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## 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 2022 to our shareholders.

### RESULTS

In 2022, international crude oil price remained high, and capital expenditure within the oil and gas industry increased significantly, resulting in increased workload and orders. Under such market environment, Hilong actively expanded in both international and domestic markets. The Company's overall operations throughout the year remained stable and achieved improvements in its business performance to a relatively large extent. In 2022, Hilong recorded a total revenue of RMB3,736 million, representing an increase of approximately 28% compared with 2021, and recorded a net profit of RMB145.8 million. During the reporting period, the Company made great efforts to develop the market and actively secured a number of important orders, laying a solid foundation for its operation in the coming year. At the same time, the Company took various measures to reduce costs and increase efficiency, strengthen cash flow management, and the level of management of accounts receivable and inventory was effectively enhanced, with the level of operating cash flow for the year meeting expectation.

### YEAR UNDER REVIEW

In 2022, supported by the sufficiency of orders on hand, the revenue from the two segments namely oilfield equipment manufacturing and services and oilfield services increased to a relatively large extent.

The revenue of the oilfield equipment manufacturing and services segment was RMB2,210 million, representing a significant increase of 83% compared with 2021. Affected by factors including the international easing of control policies on the COVID-19 pandemic as well as the Russo-Ukrainian War resulting in Western energy sanctions against Russia leading to global energy supply tensions, upstream capital expenditures began to increase, the global oil and gas drilling activities further recovered, and the demand for oilfield equipment within the industry increased significantly. The Company's sales from business including drill pipe increased significantly from 2021. While exploring the high-end market and ensuring the quality of products and services, the Company actively expanded into new business fields and adheres to the development strategy of quality and continuing technological innovation as the core driving force so as to meet the customized needs of different customers.

The oilfield services segment recorded a total revenue of RMB1,057 million, representing a growth of 25% compared with 2021. In 2022, with the increase of crude oil prices, upstream enterprises had strong momentum to increase production and the industry boom continued to rise. Under this favorable condition, Hilong penetrated into and optimized the overseas oil services market. By means of coordinating different business units in drilling and workover services, technical services and trade services, the Company fully displayed the synergistic effects among different businesses, ensuring the stable growth of the segment as a whole. The utilization rate of our drilling and workover rigs continued to increase compared with 2021, and completed all work on the first drilling and completion turnkey well in Iraq since the Company's establishment. The technical service team has successfully operated many businesses, and trade service business also made new breakthroughs.

The line pipe technology and services segment recorded a total revenue of RMB355 million, representing a decrease of 9% from 2021. In 2022, the Company firmly captured its core customers in the line pipe coating and concrete-weighted coating business, and obtained a number of major projects from prestigious customers during the reporting period. As a result of unfavorable factors such as the lockdown during the outbreak of COVID-19 in Shanghai, revenue for the year slightly declined. The marketing and management team of Hilong continued to strengthen market development efforts in China and actively explored overseas markets to seek new customers and orders.



## CHAIRMAN'S STATEMENT

The offshore engineering services segment recorded a total revenue of RMB114 million, representing a decrease of 76% from 2021. Affected by unfavorable factors such as the sharp decrease in workload of the domestic wind power market and the pandemic lockdown, the securing of projects from the market faced tremendous challenges and the workload for the year was not sufficient. During the reporting period, the Company successfully completed the wrapping up of Bangladesh's pipeline laying project and collation and submission of information regarding work completion. The Bohai Kenli and Bozhong construction projects in which we cooperated with Offshore Oil Engineering Company Limited are proceeding smoothly and orderly. The laying of a number of ocean pipelines has been successfully completed. We also won the bid for CGN offshore wind power installation turnkey project and MUBADALA project of pipeline laying in Thailand. Moreover, there were a number of projects waiting for bid evaluation results or in the process of project bidding, laying a good foundation for the construction and operation of contracts in 2023.

## PROSPECTS

Entering 2023, the oil price is expected to remain at a relatively high level throughout the year, which is bound to bring sufficient workload to the global oil service industry. Hilong will also take this opportunity to make efforts to increase its market development and strive to continuously increase international market share. Currently, it has secured a relatively satisfactory number of orders, and the workload is expected to be sufficient throughout 2023. China has entered the fifth year in implementing the seven-year action plan for oil and gas industry which spans from 2019 to 2025. The domestic and international oil and gas industry markets are promising. Being an industry leader in many subdivided fields,

# 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 (張姝嫻)

Dr. Yang Qingli (楊慶理)

Mr. Cao Hongbo (曹宏博)

Dr. Fan Ren Da Anthony (范仁達)<sup>(1)</sup>

### Independent Non-executive Directors

Mr. Wang Tao (王濤)

Mr. Wong Man Chung Francis (黃文宗)

Mr. Shi Zheyang (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 (張姝嫻)

## REMUNERATION COMMITTEE

Mr. Wang Tao (王濤)

*(Chairman of Remuneration Committee)*

Mr. Wong Man Chung Francis (黃文宗)

Mr. Shi Zheyang (施哲彥)

## NOMINATION COMMITTEE

Mr. Wang Tao (王濤)

*(Chairman of Nomination Committee)*

Mr. Wang Tao (汪濤)

Mr. Shi Zheyang (施哲彥)

## COMPANY SECRETARY

Ms. Sham Ying Man (岑影文)

## AUDITOR

PricewaterhouseCoopers

Certified Public Accountants

Registered Public Interest Entity Auditor

## REGISTERED OFFICE

Cricket Square, Hutchins Drive

PO Box 2681

Grand Cayman, KY1-1111

Cayman Islands

## HEADQUARTER

No. 1825, Luodong Road

Baoshan Industrial Zone

Shanghai

PRC

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

5/F, Manulife Place

348 Kwun Tong Road

Kowloon

Hong Kong

## 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

17th Floor, Hopewell Centre

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](http://www.hilonggroup.com)

<sup>(1)</sup> Dr. Fan Ren Da Anthony (范仁達) was appointed as a Non-executive Director with effect from 25 July 2022.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

### Revenue

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

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

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

	Year ended 31 December			
	2022		2021	
	RMB'000	%	RMB'000	%
Russia, Central Asia and East Europe	1,085,507	29.1	757,464	26.0
Middle East	953,334	25.5	333,663	11.4
The PRC	627,086	16.8	854,339	29.3
North and South America	607,035	16.2	363,518	12.5
South and Southeast Asia	234,163	6.3	420,130	14.4
Africa	222,330	6.0	179,368	6.1
Others	6,623	0.1	8,440	0.3
<b>Total</b>	<b>3,736,078</b>	<b>100.0</b>	2,916,922	100.0

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

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

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

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

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

Revenue from sales of drill pipes in the PRC market decreased by RMB64.1 million, or 39.6%, from RMB161.7 million in 2021 to RMB97.6 million in 2022. The decrease primarily reflected a 46.6% decrease in the volume of drill pipes sold in the PRC market from 10,502 tonnes in 2021 to 5,609 tonnes in 2022, and to a lesser extent, a 13.0% increase in the average selling price sold in the PRC market from RMB15,397 per tonne in 2021 to RMB17,397 per tonne in 2022. The decrease in the sales volume primarily reflected that the Company utilized part of domestic capacity to satisfy the requirement of high margin drill pipe's orders in the international market. While the increase in average selling price primarily reflected the guideline price of American Petroleum Institute ("API") drill pipe products based on annual bid of both CNPC and Sinopec Group increased in 2022 compared to that in 2021.

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

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

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

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

### Cost of Sales/Services

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

### Gross Profit and Gross Profit Margin

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

### Selling and Marketing Expenses

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

### Administrative Expenses

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

### Other Gains – Net

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

### Finance Costs – Net

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

### Profit before Income Tax

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

### Income Tax Expense

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

### Profit for the year attributable to equity owners of the Company

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

## Inventories

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

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

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

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

## Trade and Other Receivables

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

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

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

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

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

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

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

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### Trade and Other Payables

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

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

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

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

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



### Liquidity and Financial Resources

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

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### Capital Expenditures

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

### Indebtedness

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

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

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

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

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

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

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

	As at 31 December 2022 RMB'000
Within 1 year	569,197
1-2 years	2,540,623
2-5 years	5,540
<b>Total</b>	<b>3,115,360</b>

As at 31 December 2022, the Group's committed banking facilities amount to approximately RMB147.3 million.

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

	As at 31 December 2022 RMB'000
USD	2,639,631
RMB	475,523
CAD	206
<b>Total</b>	<b>3,115,360</b>

As at 31 December 2022, there are no seasonality of borrowing requirements for the Group.

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

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

### Gearing Ratio

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

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

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

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

### Contingent Liabilities

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

### Pledge of Assets

As at 31 December 2022, the Group has pledged 17 drilling rigs as collateral in connection with the 2024 Notes. 3 drilling rigs are in operation in Nigeria, 5 drilling rigs are in operation in Ecuador, 2 drilling rigs are in operation in Ukraine, 1 drilling rig is in operation in Ethiopia and 6 drilling rigs are in operation in Pakistan.

### Foreign Exchange

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD. Foreign exchange risk arises from recognised assets and liabilities in foreign operations. The conversion of RMB into foreign currencies, including the USD, has been based on rates set by the People's Bank of China. On 21 July 2005, the PRC government changed its decade-old policy of pegging the value of RMB to the USD. Under this policy, RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in an approximately 14.0% appreciation of RMB against the USD from 21 July 2005 to 31 December 2022. There remains significant pressure on the PRC government to adopt more flexible currency policy, which could result in more fluctuated exchange rate of the RMB against USD. The Group may consider entering into currency hedging transactions to further manage its exposure to fluctuations in exchange rates, or nature hedging by active matching the currency structure of monetary assets and liabilities. However, the effectiveness of such transactions may be limited. The revenue denominated in USD represented 40.6% and 46.1% of the total revenue of the Group in 2021 and 2022, respectively.

