr. Yang was the general manager of CNPC Technical Service Company (中國石油天然氣集團公司工程技術分公司) where he was directly in charge of the technology research and development as well as operation and business management of geophysical exploration, drilling, testing, logging, borehole operation and fracturing operated by CNPC. Dr. Yang graduated from East China Petroleum Institute (華東石油學院) (currently known as China University of Petroleum) with a Bachelor's Degree in Drilling in 1982, and obtained a Doctoral Degree in Oil-and-gas Well Engineering from China University of Petroleum in 2008.

Mr. CAO Hongbo (曹宏博), aged 58, is a Non-executive Director of the Company. He was appointed as a Non-executive Director on 28 August 2020. He joined the Group in 2007. He has served as an officer of the strategic development and management advisory committee of the Group, a director of Shanghai Hilong Drill Pipe Co., Ltd. (上海海隆石油鑽具有限公司), a director of Shanghai Hilong Tubular Goods Manufacturing Co., Ltd. (上海海隆複合鋼管製造有限公司) and the supervisor of Shanghai Hilong Special Steel Pipe Co., Ltd. (上海海隆特種鋼管有限公司). From 2007 to July 2020, he served first as the deputy general manager, and later as the vice president of Hilong Group of Companies Ltd. (海隆石油工業集團有限公司). He has over 34 years of experience in petroleum industry. Prior to joining the Group, from 1987 to 2001, he worked at Huabei Petroleum Administration Bureau (華北石油管理局第一機械廠) starting out as the technician, and later serving as the deputy head and the head of quality inspection station. From 2001 to 2004, he served as the deputy general manager of North China Petroleum Steel Pipe Co., Ltd. (華油鋼管有限公司). From 2004 to 2006, he served as the deputy general manager of Wuxi Seamless Oil Pipe Co., Ltd. (無錫西姆萊斯石油專用管製造有限公司). He graduated from Huabei Oilfield Technical School (華北油田技工學校) (currently known as Bohai Petroleum Vocational College (渤海石油職業學院)) in 1980. He received a Diploma in Electronic Automation from Hebei Radio and TV University (河北廣播電視大學). He also studied in Hebei Party School (河北黨校) from 1997 to 1998. He is the elder brother-in-law of Mr. ZHANG Jun, the Executive Director and chairman of the Board, executive chairman and substantial and controlling shareholder of the Company, and Ms. ZHANG Shuman, the Non-executive Director of the Company and the younger sister of Mr. ZHANG Jun. He is also the elder brother of Mr. CAO Yuhong, senior management of the Company.

Independent Non-executive Directors

Mr. WANG Tao (王濤), aged 75, is an Independent Non-executive Director, the chairman of the Remuneration Committee, the chairman of the Nomination Committee and a member of the Audit Committee of the Company. He was appointed as an Independent Non-executive Director on 2 December 2010. Mr. Wang has over 51 years of experience in the petroleum industry. From 1970 to 1979, he worked for No. 5214 Factory of the Fifth Machinery Industry Department of the PRC (中華人民共和國第五機械工業部5214廠) as a technician. From 1979 to 1998, he served as a technician, assistant engineer, senior engineer, deputy director of workshop, deputy factory manager and factory manager of First Machinery Factory of Huabei Petroleum Administration Bureau (華北石油管理局第一機械廠). From 1998 to 2003, he acted as the factory manager of Jinan Diesel Engine Factory (濟南柴油機廠) and the general manager, chairman and senior engineer of professor level of Jinan Diesel Engine Company Limited (濟南柴油機股份有限公司). He also served as the deputy general manager of China Petroleum Materials and Equipment (Group) Corporation (中國石油物資裝備(集團)總公司) from 2001 to 2003 and its general manager from 2003 to his retirement in 2007. Mr. Wang studied at Xi'an Military Telecommunication Engineering College (西安軍事電訊工程學院) (currently known as Xidian University (西安電子科技大學)) from 1965 to 1970 and obtained a Certificate of Completion of Studies in 1970.

Mr. WONG Man Chung Francis (黃文宗), aged 57, is an Independent Non-executive Director and the chairman of the Audit Committee and a member of the Remuneration Committee of the Company. He was appointed as an Independent Non-executive Director on 24 March 2017. He is currently an independent non-executive director of a number of companies listed on The Stock Exchange of Hong Kong Limited including China Oriental Group Company Limited (stock code: 581), Wai Kee Holdings Limited (stock code: 610), Integrated Waste Solutions Group Holdings Limited (stock code: 923), Greenheart Group Limited (stock code: 94), Digital China Holdings Limited (stock code: 861), GCL-Poly Energy Holdings Limited (stock code: 3800), Qeeka Home (Cayman) Inc. (stock code: 1739), IntelliCentrics Global Holdings Ltd. (stock code: 6819) and Shanghai Dongzheng Automotive Finance Co., Ltd. (stock code: 2718). He served as an independent non-executive director of Kunming Dianchi Water Treatment Co., Ltd. (stock code: 3768), a company listed on The Stock Exchange of Hong Kong Limited, from June 2016 to August 2018 and an independent non-executive director of China New Higher Education Group Limited (stock code: 2001), a company listed on The Stock Exchange of Hong Kong Limited, from March 2017 to December 2019. He holds a Master's Degree in Management from Guangzhou Jinan University (廣州暨南大學) in the People's Republic of China. Mr. Wong is a fellow member of the Institute of Chartered Accountants in England and Wales, the Association of Chartered Certified Accountants of the United Kingdom and the Hong Kong Institute of Certified Public Accountants, a Certified Tax Advisor of the Taxation Institute of Hong Kong and a fellow member of the Society of Chinese Accountants and Auditors. He is a senior Certified Public Accountant (Practising) and has over 33 years of experience in auditing, taxation, internal control and governance, acquisition and financial consultancy, restructuring and liquidation, family trust and wealth management matters. Mr. Wong worked at KPMG, an international accounting firm, for over six years and Hong Kong Securities Clearing Company Limited for one year and ten months. Mr. Wong is a founding director and member of Francis M.C. Wong Charitable Foundation Limited, a charitable organisation.

Mr. SHI Zheyan (施哲彥), aged 65, is an Independent Non-executive Director of the Company. He was appointed as an Independent Non-executive Director of the Company on 25 August 2017 and was appointed as a member of the Nomination Committee and the Remuneration Committee of the Company on 21 June 2019 and 19 June 2020 respectively. Mr. Shi has nearly 47 years of work experience in the petroleum industry. From April 2014 to July 2016, he was the deputy chief economist and the head of the security department of China National Petroleum Corporation ("**CNPC**"). He served as the head of the security department in April 2007. From December 2000 to April 2007, he was the deputy director of the general office of CNPC. From July 1995 to December 2000, he served as the deputy general manager of China Petroleum Engineering & Construction Corporation. From March 1992 to July 1995, he was the secretary (director level) at the general office secretariat of CNPC. From October 1985 to March 1992, he worked at the CNPC Managers Training Institute of the Ministry of Petroleum Industry (石油工業部北京石油管理幹部學院), first as the deputy director of the general office of CPC Party Committee, and later as the director of the institute head's office and the head of the human resources department. From October 1979 to October 1985, he served as the officer and deputy head of the Department of Transport under East China Oil Transport Administration Bureau (華東輸油管理局運輸處). Starting his work at Liaohe Oil Field (遼河油田) in January 1975, he served as the confidential secretary of the CPC Party Committee's general office for the transportation division of Liaohe Oil Field from May 1978 to October 1979. Mr. Shi is a senior engineer. He holds a Bachelor's Degree in Business Administration from Southwest Petroleum University (西南石油學院).

SENIOR MANAGEMENT

For the biographies of Mr. ZHANG Jun and Mr. WANG Tao (汪濤), please refer to "– Board of Directors – Executive Directors". For the biography of Ms. ZHANG Shuman, please refer to "– Board of Directors – Non-executive Directors". Other members of the senior management team of the Company consist of the following:

Mr. DAI Daliang (代大良), aged 55, has been a director of Hilong Oil Service and Engineering Nigeria Limited since 2010, a director and the general manager of Hilong Oil Service and Engineering Co., Ltd. since 2008, and the executive president of the Company since December 2017. Mr. Dai has over 30 years of experience in the petroleum industry.

Prior to joining the Group, from 1989 to 1995, Mr. Dai worked as an engineer in No. 3 Drilling Company of Sinopec Zhongyuan Petroleum Exploration Bureau (中國石化中原石油勘探局鑽井三公司), responsible for the drilling operation. From 1995 to 1996, he worked as an engineer in Foreign Economic and Trade Company of Sinopec Zhongyuan Petroleum Exploration Bureau (中國石化中原石油勘探局對外經濟貿易總公司), responsible for international drilling cooperation. From 1996 to 2001, he worked for Greatwall Drilling Company Limited (中油長城鑽井有限公司) as its co-manager of the marketing department, co-manager of the construction project in Sudan and general manager of China-Egypt Drilling Company, a joint venture company controlled by Greatwall Drilling Company Limited. From 2001 to 2008, he served as the deputy general manager of Greatwall Drilling Company Limited. In 2008, he worked as an assistant to the general manager in CNPC Greatwall Drilling Engineering Company Limited (中國石油天然氣集團長城鑽探工程有限公司) and was responsible for global marketing. Mr. Dai received a Bachelor's Degree in Engineering from Central South University of Technology (中南工業大學) in 1987, a Master's Degree in Engineering from Central South University of Technology in 1990 and a Doctorate Degree in Engineering from China University of Petroleum (中國石油大學) in 2010.

Mr. CHEN Yong (陳勇), aged 48, is the chief financial officer of the Company. After joining the Group in August 2008, Mr. Chen served in various positions in Hilong Group of Companies Ltd., including finance controller, audit supervisor, assistant to the president and internal control director. He was appointed as the chief financial officer of the Company in 2016. As the chief financial officer, Mr. Chen is responsible for overall financial and corporate finance management. Mr. Chen received a Master's Degree in Economics from Shanghai University of Finance and Economics (上海財經大學). He is a member of the Chinese Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants of the United Kingdom (FCCA), and has obtained the Legal Professional Qualification Certificate (法律職業資格證書) of the PRC.

Mr. XU Changxue (徐昌學), aged 57, has served as the chief engineer of Hilong Group of Companies Ltd. since April 2017, while acting as the head of Hilong Tubular Goods Research Institute. Mr. Xu is also the president of Shanghai Baoshan Federation of Science and Technology Enterprises (上海市寶山區科技企業聯合會). He has over three decades of experience in the petroleum industry. Prior to joining the Group, Mr. Xu worked for China Research Institute for Petroleum and Natural Gas Pipelines (中國石油天然氣管道科學研究院), as project director and branch director from 1987 to 1999. Subsequently, he served as a member of the senior management at various agencies before returning to China Research Institute for Petroleum and Natural Gas Pipelines as its head in 2010. Mr. Xu graduated from Southwest Petroleum University (西南石油學院) in 1987, majoring in applied chemistry. He obtained his Doctoral Degree from the same university in 2002, majoring in petroleum and natural gas engineering.

Mr. WANG Xianglei (王相磊), aged 52, joined the Group in August 2008. He is the vice president of Hilong Group of Companies Ltd. and the general manager of Hilong Oil Service and Engineering Co., Ltd. Mr. Wang has over 30 years of experience in the petroleum industry. He graduated from Southwest Petroleum University (西南石油學院) in 1990, majoring in drilling engineering. In 2007, he obtained a Master's Degree in Engineering from China University of Petroleum, Beijing, majoring in oil and gas field development. Prior to joining the Group, Mr. Wang worked for No.2 Drilling Company of Zhongyuan Petroleum Exploration Bureau and Greatwall Drilling Engineering Company Limited successively, from 1990 to 2008. In addition, Mr. Wang published five articles in core domestic publications, such as "Oil Drilling & Production Technology" 《(石油鑽採工藝)》, and served as an editor for such publications. He compiled "A Practicable Book on English for Overseas Oil Drilling"《(海外石油鑽井英語實務)》, a book published by China Commerce and Trade Press.

Mr. CAO Yuhong (曹育紅), aged 52, has been the general manager of Shanghai Hilong Drill Pipe Limited (上海海隆石油鑽具有限公司) since 2006 and the general manager of Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd. (上海圖博可特石油管道塗層有限公司) since 2002. Mr. Cao has over 30 years of experience in the petroleum industry. Prior to joining the Group, from 1991 to 2001, Mr. Cao worked for First Machinery Factory of Huabei Petroleum Administration Bureau (華北石油管理局第一機械廠) and served as its deputy manager of the coating branch in 1996. Mr. Cao received a Bachelor's Degree in Engineering from Huainan Mining Industry College (淮南礦業學院), now known as Anhui University of Science and Technology (安徽理工大學), in 1991. Mr. Cao is the younger brother of Mr. CAO Hongbo, the Non-executive Director and the elder brother-in-law of Mr. ZHANG Jun, the Executive Director and chairman of the Board, executive chairman and substantial and controlling shareholder of the Company, and Ms. ZHANG Shuman, the Non-executive Director of the Company and the younger sister of Mr. ZHANG Jun.

Mr. GAO Zhihai (高智海), aged 52, has been the chairman and general manager of Shanghai Boteng Welding Consumable Co., Ltd. (上海博騰焊接材料有限公司) since 2005 and a director of Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd. (上海圖博可特石油管道塗層有限公司) since 2008. Mr. Gao has over 26 years of experience in the petroleum industry. Prior to joining the Group, Mr. Gao worked at CNPC Tubular Goods Research Institute from 1995 to 2005. Mr. Gao received a Bachelor's Degree in Engineering from Southwest Petroleum University in 1992 and a Master's Degree in Engineering in 1995. Mr. Gao became an engineer in 1998, a senior engineer in 2003 and a senior engineer (professor level) in 2008. He is the inventor of a flux-cored welding wire for surface welding.

Mr. ZHAO Min (趙敏), aged 46, has been the vice president and the executive deputy general manager of the pipeline technology and service division of Hilong Group of Companies Ltd. (海隆石油工業集團有限公司) since 2016. Mr. Zhao has over 23 years of experience in the petroleum industry. Prior to joining the Group, from 1998 to 2002, Mr. Zhao worked at the Internal Coating Branch of Huabei Oilfield No.1 Machinery Factory (華北油田第一機械廠內塗層分廠). From 2002 to 2005, Mr. Zhao served as the general manager assistant and deputy general manager of Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd. (上海圖博可特石油管道塗層有限公司). From 2005 to 2007, Mr. Zhao served as the deputy general manager of Wuxi Seamless Drill Pipe Co., Ltd. (無錫西姆萊斯鑽桿有限公司). From 2007 to 2014, Mr. Zhao served as the deputy general manager of the oilfield equipment division of the Company. From 2014 to 2016, Mr. Zhao served as the vice president of Hilong Group of Companies Ltd. (海隆石油工業集團有限公司), the general manager of the domestic sales center of the Group and the general manager of Hilong Petroleum Products Technical Service (Shanghai) Co., Ltd.(海隆石油產品技術服務(上海)有限公司). Mr. Zhao received a Bachelor's Degree in Trade and Economics from Anhui University of Finance and Economics (安徽財經大學) in 1998.

Mr. GU Hong (顧洪), aged 53, has been the general manager of Hilong Petroleum Offshore Engineering Limited since 2022. Mr. Gu has over 17 years of experience in the petroleum industry. Prior to joining the Group, from 2004 to 2008, Mr. Gu served as the senior facility manager of CNOOC Southeast Asia Co., Ltd.(中國海洋石油東南亞有限公司), primarily responsible for natural gas development. From 2008 to 2021, Mr. Gu held various positions at Offshore Oil Engineering Co., Ltd. (海洋石油工程股份有限公司) (stock code: 600583), a company listed on the Shanghai Stock Exchange, including the general manager and the secretary to general Party branches of international cooperation department, the president assistant, the general manager of international exchange center and the head of Tianjin Intelligent Manufacturing Base (天津智能製造基地). Mr. Gu received a Master's Degree in Power Systems and Automation from Tianjin University in 2000 and he is currently a senior engineer. In addition, Mr. Gu won the first prize of CNOOC International Management Innovation in 2016, the first prize and third prize of Excellent Paper Award issued by Chinese Petroleum Society (中國石油協會) in 2020.

CORPORATE GOVERNANCE REPORT

The Board of the Company is pleased to present this Corporate Governance Report for the year ended 31 December 2021.

CORPORATE GOVERNANCE PRACTICES

In December 2021, The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") has announced amendments to the Corporate Governance Code (the "**CG Code**") as contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). The new requirements under the CG Code will apply to corporate governance reports of listed issuers for financial year commencing on or after 1 January 2022. Throughout the year ended 31 December 2021, the Company has adopted the code provisions of the CG Code as contained in Appendix 14 to the Listing Rules as set out in the CG Code applicable for the financial year under review (the "**then CG Code**") as its own code of corporate governance. The Company has applied the principles set out in the then CG Code during the year under review. The manner in which the principles and code provisions in the then CG Code are applied and implemented during the year ended 31 December 2021 is explained in this Corporate Governance Report.

The Company is committed to achieving high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability. The Company acknowledges the important role of its Board in providing effective leadership and direction to its business, and ensuring transparency and accountability of its operations.

In the opinion of the Directors, the Company has complied with all code provisions as set out in the then CG Code throughout the year.

The Board will, from time to time, review and enhance its corporate governance practices to ensure that these continue to meet the requirements of the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules as its own code of conduct for securities transactions of Directors.

Specific enquiry has been made to all the Directors and the all Directors confirmed that they have complied with the Model Code throughout the year.

The Company has also established written guidelines (the "**Employees Written Guidelines**") on terms no less exacting than the Model Code for securities transactions by employees who are likely to be in possession of inside information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

BOARD OF DIRECTORS

The Company is headed by an effective Board which oversees the Group's businesses, strategic decisions and performance and makes objective decisions in the best interests of the Company.

The Board should regularly review the contribution required from a Director to perform his responsibilities to the Company, and whether the Director is spending sufficient time performing them.

The Board currently comprises eight Directors, consisting of two Executive Directors, three Non-executive Directors and three Independent Non-executive Directors.

The composition of the Board is as follows:

Executive Directors:
Mr. Zhang Jun *(Chairman and Executive Chairman)*
Mr. Wang Tao (汪濤) *(Chief Executive Officer)*

Non-executive Directors:
Ms. Zhang Shuman
Dr. Yang Qingli
Mr. Cao Hongbo

Independent Non-executive Directors:
Mr. Wang Tao (王濤)
Mr. Wong Man Chung Francis
Mr. Shi Zheyan

The list of Directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time. The Independent Non-executive Directors are expressly identified in all corporate communications pursuant to the Listing Rules.

Mr. Zhang Jun is the elder brother of Ms. Zhang Shuman; and Mr. Cao Hongbo is the elder brother-in-law of Mr. Zhang Jun and Ms. Zhang Shuman.

Board Meetings and Directors' Attendance Records

Regular Board meetings should be held at least four times a year involving active participation, either in person or through electronic means of communication of a majority of Directors.

During the year, the Board held four meetings and the Directors' attendance records are as follows:

Name of Directors	Attendance
Mr. Zhang Jun	4/4
Mr. Wang Tao (汪濤)	4/4
Ms. Zhang Shuman	4/4
Dr. Yang Qingli	4/4
Mr. Cao Hongbo	4/4
Mr. Wang Tao (王濤)	4/4
Mr. Wong Man Chung Francis	4/4
Mr. Shi Zheyan	4/4

Apart from regular Board meetings, the Chairman also held a meeting with the Independent Non-executive Directors without the presence of other Directors during the year.

Chairman and Chief Executive Officer

During the reporting period, the roles of chairman and chief executive officer are separate and are being performed by two different individuals. Mr. Zhang Jun is the Chairman of the Company, providing leadership and is responsible for the effective functioning and leadership of the Board. Mr. Wang Tao (汪濤) is the Chief Executive Officer of the Company and focuses on the Company's business development and daily management and operations generally.

Independent Non-executive Directors

Throughout the year, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors representing at least one-third of the Board with one of them possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each Independent Non-executive Director regarding his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company considers all Independent Non-executive Directors are independent.

All Directors, including the Non-executive Directors and the Independent Non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. The Independent Non-executive Directors are invited to serve on the Audit, Remuneration and Nomination Committees of the Company.

Terms of Directors

Each of the Directors of the Company is engaged on a service contract (in the case of Executive Director) or on a letter of appointment (in the case of Non-executive Director and Independent Non-executive Director) for a term of three years, and is subject to retirement by rotation and re-election at least once every three years in accordance with the Articles of Association of the Company.

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board is responsible for the leadership and control of the Company, oversees the businesses, strategic decisions and performance, and is collectively responsible for promoting the success of the Company by directing and supervising the affairs of the Company and its member companies (the "**Group**"). The Directors of the Board make decisions objectively in the interests of the Company.

The Board reserves for its decision on all major matters of the Company including the approval and monitoring of all policy matters, overall strategies and budgets, internal control system and risk management system, material transactions (in particular those that may involve conflict of interests), financial information and other significant financial and operational matters.

The day-to-day management, administration and operation of the Company are delegated to the Chief Executive Officer and the senior management. The delegated functions and responsibilities are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the aforesaid officers.

In addition, the Board has established Board committees and has delegated to these Board committees various responsibilities as set out in their respective terms of reference.

All Directors have full and timely access to all the information of the Company and may seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board, for discharging their duties to the Company.

All Directors carry out duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and its shareholders at all times.

The Directors shall disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each Director to perform his responsibilities to the Company.

Continuing Professional Development of Directors

The Directors have to always pay attention to their responsibilities as the directors of the Company and pay attention to the operation mode, business activities and development of the Company.

Each newly appointed Director will receive comprehensive induction on the first occasion of his appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

The Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Internally-facilitated briefings for the Directors and trainings conducted/hosted by external advisers will be arranged. Also, reading materials on relevant topics will be provided to the Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses.

During the year, the Company organised training conducted by the legal advisers for all Directors. In addition, relevant reading materials including legal and regulatory updates, particularly the updates on the CG Code and relevant Listing Rules amendments, guidance on lending transactions, role of director, and directors' responsibilities when assessing transactions, have been provided to the directors for their reference and studying.

The training records of the Directors for the year are summarised as follows:

Directors	Type of Training[Note]
Executive Directors	
Mr. Zhang Jun	A & B
Mr. Wang Tao (汪濤)	A & B
Non-executive Directors	
Ms. Zhang Shuman	A & B
Dr. Yang Qingli	A & B
Mr. Cao Hongbo	A & B
Independent Non-executive Directors	
Mr. Wang Tao (王濤)	A & B
Mr. Wong Man Chung Francis	A & B
Mr. Shi Zheyan	A & B

Note:

Types of Training
A: Attending training sessions, including but not limited to, briefings, seminars, conferences and workshops
B: Reading relevant news alerts, newspapers, journals, magazines and relevant publications

BOARD COMMITTEES

The Board has established three committees, namely the Audit Committee, Remuneration Committee and Nomination Committee for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the websites of Hong Kong Exchanges and Clearing Limited and the Company.

The majority of the members of each Board committee are Independent Non-executive Directors and the list of the chairman and members of each Board committee is set out under "Corporate Information" on page 4 of this annual report.

Audit Committee

The main duties of the Audit Committee are to assist the Board in reviewing the financial information and reporting process, overseeing the Company's financial reporting system, risk management system and internal control system, reviewing and monitoring effectiveness of internal audit function, making recommendation to the Board on the re – appointment, remuneration and terms of engagement of external auditor and monitoring the independence of external auditor, and reviewing arrangements to enable employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, risk management and internal control or other matters of the Company.

During the year, the Audit Committee held three meetings to review annual financial results and report in respect of the year ended 31 December 2020, interim financial results and report in respect of the six months ended 30 June 2021, the unaudited consolidated financial statements for the nine months ended 30 September 2021, the preliminary financial budget and internal audit plan of the Company for the year 2022, and significant issues on financial reporting and compliance procedures, risk management system and internal control system, relationship with auditors including the remuneration, terms of engagement, independence and re-appointment of auditors, non-exempt continuing connected transactions, arrangements for employees to raise concerns about possible improprieties, and to evaluate and assess the effectiveness of the Audit Committee and the adequacy of the terms of reference of the Audit Committee and consider whether any update or amendment is required.

The Audit Committee also met the external auditors twice without the presence of the Executive Directors.