### Staff and Remuneration Policy

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

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

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

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

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

## BUSINESS REVIEW

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

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

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

### Oilfield Equipment Manufacturing and Services

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

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

### **Oilfield Services**

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



### Line Pipe Technology and Services

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

### Offshore Engineering Services

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



### Technology Research and Development

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

## OUTLOOK

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

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

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

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

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

The offshore engineering services segment will accelerate the construction of its own fundamental capability and enhance the integration capability of upstream and downstream ecological resources. Starting from engineering technology design center and intelligent manufacturing and maintenance center featuring digital delivery, we will intensify market development for EPC Project and speed up the market layout and channel construction in China, Asia Pacific and the Middle East. While ensuring the quality of domestic contracted projects, we will actively make an effort in contracting and implementing projects such as engineering commissioning and digital intelligence in the international market. In 2023, on the basis of continuing stable installation and submerged pipeline laying business, the Company will also actively expand engineering construction and technical services including offshore oil and gas processing facilities, offshore engineering construction facilities, land-associated gas recovery, land wellhead oil and gas processing and LNG receiving station, and focus on new energy business such as offshore wind power. Meanwhile, Hilong will increase its efforts in talent acquisition, adhere to innovation-driven development and international expansion, and enhance its capabilities in operation, project execution and technology-driven development with a goal to become an engineering technology service company with EPCI (engineering, procurement, construction and installation) integrated service capability and capable of providing cost-effective solutions to the owners, and collaborate closely with leading international technology companies.



## MANAGEMENT DISCUSSION AND ANALYSIS

The Group remains focused on the following long term strategies: creating long term shareholder value, increasing operational efficiencies with the aim to enhance margin and profitability and continuing technological innovation while meeting the customized needs of different customers. In the mid to long term, the Group will continue its efforts in technological innovation, development of its oilfield services business, including workover services, technical services and turnkey services, and providing high value-added products and services. The Group will strive to enhance its brand image, expand its international footprint and seek business opportunities to collaborate with international and high-end customers.

### EVENTS AFTER THE END OF THE REPORTING PERIOD

- (1) On 31 March 2023 (after trading hours), Hilong Group of Companies Ltd.\* (海隆石油工業集團有限公司) (the “Vendor

## DIRECTORS AND SENIOR MANAGEMENT

### BOARD OF DIRECTORS

The Board consists of nine Directors, including two Executive Directors, four 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)	55	Chairman, Executive Director and Executive Chairman
WANG Tao (汪濤)	59	Executive Director and Chief Executive Officer
ZHANG Shuman (張姝嫻)	49	Non-executive Director
YANG Qingli (楊慶理)	66	Non-executive Director
CAO Hongbo (曹宏博)	59	Non-executive Director
FAN Ren Da Anthony (范仁達)	62	Non-executive Director
WANG Tao (王濤)	76	Independent Non-executive Director
WONG Man Chung Francis (黃文宗)	58	Independent Non-executive Director
SHI Zheyang (施哲彥)	66	Independent Non-executive Director

### Executive Directors

**Mr. ZHANG Jun (張軍)**, aged 55, 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 32 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, a substantial and controlling shareholder of the Company.

**Mr. WANG Tao (汪濤)**, aged 59, 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 34 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 (張姝嫻)**, aged 49, 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 26 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 66, 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 40 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 59, 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 35 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.

**Dr. FAN Ren Da Anthony (范仁達)**, aged 62, is a Non-executive Director of the Company. He was appointed as a Non-executive Director on 25 July 2022. He has extensive experience in corporate finance, mergers and acquisitions, venture capital, company consolidation and restructuring. He is currently the chairman and managing director of AsiaLink Capital Limited.

Dr. Fan has been a director of Tenfu (Cayman) Holdings Company Limited (Stock Code: 6868), a company listed on the Main Board of The Stock Exchange of Hong Kong Limited, since August 2011 and is currently serving as an executive director of that company. Dr. Fan is also an independent non-executive director of CITIC Resources Holdings Limited (Stock Code: 1205), UniPresident China Holdings Ltd. (Stock Code: 220), China Dili Group (Stock Code: 1387), Hong Kong Resources Holdings Company Limited (Stock Code: 2882), Shanghai Industrial Urban Development Group Limited (Stock Code: 563), Technovator International Limited (Stock Code: 1206), China Development Bank International Investment Limited (Stock Code: 1062), Semiconductor Manufacturing International Corporation (Stock Code: 981) and Neo-Neon Holdings Limited (Stock Code: 1868), all of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited. Dr. Fan ceased to be an independent non-executive director of Raymond Industrial Limited (Stock Code: 229), a company listed on the Main Board of The Stock Exchange of Hong Kong Limited, in May 2021. Dr. Fan is the Founding President of The Hong Kong Independent Non-Executive Director Association. Dr. Fan holds a master's degree in Business Administration from the United States of America and a PhD in Economics.

### Independent Non-executive Directors

**Mr. WANG Tao (王濤)**, aged 76, 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 52 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 58, 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), 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 also served as an independent non-executive director of GCL Technology Holdings Limited (formerly known as GCL-Poly Energy Holdings Limited, stock code: 3800), a company listed on The Stock Exchange of Hong Kong Limited, from April 2016 to May 2022. 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 34 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 Zheyang (施哲彥)**, aged 66, 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 48 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 56, 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 31 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 49, 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 58, 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 53, 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 31 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 53, 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 31 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 53, 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 27 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 47, 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





## CORPORATE GOVERNANCE REPORT

The Board of the Company is pleased to present this Corporate Governance Report for the year ended 31 December 2022.

### CORPORATE GOVERNANCE CULTURE

The Company is committed to ensuring that its affairs are conducted in accordance with high ethical standards. This reflects its belief that, in the achievement of its long-term objectives, it is imperative to act with probity, transparency and accountability. By so acting, the Company believes that its shareholder wealth will be maximised in the long term and that its employees, those with whom it does business and the communities in which it operates will all benefit.

Corporate governance is the process by which the Board instructs management of the Group to conduct its affairs with a view to ensuring that its objectives are met. The Board is committed to maintaining and developing robust corporate governance practices that are intended to ensure:

- satisfactory and sustainable returns to shareholders;
- that the interests of those who deal with the Company are safeguarded;
- that overall business risk is understood and managed appropriately;
- the delivery of high-quality products and services to the satisfaction of customers; and
- that high standards of ethics are maintained.

### CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions as set out in Part 2 of the Corporate Governance Code (the “**CG Code**”) as contained in Appendix 14 of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) as its own code of corporate governance. The Company has applied the principles set out in Part 2 of the CG Code during the year under review. The manner in which the principles and code provisions in Part 2 of the CG Code are applied and implemented during the year ended 31 December 2022 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 Part 2 of the CG Code throughout the year.

### 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 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 assumes responsibility for its leadership and control and be collectively responsible for promoting the Company's success by directing and supervising the Company's affairs. Directors take decisions objectively in the best interests of the Company.

The Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business and regularly reviews the contribution required from a Director to perform his/her responsibilities to the Company and whether the Director is spending sufficient time performing them that are commensurate with their role and the Board responsibilities. The Board includes a balanced composition of Executive Directors and Non-executive Directors (including Independent Non-executive Directors) so that there is a strong independent element on the Board, which can effectively exercise independent judgement.

The Board currently comprises nine Directors, consisting of two Executive Directors, four 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

Dr. Fan Ren Da Anthony <sup>(1)</sup>

### Independent Non-executive Directors:

Mr. Wang Tao (王濤)

Mr. Wong Man Chung Francis

Mr. Shi Zheyang

(1) Dr. Fan Ren Da Anthony was appointed as a Non-executive Director with effect from 25 July 2022.

### 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	5/5
Mr. Wang Tao (汪濤)	5/5
Ms. Zhang Shuman	5/5
Dr. Yang Qingli	5/5
Mr. Cao Hongbo	5/5
Dr. Fan Ren Da Anthony <sup>(1)</sup>	3/3
Mr. Wang Tao (王濤)	5/5
Mr. Wong Man Chung Francis	5/5
Mr. Shi Zheyang	5/5

<sup>(1)</sup> Dr. Fan Ren Da Anthony was appointed as a Non-executive Director with effect from 25 July 2022.

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

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.

### Board Independence Evaluation

The Company has established a Board Independence Evaluation Mechanism during the year which sets out the processes and procedures to ensure a strong independent element on the Board, which allows the Board effectively exercises independent judgment to better safeguard shareholders' interests.

The objectives of the evaluation are to improve Board effectiveness, maximise strengths, and identify the areas that need improvement or further development. The evaluation process also clarifies what actions of the Company need to be taken to maintain and improve the Board performance, for instance, addressing individual training and development needs of each Director.

Pursuant to the Board Independence Evaluation Mechanism, the Board will conduct annual review on its independence. The Board Independence Evaluation Report will be presented to the Board which will collectively discuss the results and the action plan for improvement, if appropriate.

During the year ended 31 December 2022, all Directors has completed the independence evaluation in the form of a questionnaire individually and supplemented by individual interviews. The Board Independence Evaluation Report was presented to the Board and the evaluation results were satisfactory.

During the year ended 31 December 2022, the Board reviewed the implementation and effectiveness of the Board Independence Evaluation Mechanism and the results were satisfactory.

### 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 a comprehensive, formal and tailored induction on the first occasion of his/her 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 <sup>Note</sup>
<i>Executive Directors</i>	
Mr. Zhang Jun	A & B
Mr. Wang Tao (汪濤)	A & B
<i>Non-executive Directors</i>	
Ms. Zhang Shuman	A & B
Dr. Yang Qingli	A & B
Mr. Cao Hongbo	A & B
Dr. Fan Ren Da Anthony <sup>(1)</sup>	A & B
<i>Independent Non-executive Directors</i>	
Mr. Wang Tao (王濤)	A & B
Mr. Wong Man Chung Francis	A & B
Mr. Shi Zheyang	A & B

<sup>(1)</sup> Dr. Fan Ren Da Anthony was appointed as a Non-executive Director with effect from 25 July 2022

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 2021, interim financial results and report in respect of the six months ended 30 June 2022, the unaudited consolidated financial statements for the nine months ended 30 September 2022, the preliminary financial budget and internal audit plan of the Company for the year 2023, 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 three times 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, key terms of the new service contracts entered with two Executive Directors and the new letters of appointment entered with one Non-executive Director and one Independent Non-executive Director and other related matters, key terms of the new letter of appointment entered with the new Non-executive Director appointed during the year and other related matters, 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.