The attendance records of the members of the Audit Committee are as follows:

Name of Members of the Audit Committee	Attendance
Mr. Wong Man Chung Francis	3/3
Mr. Wang Tao (王濤)	3/3
Ms. Zhang Shuman	3/3

Remuneration Committee

The primary functions of the Remuneration Committee include reviewing and making recommendations to the Board on the remuneration packages of the Directors and senior management, the remuneration policy and structure for all Directors and senior management; and establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration.

During the year, the Remuneration Committee met twice to review and make recommendation to the Board on the remuneration policy and structure of the Company, the remuneration packages of the Directors and senior management, and to evaluate and assess the effectiveness of the Remuneration Committee and the adequacy of the terms of reference of the Remuneration Committee and consider whether any update or amendment is required.

The attendance records of the members of the Remuneration Committee are as follows:

Name of Members of the Remuneration Committee	Attendance
Mr. Wang Tao (王濤)	2/2
Mr. Wong Man Chung Francis	2/2
Mr. Shi Zheyan	2/2

Nomination Committee

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for the nomination and appointment of Directors, making recommendations to the Board on the appointment and succession planning of Directors, reviewing the Board Diversity Policy, as appropriate, reviewing the measurable objectives that the Board has set for implementing the Board Diversity Policy, and monitoring the progress on achieving the objectives, and assessing the independence of Independent Non-executive Directors; reviewing and assessing the adequacy of the corporate governance guidelines of the Company and making recommendations to the Board for any proposed changes.

In assessing the Board composition and identifying and selecting suitable candidates for directorships, the Nomination Committee would take into account various aspects set out in the Board Diversity Policy to implement the corporate strategy of the Company. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's relevant criteria as set out in the Director Nomination Policy that are necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

During the year, the Nomination Committee met twice to review the structure, size, composition and diversity of the Board, the "Board Diversity Policy" and consider whether any update or amendment is required, the independence of the Independent Non-executive Directors, to consider the qualifications of the retiring directors standing for election at the Annual General Meeting, and to evaluate and assess the effectiveness of the Nomination Committee and the adequacy of the terms of reference of the Nomination Committee and consider whether any update or amendment is required.

The attendance records of the members of the Nomination Committee are as follows:

Name of Members of the Nomination Committee	Attendance
Mr. Wang Tao (王濤)	2/2
Mr. Wang Tao (汪濤)	2/2
Mr. Shi Zheyan	2/2

Board Diversity Policy

The Company recognises and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in maintaining the Company's competitive advantage.

The Board has adopted the "Board Diversity Policy" with a view to achieving sustainable and balanced development in the Board. Selection of board candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional and industry experience, skills, knowledge and length of service with the Group. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

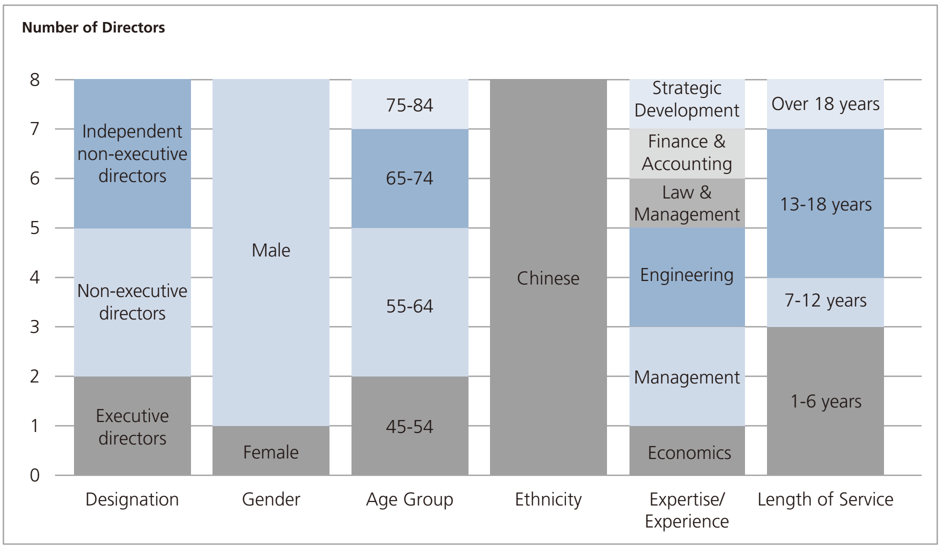
The Company aims to maintain an appropriate balance of diversity perspectives that are relevant to the Company's business growth and is also committed to ensuring that recruitment and selection practices at all levels (from the Board downwards) are appropriately structured so that a diverse range of candidates are considered.

The Board will consider setting measurable objectives to implement the Board Diversity Policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives.

At present, the Nomination Committee considered that the Board is sufficiently diverse and the Board has not set any measurable objectives.

The Nomination Committee will review the Board Diversity Policy, as appropriate, to ensure its effectiveness.

The following chart shows the diversity profile of the Board as at December 31, 2021:



Nomination Policy

The Board has delegated its responsibilities and authority for selection and nomination of suitable candidate for appointment as Directors to the Nomination Committee of the Company.

The Board has adopted a Nomination Policy which sets out the approach to guide the Nomination Committee in relation to the selection, appointment and re-appointment of the Directors and ensure that the Board has a balance of skills, experience, knowledge and diversity of perspectives appropriate to the requirements of the Company's business.

The Nomination Policy sets out the criteria for the selection of a proposed candidate, including but not limited to the following:

- Reputation for integrity;
- Accomplishment and experience;
- Compliance with legal and regulatory requirements;
- Commitment in respect of available time and relevant interest; and
- Diversity in all its aspects, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service.

The Nomination Policy also sets out the criteria for evaluation and recommendation to the Board on the re-appointment of retiring Director(s) and the position(s) of the independent non-executive Directors, and the process and procedures for the nomination of Directors:

- The Secretary of the Nomination Committee shall call a meeting of the Nomination Committee, and invite nominations of candidates from Board members if any, for consideration by the Nomination Committee prior to its meeting. The Nomination Committee may also put forward candidates who are not nominated by Board members.

- For filling a casual vacancy, the Nomination Committee shall make recommendations for the Board's consideration and approval. For proposing candidates to stand for election at a general meeting, the Nomination Committee shall make nominations to the Board for its consideration and recommendation.

- Pursuant to the Articles of Association of the Company, if a shareholder wishes to propose a person for election as a Director, such shareholder shall have given a notice in writing of the intention to propose that person for election as a Director and also a notice in writing by that person of his willingness to be elected shall be given to the Company at least seven (7) days before the date of general meeting. Such period for lodgment of the notices shall commence no earlier than the day after the despatch of the notice of the meeting appointed for such election and end no later than seven days prior to the date of such meeting.

- A candidate is allowed to withdraw his candidature at any time before the general meeting by serving a notice in writing to the company secretary of the Company.

- The Board shall have the final decision on all matters relating to its recommendation of candidates to stand for election at any general meeting.

The Nomination Committee will review the Nomination Policy, as appropriate, to ensure its effectiveness.

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision D.3.1 of the then CG Code.

The Board met twice to review the Company's corporate governance policies and practices, contribution required from directors for performing their responsibilities, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code, and Employees Written Guidelines, the Company's compliance with the then CG Code and disclosure in this Corporate Governance Report, and review the dividend policy of the Company.

DIRECTORS' RESPONSIBILITIES FOR PREPARING FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2021.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements of the Group are set out in the Independent Auditor's Report on pages 61 to 65 of this annual report.

AUDITOR'S REMUNERATION

During the year ended 31 December 2021, the remuneration paid/payable to the Company's external auditor, PricewaterhouseCoopers, is set out below:

Service Category	Fees Paid/Payable RMB'000
Audit Services	4,100
Non-audit Services	4,166
– Tax services	124
– Other non-audit services (1)	4,042
Total	8,266

(1) Other non-audit services included, among others, the review of the Company's Environmental. Social and Governance Report for the year ended 31 December 2020, and the review of the Company's announcement and circular in relation to the disposal of the subsidiary, which was announced by the Company on 18 June 2021 and 29 September 2021, respectively.

DIVIDEND POLICY

Subject to the Cayman Islands Companies Law and the Articles of Association of the Company, the Company may from time to time in general meeting declare dividends in any currency to be paid to the members of the Company but no dividend shall be declared in excess of the amount recommended by the Board. Declaration of dividend is subject to the discretion of the Board, taking into consideration of, among others, the following factors:

(i) results of operations;

(ii) cash flows and financial condition;

(iii) operation and capital requirements;

(iv) shareholders' interests;

(v) general business conditions and strategies;

(vi) taxation considerations;

(vii) contractual, statutory and regulatory restriction, if any; and

(viii) any other factors that the Board may deem relevant.

The Board may also, without convening a general meeting, from time to time declare interim dividends as appear to the Board to be justified by the profits of the Company, and, in particular (but without prejudice to the generality of the foregoing), if at any time the share capital of the Company is divided into different classes, the Board may pay such interim dividends in respect of those shares in the capital of the Company which confer on the holders thereof deferred or non-preferential rights as well as in respect of those shares which confer on the holders thereof preferential rights with regard to dividend. The Board may also pay any fixed dividend which is payable on any shares of the Company half – yearly or on any other dates, whenever such profits, in the opinion of the Board, justifies such payment. At the time when dividend payment is made, the Company should consider reserving appropriate amount of reserve for present or future circumstances and make no declaration or payment thereon.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges that it is responsible for the risk management system and internal control system and reviewing their effectiveness on an ongoing basis. Such risk management system and internal control system are designed for managing instead of eliminating the risks of failing to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Audit Committee that set up by the Board is responsible for oversee and review the risk management system and internal control system of the Group, and monitor the design, implementation and monitoring functions on the risk management system and internal control system. Through the reporting and recommendation given by the internal audit team, the Audit Committee is responsible to review and comment the effectiveness of the risk management system and internal control system.

Management has reported and confirmed to the Audit Committee and the Board that the relevant systems have been effective for the year ended 31 December 2021 and the Board has considered the results of the review of the Audit Committee and confirmed that the Group's risk management system and internal control system are effective.

The Company established the risk management system and internal control system according to the following principles, main features are shown as below:

(1) **Alignment to the Company's strategy:** The enterprise risk management is aligned to the Company's strategic targets;

(2) **Compliance:** The Company complies with relevant laws and regulations including the Listing Rules and relevant management systems, including but not limited to the compliance with the terms of the agreements on the Company's continuing connected transactions and listing rules requirements on continuing connected transactions;

(3) **Comprehensiveness:** Enterprise risk management involves all employees of the Company, and plays important roles in decision-making, management and execution in all areas of businesses;

(4) **Materiality:** The Company focuses on risk management of key businesses and high risk areas;

(5) **Cost effectiveness:** The Company optimises existing resources, and implements effective risk control procedures at a reasonable cost to enhance the efficiency and effectiveness of risk management system and internal control system.

The processes used to identify, evaluate and manage significant risks by the Group are summarised as follows:

Risk Identification

- Identifies risks that may potentially affect the Group's business and operations.

Risk Assessment

- Assesses the risks identified by using the assessment criteria developed by the management; and
- Considers the impact on the business and the likelihood of their occurrence.

Risk Response

- Prioritises the risks by comparing the results of the risk assessment;
- Determines the risk management strategies and internal control procedures to prevent, avoid or mitigate the risks; and
- Strengthens the monitoring and warning function of the system continuously based on the result of risk assessment.

Risk Monitoring and Reporting

- Establishes hierarchical supervisory responsibilities in the Group to ensure that risk monitoring is objective and effective;
- Performs ongoing and periodic monitoring of the risk and ensures that appropriate internal control procedures are in place;
- Revises the risk management strategies and internal control procedures in case of any significant change of situation; and
- Reports the results of risk monitoring to the management and the Board regularly.

Internal Audit Function

The Group has established an internal audit team, which assesses the adequacy and effectiveness of the risk management system and internal control system of the Group regularly, and reports to the Audit Committee and the Board on the audit results semi-annually and makes recommendations to the Board and the management to address the significant deficiencies of the system or problems that identified during the monitoring process.

Company Inside Information Management

Important inside message delivered through Company's mailbox and important electronic files were encrypted by password. In addition, the Company has set up "whistle-blowing" window to enhance control of inside information leakage.

COMPANY SECRETARY

Ms. Sham Ying Man is the company secretary of the Company. The primary contact person at the Company is Ms. Zhang Shuman (Non-executive Director). Ms. Sham Ying Man is a manager of Tricor Services Limited, a global professional service provider specialising in integrated business, corporate and investor services. The company secretary attended sufficient professional training as required under the Listing Rules for the year ended 31 December 2021 to update her skills and knowledge.

SHAREHOLDERS' RIGHTS

To safeguard shareholders' interests and rights, a separate resolution would be proposed for each substantially separate issue at general meetings, including the election of individual Directors.

All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and the Company's Articles of Association and results of the poll will be posted on the websites of Hong Kong Exchanges and Clearing Limited and the Company after each general meeting.

Pursuant to the Articles of Association, shareholder(s) holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings may request the Company to convene an extraordinary general meeting by sending a written requisition to the Board or the Company Secretary. The purpose of the meeting must be stated in the written requisition.

There are no provisions in the Company's Articles of Association or the Cayman Islands Companies Law for shareholders to move new resolutions at general meetings. Shareholders who wish to move a resolution may request the Company to convene a general meeting in accordance with the procedures set out in the preceding paragraph.

As regards proposing a person for election as a Director of the Company, please refer to the procedures posted on the Company's website.

Shareholders may send written enquiries or requests to the Company for putting forward any enquiries or proposals to the Board of the Company. Contact details are as follows:

Address: No. 1825, Luodong Road, Baoshan Industrial Zone, Shanghai, People's Republic of China (For the attention of Mr. Chen Yong, Chief Financial Officer)
Email: chenyong@hilonggroup.com

For the avoidance of doubt, shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company also recognises the importance of transparency and timely disclosure of corporate information, which will enable shareholders and investors to make the best investment decisions.

The attendance records of Directors at the annual general meeting held during the year are as follows:

Name of Directors	Attendance
Mr. Zhang Jun	1/1
Mr. Wang Tao (汪濤)	0/1
Ms. Zhang Shuman	1/1
Dr. Yang Qingli	0/1
Mr. Cao Hongbo	0/1
Mr. Wang Tao (王濤)	1/1
Mr. Wong Man Chung Francis	1/1
Mr. Shi Zheyan	0/1

The general meetings of the Company provide a forum for communication between the Board and the shareholders. The Company continues to enhance communication and relationship with its investors. Enquiries from investors are dealt with in an informative and timely manner. At the Annual General Meeting, Directors (or their delegates as appropriate) are available to meet shareholders and answer questions at their enquires.

During the year, the Company has not made any changes to its Articles of Association. An up to date version of the Articles of Association is available on the websites of the Company and Hong Kong Exchanges and Clearing Limited. Shareholders may refer to the Articles of Association for further details of their rights.

The Company has in place a shareholders' communication policy to ensure that shareholders' views and concerns are appropriately addressed. The policy is regularly reviewed to ensure its effectiveness.

REPORT OF THE DIRECTORS

The Directors are pleased to present the annual report of the Company with the audited consolidated financial statements of the Group for the year ended 31 December 2021.

PRINCIPAL ACTIVITIES

The Group is an integrated oil field equipment and services provider with a focus on oilfield services, line pipe technology and services, oilfield equipment manufacturing and services and offshore engineering services. The principal activity of the Company is investment holding. Details of the principal activities of its principal subsidiaries are set out in note 30 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2021 are set out in the consolidated financial statements of this annual report.

BUSINESS REVIEW

Overview and performance of the Year

A review of the business of the Group and analysis of the Group's performance using financial key performance indicators is provided in the Management Discussion and Analysis section on pages 5 to 20 of this annual report. Such section constitutes part of this directors' report.

Environmental Policies and Performance

Our production processes primarily involve the manufacture and assembly of components and we do not operate in a highly-polluted industry. Our operations in the PRC are subject to a number of environmental laws and regulations including the Environmental Protection Law, Air Pollution Prevention Law, Water Pollution Prevention Law and its Implementing Regulations, Rules on the Administration concerning Environmental Protection of Construction Projects, Regulations on Administration concerning the Environmental Protection Acceptance Check on Construction Projects, etc. Pursuant to such laws and regulations, the discharge and disposal of contaminants, toxic and hazardous materials, including manufacturer's waste water, solid waste and waste gases, must comply with the applicable national and local standards. For the year ended 31 December 2021, the Group has been committed to complying with such applicable standards and the aforesaid environmental protection laws and regulations. Further, the Group did not incur any material cost in complying with such laws and regulations during the reporting period.

The Company places environmental protection as one of its top priorities. The Group has developed its own HSE management system with an objective that its operations do not cause any damage to the environment. The HSE policy has been strictly followed. In addition, several of the Group's subsidiaries have obtained certifications from Beijing CNP CHSE Conformity Center (北京中油健康安全環境認證中心) and ABS Quality Evaluations Inc. that their environmental management systems, particularly in relation to their drilling, offshore pipe-lying, offshore technical service activities, are in conformity with the requirements of the ISO 14001 standards.

When providing services to our clients, Hilong not only complies with the applicable local environmental laws and regulations of places it operates, but also spares every effort to assist clients to reduce waste and waste treatment costs through optimizing its operation procedures and adopting new technologies even it is clients' responsibility to take charge of the waste produced (such as cuttings, waste mud, greenhouse gases emission) from their operation activities. Since its foundation in 2008, Hilong and its overseas subsidiaries have never received any complaints or fines from clients or local governments.

Our operations involve welding, handling of heavy machinery and components and hazardous chemicals. As a result, our employees may face the risk of various work-related injuries and accidents. We are subject to relevant rules and regulations on occupational health and safety such as the Safe Production Law, Law of the PRC on the Prevention and Treatment of Occupational Diseases, and Regulations on the Reporting, Investigation and Handling of Work Safety Accidents. We have established HSE and safety production policies and management system to ensure that all parts of our operations are in compliance with existing laws and regulations on occupational, safety and health. In addition, several subsidiaries of the Group have obtained certifications from American Bureau of Shipping (ABS) and Beijing CNP CHSE Conformity Center (北京中油健康安全環境認證中心) that their health and safety management systems, particularly in relation to their drilling, offshore pipe-lying, offshore technical service activities, are in conformity with the requirements of certain international standards in relation to occupational, health and safety system such as the OHSAS 18001. Also, Hilong's safety management system of the pipe-laying and derrick vessel, Hilong 106, has been certified by ABS that it has complied with the requirements of the International Management Code for the Safe Operation of Ships and for Pollution Prevention. For the year ended 31 December 2021, there had been no instance of major work related injuries or casualties which could have a material and adverse impact upon our business and operations.

The Group also implemented several measures in order to mitigate emissions produced by the Group's offices, such as reducing energy consumption by switching off lightings and electrical appliances and using of LED lamps, implementing double-sided printing and copying, setting up recycling bins, promoting the use of recycled paper.

Compliance with relevant Laws and Regulations

For the year ended 31 December 2021, compliance procedures were in place to ensure adherence to applicable laws, rules and regulations, in particular those that have significant impact on the Group.

On environmental matters, occupational health and safety, the Group is subject to various laws and regulations in relation to environmental protection and workplace safety. As mentioned in the section headed "Environmental Policies and Performance" above, for the year ended 31 December 2021, the Group has been committed in complying with the applicable standards on discharge and disposal of contaminants, toxic and hazardous materials and the applicable environmental protection laws and regulations. Regarding production safety, the Group has policies and measures in place to prevent and eliminate occupational damages and ensure safe production environment including (i) designating staff to be responsible for managing production safety; (ii) providing relevant employees of appropriate safety classes and training to ensure they possess the required knowledge and management skills on production safety; (iii) erecting appropriate safety signage on dangerous equipment and installations; (iv) ensuring safety-related equipment comply with national or industry standards; and (v) formulating emergency response plan for occupational diseases and accidents.

Our business involves production of hazardous chemicals and production, usage, and inspection of special equipment such as pressure pipelines. We are required by the relevant laws and regulations such as Regulations on the Administration of Permits for the Production of Industrial Products and Regulation to obtain production permits from designated authorities before manufacturing such products and equipment. For the year ended 31 December 2021, the Group obtained necessary production permits from the relevant authorities before commencing the production of hazardous chemical and special equipment.

On employees' rights and interests, the Group has been committed in complying with the requirements of the Labour Law of the People's Republic of China and Law of People's Republic of China on Employment Contracts and other relevant overseas laws and regulations in relation to employees' rights in order to safeguard all employees' rights and interests. All full-time employees in the PRC are covered by a state-managed retirement benefit plan operation by the government of the PRC, and are entitled to an annual pension. The Group has made annual contributions to the state – managed retirement benefit as required under the relevant law. The Group has also made contributions to a defined contribution mandatory provident fund for all full-time employees in Hong Kong.

On taxation, the Group is subject to various taxation. Details of such taxes and compliance of the Group with such applicable tax laws are set out in note 24 to the consolidated financial statements of this annual report.

On corporate compliance, during the reporting period the Group has complied with the requirements under the Companies Ordinance, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), the Securities and Futures Ordinance (the "**SFO**") and the Corporate Governance Code (the "**CG Code**") for, among other things, the disclosure of information and corporate governance. The Group has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**"). The Company noted that the Stock Exchange has announced amendments to the CG Code which has come into effect since January 1, 2022. The Board will review and enhance its corporate governance practices to ensure that the Group continues to meet the requirements of the CG Code.

KEY RELATIONSHIPS WITH STAKEHOLDERS

The Company has always been actively fulfilling its social responsibility. The Group, with high quality products and services, is committed to creating good internal and external corporate relationships, and build a harmonious enterprise to take its responsibilities for customers, employees, shareholders and community.

Relationship with customers – Our customers primarily include a number of major PRC and international oil and gas companies. We have maintained well-established relationships with some of the largest PRC oil and gas companies by the provision of quality products, services and after-sales services. We have also maintained regular communications with these customers in order to understand their concerns, standards and industry trends. So far, our performance is widely recognised by the customers.

Relationship with employees – The Group prides itself on providing a safe, effective and congenial work environment. Adequate arrangements, trainings and guidelines are implemented to ensure that the working environment is healthy and safe. The Group provided regular occupational health and safety check-ups and trainings for its employees. Employees are regarded as the most important and valuable assets of the Group. The management met with the employee representatives regularly to understand the concerns of employees. The objectives of the Group's human resources management are to reward and recognize performing staff by providing a competitive remuneration package and implementing a sound performance appraisal system with appropriate incentives, and to promote career development and progression by appropriate trainings and by providing opportunities within the Group for career advancement.

Relationship with shareholders – The Group recognizes the importance of protecting the interests of shareholders and having effective communications with them. The Group believes that the communication with its shareholders is a two – way process and thrives to ensure the quality and effectiveness of information disclosure, maintain regular dialogues with its shareholders and listen carefully to the views and feedback it receives from its shareholders. This can be done through annual general meetings, extraordinary general meetings, corporate communications, interim and annual reports and results announcements.

Relationship with the community – The Group is committed to participating in community events and has worked with a number of charitable organizations with an aim to improve community well-being and social services. The Group believes that by encouraging the staff to participate in a wide range of charitable events, the concern for the community will be raised and boosted.

KEY RISKS AND UNCERTAINTIES

Fluctuations in domestic and international oil and natural gas prices – The economic condition, market uncertainty and various factors that are beyond our control, including actions by major oil-producing countries and the prices and availability of other energy resources, may reduce the worldwide demand for oil and natural gas and result in fluctuations in the prices for oil and natural gas. For example, as a result of the negative impact of the continuing outbreak of COVID-19 on global demand and the failure of OPEC and Russia to reach an agreement on production cuts, the crude oil price fluctuated dramatically. Any decline in the prices of oil and natural gas, even for a short period of time, may reduce or curtail the expenditure by oil and gas companies in connection with exploration, drilling and production activities, which may result in lower sales volumes and prices for our drilling-related products and oil field services in the PRC and overseas, and may materially and adversely affect our business, financial condition and results of operations.

Failure to renew our certification as a supplier of our key customers – We are approved by our key customers such as CNPC and Sinopec as their suppliers. Such status is necessary for us to sell our products to the subsidiaries or branch oil fields of our major customers. However, such status may be suspended if the Group, amongst other things, delays delivery, has operational problems, is unable to provide after-sales services, or has unsatisfactory financial results. In the event that such status is suspended or terminated by our key customers, or that we are unable to renew such status, our business, financial condition and results of operations may be adversely affected.