In December 2022, the Board has amended the terms of reference for the Remuneration Committee to incorporate the changes brought by the amendments to the CG Code in relation to matters relating to share schemes under Chapter 17 of the Listing Rules.

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)	3/3
Mr. Wong Man Chung Francis	3/3
Mr. Shi Zheyang	3/3

### 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 three times 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, to make recommendation to the Board on the renewal of service contracts for two Executive Directors and letters of appointment for one Non-executive Director and one Independent Non-executive Director, and to evaluate and assess the effectiveness of the "Nomination Policy", the Nomination Committee and the adequacy of the terms of reference of the Nomination Committee and consider whether any update or amendment is required. Also, the Nomination Committee submitted the proposal for the appointment of Dr. Fan Ren Da Anthony, as a Non-executive Director, with effect from 25 July 2022 to the Board for acceptance, review and approval in July 2022.

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)	3/3
Mr. Wang Tao (汪濤)	3/3
Mr. Shi Zheyang	3/3

### 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.

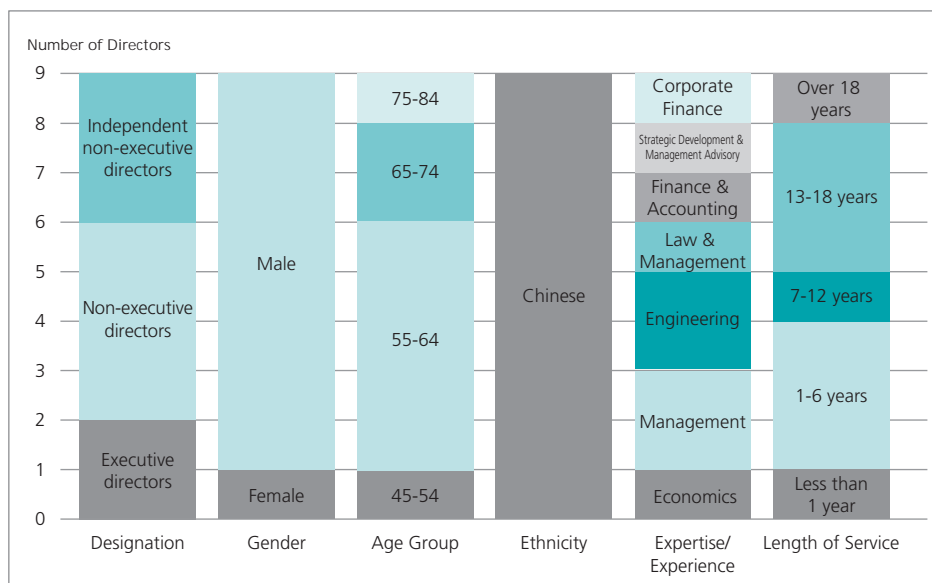
The Company aims to maintain an appropriate balance of diversity perspectives that are relevant to the Company’s business growth and is also committed to ensuring that recruitment and selection practices at all levels (from the Board downwards) are appropriately structured so that a diverse range of 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 current composition of 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 31 December 2022:



## Gender Diversity

The Company values gender diversity across all levels of the Group. The following table sets out the gender ratio in the workforce of the Group, including the Board and senior management as at the date of this annual report:

	Female	Male
Board	11.1%	88.9%
Senior Management	0%	100%
Other employees	13.45%	86.55%
<b>Overall workforce</b>	<b>13.4%</b>	<b>86.6%</b>

The Board is committed to improving greater gender diversity in the Board, senior management and other employees of the Group and wishes to achieve at least 15% of female Directors, 15% of female senior management and 15% of female employees by the end of 2025.

The Board will continue, taking into account the business needs of the Company and changes from time to time that may affect the Company's business plans, to ensure the gender diversity when recruiting staff at senior level, so that the female senior management and potential successors will join the Board in due course to ensure gender diversity of the Board. The Company will continue to focus on training talent in different gender and providing long-term development opportunities for staff in different gender.

## 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 (7) 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 A.2.1 of the CG Code.

During the year, 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 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 2022.

The Directors have prepared the financial statements in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. Appropriate accounting policies have also been used and applied consistently except the adoption of revised standards, amendments to standards and interpretation.

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 66 to 70 of this annual report.

## AUDITOR'S REMUNERATION

During the year ended 31 December 2022, the remuneration paid/payable to the Company's external auditor, PricewaterhouseCoopers, is set out below:

Service Category	Fees Paid/Payable RMB'000
Audit Services	3,900
Non-audit Services	
– Tax	40
– Others <sup>(1)</sup>	4,292
<b>Total</b>	<b>8,232</b>

<sup>(1)</sup> Other non-audit services included, among others, the review of the Company's Environmental, Social and Governance Report for the year ended 31 December 2021, and the review of the Company's announcement and circular in relation to the very substantial disposal and connected transaction in relation to the disposal of 100% equity interest in Hilong Pipeline Engineering Technology Service Co., Ltd., which were published by the Company on 31 March 2023.

## 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 andK MANAGEMENT AND INTERNAeie (of )0.4 Tdould app theirf



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.

The Company has in place the Whistleblowing Policy for employees of the Company and those who deal with the Company to raise concerns, in confidence and anonymity, with the Audit Committee about possible improprieties in any matters related to the Company.

The Company has also in place the Anti-Corruption Policy to safeguard against corruption and bribery within the Company. The Company has an internal reporting channel that is open and available for employees of the Company to report any suspected corruption and bribery. Employees can also make anonymous reports to the internal audit function, which is responsible for investigating the reported incidents and taking appropriate measures. The Company continues to carry out anti-corruption and anti-bribery activities to cultivate a culture of integrity, and actively organizes anti-corruption training and inspections to ensure the effectiveness of anti-corruption and anti-bribery.

During the year ended 31 December 2022, the Company held one anti-corruption trainings and briefings to all employees. There were no non-compliance cases in relation to bribery and corruption.

The Company has developed its disclosure policy which provides a general guide to the Directors, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries. Control procedures have been implemented to ensure that unauthorized access and use of inside information are strictly prohibited.

### **COMPANY SECRETARY**

Ms. Sham Ying Man is the company secretary of the Company. The primary contact person at the Company is Mr. Chen Yong (Chief Financial Officer). 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 2022 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: chen Yong@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)	1/1
Ms. Zhang Shuman	1/1
Dr. Yang Qingli	1/1
Mr. Cao Hongbo	1/1
Dr. Fan Ren Da Anthony <sup>(1)</sup>	N/A
Mr. Wang Tao (王濤)	1/1
Mr. Wong Man Chung Francis	1/1
Mr. Shi Zheyang	1/1

<sup>(1)</sup> Dr. Fan Ren Da Anthony was appointed as a Non-executive Director with effect from 25 July 2022.

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.

### Shareholders' Communication Policy

The Company has in place a shareholders' communication policy to ensure that shareholders' views and concerns are appropriately addressed. The policy aims to set out the principles of the Company in relation to the shareholders' communications, with the objective of ensuring that its communications with the shareholders of the Company are timely, transparent, accurate and open. The Board reviewed the implementation and effectiveness of the shareholders' communication policy and the results were satisfactory.

The Company has established a number of channels for maintaining an on-going dialogue with its shareholders as follows:

#### (a) Shareholders' Enquiries

##### *Enquiries about Shareholdings*

Shareholders should direct their enquiries about their shareholdings to the Company's share registrar.

##### *Enquiries to the Company*

Shareholders are provided with contact details of the Company, such as telephone hotline, fax number, email address and postal address, in order to enable them to make any query that they may have with respect to the Company.

Shareholders may at any time make a request for the Company's information to the extent such information is publicly available.

#### (b) Corporate Communications

"Corporate Communications" have the meaning ascribed thereto in the Listing Rules, which include but not limited to (a) the directors' report, annual accounts together with a copy of the auditor's report and, where applicable, its summary financial report; (b) the interim report and, where applicable, its summary interim report; (c) a notice of meeting; (d) a listing document; (e) a circular; and (f) a proxy form. The Corporate Communications of the Company should be made available to the shareholders in a timely manner. Corporate Communications will be provided to shareholders in both English and Chinese versions to facilitate shareholders' understanding. Shareholders shall have the right to choose the language (either English or Chinese or both) or means of receipt of the Corporate Communications (in printed form or through electronic means).

#### (c) Corporate Website

Any information or documents of the Company posted on the Hong Kong Exchanges and Clearing Limited's website will also be published on the Company's website ([www.hilonggroup.com](http://www.hilonggroup.com)) immediately thereafter. Other corporate information, such as principal business activities and latest development of the Company and its subsidiaries, as well as the share price and dividend history of the Company will also be available on the Company's website.

The Company shall publish its results announcement on the Company's website after the results have been approved by the Board. The results announcement contains the business performance and results of the Group, details on the dividend payment and closure of the register of members and any other information required to be disclosed under the Listing Rules from time to time.

#### **(d) Shareholders' Meetings**

The annual general meeting and other general meetings of the Company provide an opportunity for constructive communication between the Company and its shareholders. Shareholders are encouraged to participate in general meetings or to appoint proxies to attend and vote at the meetings for and on their behalf if they are unable to attend the meetings. Board members, in particular, the chairmen of Board committees or their delegates, appropriate senior executives and the external auditors will attend annual general meeting of the Company to answer shareholders' questions (if any).

Notices of annual general meeting, related circulars and forms of proxy will be distributed to the shareholders at least 20 clear business days (or any other period required under the Listing Rules from time to time) prior to the respective annual general meeting. The circulars will set out details of the proposed resolutions and other relevant information. The forms of proxy will also be provided to the shareholders for appointing proxies to attend and vote at the annual general meeting on their behalf.



## 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 2022.

### 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 2022 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 23 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 2022, 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 Control 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-laying, 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 2022, 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 2022, 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 2022, 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 2022, 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 Listing Rules, the Securities and Futures Ordinance (the “SFO”) and the applicable provisions set out in the CG Code for, among other things, the disclosure of information and corporate governance. The Group has adopted the Model Code. Specific enquiry has been made to all the Directors and all Directors confirmed that they have complied with the Model Code throughout the year.

### 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.

**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 23 of this annual report.

### DIVIDEND

During the year ended 31 December 2022, no final dividend for the year ended 31 December 2021 was paid to the shareholders of the Company.

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

### RESERVES

Details of movement in the reserves of the Company and the Group for the year ended 31 December 2022 are set out in notes 17 and 31 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

As at 31 December 2022, the reserves of the Company available for distribution to shareholders amounted to RMB1,291.7 million (2021: RMB1,275.7 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 11.7% and 26.2% of the Group's total revenue from sales of goods or rendering of services, respectively (2021: 8.9% and 27.8%). The aggregate purchases attributable to the Group's largest supplier and five largest suppliers accounted for 11.9% and 29.9% of the Group's total purchases respectively during the year under review (2021: 11.8% and 28.9%).

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 2022 are set out in note 13(e) 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 (王濤)

### Non-executive Directors

Ms. Zhang Shuman (張姝嫻)

Dr. Yang Qingli (楊慶理)

Mr. Cao Hongbo (曹宏博)

Dr. Fan Ren Da Anthony (范仁達) (appointed on 25 July 2022)

### Independent Non-executive Directors

Mr. Wang Tao (王濤)

Mr. Wong Man Chung Francis (黃文宗)

Mr. Shi Zheyang (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. Wang Tao (王濤), Mr. Cao Hongbo and Mr. Wong Man Chung Francis 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, whereas Dr. Fan Ren Da Anthony will retire as a Director at the forthcoming AGM pursuant to Article 83(3) of the Articles. 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 2022, the total number of full-time employees of the Group was 3,245 (31 December 2021: 2,920). Employee costs excluding the Directors' remuneration totaled RMB678.0 million for the year of 2022. 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 2022 were within the following bands:

	Number of Senior Management
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
	7

### **DIRECTORS' INTERESTS IN TRANSACTION, ARRANGEMENT OR CONTRACT OF SIGNIFICANCE**

Save as disclosed in this annual report, as at 31 December 2022 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 2022.

### **DIRECTORS' PERMITTED INDEMNITY PROVISION**

Pursuant to the Articles, the Directors 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 2022 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 2022.

## 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 four months as at 31 December 2022. 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;

## REPORT OF THE DIRECTORS

- (v) the date on which the grantee ceases to be an Eligible Person for any reason, or die or becomes permanently disabled, 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:

Category/ name of grantees	Number of Shares						Exercise price HK\$	Closing price immediately before the date of grant HK\$	Weighted average closing price immediately before exercise HK\$	Date of grant	Vesting period	Exercise period
	Outstanding as at 1 January 2022	Number of options	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	Outstanding as at 31 December 2022						
Employees of the Group other than Directors in aggregate	15,350,700	15,350,700	-	-	-	15,350,700	5.93	5.72	N/A	5 February 2014	5 February 2014 – 4 February 2019	5 February 2015 – 4 February 2024

Note:

The number of options available for grant under the Post-IPO Scheme is 66,223,250 as at 1 January 2022 and 31 December 2022.

## DISCLOSURE OF INTERESTS

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

As at 31 December 2022, 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	710,661,000 <sup>(1)</sup>	
	Founder and beneficiary of three Mr. Zhang's family trusts/Interest of controlled corporation	112,300,800 <sup>(2)</sup>	
	Beneficial owner	1,260,000	
		824,221,800	48.585%
Ms. Zhang Shuman	Interest of controlled corporation Beneficial owner	24,300,000 <sup>(3)</sup>	
		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 <sup>(4)</sup>	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 2022, 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	710,661,000 <sup>(1)</sup>	41.89%
SCTS Capital Pte Ltd.	Nominee	823,338,800 <sup>(1)(2)(4)</sup>	48.53%
Standard Chartered Trust (Singapore) Limited	Trustee	823,338,800 <sup>(1)(2)(4)</sup>	48.53%
Ms. Gao Xia	Interest of spouse	824,221,800 <sup>(3)</sup>	48.59%

Notes:

- (1) 710,661,000 shares are held by Hilong Group Limited, the entire share capital of which is held by SCTS Capital Pte Ltd. which is then wholly-owned by Standard Chartered Trust (Singapore) Limited as trustee of Mr. Zhang's trust. Mr. Zhang Jun is the founder and beneficiary of Mr. Zhang's trust.
- (2) 24,300,000 shares, 24,000,000 shares and 64,000,800 shares are held by Younger Investment Limited, North Violet Investment Limited and LongZhi Investment Limited respectively, the entire share capital of each of which is held by SCTS Capital Pte Ltd. which is then wholly-owned by Standard Chartered Trust (Singapore) Limited as trustees of three Mr. Zhang's family trusts. Mr. Zhang Jun is the founder and one of the beneficiaries of these three Mr. Zhang's family trusts.
- (3) Ms. Gao Xia is the spouse of Mr. Zhang Jun and is therefore deemed to be interested in the shares and underlying shares of the Company in which Mr. Zhang Jun is interested.
- (4) Pursuant to the supplemental agreement dated 30 January 2023, Multi Allied Development Limited has agreed to terminate the sale of 21,000,000 shares in the Company under the sale and purchase agreement dated 6 September 2022 and the said 21,000,000 shares in the Company was returned to Multi Allied Development Limited. Hence, the number of shares of the Company that SCTS Capital Pte. Ltd. and Standard Chartered Trust (Singapore) Limited were interested is increased back to 844,338,800 shares on 30 January 2023.

## CONNECTED TRANSACTIONS

A summary of the related party transactions entered into by the Group during the year ended 31 December 2022 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 2022, 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 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.. Huashi Hailong is principally engaged in investment holding and management. Beijing Huashi Investment is held as to 98.0% by Huashi Hailong, 1% by Mr. Zhang Jun and 1% by Ms. Zhang Jingyin. Further, Longshi Investment is held as to 50% by Beijing Huashi Investment. As such, each of Beijing Huashi Investment, Huashi Hailong, 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

#### 2022 Tenancy Agreements

References are made to the announcement of the Company dated 10 January 2022 regarding the 2022 Renewed Beijing Huashi Tenancy Agreements and the 2022 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 had expired on 31 December 2021, on 10 January 2022, the Group and the relevant counterparties entered into the following renewal agreements: (1) 2022 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 2021 Beijing Huashi Tenancy Agreements for a term of one year commencing from 1 January 2022; and (2) 2022 Renewed Shine New Material Tenancy Agreement pursuant to which Hilong Zhizao (Shanghai) Consulting Management Co., Ltd.\* (海隆智造(上海)諮詢管理有限公司) (“**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 a term of one year commencing from 1 January 2022 (the 2022 Renewed Beijing Huashi Tenancy Agreements and the 2022 Renewed Shine New Material Tenancy Agreement, together, are referred to as the “**2022 Tenancy Agreements**”).

Given that the 2022 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 2022 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 2022 to be RMB14,454,460 (the “**2022 Annual Cap**”). As the highest applicable percentage ratio in respect of the 2022 Annual Cap for the 2022 Tenancy Agreements, on an aggregated basis, exceeds 0.1% but is less than 5%, the continuing connected transactions contemplated under the 2022 Tenancy Agreements and the 2022 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 2022 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 2022 Tenancy Agreements and the 2022 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 2022 Tenancy Agreements and the transactions contemplated thereunder, please refer to the announcement of the Company dated 10 January 2022.

### **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 announcement of the Company dated 7 February 2023 regarding the 2023 Renewed Beijing Huashi Tenancy Agreements and the 2023 Renewed Shine New Material Tenancy Agreement. Since each of the 2022 Renewed Beijing Huashi Tenancy Agreements and the 2022 Renewed Shine New Material Tenancy Agreement has expired on 31 December 2022, on 7 February 2023, the Group and the relevant counterparties entered into two renewal agreements: (1) the 2023 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 2022 Renewed Beijing Huashi Tenancy Agreements for a term of one year commencing from 1 January 2023; and (2) the 2023 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 2022 Renewed Shine New Material Tenancy Agreement for use as a manufacturing plant for a term of one year commencing from 1 January 2023 (the 2023 Renewed Beijing Huashi Tenancy Agreements and the 2023 Renewed Shine New Material Tenancy Agreement, together, are referred to as the “**2023 Tenancy Agreements**”).

As at the date of this report, the counterparties under the 2023 Renewed Beijing Huashi Tenancy Agreements and the 2023 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 2023 Renewed Beijing Huashi Tenancy Agreements and 2023 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 2023 Renewed Beijing Huashi Tenancy Agreements and 2023 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.

Furthermore, the Company estimated the annual cap for the year ending 31 December 2023 to be RMB14,456,000 (the "**2023 Annual Cap**"). As the highest applicable percentage ratio in respect of the 2023 Annual Cap for the 2023 Tenancy Agreements, on an aggregated basis, exceeds 0.1% but is less than 5%, the continuing connected transactions contemplated under the 2023 Tenancy Agreements and the 2023 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 2023 Renewed Beijing Huashi Tenancy Agreements and 2023 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 2023 Renewed Beijing Huashi Tenancy Agreements, the 2023 Renewed Shine New Material Tenancy Agreement and the 2023 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 2023 Renewed Beijing Huashi Tenancy Agreements and the 2023 Renewed Shine New Material Tenancy Agreement, please refer to the announcement of the Company dated 7 February 2023.

### Connected Transaction Entered into after the Reporting Period

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

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

### 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

The Company did not have any acquisition or disposal of subsidiaries, associates, joint ventures or significant investment during the year ended 31 December 2022.

For details of the Hilong Pipeline Disposal and Shanghai Hilong Special Steel Pipe Disposal after the reporting period, please refer to “Management Discussion and Analysis – Events after the End of the Reporting Period” in this annual report.

## 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 2022.

## 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 2022. 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 Part 2 of the CG Code contained in Appendix 14 of the Listing Rules throughout the year ended 31 December 2022.

## SUBSEQUENT EVENTS

Save as disclosed above under the section headed “Continuing Connected Transaction Entered into after the Reporting Period”, “Connected Transaction Entered into after the Reporting Period” and “Management Discussion and Analysis – Events after the End of 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 2022 have been audited by PricewaterhouseCoopers, certified public accountants.