Delay or rescheduling of oil and gas pipeline projects – We derive a significant portion of our revenue from sales of drill pipes, coating materials and related services. Planned and ongoing oil and gas pipeline projects can be delayed or rescheduled for a number of reasons including changes in business strategy of pipeline operators, technical difficulties, natural disasters, delays in regulatory approval or budget constraints. Should any of the major projects of our clients to which we plan to supply our products and services be delayed or rescheduled, our business, financial condition and results of operations could be materially affected.

Failure to develop or adopt new production technologies – The oil and gas industry is competitive and the production technology underlying the industry is rapidly evolving. As customers' needs, related technologies and market trends are subject to change, the Group may not be able to correctly predict the trends in a timely manner or develop or adopt competitive technology on a timely basis, whether developed in-house or obtained through licence. Even if the Group has put in substantial investment of resources, time and capital to respond to and adapt to technological developments and changes in the oil and gas industry, there can be no assurance that the Group will succeed in adequately responding and adapting to such technological and industry developments. In the event that the Group is unable to respond successfully to technological and industry developments, its business, results of operations and competitiveness may be affected.

Certain risks inherent in overseas operations and risks associated with the international expansion of the Group's business – During the reporting period, a large portion of our revenue was derived from our oilfield services segment from the non-PRC markets. In addition, the Group generated a significant portion of drill pipes and related products revenue from sales to non-PRC markets. Further, as part of the business strategy, the Group intends to expand its business into other regions of the world. As a result, the Group may face certain risks inherent in its overseas operations and risks associated with its efforts to expand and maintain its business in international markets, including cultural differences and other difficulties in staffing and managing international operations; volatility in currency exchange rates; risks that foreign countries may impose withholding taxes; risks of barriers, such as anti-dumping and other tariffs or other restrictions being imposed on foreign trade; etc. If any of these risks materializes, or if the Group is unable to manage these risks effectively, the Group's ability to maintain or expand international business would be impaired, which may in turn affect the Group's business, financial condition, results of operations and prospects.

Potential impact of the recent outbreak of COVID-19 on the Group's business, results of operations and financial position – The continuing outbreak of COVID-19 has impacted the global business across all industries, including oil and gas industries and upstream companies. As a result of the negative impact of the continuing outbreak of COVID-19 on global demand and the uncertainties of OPEC and Russia to reach an agreement on production cuts, the crude oil price fluctuated dramatically. Any decline in the prices of oil and natural gas, even for a short period of time, may reduce or curtail the expenditure by oil and gas companies in connection with exploration, drilling and production activities.

Apart from the negative impact on the demands and sales, the ongoing concern regarding COVID-19, particularly in relation to restrictions on travel and quarantine, may adversely affect the Group's business in regions where we or third parties on which we rely have business operations. For example, if any of our employees were suspected of contracting or contracted COVID-19, we may be required to quarantine some or all of our employees and disinfect our offices, manufacturing sites or operation sites. Likewise, any regulatory or administrative measures to quarantine the affected areas or other measures to control or contain the outbreak of COVID-19 that may be imposed by the government in different affected jurisdictions, such as any temporary closure of factories of our suppliers of our third-party brand products and/or the manufacturers of our products or any restrictions on the access thereto, may also cause material disruption to the business operations of our Group. The ultimate impact of the COVID-19 outbreak or a similar health epidemic is highly uncertain and subject to changes. We will continue to monitor the COVID-19 situation closely.

The impact of geopolitical factors arising in connection with recent military conflict between Russia and Ukraine on the Group's business operations – Our business and financial results, including our ability to raise capital or raise capital on favorable terms, may be adversely affected by the geopolitical factors arising in connection with Russia's invasion of Ukraine. We have business operations in Russia and Ukraine, and the recent military conflict between Russia and Ukraine has brought uncertainty to the global economy and trade and regulatory environments. If the conflict persists or deteriorates, we may be exposed to geopolitical risks. The geopolitical landscape may be further implicated, causing economic, social and political repercussions on a number of regions, which may give rise to a significant expansion of sanctions and trade restrictions among different countries. The Group's businesses may be adversely affected and result in adverse impact on the financial conditions, results of operations, cash flows and prospects of the Group, as well as the share price of the Company.

Prospects

The prospects of the Group is provided in the Chairman's Statement on page 3 and in the Management Discussion and Analysis section on pages 5 to 20 of this annual report.

DIVIDEND

During the year ended 31 December 2021, no final dividend for the year ended 31 December 2020 was paid to the shareholders of the Company.

The Board resolved not to recommend any dividend for the year ended 31 December 2021.

RESERVES

Details of movement in the reserves of the Company and the Group for the year ended 31 December 2021 are set out in notes 17 and 32 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

As at 31 December 2021, the reserves of the Company available for distribution to shareholders amounted to RMB1,275.7 million (2020: RMB1,258.5 million).

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, the aggregate revenue from sales of goods or rendering of services attributable to the Group's largest customer and five largest customers accounted for 8.9% and 27.8% of the Group's total revenue from sales of goods or rendering of services, respectively (2020: 12.4% and 29.2%). The aggregate purchases attributable to the Group's largest supplier and five largest suppliers accounted for 11.8% and 28.9% of the Group's total purchases respectively during the year under review (2020: 9.0% and 27.4%).

During the year, to the best knowledge of the Directors, none of the Directors, their close associates or any shareholders (which to the knowledge of the Directors own more than 5% of the issued shares of the Company) had any interest in any of the five largest customers or suppliers of the Group.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at 31 December 2021 are set out in note 13(f) to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of property, plant and equipment of the Group are set out in note 6 to the consolidated financial statements.

ISSUED SHARES

Details of and reasons for movements in the total issued shares of the Company during the year under review are set out in note 16 to the consolidated financial statements.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 160 of this annual report.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights over shares of the Company under the Company's articles of association (the "**Articles**") or the laws of the Cayman Islands where the Company is incorporated, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders of the Company.

DIRECTORS

The Directors during the year and up to the date of this report are as follows:

Executive Directors

Mr. Zhang Jun (張軍)
Mr. Wang Tao (汪濤)

Non-executive Directors

Ms. Zhang Shuman (張姝嫚)
Dr. Yang Qingli (楊慶理)
Mr. Cao Hongbo (曹宏博)

Independent Non-executive Directors

Mr. Wang Tao (王濤)
Mr. Wong Man Chung Francis (黃文宗)
Mr. Shi Zheyan (施哲彥)

The Company has received, from each of the Independent Non-executive Directors, a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all the Independent Non-executive Directors are independent.

Mr. Zhang Jun, Ms. Zhang Shuman and Dr. Yang Qingli will retire by rotation as the Directors at the forthcoming annual general meeting of the Company (the "**AGM**") in accordance with Article 84 of the Articles and pursuant to Appendix 14 of the Listing Rules. All retiring Directors, being eligible, offer themselves for re-election at the forthcoming AGM of the Company.

DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors has entered into a service contract with the Company under which he agreed to act as an Executive Director for a term of three years, which may be terminated by not less than one month's notice in writing served by either the Executive Director or the Company. Each of the Non-executive Directors and the Independent Non-executive Directors has signed an appointment letter with the Company for a term of three years which may be terminated by one month's notice (in the case of the Non-executive Director) or not less than one month's notice (in the case of the Independent Non-executive Director) served by either the Non-executive Director/Independent Non-executive Director or the Company. The appointments of Directors are subject to the provisions of retirement by rotation of Directors under the Articles.

None of the Directors (including those proposed for re-election at the forthcoming AGM) has an unexpired service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the management on the basis of their merits, qualifications and competence.

The Remuneration Committee considers and recommends to the Board on the remuneration and other benefits paid by the Company to the Directors by reference to the Company's operating results, individual performance and comparable market rates. The remuneration of all Directors is subject to regular monitoring by the Remuneration Committee to ensure that the levels of their remuneration and compensation are appropriate.

As at 31 December 2021, the total number of full-time employees of the Group was 2,920 (31 December 2020: 2,820). Employee costs excluding the Directors' remuneration totaled RMB574.7 million for the year of 2021. The Group recruited and promoted individual persons according to their strengths and development potential. The Group determined the remuneration packages of all employees including the Directors with reference to individual performance and current market salary scale.

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 annual report, none of the share options granted under the Post-IPO share option scheme was exercised.

Details of Directors' remuneration are set out in note 20(a) to the consolidated financial statements.

The emoluments paid to the senior management (excluding the Directors) during the year ended 31 December 2021 were within the following bands:

	Number of Senior Management
HK$0 to HK$500,000	1
HK$500,001 to HK$1,000,000	1
HK$1,000,001 to HK$1,500,000	3
HK$1,500,001 to HK$2,000,000	3
	8

DIRECTORS' INTERESTS IN TRANSACTION, ARRANGEMENT OR CONTRACT OF SIGNIFICANCE

Save as disclosed in this annual report, as at 31 December 2021 or during the year, none of the Directors or entities connected with the Directors was materially interested, either directly or indirectly, in any transaction, arrangement or contract that is significant in relation to the business of the Group to which the Company or any of its subsidiaries was a party.

CONTRACT OF SIGNIFICANCE

Save as disclosed in this annual report, no contract of significance in relation to the Group's business was entered into between the Company, or any one of its subsidiary companies, and a controlling shareholder or any of its subsidiaries during the year ended 31 December 2021.

DIRECTORS' PERMITTED INDEMNITY PROVISION

Pursuant to the Company's Articles, the Directors of the Company shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, in their respective offices provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of said persons. The Company has arranged appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Group during the year ended 31 December 2021 which is still in force.

MANAGEMENT CONTRACTS

Other than the service contracts of the Directors, the Company has not entered into any contract with any individual, firm or body corporate to manage or administer the whole or any substantial part of any business of the Company during the year.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Save as the Post-IPO share option scheme, at no time during the year was the Company or any of its holding company, subsidiaries or fellow subsidiaries a party to any arrangements that would enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

EQUITY-LINKED AGREEMENTS

Details of the equity-linked agreements subsisting at the end of the year are set out below. Other than the post-IPO share option scheme set out below, there was no equity-linked agreement entered into by the Company during the year ended 31 December 2021.

POST-IPO SHARE OPTION SCHEME

The Company adopted a post-IPO share option scheme (the "**Post-IPO Scheme**") on 10 May 2013. The remaining life of the Post-IPO Scheme is approximately one year and four months as at 31 December 2021. The following is a summary of the principal terms of the Post-IPO Scheme:

(a) Purpose

The purpose of the Post-IPO Scheme is to provide incentive or reward to certain directors and employees of the Group for their contribution to the Group.

(b) Who may join

Any Director (whether executive or non-executive, including any Independent Non-executive Director) or employee (whether full-time or part-time) of the Group (the "**Eligible Persons**") is eligible to participate in the Post-IPO Scheme. Payment of option price of HK$1.00 shall be made upon acceptance of the offer of options.

(c) Maximum number of shares

The aggregate number of shares which may be issued upon exercise of all options to be granted under the Post-IPO Scheme as well as any new share option scheme of the Company which may be adopted must not, in aggregate, exceed 5% of the total number of shares in issue as at the date of adoption of the Post-IPO Scheme or any new share option scheme (as the case may be). The maximum aggregate number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Post-IPO Scheme and any other share option schemes of the Company, must not, in aggregate, exceed 30% of the total number of shares in issue from time to time.

The total number of shares subject to the Post-IPO Scheme is 81,573,950 shares, representing approximately 4.81% of the issued share capital of the Company as at the date of this annual report.

(d) Maximum entitlement of each participant under the Post-IPO Scheme

No share option shall be granted to any Eligible Person if, at the relevant time of grant, the number of shares of the Company issued and to be issued upon exercise of all options (granted, proposed to be granted, whether exercised, cancelled or outstanding) to the relevant Eligible Person in the 12-month period up to and including the date of such grant would exceed 1% of the total number of shares in issue at such time.

(e) Subscription price

The price at which each share subject to an option may be subscribed for on the exercise of that option shall be a price solely determined by the Board and notified to an Eligible Person and shall be at least the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the offer date, which must be a business day; (ii) the average of the closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the offer date; and (iii) the nominal value of the shares.

(f) Time of exercise of option and duration of the Post-IPO Scheme

The Post-IPO Scheme shall be valid and effective for a period of ten years commencing from 10 May 2013; after such date no further share option shall be granted. Subject to the above, in all other respects, in particular, in respect of options remaining outstanding on the expiry of the ten-year period, the provisions of the Post-IPO Scheme shall remain in full force and effect. The Post-IPO Scheme does not stipulate either a minimum period for which an option must be held or any performance targets a grantee is required to achieve before an option may be exercised. However, the Board may at its discretion specify any conditions which must be satisfied before the option may be exercised in the offer letter whereby the option is offered.

(g) Expiry of option

The right to exercise an option (to the extent not already exercised) shall terminate immediately upon the earliest of:

(i) the expiry of the period during which the option may be exercised;

(ii) subject to a general offer by way of a take-over is made to all the shareholders of the Company and such offer becomes or is declared unconditional, the expiry of the 21-day period during which the grantee may by notice in writing to the Company exercise the option to its full extent or to the extent specified in such notice;

(iii) subject to the scheme of arrangement becoming effective, the expiry of the period during which the grantee may by notice in writing to the Company exercise the option to its full extent or to the extent specified in such notice;

(iv) subject to the compromise or arrangement becoming effective, the expiry of the period as specified in the Post-IPO Scheme during which the grantee may exercise any of his options in full or in part;

(v) the date on which the grantee ceases to be an Eligible Person for any reason, or die or becomes permanently disable, or appears either to be unable to pay or to have no reasonable prospect of being able to pay his debts, or has become insolvent, or has made any arrangements or composition with his creditors generally or on which he has been convicted of any criminal offence involving his integrity or honesty;

(vi) subject to a notice being given by the Company to its shareholders to convene a general meeting for the purpose of considering, and if thought fit, approving a resolution to voluntarily wind-up the Company other than for the purposes of a reconstruction, amalgamation or scheme of arrangement, the date of commencement of the winding-up of the Company;

(vii) the date on which the grantee commits a breach of the transfer restrictions of the options as specified in the Post-IPO Scheme;

(viii) the date on which the option is cancelled by the Board with the approval of the grantee of such option; or

(ix) the non-fulfillment of any condition to the Post-IPO Scheme on or before the date stated therein.

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.

The following table sets out particulars of the options granted and outstanding under the Post-IPO Scheme and their movements during the year:

	Number of Shares									
Category/ name of grantees	Outstanding as at 1 January 2021	Granted during the year	Exercise during the year	Cancelled/ Lapsed during the year	Outstanding as at 31 December 2021	Exercise price HK$	Closing price immediately before the date of grant HK$	Weighted average closing price immediately before exercise HK$	Date of grant	Exercise period
Employees of the Group other than Directors										
In aggregate	15,350,700	–	–	–	15,350,700	5.93	5.72	N/A	5 February 2014	5 February 2015 – 4 February 2024

DISCLOSURE OF INTERESTS

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

As at 31 December 2021, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, were as follows:

(a) Long positions in the shares of the Company

Name of Director	Capacity	Number of shares interested	Approximate percentage of the issued share capital of the Company
Mr. Zhang Jun	Founder and beneficiary of Mr. Zhang's trust/Interest of controlled corporation	885,081,000[(1)]	
	Founder and beneficiary of three Mr. Zhang's family trusts/Interest of controlled corporation	112,300,800[(2)]	
	Beneficial owner	1,260,000	
		998,641,800	58.867%
Ms. Zhang Shuman	Interest of controlled corporation	24,300,000[(3)]	
	Beneficial owner	692,000	
		24,992,000	1.473%
Mr. Cao Hongbo	Beneficial owner	1,708,000	0.101%
Mr. Wong Man Chung Francis	Beneficial owner	1,288,000	0.076%
Mr. Wang Tao (汪濤)	Beneficial owner	1,200,000	0.071%
Dr. Yang Qingli	Interest of spouse	77,000[(4)]	0.005%

Notes:

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

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

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

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

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

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

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

As at 31 December 2021, the interests or short positions of the substantial shareholders (other than the interests disclosed above in respect of certain Directors who are also substantial shareholders of the Company) in the shares and underlying shares of the Company as recorded in the register of substantial shareholders as required to be kept by the Company under Section 336 of the SFO or as the Company is aware were as follows:

Long positions in the shares and underlying shares of the Company

Name of substantial shareholder	Capacity	Number of shares/underlying shares interested	Approximate percentage of the issued share capital of the Company
Hilong Group Limited	Beneficial owner	885,081,000(1)	52.17%
SCTS Capital Pte Ltd.	Nominee	1,018,758,800(1)(2)	60.05%
Standard Chartered Trust (Singapore) Limited	Trustee	1,018,758,800(1)(2)	60.05%
Ms. Gao Xia	Interest of spouse	998,641,800(3)	58.87%

Notes:

(1) 885,081,000 shares are held by Hilong Group Limited, the entire share capital of which is held by SCTS Capital Pte Ltd. which is then wholly-owned by Standard Chartered Trust (Singapore) Limited as trustee of Mr. Zhang's trust. Mr. Zhang Jun is the founder and beneficiary of Mr. Zhang's trust.

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

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

CONNECTED TRANSACTIONS

A summary of the related party transactions entered into by the Group during the year ended 31 December 2021 is contained in note 29 to the consolidated financial statements. The transactions between the Group and Mr. Zhang Jun (張軍), Beijing Huashi Hailong Oil Investments Co., Ltd. (北京華實海隆石油投資有限公司) ("**Beijing Huashi Investment**"), Shanghai Longshi Investment Management Company Limited (上海隆視投資管理有限公司) ("**Longshi Investment**") and Shanghai Hilong Shine New Material Co., Ltd. (上海海隆賽能新材料有限公司) ("**Hilong Shine New Material**"), respectively as described in note 29 fall under the definition of continuing connected transactions as disclosed on pages 149 to 152 of this annual report (as the case may be) under Chapter 14A of the Listing Rules, and also constitute related party transactions of the Group. The Company has complied with the applicable disclosure requirements under Chapter 14A of the Listing Rules in respect of such connected transactions.

Particulars of the continuing connected transactions and connected transactions that are not exempt under Rule 14A.76 of the Listing Rules are set out as follows:

Connected Persons

As at 31 December 2021, Mr. Zhang Jun (張軍) is the controlling shareholder and a Director of the Company. As at the same date, Hilong Shine New Material is a wholly-owned subsidiary of Beijing Huashi Investment. Beijing Huashi Investment is held as to 98.0% by Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd. (北京華實海隆石油機械設備有限公司) ("**Huashi Hailong**"), which in turn is held as to approximately 95.65% by Mr. Zhang Jun and approximately 4.35% by Ms. Zhang Jingying, the mother of Mr. Zhang Jun. Meanwhile, each of Mr. Zhang Jun and Ms. Zhang Jingying also directly holds 1.0% of the interest in Beijing Huashi Investment. Huashi Hailong is principally engaged in investment holding and management. Further, Longshi Investment is held as to 50% by Beijing Huashi Investment. As such, each of Beijing Huashi Investment, Longshi Investment and Hilong Shine New Material is an associate of Mr. Zhang Jun and thus a connected person of the Company under the Listing Rules.

Continuing Connected Transactions

2021 Tenancy Agreements

References are made to the announcements of the Company dated 1 January 2020 and 4 August 2020 regarding the 2020 Beijing Huashi Tenancy Agreements and the 2020 Shine New Material Tenancy Agreement. Since each of the 2020 Beijing Huashi Tenancy Agreements and the 2020 Shine New Material Tenancy Agreement had expired on 31 December 2020, on 29 January 2021, the Group and the relevant counterparties entered into the following renewal agreements: (1) 2021 Renewed Beijing Huashi Tenancy Agreements pursuant to which Beijing Huashi Investment agreed to lease and Hilong Oil Service and Engineering Co., Ltd. (海隆石油技術服務有限公司) ("**Hilong Oil Service**") agreed to rent the same office premises under the 2020 Beijing Huashi Tenancy Agreements for a term of one year commencing from 1 January 2021; and (2) 2021 Renewed Shine New Material Tenancy Agreement pursuant to which Hilong Pipeline Engineering Technology Service Co., Ltd. agreed to lease and Hilong Shine New Material agreed to rent the same factory premises under the 2020 Shine New Material Tenancy Agreement for a term of one year commencing from 1 January 2021 (the 2021 Renewed Beijing Huashi Tenancy Agreements and the 2021 Renewed Shine New Material Tenancy Agreement, together, are referred to as the "**2021 Tenancy Agreements**").

Given that the 2021 Tenancy Agreements are (i) entered into by the Group and counterparties who are associates of Mr. ZHANG Jun and (ii) continuing connected transactions entered into within a 12-month period, the transactions contemplated under the 2021 Tenancy Agreements would have to be aggregated for the purpose of considering the Company's compliance obligations pursuant to Rule 14A.81 of the Listing Rules.

Furthermore, the Company estimated the annual cap for the year ending 31 December 2021 to be RMB13,733,220 (the "**2021 Annual Cap**"). As the highest applicable percentage ratio in respect of the 2021 Annual Cap for the 2021 Tenancy Agreements, on an aggregated basis, exceeds 0.1% but is less than 5%, the continuing connected transactions contemplated under the 2021 Tenancy Agreements and the 2021 Annual Cap are exempt from the independent shareholders' approval requirement but is subject to the reporting, announcement and the annual review requirements under Chapter 14A of the Listing Rules. The terms of each of the 2021 Tenancy Agreements were negotiated by the parties on arm's length basis, taking into account prevailing market rentals, but in any event at leasing terms and rental rates no less favourable than those offered to the Group by independent third parties for the same or similar types of leased premises. Based on the above reasons, the Directors (including the independent non-executive Directors) are of the view that the terms of the continuing connected transactions contemplated under each of the 2021 Tenancy Agreements and the 2021 Annual Cap are fair and reasonable, on normal commercial terms and in the ordinary and usual course business of the Group, and in the interests of the Company and its shareholders as a whole.

For more particulars in relation to the 2021 Tenancy Agreements and the transactions contemplated thereunder, please refer to the announcements of the Company dated 29 January 2021 and 2 February 2021.

Annual Review and Directors' View

The independent non-executive Directors of the Company have conducted an annual review on the above continuing connected transactions and confirm that the above transactions have been entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms or better; and

(iii) according to the relevant agreement (including the pricing policies and guidelines set out therein) governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The board confirms that the Company's auditor, PricewaterhouseCoopers, has issued an unqualified letter to the Board in respect of the continuing connected transactions of the Company disclosed above confirming the matters stated in Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange in accordance with Rule 14A.57 of the Listing Rules.

Continuing Connected Transaction Entered into after the Reporting Period

References are made to the announcements of the Company dated 29 January 2021 and 2 February 2021 regarding the 2021 Renewed Beijing Huashi Tenancy Agreements and the 2021 Renewed Shine New Material Tenancy Agreement. Since each of the 2021 Renewed Beijing Huashi Tenancy Agreements and the 2021 Renewed Shine New Material Tenancy Agreement has expired on 31 December 2021, on 10 January 2022, the Group and the relevant counterparties entered into two renewal agreements: (1) the 2022 Renewed Beijing Huashi Tenancy Agreements pursuant to which Beijing Huashi Investment agreed to lease and Hilong Oil Service agreed to rent the same office premises under the 2021 Renewed Beijing Huashi Tenancy Agreements for a term of one year commencing from 1 January 2022; and (2) the 2022 Renewed Shine New Material Tenancy Agreement pursuant to which Hilong Zhizao Consulting agreed to lease and Hilong Shine New Material agreed to rent the same factory premises under the 2021 Renewed Shine New Material Tenancy Agreement for use as a manufacturing plant for a term of one year commencing from 1 January 2022.

As at the date of this report, the counterparties under the 2022 Renewed Beijing Huashi Tenancy Agreements and the 2022 Renewed Shine New Material Tenancy Agreement are all companies of which a majority interest is controlled by Mr. ZHANG Jun, the controlling shareholder and a director of the Company. Therefore, the said counterparties are associates of Mr. ZHANG Jun and thus the connected persons of the Company under Chapter 14A of the Listing Rules.

Given that the 2022 Renewed Beijing Huashi Tenancy Agreements and 2022 Renewed Shine New Material Tenancy Agreement are (i) entered into by the Group and counterparties who are associates of Mr. ZHANG Jun and (ii) continuing connected transactions entered into within a 12-month period, the transactions contemplated under the 2022 Renewed Beijing Huashi Tenancy Agreements and 2022 Renewed Shine New Material Tenancy Agreement would have to be aggregated for the purpose of considering the Company's compliance obligations pursuant to Rule 14A.81 of the Listing Rules.