On behalf of the Board

**Zhang Jun**

*Chairman*

Hong Kong, 25 April 2023



# INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

# INDEPENDENT AUDITOR'S REPORT

## 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.

The key audit matter identified in our audit is related to expected credit losses of trade receivables.

Key Audit Matter	How our audit addressed the Key Audit Matter
<p><b>Expected credit losses of trade receivables</b></p> <p>Refer to Note 3.1(b) (Financial risk factors – Credit risk), Note 4 (Critical accounting estimates and judgements) and Note 13(b) (Trade and other receivables) to the consolidated financial statements.</p> <p>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.</p> <p>As at 31 December 2022, the gross carrying amount of trade receivables of the Group was approximately RMB1,657 million, and provision for expected credit losses of approximately RMB100 million was recorded.</p> <p>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.</p>	<p>Our procedures in relation to impairment of provision for trade receivables included but not limited to below:</p> <ul style="list-style-type: none"><li>• 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;</li><li>• assessing the appropriateness of the expected credit loss provisioning methodology throughout the Group;</li><li>• 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;</li></ul>

# INDEPENDENT AUDITOR'S REPORT

## KEY AUDIT MATTERS (continued)

Key Audit Matter (continued)	How our audit addressed the Key Audit Matter (continued)
<p>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.</p> <p>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.</p>	<ul style="list-style-type: none"><li>• 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;</li><li>• confirming on a sample basis significant balances with customers;</li></ul> <p>We found management's assessment of the impairment provision of trade receivables is supported by the evidence we obtained.</p>

## 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.

## INDEPENDENT AUDITOR'S REPORT

### 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 HKSAAs 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 HKSAAs, 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.



## INDEPENDENT AUDITOR'S REPORT

### **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.

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The engagement partner on the audit resulting in this independent auditor's report is Dou Wang, Angel.

**PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong, 31 March 2023

# CONSOLIDATED BALANCE SHEET

As at 31 December 2022

		As at 31 December	
		2022	2021
		RMB'000	RMB'000
	Note		
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	6	2,533,230	2,381,624
Right-of-use assets	7	51,850	51,223
Intangible assets	8	219,364	210,219
Investments accounted for using equity method	9	93,847	93,231
Deferred income tax assets	11	183,586	158,224
Other long-term assets	5(d), 10	105,659	50,778
		<b>3,187,536</b>	2,945,299
<b>Current assets</b>			
Inventories	12	1,174,154	1,050,881
Contract assets	5(d)	188,301	131,063
Financial assets at fair value through other comprehensive income	3, 13(a)	52,059	132,897
Derivative financial instruments	13(c)	–	1,499
Trade and other receivables	13(b)	1,784,960	1,663,545
Prepayments	14	470,280	429,371
Current income tax recoverable		69,542	28,067
Restricted cash	13(d)	95,755	60,379
Cash and cash equivalents	13(d)	778,440	628,805
		<b>4,613,491</b>	4,126,507
<b>Total assets</b>		<b>7,801,027</b>	7,071,806
<b>EQUITY</b>			
<b>Capital and reserve attributable to equity owners of the Company</b>			
Ordinary shares	16	141,976	141,976
Other reserves	17	1,309,078	1,301,869
Currency translation differences		(268,560)	(435,273)
Retained earnings		2,140,692	2,006,907
		<b>3,323,186</b>	3,015,479
<b>Non-controlling interests</b>		<b>31,788</b>	27,348
<b>Total equity</b>		<b>3,354,974</b>	3,042,827

## CONSOLIDATED BALANCE SHEET

As at 31 December 2022

		As at 31 December	
	Note	2022 RMB'000	2021 RMB'000
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	13(e)	2,546,163	2,432,509
Lease liabilities	7	14,620	11,655
Deferred income tax liabilities	11	36,660	36,345
Deferred revenue	15	61,509	44,350
		<b>2,658,952</b>	2,524,859
<b>Current liabilities</b>			
Trade and other payables	13(f)	1,033,268	736,348
Contract liabilities	5(d)	126,512	109,673
Current income tax liabilities		53,541	44,796
Borrowings	13(e)	569,197	607,352
Lease liabilities	7	4,524	5,892
Deferred revenue	15	59	59
		<b>1,787,101</b>	1,504,120
<b>Total liabilities</b>		<b>4,446,053</b>	4,028,979
<b>Total equity and liabilities</b>		<b>7,801,027</b>	7,071,806

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

The consolidated financial statements on pages 71 to 159 were approved by the Board of Directors on 31 March 2023 and were signed on its behalf.

Director: Zhang Jun (張軍)

Director: Wang Tao (汪濤)

# CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2022

	Note	Year ended 31 December	
		2022 RMB'000	2021 RMB'000
<b>Revenue</b>	5	<b>3,736,078</b>	2,916,922
Cost of sales	18	<b>(2,669,159)</b>	(2,018,603)
<b>Gross profit</b>		<b>1,066,919</b>	898,319
Selling and marketing expenses	18	<b>(113,688)</b>	(110,133)
Administrative expenses	18	<b>(467,121)</b>	(425,306)
Net (provision for)/reversal of impairment losses on receivables and contract assets	3,13(b)	<b>(77,211)</b>	16,763
Other income	21	<b>14,015</b>	8,852
Other gains – net	22	<b>272,277</b>	71,852
<b>Operating profit</b>		<b>695,191</b>	460,347
Finance income	23	<b>5,336</b>	5,550
Finance costs	23	<b>(495,503)</b>	(323,337)
Finance costs – net		<b>(490,167)</b>	(317,787)
Share of profit of investments accounted for using equity method	9	<b>5,799</b>	768
<b>Profit before income tax</b>		<b>210,823</b>	143,328
Income tax expense	24	<b>(65,069)</b>	(95,733)
<b>Profit for the year</b>		<b>145,754</b>	47,595
<b>Profit attributable to:</b>			
Equity owners of the Company		<b>140,976</b>	44,249
Non-controlling interests		<b>4,778</b>	3,346
		<b>145,754</b>	47,595
<b>Earnings per share attributable to the equity owners of the Company for the year (expressed in RMB per share)</b>			
– Basic earnings per share	25	<b>0.0831</b>	0.0261
– Diluted earnings per share	25	<b>0.0831</b>	0.0261

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 2022

	Year ended 31 December	
	2022 RMB'000	2021 RMB'000
<b>Profit for the year</b>	<b>145,754</b>	47,595
<b>Other comprehensive profit/(loss):</b> <i>Items that may be reclassified to profit or loss</i>		
Changes in the fair value of financial assets at fair value through other comprehensive income	<b>18</b>	2,375
Currency translation differences	<b>166,375</b>	(105,504)
<b>Other comprehensive profit/(loss) for the year, net of tax</b>	<b>166,393</b>	(103,129)
<b>Total comprehensive profit/(loss) for the year</b>	<b>312,147</b>	(55,534)
<b>Attributable to:</b>		
Equity owners of the Company	<b>307,707</b>	(58,993)
Non-controlling interests	<b>4,440</b>	3,459
	<b>312,147</b>	(55,534)

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 2022

	Capital and reserves attributable to equity owners							Total equity RMB'000
	Note	Ordinary shares	Other reserves	Retained earnings	Cumulative Translation differences	Total	Non-controlling interests	
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
<b>As at 1 January 2021</b>		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)
<b>Total comprehensive income/(loss) for the year</b>		–	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
<b>As at 31 December 2021</b>		141,976	1,301,869	2,006,907	(435,273)	3,015,479	27,348	3,042,827
<b>As at 1 January 2022</b>		<b>141,976</b>	<b>1,301,869</b>	<b>2,006,907</b>	<b>(435,273)</b>	<b>3,015,479</b>	<b>27,348</b>	<b>3,042,827</b>
Profit for the year		–	–	140,976	–	140,976	4,778	145,754
Other comprehensive gains/(losses)		–	18	–	166,713	166,731	(338)	166,393
<b>Total comprehensive income for the year</b>		–	18	140,976	166,713	307,707	4,440	312,147
Appropriation to statutory reserve	17(a)	–	7,191	(7,191)	–	–	–	–
<b>As at 31 December 2022</b>		<b>141,976</b>	<b>1,309,078</b>	<b>2,140,692</b>	<b>(268,560)</b>	<b>3,323,186</b>	<b>31,788</b>	<b>3,354,974</b>

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

Year ended 31 December

	<i>Note</i>	2022 RMB'000	2021 RMB'000
<b>Cash flows from operating activities</b>			
Cash generated from operations	27(a)	<b>678,756</b>	516,214
Income tax paid		<b>(122,603)</b>	(62,399)
<b>Net cash generated from operating activities</b>		<b>556,153</b>	453,815
<b>Cash flows used in investing activities</b>			
Proceeds from disposal of property, plant and equipment	27(b)	<b>42,947</b>	15,460
Dividends received		<b>1,383</b>	2,773
Purchases of property, plant and equipment		<b>(139,066)</b>	(139,869)
Purchases of intangible assets	8	<b>(14)</b>	(1,438)
Loans to related parties		<b>(3,901)</b>	(30,772)
Capital reduction from an associate		<b>3,800</b>	–
Payments for financial assets at fair value through profit or loss		<b>(8,251)</b>	–
Net cash inflow arising from financial instruments	3	–	23,816
Net proceeds from disposal of subsidiaries of the Group	22	–	106,480
<b>Net cash used in investing activities</b>		<b>(103,102)</b>	(23,550)
<b>Cash flows used in financing activities</b>			
Proceeds from borrowings		<b>675,407</b>	604,641
Repayments of borrowings		<b>(661,996)</b>	(738,303)
Interest paid		<b>(285,396)</b>	(158,494)
Issuance cost of the 2024 Notes		–	(172,414)
Principal element of lease payments	7	<b>(7,251)</b>	(10,761)
Acquisition of non-controlling interests	17(c)	–	(15,800)
Net cash inflow/(outflow) arising from security deposit for bank borrowings	13(e)	<b>8,503</b>	(1,314)
Repurchase of the 2024 Notes		<b>(50,240)</b>	–
<b>Net cash used in financing activities</b>		<b>(320,973)</b>	(492,445)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>132,078</b>	(62,180)
Exchange gains/(losses) on cash and cash equivalents		<b>17,557</b>	(6,478)
Cash and cash equivalents at beginning of the year		<b>628,805</b>	697,463
<b>Cash and cash equivalents at end of the year</b>		<b>778,440</b>	628,805

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 1 GENERAL INFORMATION OF THE GROUP

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

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

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

The consolidated financial statements are presented in Renminbi thousand (RMB’000), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 31 March 2023.

## 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 or annual improvements for the first time for their annual reporting period commencing 1 January 2022:

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

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.1 Basis of preparation (continued)

#### 2.1.2 New standards and interpretations not yet adopted

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

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

## 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 acquiree, 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

## 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.

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.8 Property, plant and equipment (continued)

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 The GrTd(transfer

## 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 2022 and 2021, 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**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 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.

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## 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**

## 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(d)), trade and other receivables (Note 13(b)), borrowings (Note 13(e)) and trade and other payables (Note 13(f)).

As at 31 December 2022, 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 RMB88,094,000 lower/higher as a result of foreign exchange losses/gains (2021: net profit for the year would have been RMB23,675,000 lower/higher 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(e).

As at 31 December 2022, 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 RMB230,000 (2021: RMB276,000) 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 2022 and 2021:

Counterparty	Rating	As at 31 December	
		2022 RMB'000	2021 RMB'000
China Construction Bank*	A	193,737	65,431
Hongkong and Shanghai Banking Corporation Limited*	A+	176,869	214,073
Bank of China*	A	92,387	50,677
Emirates Islamic Bank	N/A	72,672	15,347
Habib Bank Limited**	B3	49,185	58,639
Industrial & Commercial Bank of China*	A	41,583	42,787
Citibank*	A+	33,673	11,778
China Everbright Bank*	BBB+	29,415	2,356
Bank of Ningbo**	Baa2	29,124	9,957
China Minsheng Bank*	BBB-	25,010	505
Shanghai Pudong Development Bank*	BBB	21,358	34,360
Toronto-Dominion Bank*	AA-	20,621	2,151
China Merchants Bank*	BBB+	16,188	2,244
Zenith Bank Plc*	B-	15,421	19,430
BNP Paribas*	A+	8,359	7,261
J P Morgan Chase Bank*	A+	7,129	7,727
Pichincha Bank	N/A	6,881	48,890
China Citic Bank*	BBB+	6,184	6,643
Bank of Kunlun	NA	4,973	47,352
Agricultural Bank of China*	A	4,747	2,347

\* The source of credit rating is from S&P as at 31 December 2022.

\*\* The source of credit rating is from Moody's as at 31 December 2022.

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, 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 2022 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 2022 and 31 December 2021 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
<b>31 December 2022</b>						
Average expected credit loss rate	0.29%	1.68%	8.73%	19.09%	84.21%	5.45%
Gross carrying amount (RMB'000)						
– Trade receivables	1,058,256	400,557	61,789	45,794	90,264	1,656,660
– Contract assets	188,850	–	–	–	–	188,850
	1,247,106	400,557	61,789	45,794	90,264	1,845,510
Loss allowance						
– Trade receivables	(3,078)	(6,745)	(5,392)	(8,743)	(76,011)	(99,969)
– Contract assets	(549)	–	–	–	–	(549)
<b>Loss allowance</b>	<b>(3,627)</b>	<b>(6,745)</b>	<b>(5,392)</b>	<b>(8,743)</b>	<b>(76,011)</b>	<b>(100,518)</b>
<b>31 December 2021</b>						
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)
<b>Loss allowance</b>	<b>(1,783)</b>	<b>(5,767)</b>	<b>(28,066)</b>	<b>(32,145)</b>	<b>(61,688)</b>	<b>(129,449)</b>

### 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 2022 and 2021 reconcile to the opening loss allowances as follows:

	Contract assets RMB'000	Trade receivables RMB'000
<b>As at 1 January 2021</b>	(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
<b>As at 31 December 2021</b>	(283)	(129,166)
Increase in provision for receivables loss allowance		
– loss allowance on individually doubtful accounts receivable	–	<b>(19,547)</b>
– loss allowance on trade receivables and contract assets without doubtful credit risk	<b>(266)</b>	<b>(42,897)</b>
Write-off of loss allowance	–	<b>91,641</b>
<b>As at 31 December 2022</b>	<b>(549)</b>	<b>(99,969)</b>

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 2022, 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 2022 and 2021, the internal credit rating of one associate becomes higher, and management has recorded provision for doubtful other receivables of RMB20.2 million (31 December 2021: RMB5.7 million). As at 31 December 2022 and 2021, 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

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
<b>As at 31 December 2022</b>					
<b>Non-derivatives</b>					
Borrowings and interest payables	823,645	2,800,566	5,978	–	3,630,189
Trade and other payables (excluding interest payables, staff salaries and welfare payables and other tax liabilities)	787,968	–	–	–	787,968
Lease liabilities	5,066	2,529	4,163	9,807	21,565
	<b>1,616,679</b>	<b>2,803,095</b>	<b>10,141</b>	<b>9,807</b>	<b>4,439,722</b>
<b>As at 31 December 2021</b>					
<b>Non-derivatives</b>					
Borrowings and interest payables	854,828	278,004	2,687,862	–	3,820,694
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
	<b>1,412,799</b>	<b>281,272</b>	<b>2,690,947</b>	<b>8,977</b>	<b>4,393,995</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 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 2022 and 2021 are as follows:

	As at 31 December	
	2022 RMB'000	2021 RMB'000
Total borrowings (Note 13(e))	3,115,360	3,039,861
Add: Lease liabilities (Note 7)	19,144	17,547
Less: Cash and cash equivalents (Note 13(d))	(778,440)	(628,805)
Restricted cash (Note 13(d))	(95,755)	(60,379)
Net debt	2,260,309	2,368,224
Total equity	3,354,974	3,042,827
Total capital	5,615,283	5,411,051
<b>Gearing ratio</b>	<b>40.25%</b>	43.77%

The slight decrease in gearing ratio as at 31 December 2022 was mainly due to the increase 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 2022 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).



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 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 2022 and 31 December 2021:

### 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 analysis**

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 2022 would have increased/decreased by approximately RMB22,721 (31 December 2021: RMB40,300) 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) 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.

##### (b) 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.

##### (c) 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.

##### (d) 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.

##### (e) 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 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.

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

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

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

#### (a) Revenue

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

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

## 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 2022 is as follows:

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 5 SEGMENT INFORMATION (continued) (b) Segment information (continued)

As at 31 December 2022

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

- (a) As at 31 December 2022, the Senior Notes of USD360,388,000 (31 December 2021: USD377,345,000) was included in the total liabilities of oilfield equipment manufacturing and services segment (Note 13).

## 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 2021 is as follows:

Business segment	Year ended 31 December 2021				
	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
<b>Revenue</b>					
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
<b>Revenue from contracts with customers:</b>					
– 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
<b>Revenue from other sources:</b>					
– rental income	47,826	4,323	–	144,394	196,543
	1,204,759	388,727	845,282	478,154	2,916,922
<b>Results</b>					
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
<b>Other information</b>					
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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 5 SEGMENT INFORMATION (continued)

#### (b) Segment information (continued)

As at 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
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

#### (c) Geographical segments

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

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

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

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

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

## 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:

	<i>Notes</i>	<b>31 December 2022 RMB'000</b>	31 December 2021 RMB'000
Current contract assets relating to offshore engineering and inspection services	<i>(i)</i>	<b>188,850</b>	131,346
Loss allowance	<i>3.1(b)</i>	<b>(549)</b>	(283)
<b>Total contract assets</b>		<b>188,301</b>	131,063
Non-current asset recognised for costs incurred to fulfil a contract	<i>(iii)</i>	<b>80,984</b>	25,919
<b>Contract liabilities – Sales and service contracts</b>	<i>(i), (ii)</i>	<b>126,512</b>	109,673

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

Contract assets are recorded for the provision of offshore engineering services and inspection services. The Group also recognised a loss allowance for contract assets as at 31 December 2022, 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 2022 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 2022 RMB'000	31 December 2021 RMB'000
Revenue recognised that was included in the contract liability balance at the beginning of the year		
– Sales of goods	72,645	34,920
– Provision of service	37,028	30,822
	<b>109,673</b>	65,742

Contract liability that is non-current, with amount of RMB34,302,000 as at 31 December 2022 (31 December 2021: RMB15,731,000), is included in “Deferred revenue-Mobilisation fees” (Note 15).

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 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
<b>As at 1 January 2021</b>							
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
<b>Year ended 31 December 2021</b>							
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
<b>As at 31 December 2021</b>							
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
<b>Year ended 31 December 2022</b>							
Opening net book amount	308,607	1,918,091	17,711	3,987	–	133,228	2,381,624
Transferred from construction in progress	35,089	128,833	84	297	–	(164,303)	–
Transferred from inventories	–	35,436	–	–	–	58,530	93,966
Additions	2,291	42,284	1,969	2,403	–	97,176	146,123
Disposals	–	(13,621)	(399)	(62)	–	(4,452)	(18,534)
Depreciation (Note 18)	(22,343)	(231,411)	(3,278)	(817)	–	–	(257,849)
Currency translation differences	10,557	174,695	670	1,096	–	882	187,900
Closing net book amount	334,201	2,054,307	16,757	6,904	–	121,061	2,533,230
<b>As at 31 December 2022</b>							
Cost	431,502	4,043,226	55,148	28,137	7,731	121,061	4,686,805
Accumulated depreciation	(97,301)	(1,988,919)	(38,391)	(21,233)	(7,731)	–	(2,153,575)
Net book amount	334,201	2,054,307	16,757	6,904	–	121,061	2,533,230

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 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	
	2022 RMB'000	2021 RMB'000
Cost of sales	238,432	243,089
Administrative expenses	18,527	23,580
Selling and marketing expenses	890	829
	<b>257,849</b>	267,498

### 7 LEASE

	As at	
	31 December 2022 RMB'000	31 December 2021 RMB'000
<b>Right-of-use assets</b>		
Land	42,479	43,430
Buildings	7,103	7,793
Machinery and equipment	2,268	–
	<b>51,850</b>	51,223
<b>Lease liabilities</b>		
Current	4,524	5,892
Non-current	14,620	11,655
	<b>19,144</b>	17,547

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 7 LEASE (continued)

(i) The movements of the Right-of-use assets for the year ended 31 December 2022 were as follows:

	For the year ended 31 December	
	2022 RMB'000	2021 RMB'000
Opening net book value	51,223	105,441
Additions	7,076	–
Disposals	–	(42,130)
Amortisation charge (Note 18)	(7,205)	(11,575)
Currency translation differences	756	(513)
Closing net book value	51,850	51,223

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

	Year ended 31 December	
	2022 RMB'000	2021 RMB'000
<b>Amortisation charge of Right-of-use assets (Note 18)</b>		
Land	1,672	1,953
Buildings	5,533	6,229
Machinery and equipment	–	3,393
	7,205	11,575
Interest expense (Note 23)	1,280	888
Expense relating to short-term leases (included in cost of sales, administrative expenses and selling and marketing expenses) (Note 18)	54,277	42,237

The total cash outflow for leases in 2022 was RMB61,528,000 (2021: RMB52,998,000), out of which RMB7,251,000 (2021: RMB10,761,000) was relating to financing activities.