The terms of each of the 2022 Renewed Beijing Huashi Tenancy Agreements and 2022 Renewed Shine New Material Tenancy Agreement were negotiated by the parties on arm's length basis, taking into account prevailing market rentals, but in any event at leasing terms and rental rates no less favourable than those offered to the Group by independent third parties for the same or similar types of leased premises. Based on the above reasons, the Directors (including the independent non-executive Directors) are of the view that the terms of the continuing connected transactions contemplated under each of the 2022 Renewed Beijing Huashi Tenancy Agreements, the 2022 Renewed Shine New Material Tenancy Agreement and the 2022 Annual Cap are fair and reasonable, on normal commercial terms and in the ordinary and usual course of business of the Group, and in the interests of the Company and its shareholders as a whole. For more particulars in relation to the 2022 Renewed Beijing Huashi Tenancy Agreements and the 2022 Renewed Shine New Material Tenancy Agreement, please refer to the announcement of the Company dated 10 January 2022.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the latest practicable date prior to the issue of this annual report, the Company has maintained a sufficient public float of more than 25% of the Company's issued share capital as required under the Listing Rules.

MATERIAL ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENT

References are made to the announcement of the Company dated 18 June 2021, and circular dated 29 September 2021 in relation to the Disposal. On 18 June 2021, Hilong Pipeline Engineering Technology Service Co., Ltd.* (海隆管道工程技術服務有限公司) ("**Seller**"), Shanghai Jintang Industry Co., Ltd.* (上海金鏜實業有限公司) ("**Purchaser**") and Shanghai Hilong Special Steel Pipe Co., Ltd.* (上海海隆特種鋼管有限公司) ("**Target Company**") entered into the Equity Transfer Agreement, pursuant to which the Seller had agreed to dispose of the 70% equity interest held by the Seller in the Target Company for a total consideration of RMB103,480,000.

Given that the highest applicable percentage ratio under Rule 14.07 of the Listing Rules in respect of the Disposal was greater than 25% but less than 75%, the Disposal constituted a major transaction for the Company under Chapter 14 of the Listing Rules, and was subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

The consideration was arrived at after arm's length negotiations between the Seller and Purchaser on normal commercial terms with reference to, among other things: (i) the net assets value of the Target Company as of 31 December 2020; (ii) the historical financial performance of the Target Company; (iii) the business prospects of the Target Company; and (iv) the benefits of the Disposal.

The Disposal was completed in June 2021. Upon Completion, the Company held 30% equity interest in the Target Company, and the Target Company ceased to be a subsidiary of the Company and the financial information of the Target Company will no longer be consolidated into the Group's consolidated financial statements.

Save as disclosed above, the Company did not have any acquisition or disposal of subsidiaries, associates, joint ventures or significant investment during the year ended 31 December 2021.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Save as disclosed in this annual report, neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2021.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Each of the Executive Directors and Non-executive Directors has confirmed that he/she is neither engaged, nor interested, in any business which, directly or indirectly, competes or may compete with the Group's business.

NON-COMPETITION UNDERTAKINGS BY THE CONTROLLING SHAREHOLDERS

Each of Mr. Zhang Jun and Hilong Group Limited, being controlling shareholders (the "**Controlling Shareholders**") of the Company, has entered into a Non-competition Deed (the "**Deed**"), details as described in the prospectus of the Company dated 11 March 2011, with the Company on 3 March 2011.

The Controlling Shareholders have confirmed their compliance with the non-competition undertakings under the Deed throughout the year of 2021. The independent non-executive Directors have also reviewed the compliance with the non-competition undertakings under the Deed by the Controlling Shareholders and are satisfied that the Controlling Shareholders have complied with the undertakings.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has complied with all the applicable code provisions set out in the CG Code contained in Appendix 14 of the Listing Rules throughout the year ended 31 December 2021.

SUBSEQUENT EVENTS

Save as disclosed above under the section headed "Continuing Connected Transaction Entered into after the Reporting Period" and elsewhere in this annual report, as at the date of this report, the Directors are not aware of any other major subsequent events of the Company which need to be disclosed in the annual report.

AUDITOR

The financial statements for the year ended 31 December 2021 have been audited by PricewaterhouseCoopers, certified public accountants.

On behalf of the Board
Zhang Jun
Chairman

Hong Kong, 25 March 2022

羅兵咸永道

To the Shareholders of Hilong Holding Limited
(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Hilong Holding Limited (the "**Company**") and its subsidiaries (the "**Group**"), which are set out on pages 66 to 159, comprise:

- the consolidated balance sheet as at 31 December 2021;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("**the Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

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KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

A key audit matter identified in our audit is related to trade receivables impairment.

Key Audit Matter	How our audit addressed the Key Audit Matter
Expected credit losses of trade receivables	
Refer to Note 3.1(b) (Financial risk factors – Credit risk), Note 4 (Critical accounting estimates and judgements) and Note 13(c) (Trade and other receivables) to the consolidated financial statements. The Group has significant businesses in a number of overseas countries and has many overseas customers, with certain businesses of the Group are exposed to global fluctuation of oil and gas prices. Provisions are made for expected credit losses. Management's significant judgment is required in assessing the expected credit losses. As at 31 December 2021, the gross carrying amount of trade receivables of the Group was approximately RMB1,526 million, and provision for expected credit losses of approximately RMB129 million was recorded. For trade receivables which have impaired, the Group assessed individually and provided for credit losses allowance. For the remaining balance, the trade receivables were grouped based on shared credit risk characteristics and the days past due, and were assessed collectively for credit losses allowance. Management estimated the level of expected credit losses, by assessing future cash flows of trade receivables including a probability determined by evaluating a range of possible outcomes based on twelve months rolling historical credit loss experience on customer profiles and applying to the receivables at the year end. The impact of forward looking economic factors are also considered in assessing the likelihood of recovery from customers and expected credit losses.	Our procedures in relation to impairment of provision for trade receivables included but not limited to below: • understanding and testing controls on a sample basis over management's policies, processes and controls over assessment on recoverability of trade receivables balance and determination of the expected credit losses; • assessing the appropriateness of the expected credit loss provisioning methodology throughout the Group; • assessing individually, on a sample basis, by reviewing management's assessment of financial position and creditworthiness of customers, historical payment and settlement records and forecasted future economic conditions; and corroborating management's assessment against available evidence, including searching for customers' background, historical transactions with the Group, respective collection and settlement pattern;

KEY AUDIT MATTERS (continued)

Key Audit Matter (continued)	How our audit addressed the Key Audit Matter (continued)
For those customers where objective evidence of impairment exists, management measured the amount of loss to reflect the difference between the carrying amounts of trade receivables and present value of the estimated recoverable future cash flows. We focused on this area because of the significant judgements and estimation involved in determining the expected credit losses of the Group's trade receivables, mainly attributable to the significance of the trade receivables balance, the recent global fluctuation of oil and gas prices and the fact that its customers are located in different countries.	• assessing the reasonableness of the grouping and the respective expected credit loss based on the historical credit loss incurred including the historical payment and settlement pattern of customers, aging profile of trade receivables, current conditions and forward looking factors; recalculating the historical default rate; evaluating the basis of determining forward-looking adjustment; testing the accuracy of the aging of the trade receivables on a sample basis; and assessing the mathematical accuracy of calculation of the expected credit loss allowance; • confirming on a sample basis significant balances with customers; We found management's assessment of the impairment provision of trade receivables is supported by the evidence we obtained.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The audit committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Mang, Kwong Fung Frederick.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 25 March 2022

CONSOLIDATED BALANCE SHEET

As at 31 December 2021

	Note	2021 RMB'000	2020 RMB'000
		As at 31 December	
ASSETS			
Non-current assets			
Property, plant and equipment	*6*	**2,381,624**	2,619,526
Right-of-use assets	*7*	**51,223**	105,441
Intangible assets	*8*	**210,219**	239,676
Investments accounted for using equity method	*9*	**93,231**	50,888
Deferred income tax assets	*11*	**158,224**	190,692
Other long-term assets	*5(d), 10*	**50,778**	70,816
		2,945,299	3,277,039
Current assets			
Inventories	*12*	**1,050,881**	1,001,255
Contract assets	*5(d)*	**131,063**	160,886
Financial assets at fair value through profit or loss	*3, 13(a)*	**–**	23,377
Financial assets at fair value through other comprehensive income	*3, 13(b)*	**132,897**	89,629
Derivative financial instruments	*13(d)*	**1,499**	–
Trade and other receivables	*13(c)*	**1,663,545**	1,682,031
Prepayments	*14*	**429,371**	336,713
Current income tax recoverable		**28,067**	24,348
Restricted cash	*13(e)*	**60,379**	77,616
Cash and cash equivalents	*13(e)*	**628,805**	697,463
		4,126,507	4,093,318
Total assets		**7,071,806**	7,370,357
EQUITY			
Capital and reserve attributable to equity owners of the Company			
Ordinary shares	*16*	**141,976**	141,976
Other reserves	*17*	**1,301,869**	1,289,746
Currency translation differences		**(435,273)**	(329,656)
Retained earnings		**2,006,907**	1,972,406
		3,015,479	3,074,472
Non-controlling interests		**27,348**	43,826
Total equity		**3,042,827**	3,118,298

		As at 31 December	
	Note	**2021 RMB'000**	2020 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	*13(f)*	**2,432,509**	23,674
Lease liabilities	*7*	**11,655**	17,775
Deferred income tax liabilities	*11*	**36,345**	37,815
Deferred revenue	*15*	**44,350**	48,289
		2,524,859	127,553
Current liabilities			
Trade and other payables	*13(g)*	**736,348**	906,793
Contract liabilities	*5(d)*	**109,673**	65,742
Current income tax liabilities		**44,796**	39,865
Borrowings	*13(f)*	**607,352**	3,101,841
Lease liabilities	*7*	**5,892**	10,206
Deferred revenue	*15*	**59**	59
		1,504,120	4,124,506
Total liabilities		**4,028,979**	4,252,059
Total equity and liabilities		**7,071,806**	7,370,357

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

The consolidated financial statements on pages 66 to 159 were approved by the Board of Directors on 25 March 2022 and were signed on its behalf.

Director: Zhang Jun

Director: Wang Tao (汪濤)

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2021

	Note	Year ended 31 December 2021 RMB'000	2020 RMB'000
Revenue	5	**2,916,922**	2,623,037
Cost of sales	18	**(2,018,603)**	(1,929,054)
Gross profit		**898,319**	693,983
Selling and marketing expenses	18	**(110,133)**	(119,944)
Administrative expenses	18	**(425,306)**	(398,803)
Net reversal of/(provision for) impairment losses on financial assets	3,13(c)	**16,763**	(132,167)
Other income	21	**8,852**	–
Other gains/(losses) – net	22	**71,852**	(187,302)
Operating profit/(loss)		**460,347**	(144,233)
Finance income	23	**5,550**	13,685
Finance costs	23	**(323,337)**	(104,338)
Finance costs – net		**(317,787)**	(90,653)
Share of profit of investments accounted for using equity method	9	**768**	5,101
Profit/(loss) before income tax		**143,328**	(229,785)
Income tax expense	24	**(95,733)**	(68,912)
Profit/(loss) for the year		**47,595**	(298,697)
Profit/(loss) attributable to:			
Equity owners of the Company		**44,249**	(298,806)
Non-controlling interests		**3,346**	109
		47,595	(298,697)
Earnings/(losses) per share attributable to the equity owners of the Company for the year (expressed in RMB per share)			
– Basic earnings/(losses) per share	25	**0.0261**	(0.1761)
– Diluted earnings/(losses) per share	25	**0.0261**	(0.1761)

The above consolidated income statement should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Profit/(loss) for the year	**47,595**	(298,697)
Other comprehensive 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	**2,375**	681
Currency translation differences	**(105,504)**	(290,149)
Other comprehensive loss for the year, net of tax	**(103,129)**	(289,468)
Total comprehensive loss for the year	**(55,534)**	(588,165)
Attributable to:		
Equity owners of the Company	**(58,993)**	(588,469)
Non-controlling interests	**3,459**	304
	(55,534)	(588,165)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

	Note	Capital and reserves attributable to equity owners						
		Ordinary shares	Other reserves	Retained earnings	Cumulative Translation differences	Total	Non-controlling interests	Total equity
	Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2020		141,976	1,283,815	2,276,462	(39,312)	3,662,941	43,522	3,706,463
(Loss)/profit for the year		–	–	(298,806)	–	(298,806)	109	(298,697)
Other comprehensive gains/(losses)		–	681	–	(290,344)	(289,663)	195	(289,468)
Total comprehensive income/(loss) for the year		–	681	(298,806)	(290,344)	(588,469)	304	(588,165)
Appropriation to statutory reserve	*17(a)*	–	5,250	(5,250)	–	–	–	–
As at 31 December 2020		141,976	1,289,746	1,972,406	(329,656)	3,074,472	43,826	3,118,298
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	*17(a)*	**–**	**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**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2021

		Year ended 31 December	
	Note	**2021 RMB'000**	2020 RMB'000
Cash flows from operating activities			
Cash generated from operations	*27(a)*	**516,214**	98,376
Income tax paid		**(62,399)**	(77,846)
Net cash generated from operating activities		**453,815**	20,530
Cash flows used in investing activities			
Proceeds from disposal of property, plant and equipment	*27(b)*	**15,460**	55,768
Dividends received		**2,773**	3,227
Purchases of property, plant and equipment		**(139,869)**	(38,736)
Purchases of intangible assets	*8*	**(1,438)**	(24,014)
Loans to related parties		**(30,772)**	–
Net cash inflow/(outflow) arising from financial instruments	*3*	**23,816**	(23,000)
Net proceeds from disposal of subsidiaries of the Group	*22*	**106,480**	2,000
Net cash used in investing activities		**(23,550)**	(24,755)
Cash flows used in financing activities			
Proceeds from borrowings		**604,641**	667,275
Repayments of borrowings		**(738,303)**	(609,408)
Interest paid		**(158,494)**	(96,147)
Issuance cost of new Senior Notes		**(172,414)**	–
Principal element of lease payments	*7*	**(10,761)**	(22,253)
Net cash inflow arising from financial instruments		**–**	8,013
Acquisition of non-controlling interests	*17(c)*	**(15,800)**	(13,540)
Net cash (outflow)/inflow arising from security deposit for bank borrowings	*13(f)*	**(1,314)**	10,755
Dividends paid	*13(g), 26*	**–**	(1,313)
Net cash used in financing activities		**(492,445)**	(56,618)
Net decrease in cash and cash equivalents		**(62,180)**	(60,843)
Exchange losses on cash and cash equivalents		**(6,478)**	(24,872)
Cash and cash equivalents at beginning of the year		**697,463**	783,178
Cash and cash equivalents at end of the year		**628,805**	697,463

The above consolidated cash flow statement should be read in conjunction with the accompanying notes.

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. These financial statements have been approved for issue by the Board of Directors on 25 March 2022.

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.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2.1.1 New and amended standards adopted by the Group

The Group has applied the following amendments for the first time for their annual reporting period commencing 1 January 2021:

- Interest Rate Benchmark Reform – Phase 2 – amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16

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

2.1.2 New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2021 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

2.1.2 New standards and interpretations not yet adopted (continued)

		Effective for annual periods beginning on or after
HKAS 16 (Amendments)	Property, Plant and Equipment: Proceeds before intended use	1 January 2022
HKAS 37 (Amendments)	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
HKFRS 3 (Amendments)	Reference to the Conceptual Framework	1 January 2022
AG 5 (Revised)	Merger Accounting for Common Control Combinations	1 January 2022
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
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
Annual Improvements to HKFRS Standards 2018–2020		1 January 2022

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) *Business combinations*

The acquisition method is used to account for business combinations by the Group. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred to the former owners of the acquire, the equity interests issued by the Group and the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis either at fair value or at the non-controlling interests' proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated income statement.

Intra-group transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies adopted by the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Subsidiaries (continued)

2.2.1 Consolidation (continued)

(b) *Changes in ownership interests in subsidiaries without change of control*

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) *Disposal of subsidiaries*

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specific permitted by applicable HKFRSs.

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

Investments in associates and joint ventures are accounted for using the equity method of accounting.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Associates

An associate is an entity over which the Group has significant influence but not control or joint control, generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting (see Note 2.5 below), after initially being recognised at cost.

The Group's share of post-acquisition profit or loss is recognised in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to "Share of profit of investments accounted for using equity method" in the consolidated income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associates are recognised in the Group's consolidated financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Gains or losses on dilution of equity interest in associates are recognised in the consolidated income statement.

2.4 Joint arrangements

The Group has applied HKFRS 11 to all joint arrangements. Under HKFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method of accounting (see Note 2.5 below), after initially being recognised at cost in the consolidated balance sheet.

Profits and losses resulting from upstream and downstream transactions between the Group and its joint ventures are recognised in the Group's consolidated financial statements only to the extent of unrelated investor's interests in the joint ventures. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Gains or losses on dilution of equity interest in joint ventures are recognised in the consolidated income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Equity method

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

The Group's investments in associates and joint ventures include goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill. When the Group's share of losses in an equity-accounted investment equals or exceeds its interests in the entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the equity-accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in Note 2.10.

2.6 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as senior executive management who make strategic decisions.

2.7 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). The consolidated financial statements are presented in Renminbi ("**RMB**"), which is the Company's functional and the Group's presentation currency.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Foreign currency translation (continued)

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings, restricted cash and cash and cash equivalents are presented in the consolidated income statement within "Finance income or costs". All other foreign currency translation gains and losses are presented in the consolidated income statement within "Other gains – net".

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gains or losses. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperchecked-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

- income and expenses for each consolidated income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

- all resulting currency translation differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Foreign currency translation (continued)

(d) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated currency translation differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or joint venture that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated currency translation difference is reclassified to profit or loss.

2.8 Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at historical cost less depreciation and provision for impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

	Years
Freehold land	Nil
Buildings and facilities	5 to 40 years
Machinery and equipment	3 to 25 years
Office and electronic equipment	3 to 10 years
Vehicles	3 to 10 years

The estimated useful lives of leasehold improvements were lower of estimated useful lives of 5 to 10 years or lease term.

Construction in progress represents buildings, plant and machinery under construction or pending installation and is stated at cost less provision for impairment loss, if any. Cost includes the costs of construction and acquisition and capitalised borrowing costs. When the assets concerned are available for use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Property, plant and equipment (continued)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.10).

Gain and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "Other gains – net" in the consolidated income statement.

The freehold land of the Group is mainly located in Canada, North America and Russia. Such land ownership has no fixed term, so it is not amortized.

2.9 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

Goodwill is not amortised but it is tested for impairment annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("**CGUs**"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

(b) Computer software

Acquired computer software license are capitalised on the basis of the costs incurred to acquire the specific software. These costs are amortised over their estimated useful lives of 2 to 10 years.

(c) Proprietary technologies

Proprietary technologies are initially recorded at cost and are amortised on the straight-line basis over their estimated useful lives of 10 years.

2.10 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Investments and other financial assets

(a) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income ("**OCI**"), or through profit or loss), and

- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ("**FVOCI**").

The Group reclassifies debt instruments when and only when its business model for managing those assets changes.

(b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(c) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("**FVPL**"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Investments and other financial assets (continued)

(c) Measurement (continued)

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in "Other gains – net", together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated income statement.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in "Other gains – net". Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in "Other gains – net" and impairment expenses are presented as separate line item in the consolidated income statement.As at 31 December 2021 and 2020, the Group's bills receivable was recognised as FVOCI due to the due purpose for both collection of contractual cash flows and for selling.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt instrument that is subsequently measured at FVPL is recognised in profit or loss and presented net within "Finance costs – net" in the period in which it arises.

(d) Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 3.1(b) Credit risk for further details.

2.12 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the balance sheet where the Group currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The Group has also entered into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.14 Contract assets

Contract assets are the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer, and they should be presented separately. If the Group transfers control of goods or services to a customer before the customer pays consideration, the Group should record either contract assets or receivables depending on the nature of the Group's right to consideration for its performance.

The Group incurs costs to obtain and fulfill a contract; however, the Group has elected to recognize all incremental costs to obtain a contract as an expense when incurred if the amortization period is one year or less. The Group has elected to treat mobilisation cost occurred related to oilfield service contract as a fulfillment cost in conjunction with the recording of revenue for the oilfield service.

2.15 Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade and other receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See Note 13(c) for further information about the Group's accounting for trade receivables and see Note 2.11 and Note 3.1 for a description of the Group's impairment policies.

2.16 Cash and cash equivalents

In the consolidated cash flow statement, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less. Restricted cash is excluded from cash and cash equivalents.

2.17 Restricted cash

Restricted cash represents guarantee deposits held in a separate reserve account that is pledged to the bank for issuance of trade facilities such as bills payable and bankers' guarantee and as security deposits under bank borrowing agreements. Such restricted cash will be released when the Group repays the related trade facilities or bank loans.

2.18 Ordinary shares

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Trade and other payables

Trade payables and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.20 Contract liabilities

Contract liabilities are recognised if the Group receives consideration (or if it has the unconditional right to receive consideration) in advance of performance. Contract liabilities are expected to be settled within 12 months after the end of the period are presented as current liabilities in the balance sheet, otherwise are presented as other non-current liabilities.

2.21 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.22 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Borrowing costs include interest expense, finance charges in respect of exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. The exchange gains and losses that are an adjustment to interest costs include the interest rate differential between borrowing costs that would be incurred if the entity had borrowed funds in its functional currency, and the borrowing costs actually incurred on foreign currency borrowings.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The group measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The deferred tax liability in relation to investment property that is measured at fair value is determined assuming the property will be recovered entirely through sale.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Investment allowances and similar tax incentives

Companies within the group may be entitled to claim special tax deductions for investments in qualifying assets or in relation to qualifying expenditure. The group accounts for such allowances as tax credits, which means that the allowance reduces income tax payable and current tax expense. A deferred tax asset is recognised for unclaimed tax credits that are carried forward as deferred tax assets.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.24 Employee benefits

(a) Pension obligations

The People's Republic of China ("**PRC**") employees of the Group are covered by various PRC government-sponsored defined-contribution pension plans under which the employees are entitled to a monthly pension based on certain formulas. The relevant government agencies are responsible for the pension liability to these employees when they retire. The Group contributes on a monthly basis to these pension plans for the employees which are determined at a certain percentage of their salaries. Under these plans, the Group has no obligation for post-retirement benefits beyond the contribution made. Contributions to these plans are expensed as incurred and contributions paid to the defined-contribution pension plans for a staff are not available to reduce the Group's future obligations to such defined-contribution pension plans even if the staff leave the Group. The non-PRC employees are covered by other defined-contribution pension plans sponsored by the government of their respective country of residence.

The Group also participates in a pension scheme under the rules and regulations of Mandatory Provident Fund Scheme (the "**MPF Scheme**") for all its qualifying employees in Hong Kong. Under the MPF Scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HKD30,000. Contributions to the MPF Scheme vest immediately.

There were no forfeited contributions (by employers on behalf of employees who leave the defined contribution retirement benefit plans prior to vesting fully in such contributions) to offset existing contributions under the defined contribution schemes.

(b) Housing benefits

The PRC employees of the Group are entitled to participate in various government-sponsored housing funds. The Group contributes on a monthly basis to these funds based on certain percentages of the employees' salaries. The Group's liability in respect of these funds is limited to the contributions payable in each period. The non-PRC employees are not covered by these housing funds.

2.25 Share-based payments

(a) Equity-settled share-based payment transactions

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);

- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and

- including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specified period of time).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.25 Share-based payments (continued)

(a) Equity-settled share-based payment transactions (continued)

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital.

(b) Share-based payment transactions among group entities

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

2.26 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.27 Revenue recognition

(i) Revenue from sales of products

The Group manufactures and sells a range of products, including the production of oilfield equipment and coating materials for anti-corrosive and anti-friction purpose. Sales are recognised when the control of the products has transferred, being when the products are delivered to and inspected by customers according to terms of each contract and there is no unfulfilled obligation that could affect the customers to acceptance of the products.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.27 Revenue recognition (continued)

(ii) Revenue from provision of pipeline coating services, oilfield services and offshore engineering services

The Group provides pipeline coating services to domestic and overseas customers. The revenue is recognised overtime upon result is achieved as the Group's performance creates or enhances an asset that the customer controls.

The Group provides a range of oilfield services, including the provision of well drilling services and integrated comprehensive services to oil and gas producers. The Group charges the oil and gas producers at a fixed day rate which will be specific in each contract. Oilfield services revenue is recognised upon completion of each day when services are provided.

The offshore engineering division provides full-scale engineering design, simulation analysis, technical support and a variety of engineering construction services to oil and gas industry. Revenue from providing such services is recognised in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided, because the customer receives and uses the benefits simultaneously. This is determined based on the actual cost spent relative to the total expected cost.

(iii) Financing components

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

2.28 Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares

- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and

- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.29 Dividend income

Dividends are received from financial assets measured at FVPL and at FVOCI. Dividends are recognised as other income in profit or loss when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits, unless the dividend clearly represents a recovery of part of the cost of an investment. In this case, the dividend is recognised in OCI if it relates to an investment measured at FVOCI. However, the investment may need to be tested for impairment as a consequence.

Dividend income is recognised when the right to receive payment is established.

2.30 Leases

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

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

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

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee’s incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the Right-of-use asset in a similar economic environment with similar terms, security and conditions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.30 Leases (continued)

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received,
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third-party financing, and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

If a readily observable amortising loan rate is available to the individual lessee (through recent financing or market data) which has a similar payment profile to the lease, then the Group entities use that rate as a starting point to determine the incremental borrowing rate.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the Right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

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

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

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the Right-of-use asset is depreciated over the underlying asset's useful life. While the Group revalues its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the Right-of-use buildings held by the Group.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less without a purchase option. Low-value assets comprise IT equipment and small items of office furniture.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.31 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.32 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all the attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred revenue and are credited to the consolidated income statement on a straight – line basis over the expected lives of the related assets.

2.33 Interest income

Interest income on financial assets at amortised cost and financial assets at FVOCI calculated using the effective interest method is recognised in the consolidated income statement as part of finance income.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes, see Note 23 below.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2.34 Research and development

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Research and development costs are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the research and development project so that it will be available for use or sale;
- management intends to complete the research and development project, and use or sell it;
- it can be demonstrated how the research and development project will generate economic benefits;
- there are adequate technical, financial and other resources to complete the development and the ability to use or sell the research and development project; and
- the expenditure attributable to the research and development project during its development phase can be reliably measured.

Other research and development expenditure that do not meet these criteria are recognised as an expense as incurred. Research and development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, and cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States dollar ("**USD**"). Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities and net investments in foreign operations. The Group's exposure to foreign currency risk mainly exists in cash and cash equivalents (Note 13(e)), trade and other receivables (Note 13(c)), borrowings (Note 13(f)) and trade and other payables (Note 13(g)).

As at 31 December 2021, if USD had strengthened/weakened by 10% against RMB with all other variables held constant, the Group's net profit for the year would have been RMB23,675,000 lower/higher as a result of foreign exchange losses/gains (2020: net loss for the year would have been RMB25,035,000 higher/lower as a result of foreign exchange losses/gains) on translation of USD denominated cash and cash equivalents, restricted cash, trade and other receivables, trade and other payables and borrowings.

(ii) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets except for cash and cash equivalents and restricted cash, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group does not anticipate significant impact to interest-bearing assets resulted from the changes in interest rates as the interest rates of cash and cash equivalents and restricted cash are not expected to change significantly.

The Group's interest-rate risk arises from borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest-rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest-rate risk. The interest rates and terms of repayments of borrowings are disclosed in Note 13(f).

As at 31 December 2021, if the Group's interest rates on borrowings obtained at variable rates had been higher/lower by 5%, the net profit for the year would have been RMB276,000 (2020: RMB275,000) lower/higher as a result of higher/lower interest expenses on floating rate borrowings.

(b) Credit risk

Credit risk arises from cash and cash equivalents, restricted cash, contractual cash flows of debt instruments carried at amortised cost, at FVOCI, deposits with banks and financial institutions and contract assets, as well as credit exposures to customers, including outstanding receivables. The objective of the Group's measures to manage credit risk is to control potential exposure to recoverability problem.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(i) Risk management

All cash and cash equivalents and restricted cash were deposited in major financial institutions, which are of high credit quality.

The table below sets out the bank deposit balances including restricted cash with the major counterparties as at 31 December 2021 and 2020:

Counterparty	Rating	As at 31 December 2021 RMB'000	As at 31 December 2020 RMB'000
Hongkong and Shanghai Banking Corporation Limited*	AA–	**214,073**	64,041
China Construction Bank*	A	**65,431**	101,438
Habib Bank Limited**	B3	**58,639**	54,415
Bank of China*	A1	**50,677**	78,777
Pichincha Bank	N/A	**48,890**	1,334
Bank of Kunlun	N/A	**47,352**	3,134
Industrial & Commercial Bank of China*	A	**42,787**	16,392
Shanghai Pudong Development Bank*	BBB	**34,360**	48,582
Zenith Bank Plc*	B–	**19,430**	19,254
Emirates Islamic Bank	N/A	**15,347**	16,882
Bank of Beijing	N/A	**11,784**	67
Citibank*	A+	**11,778**	38,492
Bank of Ningbo**	Baa2	**9,957**	12,354
Wells Fargo Bank*	A+	**4,288**	22,531
China Everbright Bank*	BBB+	**2,356**	85,115
China Merchants Bank*	BBB+	**2,244**	18,010
Toronto-Dominion Bank*	AA–	**2,151**	20,506
China Minsheng Bank*	BBB–	**505**	24,515
Far Eastern International Bank, Hongkong	N/A	**152**	78,409
Hua Xia Bank*	BBB–	**24**	11,468
Qatar National Bank*	A	**13**	26,476

* The source of credit rating is from S&P as at 31 December 2021.
** The source of credit rating is from Moody's as at 31 December 2021.

The directors of the Company do not expect any losses from non-performance by these counterparties.

(ii) Security

For some trade receivables, the Group may obtain security in the form of guarantees, deeds of undertaking or letters of credit which can be called upon if the counterparty is in default under the terms of the agreement.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(iii) Impairment of financial assets

The Group has four types of financial assets that are subject to the expected credit loss model:

- Trade receivables for sales of products and from the provision of services
- Contract assets relating to offshore engineering services and certain inspection services
- Bills receivable carried at FVOCI, and
- Other financial assets carried at amortised cost

Trade receivables and contract assets

The Group has reviewed the credit risk exposure and the customers' expected pattern of settlement at year end. Management considered certain customers of the Group faced deterioration in the credit ratings and worse off in the market parameters which indicates an increase in the credit default risk. In addition, the management has assessed the credit quality of customers on a case-by-case basis, taking into account the financial positions, historical record, amounts and timing of expected receipts and other factors. For those trade receivables where objective evidence of impairment exists, the amount of loss is measured as the difference between the carrying amount of the trade receivables and the present value of estimated recoverable future cash flows discounted at the borrowing rate of the relevant debtors.

The Group applies the HKFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for trade receivables and contract assets without doubtful credit risk.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

The expected loss rates are based on the payment profiles of sales over a period of 60 months before 31 December 2021 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the "Gross Domestic Product" ("**GDP**") and "Rule of Law" ("**RoL**") of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(iii) Impairment of financial assets (continued)

Trade receivables and contract assets (continued)

On that basis, the loss allowance as at 31 December 2021 and 31 December 2020 was determined as follows for trade receivables and contract assets without doubtful credit risk:

	Current	Past due within one year	Past due more than one year	Past due more than two years	Past due more than three years	Total
31 December 2021						
Average expected credit loss rate	**0.21%**	**1.54%**	**14.67%**	**25.12%**	**64.27%**	**7.96%**
Gross carrying amount (RMB'000)						
– Trade receivables	**703,925**	**375,160**	**191,344**	**127,954**	**95,981**	**1,494,364**
– Contract assets	**131,346**	**–**	**–**	**–**	**–**	**131,346**
	835,271	**375,160**	**191,344**	**127,954**	**95,981**	**1,625,710**
Loss allowance						
– Trade receivables	**(1,500)**	**(5,767)**	**(28,066)**	**(32,145)**	**(61,688)**	**(129,166)**
– Contract assets	**(283)**	**–**	**–**	**–**	**–**	**(283)**
Loss allowance	**(1,783)**	**(5,767)**	**(28,066)**	**(32,145)**	**(61,688)**	**(129,449)**
31 December 2020						
Average expected credit loss rate	0.40%	1.31%	10.45%	36.05%	68.96%	6.60%
Gross carrying amount (RMB'000)						
– Trade receivables	625,925	357,534	261,825	103,088	43,628	1,392,000
– Contract assets	161,595	–	–	–	–	161,595
	787,520	357,534	261,825	103,088	43,628	1,553,595
Loss allowance						
– Trade receivables	(2,511)	(4,690)	(27,350)	(37,164)	(30,088)	(101,803)
– Contract assets	(709)	–	–	–	–	(709)
Loss allowance	(3,220)	(4,690)	(27,350)	(37,164)	(30,088)	(102,512)

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(iii) Impairment of financial assets (continued)

Trade receivables and contract assets (continued)

The closing loss allowances for trade receivables and contract assets as at 31 December 2021 and 2020 reconcile to the opening loss allowances as follows:

	Contract assets RMB'000	Trade receivables RMB'000
As at 1 January 2020	(536)	(105,269)
Increase in provision for receivables loss allowance		
– loss allowance on individually doubtful accounts receivable	–	(102,713)
– loss allowance on trade receivables and contract assets without doubtful credit risk	(173)	(29,281)
Write-off of loss allowance	–	32,747
As at 31 December 2020	(709)	(204,516)
Increase in provision for receivables loss allowance		
– loss allowance on individually doubtful accounts receivable	**–**	**(12,191)**
– loss allowance on trade receivables and contract assets without doubtful credit risk	**–**	**(42,596)**
Reversal of impairment on individually doubtful trade receivables	**–**	**76,868**
Reversal of loss allowance	**426**	**–**
Write-off of loss allowance	**–**	**53,269**
As at 31 December 2021	**(283)**	**(129,166)**

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

Impairment losses on trade receivables and contract assets are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

Bills receivable at FVOCI

The Group assesses on a forward-looking basis the expected credit losses associated with its bills receivable at FVOCI, which are bank acceptance bills and commercial acceptance bills arising from the course of ordinary businesses. The impairment methodology applied depends on whether there has been a significant increase in credit risk. As at 31 December 2021, the identified impairment loss was immaterial.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(iii) Impairment of financial assets (continued)

Other financial assets at amortised cost

Other financial assets at amortised cost include receivables due from related parties and key management personnel and other receivables.

As at 31 December 2021, the internal credit rating of one associate becomes higher, and management has recorded provision for doubtful other receivables of RMB5.7 million. As at 31 December 2021 and 2020, the internal credit rating of the other financial assets at amortised cost were performing as all of these financial assets are considered by management to have low credit risk, and thus the impairment provision recognised during the period was limited to 12 months expected losses and are not material.

(c) Liquidity risk

The Group's management regularly monitors current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and long term.

The table below analyses the Group's financial liabilities that will be settled on a net basis into relevant maturity grouping based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Contractual maturities of financial liabilities	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
As at 31 December 2021					
Non-derivatives					
Borrowings and interest payables	**889,895**	**278,004**	**2,687,862**	**–**	**3,855,761**
Trade and other payables (excluding interest payables, staff salaries and welfare payables and other tax liabilities)	**551,308**	**–**	**–**	**–**	**551,308**
Lease liabilities	**6,663**	**3,268**	**3,085**	**8,977**	**21,993**
	1,447,866	**281,272**	**2,690,947**	**8,977**	**4,429,062**
As at 31 December 2020					
Non-derivatives					
Borrowings and interest payables	3,588,997	24,087	236	–	3,613,320
Trade and other payables (excluding interest payables, staff salaries and welfare payables and other tax liabilities)	645,920	–	–	–	645,920
Lease liabilities	10,965	6,727	5,051	10,018	32,761
	4,245,882	30,814	5,287	10,018	4,292,001

3 FINANCIAL RISK MANAGEMENT (continued)

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue 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.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on 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, restricted cash and financial assets at FVPL. Total capital is calculated as "equity" as shown in the consolidated financial statements plus net debt. The Group aims to maintain the gearing ratio between 30% and 40%.

The gearing ratios as at 31 December 2021 and 2020 are as follows:

	As at 31 December	
	2021 RMB'000	2020 RMB'000
Total borrowings *(Note 13(f))*	**3,039,861**	3,125,515
Add: Lease liabilities *(Note 7)*	**17,547**	27,981
Less: Cash and cash equivalents *(Note 13(e))*	**(628,805)**	(697,463)
Restricted cash *(Note 13(e))*	**(60,379)**	(77,616)
Financial assets at FVPL *(Note 13(a))*	**–**	(23,377)
Net debt	**2,368,224**	2,355,040
Total equity	**3,042,827**	3,118,298
Total capital	**5,411,051**	5,473,338
Gearing ratio	**43.77%**	43.03%

The slight increase in gearing ratio as at 31 December 2021 was mainly due to the decrease in equity. The Group expects the gearing ratio will be approximately 40% in future years.

3.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2021 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

The following table sets out the Group's financial assets and liabilities that were measured at fair value as at 31 December 2021 and 31 December 2020:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
As at 31 December 2021				
Financial Assets				
Financial instruments-current				
Derivative financial instruments	**–**	**1,499**	**–**	**1,499**
Financial assets at FVOCI	**–**	**–**	**132,897**	**132,897**
	–	**1,499**	**132,897**	**134,396**
As at 31 December 2020				
Financial Assets				
Financial instruments-current				
Financial assets at FVPL	–	–	23,377	23,377
Financial assets at FVOCI	–	–	89,629	89,629
	–	–	113,006	113,006

There were no transfers among levels during the years ended 31 December 2021 and 2020.

Financial instruments in level 3

The following table presents the changes in level 3 instruments for the year ended 31 December 2021 and 2020:

	Financial instruments	
	2021 RMB'000	2020 RMB'000
As at 1 January	**113,006**	170,645
Additions	**132,922**	115,029
Deductions	**(115,845)**	(173,726)
Gains recognised in other comprehensive income	**2,375**	681
Gains recognised in profit or loss	**439**	377
As at 31 December	**132,897**	113,006
Total gains for the year included in profit or loss under "Finance cost – net"	**439**	377
Total gains for the year included in other comprehensive income under "Changes in the fair value of financial assets at FVOCI"	**2,375**	681

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

Valuation inputs and relationships to fair value

Financial instruments	Fair value hierarchy	Valuation Techniques and key inputs	Significant Unobservable inputs	Relationship of unobservable inputs to fair value
Financial assets at FVPL				
– Guaranteed floating interest financial product	Level 3	Discounted cash flow with future cash flows that are estimated based on expected recoverable amounts, discounted at rates that reflect management's best estimation of the expected risk level	Expected future cash flows; expected recovery date; discounted rates that correspond to the expected risk level	The higher the future cash flows, the higher the fair value; the earlier the recovery date, the higher the fair value; the lower the discount rate, the higher the fair value
Financial assets at FVOCI				
– Bills receivable	Level 3	Discounted cash flow with future cash flows that are estimated based on expected recoverable amounts, discounted at rates that reflect management's best estimation of the expected risk level	Expected future cash flow; expected recovery date; discounted rates that correspond to the expected risk level	The higher the future cash flow, the higher the fair value; the earlier the recovery date, the higher the fair value; the lower the discount rate, the higher the fair value

Sensitivity analyses

The sensitivity analysis below has been determined based on the change of rate of return in isolation used in the expected future cash flow that reflect the expected risk level of the financial assets at the end of the reporting period. If the respective rate of return of the respective financial assets had been 10% higher/lower, the total comprehensive income (net of tax), for the year ended 31 December 2021 would have increased/decreased by approximately RMB40,300 (31 December 2020: RMB57,000) as a result of the changes in fair value of the financial assets.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Expected credit loss for receivables

The impairment provision for trade receivables and other receivables are based on assumptions about the expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. For details of the key assumptions and inputs used, see Note 2.11 and Note 3.1(b)(iii). Changes in these assumptions and estimates could materially affect the result of the assessment and to may be necessary to make additional impairment charge to the consolidated income statement.

(b) Useful lives of property, plant and equipment

The Group determines the estimated useful lives for its property, plant and equipment based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charges where useful lives are different from previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

(c) Impairment of property, plant and equipment

Property, plant and equipment are stated at costs less accumulated depreciation and impairment, if any. In determining whether an asset is impaired, the Group has to exercise judgment and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the assets belong. Changing the assumptions and estimates, including the discount rates or the growth rate in the cash flow projections, could materially affect the net present value used in the impairment test.

(d) Current and deferred income taxes

The Group is subject to income taxes in a number of jurisdictions. Significant judgement is required in determining the provision for income taxes in various jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(e) Estimated write-downs of inventories

The Group writes down inventories to net realizable value based on an assessment of the realizability of inventories. Write-downs on inventories are recorded where events or changes in circumstances that the balances may not be realised. The identification of write-downs requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact carrying values of inventories and write-downs of inventories in the period in which such estimate has been changed.

(f) Impairment assessment of goodwill

The Group tested annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.10. The recoverable amounts of CGU have been determined based on value-in-use calculations. These calculations require the use of estimates. In the opinion of the Company's directors, the recoverable amount of the CGU will not be lower than the carrying amount even if a reasonably possible change in a key assumption on which management has based its determination of the CGU's recoverable amount occurs.

(g) Determination of the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

5 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.

5 SEGMENT INFORMATION (continued)

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 2021 and 2020 are set out as follows:

	Year ended 31 December	
	2021 RMB'000	2020 RMB'000
Oilfield equipment manufacturing and services	**1,204,759**	1,307,131
Line pipe technology and services	**388,727**	253,839
Oilfield services	**845,282**	683,782
Offshore engineering services	**478,154**	378,285
	2,916,922	2,623,037

5 SEGMENT INFORMATION (continued)

(b) Segment information

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

5 SEGMENT INFORMATION (continued)

(b) Segment information (continued)

Business segment	Oilfield equipment manufacturing and services RMB'000	Line pipe technology and services RMB'000	Oilfield services RMB'000	Offshore engineering services RMB'000	Total RMB'000
	As at 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 (a)	3,237,325	345,231	378,381	68,042	4,028,979

(a) As at 31 December 2021, the Senior Notes of USD377,345,000 (31 December 2020: USD365,114,000) was included in the total liabilities of oilfield equipment manufacturing and services segment.

5 SEGMENT INFORMATION (continued)

(b) Segment information (continued)

The segment information provided to senior executive management for the reportable segments as at and for the year ended 31 December 2020 is as follows:

	Year ended 31 December 2020				
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	1,361,897	353,442	683,782	378,391	2,777,512
Inter-segment sales	(54,766)	(99,603)	–	(106)	(154,475)
Revenue from external customers	1,307,131	253,839	683,782	378,285	2,623,037
Revenue from contracts with customers:					
– at a point in time	764,796	51,980	51,695	–	868,471
– over time	478,308	199,240	632,087	314,629	1,624,264
	1,243,104	251,220	683,782	314,629	2,492,735
Revenue from other sources:					
– rental income	64,027	2,619	–	63,656	130,302
	1,307,131	253,839	683,782	378,285	2,623,037
Results					
Segment gross profit/(loss)	477,249	75,499	156,291	(15,056)	693,983
Segment profit/(loss)	78,278	16,798	(94,759)	(82,017)	(81,700)
Corporate overheads					(62,533)
Operating loss					(144,233)
Finance income					13,685
Finance costs					(104,338)
Share of profit of investments accounted for using equity method					5,101
Loss before income tax					(229,785)
Other information					
Depreciation of property, plant and equipment	121,422	28,633	137,783	53,319	341,157
Depreciation of right-of-use assets	4,065	1,760	14,669	2,620	23,114
Amortisation of intangible assets	5,797	707	390	15	6,909
Capital expenditure	65,179	13,896	12,923	9,005	101,003

5 SEGMENT INFORMATION (continued)

(b) Segment information (continued)

	As at 31 December 2020				
Business segment	Oilfield equipment manufacturing and services RMB'000	Line pipe technology and services RMB'000	Oilfield services RMB'000	Offshore engineering services RMB'000	Total RMB'000
Segment assets	2,997,764	844,018	2,128,068	1,349,619	7,319,469
Investments accounted for using equity method					50,888
Total assets					7,370,357
Total liabilities	3,486,675	288,157	446,396	30,831	4,252,059

(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	
	2021 RMB'000	2020 RMB'000
The PRC	**854,339**	487,433
Russia, Central Asia and East Europe	**757,464**	826,858
South Asia and Southeast Asia	**420,130**	504,095
North and South America	**363,518**	230,057
Middle East	**333,663**	432,770
Africa	**179,368**	141,824
Others	**8,440**	–
	2,916,922	2,623,037

5 SEGMENT INFORMATION (continued)

(c) Geographical segments (continued)

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	
	2021	2020
	RMB'000	RMB'000
The PRC	**1,469,110**	1,601,893
Middle East	**344,191**	401,086
North and South America	**264,628**	343,388
Russia, Central Asia and East Europe	**226,418**	212,180
South Asia and Southeast Asia	**201,834**	239,066
Africa	**136,885**	167,030
	2,643,066	2,964,643

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	
	2021	2020
	RMB'000	RMB'000
The PRC	**113,591**	51,290
Russia, Central Asia and East Europe	**59,057**	2,705
Africa	**12,974**	599
Middle East	**2,801**	19,882
North and South America	**2,645**	24,916
South Asia and Southeast Asia	**1,519**	1,611
	192,587	101,003

5 SEGMENT INFORMATION (continued)

(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 2021 RMB'000**	31 December 2020 RMB'000
Current contract assets relating to offshore engineering and inspection services	*(i)*	**131,346**	161,595
Loss allowance	*3.1(b)*	**(283)**	(709)
Total contract assets		**131,063**	160,886
Non-current asset recognised for costs incurred to fulfil a contract	*(iii)*	**25,919**	43,193
Contract liabilities – Sales and service contracts	*(i), (ii)*	**109,673**	65,742

(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 2021, see Note 3.1(b) for more information.

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 2021 was mainly due to the increase in the advances from customers.

5 SEGMENT INFORMATION (continued)

(d) Assets and liabilities related to contracts with customers (continued)

(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 2021 RMB'000	31 December 2020 RMB'000
Revenue recognised that was included in the contract liability balance at the beginning of the period		
– Sales of goods	**34,920**	80,459
– Provision of service	**30,822**	56,958
	65,742	137,417

Contract liability that is non-current, with amount of RMB15,731,000 as at 31 December 2021 (31 December 2020: RMB24,904,000), is included in "Deferred revenue – Mobilisation fees" (Note 15).

(iii) Assets recognised from costs to fulfil a contract

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

	2021 RMB'000	2020 RMB'000
Asset recognised from costs incurred to fulfil oilfield service contracts as at 31 December	**25,919**	43,193
Amortisation recognised as cost of providing services during the period	**17,274**	24,933

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.