## 8 INTANGIBLE ASSETS

	Goodwill (a) RMB'000	Proprietary technologies RMB'000	Computer software RMB'000	Total RMB'000
<b>As at 1 January 2021</b>				
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
<b>Year ended 31 December 2021</b>				
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
<b>As at 31 December 2021</b>				
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
<b>Year ended 31 December 2022</b>				
Opening net book amount	<b>146,472</b>	<b>60,899</b>	<b>2,848</b>	<b>210,219</b>
Additions	–	<b>1</b>	<b>3,784</b>	<b>3,785</b>
Amortisation charge (Note 18)	–	<b>(8,394)</b>	<b>(794)</b>	<b>(9,188)</b>
Currency translation differences	<b>11,906</b>	<b>2,615</b>	<b>27</b>	<b>14,548</b>
Closing net book amount	<b>158,378</b>	<b>55,121</b>	<b>5,865</b>	<b>219,364</b>
<b>As at 31 December 2022</b>				
Cost	<b>158,378</b>	<b>85,097</b>	<b>17,883</b>	<b>261,358</b>
Accumulated amortisation	–	<b>(27,879)</b>	<b>(12,018)</b>	<b>(39,897)</b>
Impairment provision	–	<b>(2,097)</b>	–	<b>(2,097)</b>
Net book amount	<b>158,378</b>	<b>55,121</b>	<b>5,865</b>	<b>219,364</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 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 the fair value using discounted cash flow method for the Drilling Business and the Coating Business respectively.

A segment level summary of goodwill is presented below:

	As at 31 December			
	2022		2021	
	RMB'000		RMB'000	
	Drilling Business	Coating Business	Drilling Business	Coating Business
Oilfield equipment manufacturing and services	98,226	60,152	90,813	55,659

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			
	2022		2021	
	Drilling Business	Coating Business	Drilling Business	Coating Business
Growth rate	7%-8%	5%-6%	7%-8%	5%-6%
Gross margin	27%-45%	27%-45%	27%-45%	27%-45%
Discount rate	16%	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 2022 (2021: nil).

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

	Year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Administrative expenses	5,873	6,117
Cost of sales	3,315	1,694
	9,188	7,811

## 9 INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

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

	As at 31 December	
	2022 RMB'000	2021 RMB'000
Associates, share of net assets	93,847	93,231

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

	For the year ended 31 December	
	2022 RMB'000	2021 RMB'000
Associates, share of profit of investments accounted for using equity method	5,799	768

The movement in investment in the associates is as follows:

	For the year ended 31 December	
	2022 RMB'000	2021 RMB'000
Beginning of year	93,231	50,888
Share of results of associates	5,799	768
Other additions (Note 22(a))	–	44,348
Capital reduction	(3,800)	–
Dividends declared	(1,383)	(2,773)
End of year	93,847	93,231

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 9 INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD (continued)

#### (a) Investments in associates

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
			2022	2021	
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	RMB2,000,000	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%	30%	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 2022	344,725	86,424	258,301	11,652
As at and year ended 31 December 2021	335,337	74,543	260,794	253

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

### 10 OTHER LONG-TERM ASSETS

	As at 31 December	
	2022 RMB'000	2021 RMB'000
Contract mobilisation cost (Note 5(d))	80,984	25,919
Prepayment of insurance, lease expenses and others	24,675	24,859
	105,659	50,778

## 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	
	2022 RMB'000	2021 RMB'000
<b>Deferred income tax assets:</b>		
– to be recovered within 12 months	45,833	46,907
– to be recovered after more than 12 months	145,891	117,703
<b>Total deferred income tax assets</b>	<b>191,724</b>	164,610
Set-off of deferred income tax assets pursuant to set-off provisions	(8,138)	(6,386)
<b>Net deferred income tax assets</b>	<b>183,586</b>	158,224
<b>Deferred income tax liabilities:</b>		
– to be recovered after more than 12 months	(44,798)	(42,731)
Set-off of deferred income tax liabilities pursuant to set-off provisions	8,138	6,386
<b>Net deferred income tax liabilities</b>	<b>(36,660)</b>	(36,345)

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
<b>As at 1 January 2021</b>	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)
<b>As at 31 December 2021</b>	79,674	30,307	45,935	8,694	164,610
(Charged)/credit to the consolidated income statement (Note 24)	(14,783)	(4,406)	46,248	55	27,114
<b>As at 31 December 2022</b>	64,891	25,901	92,183	8,749	191,724

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 11 DEFERRED INCOME TAX ASSETS AND LIABILITIES (continued)

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

Deferred income 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 RMB16,240,000, RMB28,422,000, RMB23,126,000 will expire in years ending 31 December of 2023, 2024, 2037 respectively. The remaining portion of the accumulated tax losses amounted to RMB196,451,000 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 RMB497,590,000 as at 31 December 2022 (31 December 2021: RMB380,856,000), out of which RMB179,040,000 will expire in five years and RMB318,550,000 can be carried forward indefinitely.

Deferred income tax liabilities	Withholding taxation on unremitted earnings of certain subsidiaries	Gains on remeasuring existing equity interests in certain joint ventures on acquisition	Fair value adjustments on assets and liabilities upon acquisition	Accelerated tax depreciation expenses	Lease	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>At 1 January 2021</b>	(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
<b>At 31 December 2021</b>	(36,418)	(3,381)	(80)	(2,714)	(138)	(42,731)
(Charged)/credit to the consolidated income statement (Note 24)	(315)	–	88	(841)	(662)	(1,730)
Currency translation differences	–	–	(8)	(329)	–	(337)
<b>At 31 December 2022</b>	(36,733)	(3,381)	–	(3,884)	(800)	(44,798)

## 12 INVENTORIES

	As at 31 December	
	2022 RMB'000	2021 RMB'000
Raw materials	446,529	528,188
Work in progress	103,163	78,633
Finished goods	608,894	429,395
Packing materials	2,116	1,410
Low value consumables	13,452	13,255
	<b>1,174,154</b>	1,050,881

The cost of inventories recognised as cost of sales amounted to approximately RMB1,469,549,000 for the year ended 31 December 2022 (31 December 2021: RMB743,439,000) (Note 18).

## 13 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group holds the following financial instruments:

		As at 31 December	
		2022 RMB'000	2021 RMB'000
<b>Financial assets</b>			
Financial assets at FVOCI	(a)	52,059	132,897
Derivative financial instruments	(c)	–	1,499
Financial assets at amortised cost			
– Trade and other receivables	(b)	1,784,960	1,663,545
– Cash and cash equivalents	(d)	778,440	628,805
– Restricted cash	(d)	95,755	60,379
		<b>2,711,214</b>	2,487,125
<b>Financial liabilities</b>			
Borrowings	(e)	3,115,360	3,039,861
Trade and other payables	(f)	1,033,268	736,348
		<b>4,148,628</b>	3,776,209

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 13 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

#### (a) Financial assets at FVOCI

	As at 31 December	
	2022 RMB'000	2021 RMB'000
Bills receivable	52,059	132,897

Bills receivable with a fair value of RMB52,059,000 (31 December 2021: RMB132,897,000) were recognised as FVOCI as at 31 December 2022, because the Group held the bills receivable both for collection of contractual cash flows and for selling in 2022, where its cash flows represent solely payments of principal and interest. Fair value gains of RMB18,000 (31 December 2021: RMB2,375,000) were recognised in FVOCI reserve for the year ended 31 December 2022.

#### (b) Trade and other receivables

	As at 31 December	
	2022 RMB'000	2021 RMB'000
Trade receivables (i)	1,656,660	1,526,001
– Due from related parties (Note 29(c))	15,392	10,512
– Due from third parties	1,641,268	1,515,489
Less: provision for loss allowance of receivables (ii)	(99,969)	(129,166)
Trade receivables – net	1,556,691	1,396,835
Other receivables (iii)	225,523	263,964
Dividend receivables (Note 29(c))	2,746	2,746
Trade and other receivables – net	1,784,960	1,663,545

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

The trade receivables of RMB8,969,000 (31 December 2021: RMB1,694,000) of the Group were used to secure borrowings from financial institutions as at 31 December 2022 (Note 13(e)(i)).

### 13 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

#### (b) Trade and other receivables (continued)

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

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 13 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

#### (b) Trade and other receivables (continued)

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

	Year ended 31 December	
	2022 RMB'000	2021 RMB'000
As at 1 January (Note 3.1)	(129,166)	(204,516)
Provision for receivables loss allowance	(62,444)	(54,787)
Reversal of impairment on individually doubtful trade receivables	–	76,868
Write-off of loss allowance	91,641	53,269
As at 31 December	(99,969)	(129,166)

(iii) Details of other receivables are as follows:

	As at 31 December	
	2022 RMB'000	2021 RMB'000
Due from related parties (Note 29(c))	113,051	123,532
Deposits	37,104	56,354
Staff advances	19,219	15,970
Value added tax refund	11,832	8,169
Others	44,317	59,939
	225,523	263,964

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

#### (c) Derivative financial instruments

	As at 31 December	
	2022 RMB'000	2021 RMB'000
Cross currency swap	–	1,499

In 2022, the Group had cross currency swap with a commercial bank. The principal amounts of the outstanding cross currency swap as at 31 December 2022 was nil (31 December 2021: USD12,375,280.37). Gains and losses arising from the fair value change of the foreign exchange swaps were recognized in the consolidated income statement within “finance costs – net” (Note 23).