6 PROPERTY, PLANT AND EQUIPMENT

	Land, buildings and facilities RMB'000	Machinery and equipment RMB'000	Office and electronic equipment RMB'000	Vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
As at 1 January 2020							
Cost	567,892	3,959,405	50,335	28,754	7,731	119,156	4,733,273
Accumulated depreciation	(141,948)	(1,350,396)	(39,071)	(22,060)	(7,435)	–	(1,560,910)
Net book amount	425,944	2,609,009	11,264	6,694	296	119,156	3,172,363
Year ended 31 December 2020							
Opening net book amount	425,944	2,609,009	11,264	6,694	296	119,156	3,172,363
Transferred from construction in progress	3,587	67,646	362	162	–	(71,757)	–
Additions	1,529	44,079	1,904	392	–	17,418	65,322
Disposals	(276)	(29,434)	(2,992)	(1,076)	–	–	(33,778)
Depreciation *(Note 18)*	(26,487)	(312,862)	(147)	(1,366)	(295)	–	(341,157)
Currency translation differences	(22,067)	(214,912)	(666)	32	(1)	(5,610)	(243,224)
Closing net book amount	382,230	2,163,526	9,725	4,838	–	59,207	2,619,526
As at 31 December 2020							
Cost	543,631	3,701,664	44,419	26,417	7,731	59,207	4,383,069
Accumulated depreciation	(161,401)	(1,538,138)	(34,694)	(21,579)	(7,731)	–	(1,763,543)
Net book amount	382,230	2,163,526	9,725	4,838	–	59,207	2,619,526
Year ended 31 December 2021							
Opening net book amount	**382,230**	**2,163,526**	**9,725**	**4,838**	**–**	**59,207**	**2,619,526**
Transferred from construction in progress	**900**	**25,770**	**2,913**	**–**	**–**	**(29,583)**	**–**
Additions	**670**	**74,471**	**11,456**	**480**	**–**	**104,072**	**191,149**
Disposals	**(48,569)**	**(31,072)**	**(3,233)**	**(126)**	**–**	**–**	**(83,000)**
Depreciation *(Note 18)*	**(24,494)**	**(238,910)**	**(2,919)**	**(1,175)**	**–**	**–**	**(267,498)**
Currency translation differences	**(2,130)**	**(75,694)**	**(231)**	**(30)**	**–**	**(468)**	**(78,553)**
Closing net book amount	**308,607**	**1,918,091**	**17,711**	**3,987**	**–**	**133,228**	**2,381,624**
As at 31 December 2021							
Cost	**379,825**	**3,558,630**	**53,544**	**25,200**	**7,731**	**133,228**	**4,158,158**
Accumulated depreciation	**(71,218)**	**(1,640,539)**	**(35,833)**	**(21,213)**	**(7,731)**	**–**	**(1,776,534)**
Net book amount	**308,607**	**1,918,091**	**17,711**	**3,987**	**–**	**133,228**	**2,381,624**

6 PROPERTY, PLANT AND EQUIPMENT (continued)

(a) Depreciation of property, plant and equipment has been charged to the consolidated income statement as follows:

	Year ended 31 December	
	2021 **RMB'000**	2020 RMB'000
Cost of sales	**243,089**	315,304
Administrative expenses	**23,580**	25,140
Selling and marketing expenses	**829**	713
	267,498	341,157

7 LEASE

	As at	
	31 December 2021 **RMB'000**	31 December 2020 RMB'000
Right-of-use assets		
Land	**43,430**	87,706
Buildings	**7,793**	14,068
Machinery and equipment	**–**	3,667
	51,223	105,441
Lease liabilities		
Current	**5,892**	10,206
Non-current	**11,655**	17,775
	17,547	27,981

7 LEASE (continued)

(i) The movements of the Right-of-use assets for the year ended 31 December 2021 were as follows:

	For the Year ended 31 December	
	2021 RMB'000	2020 RMB'000
Opening net book value	**105,441**	120,268
Additions	**–**	9,591
Disposals	**(42,130)**	–
Amortisation charge *(Note 18)*	**(11,575)**	(23,114)
Currency translation differences	**(513)**	(1,304)
Closing net book value	**51,223**	105,441

(ii) Expenses have been charged to the consolidated income statement as follows:

	Year ended 31 December	
	2021 RMB'000	2020 RMB'000
Amortisation charge of Right-of-use assets *(Note 18)*		
Land	**1,953**	2,672
Buildings	**6,229**	6,247
Machinery and equipment	**3,393**	14,195
	11,575	23,114
Interest expense *(Note 23)*	**888**	1,637
Expense relating to short-term leases (included in cost of sales, administrative expenses and selling and marketing expenses) *(Note 18)*	**42,237**	50,457

The total cash outflow for leases in 2021 was RMB52,998,000 (2020: RMB72,710,000), out of which RMB10,761,000 (2020: RMB22,253,000) was relating to financing activities.

8 INTANGIBLE ASSETS

	Goodwill (a) RMB'000	Proprietary technologies RMB'000	Computer software RMB'000	Total RMB'000
As at 1 January 2020				
Cost	165,015	78,568	12,695	256,278
Accumulated amortisation	–	(6,383)	(9,416)	(15,799)
Impairment provision	–	(2,097)	–	(2,097)
Net book amount	165,015	70,088	3,279	238,382
Year ended 31 December 2020				
Opening net book amount	165,015	70,088	3,279	238,382
Additions	–	25,835	255	26,090
Amortisation charge *(Note 18)*	–	(5,829)	(1,080)	(6,909)
Currency translation differences	(15,533)	(2,333)	(21)	(17,887)
Closing net book amount	149,482	87,761	2,433	239,676
As at 31 December 2020				
Cost	149,482	102,070	12,896	264,448
Accumulated amortisation	–	(12,212)	(10,463)	(22,675)
Impairment provision	–	(2,097)	–	(2,097)
Net book amount	149,482	87,761	2,433	239,676
Year ended 31 December 2021				
Opening net book amount	**149,482**	**87,761**	**2,433**	**239,676**
Transfer out due to change of usage	**–**	**(19,102)**	**–**	**(19,102)**
Additions	**–**	**335**	**1,103**	**1,438**
Amortisation charge *(Note 18)*	**–**	**(7,126)**	**(685)**	**(7,811)**
Currency translation differences	**(3,010)**	**(969)**	**(3)**	**(3,982)**
Closing net book amount	**146,472**	**60,899**	**2,848**	**210,219**
As at 31 December 2021				
Cost	**146,472**	**82,334**	**13,987**	**242,793**
Accumulated amortisation	**–**	**(19,338)**	**(11,139)**	**(30,477)**
Impairment provision	**–**	**(2,097)**	**–**	**(2,097)**
Net book amount	**146,472**	**60,899**	**2,848**	**210,219**

8 INTANGIBLE ASSETS (continued)

(a) Impairment test for goodwill

As at 30 June 2021, the Group completed the reorganization of coating business within the segment of oilfield equipment manufacturing and services, together the reporting structure and management team changed to drilling business related ("**Drilling Business**") and coating business related ("**Coating Business**") within the segment (the "**Reorganization**"). The Reorganization changes the composition of the CGUs to which goodwill has been allocated. Therefore, the Group reallocated the goodwill based on relative fair value using discounted cash flow method between the Drilling Business and the Coating Business.

A segment level summary of goodwill is presented below:

	As at 31 December		
	2021 RMB'000		2020 RMB'000
	Drilling Business	**Coating Business**	oilfield equipment manufacturing and services
Oilfield equipment manufacturing and services	**90,813**	**55,659**	149,482

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. The Group expects cash flow beyond the five-year period will be similar to that of the fifth year based on existing production capacity. Cash flows beyond the five-year period are extrapolated using 2% growth rates.

The key assumptions used for value-in-use calculations in the oilfield equipment manufacturing and services segment are as follows:

	As at 31 December		
	2021		2020
	Drilling Business	**Coating Business**	oilfield equipment manufacturing and services
Growth rate	**7%-8%**	**5%-6%**	3%-4%
Gross margin	**27%-45%**	**27%-45%**	37%
Discount rate	**16%**	**16%**	16%

Management determined budgeted gross margin based on past performance and its expectations of market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant business. Based on the assessments and sensitivity test, no goodwill was impaired as at 31 December 2021 (2020: nil).

(b) The amortisation of intangible assets has been charged to the consolidated income statement as follows:

	Year ended 31 December	
	2021 RMB'000	2020 RMB'000
Administrative expenses	**6,117**	6,687
Cost of sales	**1,694**	222
	7,811	6,909

9 INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

The amounts recognised in the consolidated balance sheet are as follows:

	As at 31 December	
	2021 **RMB'000**	2020 RMB'000
Associates *(a)*	**93,231**	50,888

The amounts recognised in the consolidated income statement are as follows:

	For the Year ended 31 December	
	2021 **RMB'000**	2020 RMB'000
Associates	**768**	5,101

(a) Investments in associates

	For the Year ended 31 December	
	2021 **RMB'000**	2020 RMB'000
Beginning of year	**50,888**	44,526
Share of results of associates	**768**	5,101
Other additions *(Note 22(a))*	**44,348**	–
Elimination of unrealised profit	**–**	4,488
Dividends declared	**(2,773)**	(3,227)
End of year	**93,231**	50,888

9 INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD (continued)

(a) Investments in associates (continued)

The particulars of the associates of the Group, all of which are unlisted, are set out as follows:

Company name	Country/place of incorporation and operation and date of incorporation	Paid-up capital	Attributable equity interests to the Group As at 31 December		Principal activities
			2021	2020	
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	Shandong, the PRC, 12 February 2007	RMB20,000,000	**30%**	30%	Coating service provision
Anshan Hidlong Anti-Corrosion Engineering Co., Ltd.	Liaoning, the PRC, 22 November 2010	RMB12,850,000	**35.02%**	35.02%	Coating service provision
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	Shaanxi, the PRC, 20 November 2004	RMB18,000,000	**45%**	45%	Coating service provision
Shanghai Hilong Special Steel Pipe Co., Ltd.	Shanghai, the PRC, 5 January 2009	RMB65,000,000	**30%**	100%	Coating service provision

The tables below provide summarised financial information of associates of the Group. The information disclosed reflects the amounts presented in the financial statements of the relevant associates and not the Group's share of those amounts.

	Assets RMB'000	Liabilities RMB'000	Net assets RMB'000	Profit RMB'000
As at and year ended 31 December 2021	**335,337**	**74,543**	**260,794**	**253**
As at and year ended 31 December 2020	185,626	66,322	119,304	12,210

There were no contingent liabilities relating to the Group's interests in its associates.

10 OTHER LONG-TERM ASSETS

	As at 31 December	
	2021 RMB'000	2020 RMB'000
Contract mobilisation cost to fulfill the contract *(Note 5(d))*	**25,919**	43,193
Prepayment of insurance, lease expenses and others	**24,859**	27,623
	50,778	70,816

11 DEFERRED INCOME TAX ASSETS AND LIABILITIES

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset and when the deferred income taxes related to the same tax authority. The net deferred income tax balances after offsetting are as follows:

	As at 31 December 2021 RMB'000	 2020 RMB'000
Deferred income tax assets:		
– to be recovered within 12 months	**46,907**	50,180
– to be recovered after more than 12 months	**117,703**	154,309
Total deferred income tax assets	**164,610**	204,489
Set-off of deferred income tax liabilities pursuant to set-off provisions	**(6,386)**	(13,797)
Net deferred income tax assets	**158,224**	190,692
Deferred income tax liabilities:		
– to be recovered after more than 12 months	**(42,731)**	(51,612)
Set-off of deferred income tax liabilities pursuant to set-off provisions	**6,386**	13,797
Net deferred income tax liabilities	**(36,345)**	(37,815)

Movements in deferred income tax assets and liabilities, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

Deferred income tax assets	Tax losses and tax credits carried forward RMB'000	Impairment provision on assets RMB'000	Unrealised profit (a) RMB'000	Others RMB'000	Total RMB'000
As at 1 January 2020	123,287	17,431	70,922	9,943	221,583
(Charged)/credit to the consolidated income statement *(Note 24)*	(22,566)	4,535	1,701	(764)	(17,094)
As at 31 December 2020	100,721	21,966	72,623	9,179	204,489
(Charged)/credit to the consolidated income statement (*Note 24)*	(21,047)	8,341	(26,688)	(485)	(39,879)
As at 31 December 2021	79,674	30,307	45,935	8,694	164,610

11 DEFERRED INCOME TAX ASSETS AND LIABILITIES (continued)

(a) Deferred income tax assets of unrealised profit are mainly attributable to the unrealised profit on intra-group transfer of property, plant and equipment and inventories.

Deferred tax assets are recognised for tax losses carried forward to the extent that realization of related tax benefits through future taxable profits is probable. Part of the accumulated tax losses recognised as deferred tax assets amounted to RMB72,375,000, RMB18,888,000, RMB53,601,000, RMB16,098,000, RMB28,958,000 will expire in years ending 31 December of 2022, 2023, 2024, 2025, 2037 respectively. The remaining portion of the accumulated tax losses amounted to RMB233,566,000 can be carried forward indefinitely.

The Group did not recognise cumulative deferred income tax assets in respect of the accumulated tax losses of certain subsidiaries amounted RMB380,856,000 as at 31 December 2021 (31 December 2020: RMB326,503,000), out of which RMB114,068,000 will expire in five years and RMB266,788,000 can be carried forward indefinitely.

Deferred income tax liabilities	Withholding taxation on unremitted earnings of certain subsidiaries RMB'000	Gains on remeasuring existing equity interests in certain associate and joint ventures on acquisition RMB'000	Fair value adjustments on assets and liabilities upon acquisition RMB'000	Accelerated tax depreciation expenses RMB'000	Lease RMB'000	Total RMB'000
At 1 January 2020	(37,447)	(3,381)	(3,402)	(18,422)	(60)	(62,712)
(Charged)/credit to the consolidated income statement *(Note 24)*	(456)	–	910	10,177	(45)	10,586
Currency translation differences	–	–	126	388	–	514
At 31 December 2020	(37,903)	(3,381)	(2,366)	(7,857)	(105)	(51,612)
Credit/(charged) to the consolidated income statement *(Note 24)*	1,485	–	954	2,544	(33)	4,950
Currency translation differences	–	–	1,332	2,599	–	3,931
At 31 December 2021	(36,418)	(3,381)	(80)	(2,714)	(138)	(42,731)

12 INVENTORIES

	As at 31 December	
	2021 **RMB'000**	2020 RMB'000
Raw materials	**528,188**	632,141
Work in progress	**78,633**	79,246
Finished goods	**429,395**	276,346
Packing materials	**1,410**	505
Low value consumables	**13,255**	13,017
	1,050,881	1,001,255

The cost of inventories recognised as cost of sales amounted to approximately RMB743,439,000 for the year ended 31 December 2021 (31 December 2020: RMB773,047,000) (Note 18).

13 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group holds the following financial instruments:

		As at 31 December	
		2021 **RMB'000**	2020 RMB'000
Financial assets			
Financial assets at FVPL	*(a)*	**–**	23,377
Financial assets at FVOCI	*(b)*	**132,897**	89,629
Derivative financial instruments	*(d)*	**1,499**	–
Financial assets at amortised cost			
– Trade and other receivables	*(c)*	**1,663,545**	1,682,031
– Cash and cash equivalents	*(e)*	**628,805**	697,463
– Restricted cash	*(e)*	**60,379**	77,616
		2,487,125	2,570,116
Financial liabilities			
Borrowings	*(f)*	**3,039,861**	3,125,515
Trade and other payables	*(g)*	**736,348**	906,793
		3,776,209	4,032,308

13 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

(a) Financial assets at FVPL

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Guaranteed floating interest financial product	**–**	23,377

The guaranteed floating income financial products, which was purchased by Hilong Group of Companies Ltd., a subsidiary of the Group, was used to guarantee one of the bills payable in 2020, and due in 2021.

Financial assets at FVPL were presented within 'investing activities' as part of changes in working capital in the consolidated statement of cash flows.

Changes in fair values of FVPL were recorded in 'Finance costs – net' in the statement of profit or loss (Note 23).

The fair value of the product is based on its present value of future cash flow.

(b) Financial assets at FVOCI

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Bills receivable	**132,897**	89,629

Bills receivable with a fair value of RMB132,897,000 (31 December 2020: RMB89,629,000) were recognised as FVOCI as at 31 December 2021, because the Group held the bills receivable both for collection of contractual cash flows and for selling in 2021, where its cash flows represent solely payments of principal and interest. Fair value gains of RMB2,375,000 (31 December 2020: RMB681,000) were recognised in FVOCI reserve for the year ended 31 December 2021.

13 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

(c) Trade and other receivables

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Trade receivables *(i)*	**1,526,001**	1,648,449
– Due from related parties *(Note 29(c))*	**10,512**	10,102
– Due from third parties	**1,515,489**	1,638,347
Less: provision for loss allowance of receivables *(ii)*	**(129,166)**	(204,516)
Trade receivables – net	**1,396,835**	1,443,933
Other receivables *(iii)*	**263,964**	235,352
Dividend receivables *(Note 29(c))*	**2,746**	2,746
Trade and other receivables – net	**1,663,545**	1,682,031

As at 31 December 2021 and 2020, the fair values of the trade and other receivables of the Group, approximated their carrying amounts.

The trade receivables of RMB1,694,000 (31 December 2020: RMB4,118,000) of the Group were used to secure borrowings from financial institutions as at 31 December 2021 (Note 13(f)(i)).

As at 31 December 2021 and 2020, the carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
– USD	**753,417**	836,873
– RMB	**471,748**	466,293
– RUB	**320,683**	254,408
– NGN	**37,918**	30,602
– AED	**36,755**	75,353
– CAD	**32,899**	6,172
– PEN	**3,511**	5,135
– ALL	**2,907**	27
– PKR	**2,136**	5,483
– MYR	**282**	199
– KZT	**–**	531
– Other currencies	**1,289**	955
	1,663,545	1,682,031

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

13 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

(c) Trade and other receivables (continued)

(i) The ageing analysis of trade receivables based on invoice date, before provision for loss allowance, as at 31 December 2021 and 2020 was as follows:

	As at 31 December	
	2021 **RMB'000**	2020 RMB'000
Trade receivables, gross		
– Within 90 days	**703,557**	617,547
– Over 90 days and within 180 days	**211,797**	154,954
– Over 180 days and within 360 days	**163,731**	243,305
– Over 360 days and within 720 days	**191,528**	337,770
– Over 720 days	**255,388**	294,873
	1,526,001	1,648,449

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

	Year ended 31 December	
	2021 **RMB'000**	2020 RMB'000
As at 1 January *(Note 3.1)*	**(204,516)**	(105,269)
Provision for receivables loss allowance	**(54,787)**	(131,994)
Reversal of impairment on individually doubtful trade receivables	**76,868**	–
Write-off of loss allowance	**53,269**	32,747
As at 31 December	**(129,166)**	(204,516)

(iii) Details of other receivables are as follows:

	As at 31 December	
	2021 **RMB'000**	2020 RMB'000
Due from related parties *(Note 29(c))*	**123,532**	96,196
Deposits	**56,354**	64,699
Staff advances	**15,970**	20,872
Value added tax refund	**8,169**	7,367
Others	**59,939**	46,218
	263,964	235,352

The provision for doubtful other receivables refer to Notes 3.1(b).

13 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

(d) Derivative financial instruments

	As at 31 December	
	2021 **RMB'000**	2020 RMB'000
Cross currency swap	**1,499**	–

In 2021, the Group had cross currency swap with a commercial bank. The principal amounts of the outstanding cross currency swap as at 31 December 2021 were USD12,375,280.37 (31 December 2020: nil), which will be settled on 23 November 2022. Gains and losses arising from the fair value change of the foreign exchange swaps were recognised in the consolidated income statement within "finance costs/income (Note 23)".

(e) Cash and cash equivalents and restricted cash

	As at 31 December	
	2021 **RMB'000**	2020 RMB'000
Cash at bank and in hand *(i)*	**689,184**	775,079
Less: Restricted cash *(ii)*	**(60,379)**	(77,616)
Cash and cash equivalents	**628,805**	697,463

(i) All cash at bank excluding the restricted cash are deposits with original maturity within 3 months. The Group earns interest on cash at bank, including restricted cash.

13 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

(e) Cash and cash equivalents and restricted cash (continued)

(ii) Restricted cash represents guarantee deposits held in a separate reserve account that is pledged to the bank for issuance of trade facilities such as bills payable and bankers' guarantee and as security deposits under bank borrowing agreements (Note 13(f)).

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Cash at bank and in hand are denominated in:		
– USD	**311,295**	408,732
– RMB	**201,728**	252,479
– CAD	**51,058**	18,113
– PKR	**45,061**	41,026
– RUB	**39,319**	25,333
– NGN	**17,846**	15,226
– AED	**10,587**	5,472
– UAH	**7,046**	4,368
– HKD	**2,246**	1,832
– PEN	**2,225**	1,465
– KZT	**–**	314
– Other currencies	**773**	719
	689,184	775,079
Restricted cash is denominated in:		
– RMB	**38,233**	50,302
– USD	**19,981**	26,752
– AED	**1,496**	373
– RUB	**669**	125
– OMR	**–**	64
	60,379	77,616

The conversion of the RMB denominated balances into foreign currencies and the remittance of these funds out of the PRC are subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

13 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

(f) Borrowings

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Non-current		
Bank borrowings – secured *(i)*	**162,162**	25,764
2024 Notes – secured *(ii)*	**2,347,987**	–
Less: Current portion of non-current borrowings – secured *(i)*	**(77,640)**	(2,090)
	2,432,509	23,674
Current		
Bank borrowings – secured *(i)*	**529,712**	157,145
Bank borrowings – unsecured	**–**	19,352
2020 Notes *(ii)*	**–**	1,077,352
Cross-default Borrowings *(ii)*	**–**	1,845,902
Current portion of non-current borrowings – secured *(i)*	**77,640**	2,090
	607,352	3,101,841
	3,039,861	3,125,515

(i) Bank borrowings – secured

The bank borrowings of RMB104,784,000 (31 December 2020: RMB70,969,000) were secured by bank acceptance bills and commercial acceptance bills of the Group as at 31 December 2021.

The borrowings of RMB30,704,000 (31 December 2020: RMB12,640,000) from financial institution were secured by trade receivables of RMB1,694,000 (31 December 2020: RMB4,118,000) and future trade receivables of RMB43,471,000 (31 December 2020: RMB14,792,000) of the Group as at 31 December 2021.

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 2020, USD25,625,000 were drawn down, out of which USD5,940,000 had been repaid during 2021, the remaining principals will be fully repayable from 2022 to 2025.

As at 31 December 2021, the remaining part of bank borrowings of RMB556,380,000 (31 December 2020: RMB97,210,000) were guaranteed by subsidiaries of the Company within the Group. Meanwhile, the bank borrowings of RMB33,500,000 (31 December 2020: RMB47,500,000) were also secured by the bank deposit of RMB24,820,000 as at 31 December 2021 (31 December 2020: RMB2,736,000).

13 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

(f) Borrowings (continued)

(ii) Senior Notes

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

On 18 January 2018, the Company issued a three-year Senior Notes amounting to USD60,000,000 in addition to the Original Notes (the "**Additional Notes**") (hereinafter collectively referred to as the "**2020 Notes**"). The Additional Notes, guaranteed by certain subsidiaries of the Group, bear interest at 7.25% per annum payable semi-annually. The 2020 Notes was listed on the Stock Exchange on 23 June 2017 and delisted on 22 June 2020 upon its maturity.

In September 2019, the Company issued a three-year Senior Notes amounting to USD200,000,000 at a discounted price 99.480% ("**2022 Notes**"), out of which USD144,886,000 has been used to settle partial of the above 2020 Notes, therefore, USD165,114,000 in aggregate principal amount of 2020 Notes remained outstanding, which was due for repayment on 22 June 2020. The 2022 Notes, guaranteed by certain subsidiaries of the Group, bears interest from 26 September 2019 at 8.25% per annum payable semi-annually in arrears on 26 March and 26 September of each year, beginning from 26 March 2020.

As at 31 December 2020, the USD165,114,000 in aggregate principal amount of 2020 Notes was not repaid in accordance with the repayment schedule pursuant to its offering document. This constituted an event of default, and resulted in cross default of the 2022 Notes and other bank borrowings, amounted to RMB1,846 million in total (collectively "**Cross-default Borrowings**") as at 31 December 2020 becoming immediately repayable if requested by the lenders. As a result, the non-current portion of Cross-default Borrowings with original repayment due dates after 31 December 2021, amounted to RMB1,410 million, was classified as current liabilities as at 31 December 2020.

On 18 May 2021 (the "**Restructuring Effective Date**"), the Company successfully completed the restructuring of the Senior Notes. The 2020 Notes and the 2022 Notes have been cancelled on the Restructuring Effective Date, and the new notes (the "**2024 Notes**") have been issued and listed on the Singapore Exchange Securities Trading Limited on 20 May 2021. The amount of the 2020 Notes and the 2022 Notes and the related interest payables have been directly transferred to the principal of the 2024 Notes. The aggregate amount of the 2024 Notes is USD398,945,000, among which USD21,600,000 with a maturity date on 15 November 2021 and the rest with a maturity date on 18 November 2024. The 2024 Notes bears an interest at 9.75% per annum which is payable semi-annually. In addition, the Group timely repaid or was able to renew the other bank borrowings according to their contractual arrangement.

Management believes that the Company will be able to replace the 2024 Notes by issuance of new Senior Notes before the maturity date, or repay the 2024 Notes by seeking for external equity financings or disposal of certain assets, if needed.

13 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

(f) Borrowings (continued)

(iii) Borrowings – currencies

The Group's borrowings are denominated in the following currencies:

	As at 31 December 2021 RMB'000	2020 RMB'000
Borrowings:		
– USD	**2,470,405**	2,526,423
– RMB	**516,887**	554,141
– RUB	**52,369**	44,746
– CAD	**200**	205
	3,039,861	3,125,515

(iv) Borrowings – interest rates and maturity dates

The exposure of the Group's borrowings to interest rate changes and the original contractual repricing dates or maturity date whichever is earlier are as follows:

	6 months or less RMB'000	Between 6 and 12 months RMB'000	Between 1 and 5 years RMB'000	Total RMB'000
As at 31 December 2021	**468,649**	**138,703**	**2,432,509**	**3,039,861**
As at 31 December 2020	2,858,574	117,921	149,020	3,125,515

The maturity of borrowings is as follows:

	As at 31 December 2021 RMB'000	2020 RMB'000
On demand or within 1 year	**607,352**	3,101,841
Between 1 and 2 years	**39,163**	23,469
Between 2 and 5 years	**2,393,346**	205
	3,039,861	3,125,515

13 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

(f) Borrowings (continued)

(iv) Borrowings – interest rates and maturity dates (continued)

The weighted average effective interest rates at each balance sheet date were as follows:

	As at 31 December	
	2021	2020
Borrowings – current		
– RMB	**4.11%**	4.15%
– EUR	**–**	1.38%
– RUB	**5.85%**	–
– USD	**3.76%**	8.56%
Borrowings – non-current		
– RUB	**–**	4.79%
– USD	**9.23%**	–

(v) Borrowings – Fair values

For the majority of the borrowings, the carrying amounts are not materially different to their fair values, since the interest payable on those borrowings is either close to current market rates or the borrowings are of a short-term nature. Material differences are identified only for the following borrowings:

	As at 31 December 2021	
	Carrying amount RMB'000	**Fair value** RMB'000
2024 Notes	**2,347,987**	1,996,846

(vi) Borrowings – facilities

The Group had the following undrawn bank borrowing facilities:

	As at 31 December	
	2021 RMB'000	2020 RMB'000
USD facilities	**–**	19,573
RMB facilities	**309,737**	341,782
RUB facilities	**61,750**	18,456
	371,487	379,811

13 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

(g) Trade and other payables

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Bills payable	**8,426**	11,017
Trade payables:	**455,066**	444,289
– Due to third parties	**435,402**	426,206
– Due to related parties *(Note 29(c))*	**19,664**	18,083
Other payables:	**69,440**	167,110
– Due to related parties *(Note 29(c)) (i)*	**9,017**	26,331
– Due to third parties *(Note 17(c)) (ii)*	**60,423**	140,779
Staff salaries and welfare payables	**33,680**	31,934
Interest payables	**35,067**	169,401
Accrued taxes other than income tax	**116,293**	59,538
Dividends payable	**10,496**	10,496
Other liabilities	**7,880**	13,008
	736,348	906,793

(i) As at 31 December 2021 and 2020, there was an unpaid cash consideration amounted to RMB938,000 in relation to the acquisition of additional interest in Hilong Oil Service and Engineering Co., Ltd, which was completed on 8 May 2014 (Note 29(c)).

13 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

(g) Trade and other payables (continued)

(ii) As at 31 December 2021 and 2020, there was an unpaid cash consideration due to Kamelon LLC amounted to USD200,000 in relation to the acquisition of Russia Coating Business which was completed on 1 December 2014.

As at 31 December 2021 and 2020, 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 2021 and 2020, trade and other payables were denominated in the following currencies:

	As at 31 December	
	2021 RMB'000	2020 RMB'000
– RMB	**433,788**	536,096
– USD	**185,532**	300,352
– RUB	**67,063**	26,427
– AED	**21,063**	30,304
– PKR	**7,852**	3,802
– ETB	**6,968**	1,815
– OMR	**4,144**	158
– NGN	**3,460**	3,372
– ALL	**2,781**	1,656
– UAH	**2,485**	1,432
– CAD	**454**	103
– MYR	**85**	69
– KZT	**–**	1,150
– Other currencies	**673**	57
	736,348	906,793

13 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

(g) Trade and other payables (continued)

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

	As at 31 December	
	2021 RMB'000	2020 RMB'000
Trade payables, gross		
– Within 90 days	**282,231**	287,653
– Over 90 days and within 180 days	**164,173**	133,833
– Over 180 days and within 360 days	**2,110**	16,630
– Over 360 days and within 720 days	**3,210**	4,524
– Over 720 days	**3,342**	1,649
	455,066	444,289

14 PREPAYMENTS

	As at 31 December	
	2021 RMB'000	2020 RMB'000
Prepayments	**429,371**	336,713

Prepayments are mainly consist of prepayments for purchase of raw materials.

15 DEFERRED REVENUE

Deferred revenue represents mobilisation fees and government grants relating to certain research projects and production lines. Mobilisation fees mainly represent the mobilisation cost compensated by corresponding clients which should be deferred and recognised in the consolidated income statement over the service period afterwards. Government grants relating to research projects are recognised in the consolidated income statement over the financial period necessary to match them with the costs that they are intended to compensate; government grants relating to production lines are deferred and recognised in the consolidated income statement on a straight-line basis over the expected useful lives of the related production lines.

	As at 31 December	
	2021 RMB'000	2020 RMB'000
Non-current		
– Mobilisation fees	**15,731**	24,904
– Government grants	**28,619**	23,385
	44,350	48,289
Current		
– Government grants	**59**	59
	44,409	48,348

16 ORDINARY SHARES

	Number of ordinary shares	Nominal value of ordinary shares (In HKD)	Equivalent nominal value of ordinary shares (In RMB)
As at 31 December 2020 and 31 December 2021	1,696,438,600	169,643,860	141,975,506

17 OTHER RESERVES

	Statutory reserve RMB'000	Merger reserve RMB'000	Share options reserve RMB'000	Share premium RMB'000	Financial assets at FVOCI RMB'000	Capital redemption reserve RMB'000	Capital reserve RMB'000	Total RMB'000
As at 1 January 2020	109,010	(496)	47,153	1,174,080	(3,081)	702	(43,553)	1,283,815
Appropriation to statutory reserve *(a)*	5,250	–	–	–	–	–	–	5,250
Other comprehensive income	–	–	–	–	681	–	–	681
Forfeit of share options *(b)*	–	–	(1,064)	1,064	–	–	–	–
As at 31 December 2020	114,260	(496)	46,089	1,175,144	(2,400)	702	(43,553)	1,289,746
As at 1 January 2021	**114,260**	**(496)**	**46,089**	**1,175,144**	**(2,400)**	**702**	**(43,553)**	**1,289,746**
Appropriation to statutory reserve *(a)*	**9,748**	**–**	**–**	**–**	**–**	**–**	**–**	**9,748**
Other comprehensive income	**–**	**–**	**–**	**–**	**2,375**	**–**	**–**	**2,375**
As at 31 December 2021	**124,008**	**(496)**	**46,089**	**1,175,144**	**(25)**	**702**	**(43,553)**	**1,301,869**

17 OTHER RESERVES (continued)

(a) Statutory reserve

In accordance with the relevant laws and regulations in the PRC and the articles of association of the companies incorporated in the PRC within the Group (the "**PRC Subsidiaries**"), it is required to appropriate 10% of the annual statutory net profits of the PRC Subsidiaries, after offsetting any prior years' losses as determined under the PRC accounting standards, to the statutory surplus reserve fund before distributing the net profit. When the balance of the statutory surplus reserve fund reaches 50% of the share capital of the PRC Subsidiaries, any further appropriation is at the discretion of shareholders. The statutory surplus reserve fund can be used to offset prior years' losses, if any, and may be converted into share capital by issuing new shares to shareholders in proportion to their existing shareholding or by increasing the par value of the shares currently held by them, provided that the remaining balance of the statutory surplus reserve fund after such issue is no less than 25% of share capital.

For the year ended 31 December 2021, RMB9,748,000 (2020: RMB5,250,000) were appropriated to the statutory surplus reserve funds from net profits of certain PRC subsidiaries.

(b) Share options reserve

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

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

(i) 2013 Share Option Scheme

The movements in the number of share options outstanding and their related exercise prices under the 2013 Share Option Scheme are as follows:

	Exercise price (per share in HKD)	Outstanding options Year ended 31 December	
		2021	2020
Beginning of the period	5.93	**15,350,700**	16,058,100
Forfeited	5.93	**nil**	(707,400)
End of the period	5.93	**15,350,700**	15,350,700

17 OTHER RESERVES (continued)

(b) Share options reserve (continued)

(i) 2013 Share Option Scheme (continued)

The share options outstanding (expiry date: 4 February 2024) as at 31 December 2021 and 2020 have the following vesting dates and exercise prices:

Vesting date	Exercise price (per share in HKD)	Outstanding options Year ended 31 December 2021	2020
5 February 2015	5.93	**3,070,140**	3,070,140
5 February 2016	5.93	**3,070,140**	3,070,140
5 February 2017	5.93	**3,070,140**	3,070,140
5 February 2018	5.93	**3,070,140**	3,070,140
5 February 2019	5.93	**3,070,140**	3,070,140
		15,350,700	15,350,700

All of the options were exercisable as at 31 December 2021 and 2020, and no options were forfeited during 2021 (2020: 707,400 options were forfeited).

The fair value of the 2013 Share Option Scheme at the granting date has been valued by an independent qualified valuer using Binomial valuation model as follows:

	Granting date RMB'000
Total fair value of share options granted under 2013 Share Option Scheme	29,009

The significant inputs into the model were as follows:

	Granting date In HKD	Equivalent to RMB
Spot share price	5.64	4.43
Exercise price	5.93	4.66
Expected volatility	55.79%	N/A
Maturity (years)	10.00	N/A
Risk-free interest rate	2.20%	N/A
Dividend yield	2.68%	N/A
Early Exercise Level	1.58	N/A

17 OTHER RESERVES (continued)

(c) Consideration paid to the then equity owners for acquisition of subsidiaries

Consideration paid to the then equity owners for acquisition of a subsidiary in 2019 represented:

(a) The acquisition by Hilong Group of Companies Ltd. of 49% non-controlling interest in Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd. at a consideration of RMB25,140,000, out of which RMB9,340,000 was paid in 2020 and the remaining balance of RMB15,800,000 was paid in 2021.

(b) The acquisition by Hilong Technology Limited of 8.04% non-controlling interest in Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd. at a consideration of RMB4,984,000, out of which RMB784,000 was paid in 2019 and the remaining balance of RMB4,200,000 was settled in January 2020.

18 EXPENSES BY NATURE

	Year ended 31 December	
	2021 **RMB'000**	2020 RMB'000
Changes in inventories of finished goods and work in progress *(Note 12)*	**(152,436)**	(79,894)
Raw materials and consumables used *(Note 12)*	**934,917**	852,941
Employee benefit expenses *(Note 19)*	**574,691**	574,409
Subcontract cost	**257,859**	153,292
Depreciation *(Note 6)*	**267,498**	341,157
Utilities and electricity	**134,983**	137,334
Transportation expenses	**125,260**	114,848
Consulting expenses	**116,423**	76,839
Research and development expenses	**54,868**	42,616
Short-term operating lease payments	**42,237**	50,457
Entertainment expenses	**39,769**	25,996
Travelling and communication expenses	**38,340**	34,283
Amortisation of long term prepaid expenses	**24,717**	31,309
Taxes and levies	**20,663**	12,838
Marketing and promotion expenses	**20,007**	13,765
Amortisation of Right-of-use assets *(Note 7)*	**11,575**	23,114
Sales commission	**8,280**	9,137
Auditor's remuneration	**8,266**	4,983
– Audit services	**4,100**	4,350
– Non-audit services	**4,166**	633
Amortisation of intangible assets *(Note 8)*	**7,811**	6,909
Bank charges	**6,079**	9,850
Miscellaneous	**12,235**	11,618
Total cost of sales, selling and marketing expenses and administrative expenses	**2,554,042**	2,447,801

19 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December 2021 RMB'000	Year ended 31 December 2020 RMB'000
Wages and salaries	**478,930**	483,455
Social security costs, pension costs, housing benefits and other employee benefits *(i)*	**95,761**	90,954
	574,691	574,409

(i) Pension costs – defined contribution plans

During the year ended 31 December 2021, no forfeited contributions were utilised by the Group to reduce its contributions for the current year (2020: nil).

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2021 include two (2020: two) directors whose emoluments are reflected in the analysis presented below. The emoluments payable to the remaining three (2020: three) individuals during the year are as follows:

	Year ended 31 December 2021 RMB'000	Year ended 31 December 2020 RMB'000
Salaries	**2,256**	2,149
Discretionary bonus	**1,484**	1,484
Pension costs – defined contribution plans	**–**	–
Pension costs – defined benefit plans	**152**	11
Other social security costs, housing benefits and other employee benefits	**202**	167
	4,094	3,811

The emoluments fell within the following bands:

	Year ended 31 December 2021	Year ended 31 December 2020
Emolument bands:		
Nil to HKD1,000,000	**–**	–
HKD1,000,001 to HKD1,500,000	**–**	2
HKD1,500,001 to HKD2,000,000	**3**	1
HKD2,000,001 to HKD2,500,000	**–**	–
HKD2,500,001 to HKD3,000,000	**–**	–
	3	3

No directors or these highest paid individuals received any emolument from the Group as an inducement to join, upon joining the Group, leave the Group or as compensation for loss of office.

20 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and chief executives' emoluments

The remuneration of every director and chief executive is set out below:

For the year ended 31 December 2021:

	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking											
	Fees	Salary	Discretionary bonus	Pension costs – defined contribution plans	Pension costs – defined benefit plans	Other social security costs, housing benefits and other employee benefits	Allowance	Share options	Employer's contribution to a retirement benefit scheme	Remunerations paid or receivable in respect of accepting office as director	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2021												
Zhang Jun (張軍)	–	807	687	–	25	36	–	–	–	–	–	1,555
Wang Tao (汪濤)	–	730	588	–	49	71	–	–	–	–	–	1,438
Zhang Shuman (張姝嫚)	199	442	492	15	21	21	–	–	–	–	–	1,190
Cao Hongbo (曹宏博)	–	457	400	–	31	48	–	–	–	–	–	936
Yang Qingli (楊慶理)	199	–	–	–	–	–	–	–	–	–	–	199
Wang Tao (王濤)	199	–	–	–	–	–	–	–	–	–	–	199
Wong Man Chung Francis (黃文宗)	199	–	–	–	–	–	–	–	–	–	–	199
Shi Zheyan (施哲彥)	199	–	–	–	–	–	–	–	–	–	–	199
	995	2,436	2,167	15	126	176	–	–	–	–	–	5,915

20 BENEFITS AND INTERESTS OF DIRECTORS (continued)

(a) Directors' and chief executives' emoluments (continued)

For the year ended 31 December 2020:

	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking											
	Fees	Salary	Discretionary bonus	Pension costs – defined contribution plans	Pension costs – defined benefit plans	Other social security costs, housing benefits and other employee benefits	Allowance	Share options	Employer's contribution to a retirement benefit scheme	Remunerations paid or receivable in respect of accepting office as director	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2020												
Zhang Jun (張軍)	–	730	687	–	2	36	–	–	–	–	–	1,455
Wang Tao (汪濤)	–	721	588	–	4	70	–	–	–	–	–	1,383
Zhang Shuman (張姝嫚)	208	916	–	16	21	12	–	–	–	–	–	1,173
Cao Hongbo (曹宏博)*	–	606	400	–	3	33	–	–	–	–	–	1,042
Yang Qingli (楊慶理)	208	–	–	–	–	–	–	–	–	–	–	208
Wang Tao (王濤)	208	–	–	–	–	–	–	–	–	–	–	208
Wong Man Chung Francis (黃文宗)	208	–	–	–	–	–	–	–	–	–	–	208
Shi Zheyan (施哲彥)	208	–	–	–	–	–	–	–	–	–	–	208
Yuan Pengbin (袁鵬斌)**	104	–	–	–	–	–	–	–	–	–	–	104
	1,144	2,973	1,675	16	30	151	–	–	–	–	–	5,989

* Appointed on 28 August 2020

** Retired on 19 June 2020

(b) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

21 OTHER INCOME

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Government grants	**8,852**	–

22 OTHER GAINS/(LOSSES) – NET

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Net gains on disposal of subsidiaries *(a)*	**91,882**	–
Insurance indemnity *(b)*	**50,026**	–
Government grants	**–**	1,844
Gains/(losses) on disposal of property, plant and equipment – net	**6,955**	(6,589)
Exchange losses	**(76,746)**	(175,487)
Others	**(265)**	(7,070)
	71,852	(187,302)

(a) 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.

23 FINANCE COSTS – NET

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Finance income:		
– Interest income derived from bank deposits	**3,612**	5,295
– Fair value gains on financial assets at FVPL	**439**	377
– Fair value gains on cross currency swap	**1,499**	–
– Fair value gains on foreign exchange forward contracts	**–**	8,013
	5,550	13,685
Finance costs:		
– Interest expense on Senior Notes and other borrowings	**(272,046)**	(261,807)
– Issuance cost of the 2024 Notes	**(107,139)**	–
– Interest expense on lease liabilities	**(888)**	(1,637)
– Exchange gains	**56,736**	159,106
	(323,337)	(104,338)
Finance costs – net	**(317,787)**	(90,653)

24 INCOME TAX EXPENSE

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Current income tax	**60,804**	62,404
Deferred income tax *(Note 11)*	**34,929**	6,508
Income tax expense	**95,733**	68,912

24 INCOME TAX EXPENSE (continued)

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	
	2021	2020
	RMB'000	RMB'000
Profit/(loss) before tax	**143,328**	(229,785)
Tax calculated at statutory tax rates applicable to each group entity	**52,729**	(20,238)
Tax effect of:		
Expenses not deductible for tax purpose	**(9,608)**	(5,830)
Additional deduction for research and development expenses *(b)*	**(9,737)**	(7,012)
Tax effect of reduced tax rate	**205**	–
Utilisation of previously unrecognised tax losses	**(11,174)**	(10,114)
Tax losses of subsidiaries not recognised	**73,318**	112,106
Tax charge	**95,733**	68,912

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

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

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

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

Enterprises incorporated in other places (other than the Mainland China) are subject to income tax rates ranging from 15% to 35% prevailing in the places in which these enterprises operated for the year ended 31 December 2021 and 2020.

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.

24 INCOME TAX EXPENSE (continued)

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.

Meanwhile, pursuant to the resolutions of the Board of Directors of Hilong Group of Companies Ltd. dated 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 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 2021. While during the year ended 31 December 2020, losses of RMB44,480,000 have been generated by the Company's wholly-owned PRC subsidiaries. Accordingly, deferred income tax liabilities of RMB2,224,000 have been reversed for withholding tax that would be payable on the unremitted earnings generated by the Company's PRC subsidiaries for the years ended 31 December 2020. As at 31 December 2021, deferred income tax liabilities of RMB80,169,000 (31 December 2020: RMB74,696,000) have not been recognised for the withholding tax that would otherwise be payable on the unremitted earnings of RMB1,603,380,000 (31 December 2020: RMB1,493,920,000).

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

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

	Year ended 31 December	
	2021	2020
Shanghai Hilong Drill Pipe Co., Ltd.*	**15%**	15%
Hilong Drill Pipe (Wuxi) Co., Ltd.*	**15%**	15%
Shanxi Hilong Oil Technology Co., Ltd.*	**15%**	15%
Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd.*	**15%**	25%
Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd.*	**15%**	15%
Hilong Pipeline Engineering Technology Service Co., Ltd.*	**15%**	15%
Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd.*	**15%**	15%
Sichuan Hilong Petroleum Technology Co., Ltd.*	**15%**	15%
Shanghai Boteng Welding Consumable Co., Ltd.*	**15%**	15%
Shenglong Oil and Gas Pipeline Inspection Technology Co., Ltd.*	**15%**	15%
Hilong Petroleum Products Technical Services (Shanghai) Co., Ltd.*	**15%**	15%
Shanghai Hilong Tubular Goods Manufacturing Co., Ltd.*	**15%**	15%
Hilong Group (Shanghai) Information Technology Company*	**15%**	15%

* Shanghai Hilong Drill Pipe Co., Ltd. is qualified for new/high-tech enterprises status and enjoys a preferential income tax rate of 15% for the three years from 2021 to 2023.

* Hilong Drill Pipe (Wuxi) Co., Ltd. is qualified for new/high-tech enterprises status and enjoys a preferential income tax rate of 15% for the three years from 2021 to 2023.

24 INCOME TAX EXPENSE (continued)

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

* Shanxi Hilong Oil Technology Co., Ltd. is qualified for new/high-tech enterprises status and enjoys a preferential income tax rate of 15% for the three years from 2019 to 2021, and the qualification is in the process of renewal.

* Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd. is qualified for new/high-tech enterprises status and enjoys a preferential income tax rate of 15% for the three years from 2021 to 2023.

* Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd. is qualified for new/high-tech enterprises status and enjoys a preferential income tax rate of 15% for the three years from 2020 to 2022.

* Hilong Pipeline Engineering Technology Service Co., Ltd. is qualified for new/high-tech enterprises status and enjoys a preferential income tax rate of 15% for the three years from 2021 to 2023.

* Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd. is qualified for new/high-tech enterprises status and enjoys a preferential income tax of 15% for the three years from 2021 to 2023.

* Sichuan Hilong Petroleum Technology Co., Ltd. is qualified for new/high-tech enterprises status and enjoys a preferential income tax of 15% for the three years from 2021 to 2023.

* Shanghai Boteng Welding Consumable Co., Ltd. is qualified for new/high-tech enterprises status and enjoys a preferential income tax of 15% for the three years from 2021 to 2023.

* Shenglong Oil and Gas Pipeline Inspection Technology Co., Ltd. is qualified for new/high-tech enterprises status and enjoys a preferential income tax rate of 15% for the three years from 2021 to 2023.

* Hilong Petroleum Products Technical Services (Shanghai) Co., Ltd. is qualified for new/high-tech enterprises status and enjoys a preferential income tax rate of 15% for the three years from 2021 to 2023.

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

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

No tax reductions and exemptions were granted to the other subsidiaries of the Company in the PRC for the years ended 31 December 2021 and 2020.

(b) Additional deduction for research and development expenses

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

25 EARNINGS/(LOSSES) PER SHARE

Basic earnings/(losses) per share

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

	Year ended 31 December	
	2021	2020
Profit/(loss) attributable to equity owners of the Company *(RMB'000)*	**44,249**	(298,806)
Weighted average number of ordinary shares in issue *(thousands of shares)*	**1,696,439**	1,696,439
Basic earnings/(losses) per share *(RMB per share)*	**0.0261**	(0.1761)

Diluted earnings/(losses) per share

Diluted earnings/(losses) 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 2021, there were 15,350,700 (31 December 2020: 15,350,700) share options outstanding related to 2013 Share Option Scheme (Note 17(b)(i)). For the years ended 31 December 2021 and 31 December 2020, as the average market share price of the ordinary shares during the years was lower than the exercise price, the impact on earnings/(losses) per share was anti-dilutive.

26 DIVIDENDS

The Directors have determined that no dividend will be proposed for the years ended 31 December 2021 and 2020.

The dividend in respect of 2019 of HKD0.0200 (equivalent to RMB0.0180) per share, amounting to a total dividend of HKD33,928,000 (equivalent to RMB30,535,000) was withdrawn by the board of directors of the Company by way of written resolutions on 1 June 2020.

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

27 CASH GENERATED FROM OPERATIONS

(a) Reconciliation of profit before income tax to net cash generated from operations

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Profit/(loss) before income tax for the year	**143,328**	(229,785)
Adjustments for:		
– Depreciation of property, plant and equipment *(Note 6)*	**267,498**	341,157
– Amortisation of Right-of-use assets *(Note 7)*	**11,575**	23,114
– Amortisation of intangible assets *(Note 8)*	**7,811**	6,909
– Amortisation of long term assets *(Note 10)*	**24,717**	31,309
– (Reversal of)/provision for loss allowance of receivables *(Note 3.1(b))*	**(16,763)**	132,167
– Share of profit of investments accounted for using equity method *(Note 9)*	**(768)**	(5,101)
– Gains on disposal of subsidiaries *(Note 22)*	**(91,882)**	–
– Finance costs *(Note 23)*	**321,399**	95,948
– (Gains)/losses on disposal of property, plant and equipment *(Note 22)*	**(6,955)**	6,589
	659,960	402,307
Changes in working capital:		
– Decrease in trade and other receivables	**70,940**	372,998
– (Increase)/decrease in financial assets at FVOCI	**(111,862)**	57,459
– Increase in inventories	**(95,565)**	(169,832)
– Increase in restricted cash	**18,087**	34,076
– Decrease in deferred revenue	**(3,939)**	(3,573)
– Decrease in trade and other payables	**(21,407)**	(595,059)
	(143,746)	(303,931)
Cash generated from operations	**516,214**	98,376

27 CASH GENERATED FROM OPERATIONS (continued)

(b) Proceeds from disposal of property, plant and equipment

In the consolidated cash flow statement, proceeds from disposal of property, plant and equipment comprise:

	Year ended 31 December	
	2021 RMB'000	2020 RMB'000
Net book amount *(Note 6)*	**83,000**	33,778
Net gains/(losses) on disposal of property, plant and equipment *(Note 22)*	**6,955**	(6,589)
Proceeds from disposal of property, plant and equipment	**89,955**	27,189
Collected in the year	**15,460**	21,516
Collected from disposal of subsidiaries	**43,449**	–
Not yet collected *(i)*	**31,046**	5,673
	89,955	27,189

(i) The not yet collected amount of RMB5,673,000 as at 31 December 2020 has been fully collected in 2021.

(c) Net debt reconciliation

	As at 31 December	
	2021 RMB'000	2020 RMB'000
Cash and cash equivalents *(Note 13(e))*	**628,805**	697,463
Restricted cash *(Note 13(e))*	**60,379**	77,616
Financial assets at FVPL	**–**	23,377
Borrowings – repayable within one year *(Note 13(f))*	**(607,352)**	(3,101,841)
Borrowings – repayable after one year *(Note 13(f))*	**(2,432,509)**	(23,674)
Lease liabilities	**(17,547)**	(27,981)
Dividends payable	**(10,496)**	(10,496)
Interest payables	**(35,067)**	(169,401)
Net debt	**(2,413,787)**	(2,534,937)
Cash and liquid investments	**689,184**	798,456
Gross debt – fixed interest rates	**(2,914,358)**	(2,958,317)
Gross debt – variable interest rates	**(125,503)**	(167,198)
Lease liabilities	**(17,547)**	(27,981)
Dividends payable	**(10,496)**	(10,496)
Interest payables	**(35,067)**	(169,401)
Net debt	**(2,413,787)**	(2,534,937)

27 CASH GENERATED FROM OPERATIONS (continued)

(c) Net debt reconciliation (continued)

	Liability from financing activities					Other assets			
	Borrowings due with one year RMB'000	Borrowings due after one year RMB'000	Lease liabilities RMB'000	Dividends payable RMB'000	Interest payables RMB'000	Cash and Cash equivalent RMB'000	Restricted cash RMB'000	Financial assets at FVPL RMB'000	Total RMB'000
Net debt as at 31 December 2019	(1,712,111)	(1,531,246)	(40,397)	(11,809)	(33,364)	783,178	124,329	–	(2,421,420)
Cash flows	(33,844)	(24,023)	22,253	1,313	96,147	(60,843)	(44,831)	23,000	(20,828)
Foreign exchange adjustments	195,852	(21,918)	209	–	11,717	(24,872)	(1,882)	–	159,106
Amortisation	(11,721)	(10,742)	(1,637)	–	–	–	–	–	(24,100)
Other non-cash movements	(1,540,017)	1,564,255	(8,409)	–	(243,901)	–	–	377	(227,695)
Net debt as at 31 December 2020	(3,101,841)	(23,674)	(27,981)	(10,496)	(169,401)	697,463	77,616	23,377	(2,534,937)
Net debt as at 31 December 2020	**(3,101,841)**	**(23,674)**	**(27,981)**	**(10,496)**	**(169,401)**	**697,463**	**77,616**	**23,377**	**(2,534,937)**
Cash flows	**133,662**	**–**	**10,761**	**–**	**330,908**	**(62,180)**	**(16,773)**	**(23,816)**	**372,562**
Foreign exchange adjustments	**1,134**	**61,679**	**44**	**–**	**821**	**(6,478)**	**(464)**	**–**	**56,736**
Amortisation	**–**	**(30,992)**	**(888)**	**–**	**–**	**–**	**–**	**–**	**(31,880)**
Other non-cash movements *(Note 13(f))*	**2,359,693**	**(2,439,522)**	**517**	**–**	**(197,395)**	**–**	**–**	**439**	**(276,268)**
Net debt as at 31 December 2021	**(607,352)**	**(2,432,509)**	**(17,547)**	**(10,496)**	**(35,067)**	**628,805**	**60,379**	**–**	**(2,413,787)**

28 COMMITMENTS

(a) Capital commitments

No capital expenditure contracted for at each balance sheet date, but not yet incurred.

29 RELATED PARTY TRANSACTIONS

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

The ultimate parent company of the Group is Hilong Group Limited, which owns 58.90% (31 December 2020: 58.90%) equity interest in the Company as at 31 December 2021. The ultimate Controlling Shareholder of the Group is Mr. Zhang Jun.

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the years ended 31 December 2021 and 2020, and balances arising from related party transactions as at 31 December 2021 and 2020.

(a) Name and relationship with related parties

(i) Controlling Shareholder

Mr. Zhang Jun

(ii) Close family member of the Controlling Shareholder

Ms. Zhang Shuman

(iii) Controlled by the Controlling Shareholder

Hilong Group Limited
Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd.
Beijing Huashi Hailong Oil Investments Co., Ltd.
Shanghai Hilong Shine New Material Co., Ltd.
Shanghai Longshi Investment Management Co., Ltd.

(iv) Associates of the Group

Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.
Anshan Hidlong Anti-Corrosion Engineering Co., Ltd.
Shanghai Hilong Special Steel Pipe Co., Ltd.*

* Shanghai Hilong Special Steel Pipe Co., Ltd. was partially disposed on 25 June 2021, and became an associate of the Group (Note 9).

29 RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with related parties

Save as disclosed elsewhere in the consolidated financial statements, during the years ended 31 December 2021 and 2020, the Group had the following significant transactions with related parties:

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Sales of goods or services:		
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	**12,041**	12,449
Shanghai Hilong Shine New Material Co., Ltd.	**8,735**	1,947
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	**7,301**	3,053
	28,077	17,449
Purchase of goods or services:		
Shanghai Hilong Shine New Material Co., Ltd.	**8,256**	12,793
Purchase of Right-of-use assets:		
Shanghai Longshi Investment Management Co., Ltd.	**–**	9,591
Short-term rental expenses:		
Beijing Huashi Hailong Oil Investments Co., Ltd.	**11,149**	10,495
Interest expenses on lease liabilities:		
Shanghai Longshi Investment Management Co., Ltd.	**347**	209
Beijing Huashi Hailong Oil Investments Co., Ltd.	**–**	13
	347	222
Rental income:		
Shanghai Hilong Shine New Material Co., Ltd.	**2,584**	2,855

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

29 RELATED PARTY TRANSACTIONS (continued)

(c) Balances with related parties

	As at 31 December	
	2021 RMB'000	2020 RMB'000
Trade receivables due from:		
Shanghai Hilong Shine New Material Co., Ltd.	6,081	4,103
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	2,982	5,999
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	1,449	–
	10,512	10,102
Other receivables due from:		
Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd.	46,280	15,508
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	40,187	43,956
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	22,353	26,979
Shanghai Hilong Shine New Material Co., Ltd.	9,808	8,238
Shanghai Hilong Special Steel Pipe Co., Ltd.	3,389	–
Hilong Group Limited	1,515	1,515
	123,532	96,196
Lease liabilities due to:		
Shanghai Longshi Investment Management Co., Ltd.	5,409	8,430
Trade payables due to:		
Shanghai Hilong Shine New Material Co., Ltd.	19,642	18,083
Shanghai Longshi Investment Management Co., Ltd.	22	–
	19,664	18,083
Other payables due to:		
Shanghai Hilong Shine New Material Co., Ltd.	4,237	15
Shanghai Longshi Investment Management Co., Ltd.	3,842	10,232
Mr. Zhang Jun	938	938
Beijing Huashi Hailong Oil Investments Co., Ltd.	–	7,146
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	–	8,000
	9,017	26,331
Dividend receivables:		
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	2,746	2,746

The receivables and payables from related parties were unsecured, no interest bearing and repayable on demand.

29 RELATED PARTY TRANSACTIONS (continued)

(d) Key management compensation

Key management includes directors (executive and non-executive) and senior management (including chief financial officer and general managers etc). The compensation paid or payable to key management for employee services is shown below:

	Year ended 31 December	
	2021 RMB'000	2020 RMB'000
Salaries	**6,446**	6,139
Discretionary bonus	**3,928**	3,928
Social security costs	**809**	441
	11,183	10,508

30 SUBSIDIARIES

Company name	Country/place of incorporation and operation and date of incorporation	Registered and issued/ paid up capital	Effective interests held by the Group (%) As at 31 December		Direct/ Indirect	Principal activities
			2021	2020		
Hilong Energy Holding Limited	British Virgin Islands, 15 October 2008	– (1 share was issued with no par value)	**100%**	100%	Direct	Investment holding
Shanghai Tube-Cote Petroleum Pipe Coating Co., Ltd.	the PRC, 8 March 2002	RMB26,000,000	**100%**	100%	Indirect	Coating service provision
Jiangsu Tube-Cote Shuguang Petroleum Pipe Coating Co., Ltd.	the PRC, 22 October 2003	USD2,960,000	**66.22%**	66.22%	Indirect	Coating service provision
Hilong Group of Companies Ltd.	the PRC, 14 January 2005	RMB150,000,000	**100%**	100%	Indirect	Distribution of oil and gas equipment
Hilong Drill Pipe (Wuxi) Co., Ltd.	the PRC, 30 August 2005	USD3,600,000	**100%**	100%	Indirect	Manufacture and distribution of oil and gas equipment
Hilong Pipeline Engineering Technology Service Co., Ltd.	the PRC, 9 November 2005	RMB100,000,000	**100%**	100%	Indirect	Coating service provision
Shanghai Boteng Welding Consumable Co., Ltd.	the PRC, 29 December 2005	RMB3,000,000	**100%**	100%	Indirect	Manufacture and distribution of hardbanding materials

30 SUBSIDIARIES (continued)

Company name	Country/place of incorporation and operation and date of incorporation	Registered and issued/ paid up capital	Effective interests held by the Group (%) As at 31 December		Direct/ Indirect	Principal activities
			2021	2020		
Hilong Investment Ltd.	Malaysia, 13 September 2006	USD100	100%	100%	Indirect	Investment holding
Shanghai Hilong Tubular Goods Research Institute	the PRC, 27 October 2006	RMB5,000,000	100%	100%	Indirect	Research and development on the technology of manufacturing oil and gas equipment
Hilong Petroleum Pipe Company LLC	Abu Dhabi, 6 November 2006	AED1,000,000	100%	100%	Indirect	Manufacture and distribution of oil and gas equipment
Shanghai Hilong Drill Pipe Co., Ltd.	the PRC, 17 November 2006	RMB50,000,000	100%	100%	Indirect	Manufacture and distribution of oil and gas equipment
Hilong Petroleum Technology & Engineering Co., Ltd.	The Republic of Kazakhstan, 28 December 2006	KZT110,000	–	100%	Indirect	Oilfield service provision
Hilong Petropipe Co., Ltd.	Canada, 17 April 2007	CAD100	100%	100%	Indirect	Oil and gas equipment trading and coating service provision
Nantong Hilong Steel Pipe Co., Ltd.	the PRC, 30 April 2007	RMB105,880,000	–	95%	Indirect	Manufacture and distribution of special steel
KeAoTe Petroleum Engineering Co., Ltd.	the PRC, 7 January 2008	RMB20,000,000	65%	65%	Indirect	Coating service provision
Hilong Energy Limited	Hong Kong, 8 July 2008	HKD1	100%	100%	Indirect	Investment holding
Hilong Oil Service & Engineering Co., Ltd.	the PRC, 16 July 2008	RMB80,000,000	100%	100%	Indirect	Oilfield service provision
Hilong USA LLC	USA, 9 November 2008	USD1,030,000	100%	100%	Indirect	Oil and gas equipment trading
Shanghai Hilong Special Steel Pipe Co., Ltd.	the PRC, 5 January 2009	RMB120,000,000	30%	100%	Indirect	Manufacture and distribution of oil and gas equipment

30 SUBSIDIARIES (continued)

Company name	Country/place of incorporation and operation and date of incorporation	Registered and issued/ paid up capital	Effective interests held by the Group (%) As at 31 December		Direct/ Indirect	Principal activities
			2021	2020		
Panjin Liaohe Oilfield Pipe Tube-Cote Coating Co., Ltd.	the PRC, 13 January 2009	RMB10,000,000	**55%**	55%	Indirect	Coating service provision
Hilong Oil Service Ltd.	Malaysia, 4 March 2009	USD5,000,000	**100%**	100%	Indirect	Oilfield service provision
Hilong Oil Service & Engineering Ecuador CIA. Ltd.	The Republic of Ecuador, 18 March 2009	USD20,000,000	**100%**	100%	Indirect	Oilfield service provision
Shanghai Hilong Tubular Goods Manufacturing Co., Ltd.	the PRC, 16 April 2009	RMB20,000,000	**100%**	100%	Indirect	Manufacture and distribution of oil and gas equipment
Sichuan Hilong Petroleum Technology Co., Ltd.	the PRC, 9 June 2009	RMB20,000,000	**100%**	100%	Indirect	Coating service provision
Tianjin Tube-Cote Petroleum Pipe Coating Co., Ltd.	the PRC, 18 September 2009	RMB20,000,000	**100%**	100%	Indirect	Coating service provision
Hilong Oil Service & Engineering Nigeria Ltd.	Nigeria, 26 July 2010	NGN30,000,000	**100%**	100%	Indirect	Oilfield service provision
Hilong Oil Service Sucursal Colombia Ltd.	Columbia, 8 February 2012	COP90,734,500	**–**	100%	Indirect	Oilfield service provision
Shanghai Hilong Petroleum Chemicals Research Institute	the PRC, 1 November 2012	RMB10,000,000	**100%**	100%	Indirect	Research and development on the technology of coating services
Trade House Hilong-Rus Co., Ltd.	Russia, 25 March 2013	RUB300,000	**100%**	100%	Indirect	Oil and gas equipment trading
Hilong Oil Service & Engineering Pakistan (Pvt.) Ltd.	Pakistan, 4 April 2013	PKR5,000,000	**100%**	100%	Indirect	Oil service provision
Shenglong Oil and Gas Pipeline Inspection Technology Co., Ltd.	the PRC, 11 October 2013	RMB50,000,000	**100%**	100%	Indirect	Research, inspection and repairment of oil and gas equipment

30 SUBSIDIARIES (continued)

Company name	Country/place of incorporation and operation and date of incorporation	Registered and issued/ paid up capital	Effective interests held by the Group (%) As at 31 December 2021	2020	Direct/ Indirect	Principal activities
Hilong Petroleum Marine Engineering Technical Services (Hong Kong) Limited	Hong Kong, 9 December 2013	HKD1,000,000	**100%**	100%	Indirect	Offshore oilfield service provision
Hilong Marine Engineering (Hong Kong) Limited	Hong Kong, 16 December 2013	HKD1,000,000	**100%**	100%	Indirect	Offshore oilfield service provision
Hilong USA Holding Corp.	USA, 11 February 2014	USD10	**100%**	100%	Indirect	Investment holding
Texas Internal Pipe Coating, LLC	USA, 26 July 2012	Nil	**100%**	100%	Indirect	Coating service provision
Hilong TIPC Asset Management LLC	USA, 11 February 2014	Nil	**100%**	100%	Indirect	Investment holding
Hilong Petroleum Products Technical Services (Shanghai) Co., Ltd.	the PRC, 17 April 2014	RMB60,000,000	**100%**	100%	Indirect	Manufacture and distribution of oil and gas equipment
Shanghai Hilong Mine Drill Pipe Co., Ltd.	the PRC, 11 April 2014	RMB5,000,000	**80%**	80%	Indirect	Manufacture and distribution of oil and gas equipment
Technomash LLC	Russia, 23 November 2009	RUB62,332,000	**100%**	100%	Indirect	Investment holding
Hilong Drilling & Engineering Service Ltd (Malaysia)	Malaysia, 15 January 2014	USD1,000	**100%**	100%	Indirect	Oilfield service provision
Hilong Oil Service & Engineering Albania SHPK	Albania, 28 July 2014	ALL3,000,000	**100%**	100%	Indirect	Oilfield service provision
Hilong Petroleum Offshore Engineering Limited	the PRC, 12 March 2014	RMB50,000,000	**100%**	100%	Indirect	Offshore oilfield service provision
Hilong Petroleum Offshore Engineering Services (Shanghai) Co., Ltd.	the PRC, 18 February 2014	RMB15,000,000	**100%**	100%	Indirect	Offshore design service provision

30 SUBSIDIARIES (continued)

Company name	Country/place of incorporation and operation and date of incorporation	Registered and issued/ paid up capital	Effective interests held by the Group (%) As at 31 December 2021	2020	Direct/ Indirect	Principal activities
Hilong Petroleum Technical Services Nigeria Limited	Nigeria, 24 March 2014	NGN5,000,000	**100%**	100%	Indirect	Oilfield service provision
Hilong Oil Service & Engineering Perú S.A.C.	Peru, 30 March 2015	PEN3,000	**100%**	100%	Indirect	Oilfield service provision
Hilong Oil Service DMCC	Dubai, UAE, 28 June 2015	AED160,000	**100%**	100%	Indirect	Oilfield service provision
Hilong Petroleum Pipeline Service (Surgut) LLC	Russia, 2 March 2017	RUB1,000,000	**100%**	100%	Indirect	Coating service provision
Shanghai Zuanbeicai International Trading Co., Ltd	the PRC, 28 June 2017	RMB2,000,000	**100%**	100%	Indirect	Distribution and trading of oil and gas equipment
Well X, Inc.	USA, 9 July 2017	USD65,000	**62.50%**	62.50%	Indirect	Oilfield service provision
Hilong Oil & Gas Service Co., Ltd.	the PRC, 20 March 2017	RMB17,400,000	**100%**	100%	Indirect	Oilfield service provision
Hilong Offshore (M) SDN. BHD	Malaysia, 30 August 2017	MYR100	**100%**	100%	Indirect	Offshore oilfield service provision
OHJV.SDN.BHD	Malaysia, 21 August 2017	MYR1,000	**100%**	100%	Indirect	Offshore oilfield service provision
Hilong Oriente Co., Ltd	The Republic of Ecuador, 24 October, 2017	USD2,000	**100%**	100%	Indirect	Oilfield service provision
West Texas Internal Pipe Coating LLC	USA, 18 May, 2017	Nil	**100%**	100%	Indirect	Coating service provision
West Texas Internal Pipe Asset management LLC	USA, 18 May, 2017	Nil	**100%**	100%	Indirect	Investment holding
Hilong Group (Shanghai) Information Technology Co., Ltd.	The PRC, 15 June, 2018	RMB900,000	**100%**	100%	Indirect	Coating service provision

30 SUBSIDIARIES (continued)

Company name	Country/place of incorporation and operation and date of incorporation	Registered and issued/ paid up capital	Effective interests held by the Group (%) As at 31 December 2021	2020	Direct/ Indirect	Principal activities
Hilong Petroleum Pipe Service (Orenburg) Limited Liability Company	Russia, 28 August, 2018	RUB10,000	**100%**	100%	Indirect	Coating service provision
Hilong USA Technology Holding Corporation	USA, 02 April, 2019	Nil	**100%**	100%	Indirect	Oilfield service provision
Hilong Technology Limited	Hong Kong, 27 March, 2019	HKD100	**100%**	100%	Indirect	Offshore oilfield service provision
Hilong New Material Limited	Hong Kong, 12 March, 2019	HKD1	**100%**	100%	Indirect	Offshore oilfield service provision
Ocentra Offshore Pte. Ltd.	Singapore, 24 July, 2019	USD200,000	**51%**	51%	Indirect	Offshore oilfield service provision
Hilong Oil Service & Engineering Ukraine LLC	Ukraine, 24 October, 2018	USD50,000	**100%**	100%	Indirect	Oilfield service provision
Hilong Leasing (Tianjin) Co., Ltd.	The PRC, 19 June, 2020	RMB200,000	**90%**	90%	Indirect	Offshore oilfield service provision
Drilling Technology Limited liability Company	Russia, 19 February, 2018	RUB5,000,000	**100%**	100%	Indirect	Manufacture and distribution of oil and gas equipment
Hailong Zhizao (Shanghai) Consulting Management Co., Ltd.	The PRC, 1 November, 2021	RMB20,000	**100%**	–	Indirect	Consultation service

* The above subsidiaries established in the PRC are in the legal form of limited liability company.

* Shanghai Hilong Special Steel Pipe Co., Ltd. was partially disposed on 25 June 2021, and became an associate of the Group.

* 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.

31 EVENTS AFTER THE BALANCE SHEET DATE

The current geopolitical tensions between Russia and Ukraine, alongside the imposition of international sanctions, have a pervasive economic impact, not only on businesses within Russia and Ukraine, but also globally where businesses engage in economic activities that might be affected by the recent developments. The Group will pay close attention to this fluid situation and take proactive measures to mitigate the potential negative impact on the Group's business performance in 2022.

32 BALANCE SHEET AND RESERVES MOVEMENTS OF THE COMPANY

		As at 31 December	
	Note	2021 RMB'000	2020 RMB'000
ASSETS			
Non-current assets			
Investments in subsidiaries		**54,314**	54,314
Current assets			
Derivative financial instrument		**1,499**	–
Trade and other receivables		**4,672,147**	4,280,226
– Due from related parties		**4,671,602**	4,265,201
– Due from third parties		**545**	15,025
Cash and cash equivalents		**51,670**	126,813
Restricted cash		**4,877**	26,100
		4,730,193	4,433,139
Total assets		**4,784,507**	4,487,453
EQUITY			
Capital and reserve attributable to equity owners of the Company			
Ordinary shares		**141,976**	141,976
Other reserves	*Note (a)*	**1,221,838**	1,221,838
Retained earnings	*Note (a)*	**53,824**	36,656
Total equity		**1,417,638**	1,400,470
LIABILITIES			
Non-current liabilities			
Borrowings		**2,347,987**	–
Current liabilities			
Trade and other payables		**1,018,882**	639,399
Borrowings		**–**	2,447,584
		1,018,882	3,086,983
Total liabilities		**3,366,869**	3,086,983
Total equity and liabilities		**4,784,507**	4,487,453

The balance sheet of the Company was approved by the Board of Directors on 25 March 2022 and was signed on its behalf.

Director: Zhang Jun

Director: Wang Tao (汪濤)

32 BALANCE SHEET AND RESERVES MOVEMENTS OF THE COMPANY (continued)

Note (a) Reserve movement of the Company

	Retained earnings RMB'000	Other reserves RMB'000
As at 1 January 2020	19,601	1,221,838
Profit for the year	17,055	–
As at 31 December 2020	36,656	1,221,838
As at 1 January 2021	**36,656**	**1,221,838**
Profit for the year	**17,168**	**–**
As at 31 December 2021	**53,824**	**1,221,838**

33 APPROVAL AND AUTHORISATION FOR ISSUE OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors of the Company on 25 March 2022.

FINANCIAL SUMMARY

A summary of the consolidated results and of the consolidated assets, equity and liabilities of the Group for the last five financial years, is set out below.

Consolidated Results — **For the year ended 31 December**

	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000
Revenue	**2,916,922**	2,623,037	3,649,906	3,222,416	2,669,347
Gross profit	**898,319**	693,983	1,161,181	1,020,682	845,601
Gross profit margin	**30.8%**	26.5%	31.8%	31.7%	31.7%
Operating profit	**460,347**	–144,233	582,138	535,108	224,677
Operating profit margin	**15.8%**	–5.5%	15.9%	16.6%	8.4%
Profit for the year	**47,595**	–298,697	188,221	150,531	125,700
Profit attributable to:					
Equity owners of the Company	**44,249**	–298,806	176,818	148,741	119,150
Non-controlling interests	**3,346**	109	11,403	1,790	6,550

Consolidated assets, equity and liabilities — **As at 31 December**

	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000
ASSETS					
Non-current assets	**2,945,299**	3,277,039	3,867,354	3,864,576	3,442,905
Current assets	**4,126,507**	4,093,318	4,673,637	4,035,121	3,707,651
Total assets	**7,071,806**	7,370,357	8,540,991	7,899,697	7,150,556
EQUITY AND LIABILITIES					
Total equity	**3,042,827**	3,118,298	3,706,463	3,522,010	3,463,775
Non-current liabilities	**2,524,859**	127,553	1,648,441	2,581,169	1,970,125
Current liabilities	**1,504,120**	4,124,506	3,186,087	1,796,518	1,716,656
Total liabilities	**4,028,979**	4,252,059	4,834,528	4,377,687	3,686,781
Total equity and liabilities	**7,071,806**	7,370,357	8,540,991	7,899,697	7,150,556