### 13 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

#### (d) Cash and cash equivalents and restricted cash

	As at 31 December	
	2022 RMB'000	2021 RMB'000
Cash at bank and in hand (i)	874,195	689,184
Less: Restricted cash (ii)	(95,755)	(60,379)
Cash and cash equivalents	778,440	628,805

- (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.
- (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(e)).

Cash at bank and in hand are denominated in the following currencies:

	As at 31 December	
	2022 RMB'000	2021 RMB'000
– USD	323,892	311,295
– RMB	318,247	201,728
– RUB	76,132	39,319
– CAD	69,144	51,058
– AED	38,632	10,587
– Other currencies	48,148	75,197
	874,195	689,184

Restricted cash is denominated in the following currencies:

	As at 31 December	
	2022 RMB'000	2021 RMB'000
– RMB	59,129	38,233
– USD	28,858	19,981
– AED	5,966	1,496
– RUB	1,291	669
– CAD	396	–
– Other currencies	115	–
	95,755	60,379

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)****(e) Borrowings**

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

**(i) Bank borrowings – secured**

The Group's non-current bank borrowings, secured as at 31 December 2022 were supported by guarantees from subsidiaries of the Company within the Group. 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 2021, USD19,685,000, equivalent to RMB125,506,000 were drawn down, out of which USD6,120,000 had been repaid during 2022, and the remaining principals of USD13,565,000, equivalent to RMB92,428,000, will be fully repayable from 2023 to 2025.

The Group's current borrowings, secured as at 31 December 2022 were secured by bank acceptance bills and commercial acceptance bills, bank deposit, receivables and future trade receivables of the Group, and supported by guarantees from subsidiaries of the Company within the Group. Among the bank borrowings, RMB16,315,000 (31 December 2021: RMB104,784,000) were secured by bank acceptance bills and commercial acceptance bills of the Group, RMB70,808,000 (31 December 2021: RMB30,704,000) were secured by trade receivables of RMB8,969,000 (31 December 2021: RMB1,694,000) and future trade receivables of RMB255,981,000 (31 December 2021: RMB43,471,000) of the Group, and the remaining part of bank borrowings of RMB439,242,000 (31 December 2021: RMB394,224,000) were guaranteed by subsidiaries of the Company within the Group. Meanwhile, the bank borrowings of USD7,300,000, equivalent to RMB50,842,000 (31 December 2021: RMB33,500,000), were also secured by the bank deposit of RMB16,317,000 as at 31 December 2022 (31 December 2021: RMB24,820,000).

### 13 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

#### (e) Borrowings (continued)

##### (ii) Senior Notes

In May 2021, the Company completed the restructuring of the 2020 Notes and 2022 Notes by issuing new Senior Notes amounting to 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”). The 2024 Notes were listed on the Singapore Exchange Securities Trading Limited on 20 May 2021 and guaranteed by certain subsidiaries of the Group. It bears interest at 9.75% per annum payable semi-annually in arrears on 18 May and 18 November of each year, beginning from 18 November 2021.

In 2022, the Company repurchased part of the 2024 Notes and the total repurchased principal was approximately USD17 million. The Company paid USD7,094,000, equivalent to RMB50,240,000, to repurchase the 2024 Notes, and recorded gains of USD9,934,000, equivalent to RMB70,475,000. After the repurchase, the outstanding principal amount of the 2024 Notes was USD360,388,000. Gains arising from the repurchase transactions were recognized in the consolidated income statement under “Finance costs – net” (Note 23).

##### (iii) Borrowings – currencies

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

	As at 31 December	
	2022 RMB'000	2021 RMB'000
Borrowings:		
– USD	2,639,631	2,470,405
– RMB	475,523	516,887
– CAD	206	200
– RUB	–	52,369
	<b>3,115,360</b>	<b>3,039,861</b>

**13 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)****(e) Borrowings (continued)****(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 2022	401,197	168,000	2,546,163	3,115,360
As at 31 December 2021	468,649	138,703	2,432,509	3,039,861

The maturity of borrowings is as follows:

	As at 31 December	
	2022 RMB'000	2021 RMB'000
On demand or within 1 year	569,197	607,352
Between 1 and 2 years	2,540,623	39,163
Between 2 and 5 years	5,540	2,393,346
	3,115,360	3,039,861

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

	As at 31 December	
	2022	2021
Borrowings – current		
– RMB	4.01%	4.11%
– RUB	11.19%	5.85%
– USD	3.70%	3.76%
Borrowings – non-current		
– USD	9.75%	9.23%

### 13 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

#### (e) Borrowings (continued)

##### (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 2022		
	Carrying amount RMB'000	Fair value RMB'000
2024 Notes	2,425,963	944,723

##### (vi) Borrowings – facilities

The Group had the following undrawn bank borrowing facilities:

As at 31 December		
	2022 RMB'000	2021 RMB'000
RMB facilities	147,292	309,737
RUB facilities	–	61,750
	147,292	371,487

#### (f) Trade and other payables

As at 31 December		
	2022 RMB'000	2021 RMB'000
Bills payable	5,121	8,426
Trade payables:	677,867	455,066
– Due to third parties	658,541	435,402
– Due to related parties (Note 29(c))	19,326	19,664
Other payables:	88,225	69,440
– Due to related parties (Note 29(c))	23,763	9,017
– Due to third parties (Note 17(c))	64,462	60,423
Staff salaries and welfare payables	55,183	33,680
Interest payables	33,439	35,067
Accrued taxes other than income tax	156,678	116,293
Dividends payable	10,496	10,496
Other liabilities	6,259	7,880
	1,033,268	736,348

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 13 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

#### (f) Trade and other payables (continued)

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

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

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

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

## 14 PREPAYMENTS

	As at 31 December	
	2022 RMB'000	2021 RMB'000
Prepayments for purchase of raw materials	470,280	429,371

## 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	
	2022 RMB'000	2021 RMB'000
<b>Non-current</b>		
– Mobilisation fees	34,302	15,731
– Government grants	27,207	28,619
	61,509	44,350
<b>Current</b>		
– Government grants	59	59
	61,568	44,409

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 16 ORDINARY SHARES

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

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

### 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 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
As at 1 January 2022	124,008	(496)	46,089	1,175,144	(25)	702	(43,553)	1,301,869
Appropriation to statutory reserve (a)	7,191	-	-	-	-	-	-	7,191
Other comprehensive income	-	-	-	-	18	-	-	18
As at 31 December 2022	131,199	(496)	46,089	1,175,144	(7)	702	(43,553)	1,309,078

**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 2022, RMB7,191,000 (2021: RMB9,748,000) 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.

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**

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 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	
		2022	2021
Beginning of the period	5.93	15,350,700	15,350,700
Forfeited	5.93	nil	nil
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 2022 and 2021 have the following vesting dates and exercise prices:

Vesting date	Exercise price (per share in HKD)	Outstanding options Year ended 31 December	
		2022	2021
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
		<b>15,350,700</b>	15,350,700

All of the options were exercisable as at 31 December 2022 and 2021, and no options were forfeited during 2022 (2021: nil).

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 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 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.

### 18 EXPENSES BY NATURE

	Year ended 31 December	
	2022 RMB'000	2021 RMB'000
Changes in inventories of finished goods and work in progress (Note 12)	(204,029)	(152,436)
Raw materials and consumables used (Note 12)	1,673,578	934,917
Employee benefit expenses (Note 19)	678,029	574,691
Depreciation (Note 6)	257,849	267,498
Transportation expenses	163,231	125,260
Utilities and electricity	147,502	134,983
Consulting expenses	116,540	116,423
Subcontract cost	95,326	257,859
Research and development expenses	55,067	54,868
Short-term operating lease payments	54,277	42,237
Entertainment expenses	44,056	39,769
Travelling and communication expenses	40,933	38,340
Amortisation of long term prepaid expenses	25,645	24,717
Taxes and levies	24,139	20,663
Marketing and promotion expenses	20,923	20,007
Sales commission	11,482	8,280
Amortisation of intangible assets (Note 8)	9,188	7,811
Auditor's remuneration	8,232	8,266
– Audit services	3,900	4,100
– Non-audit services	4,332	4,166
Amortisation of Right-of-use assets (Note 7)	7,205	11,575
Bank charges	6,737	6,079
Miscellaneous	14,058	12,235
Total cost of sales, selling and marketing expenses and administrative expenses	3,249,968	2,554,042

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 19 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2022 RMB'000	2021 RMB'000
Wages and salaries	569,976	478,930
Social security costs, pension costs, housing benefits and other employee benefits (i)	108,053	95,761
	678,029	574,691

- (i) Pension costs – defined contribution plans

During the year ended 31 December 2022, no forfeited contributions were utilised by the Group to reduce its contributions for the current year (2021: nil).

#### (a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2022 include two (2021: two) directors whose emoluments are reflected in the analysis presented below. The emoluments payable to the remaining three (2021: three) individuals during the year are as follows:

	Year ended 31 December	
	2022 RMB'000	2021 RMB'000
Salaries	2,310	2,256
Discretionary bonus	1,507	1,484
Pension costs – defined contribution plans	–	–
Pension costs – defined benefit plans	172	152
Other social security costs, housing benefits and other employee benefits	210	202
	4,199	4,094

The emoluments fell within the following bands:

	Year ended 31 December	
	2022	2021
Emolument bands:		
Nil to HKD1,000,000	–	–
HKD1,000,001 to HKD1,500,000	–	–
HKD1,500,001 to HKD2,000,000	3	3
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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 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 2022:

	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking											Total
	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 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	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Year ended 31 December 2022</b>												
Zhang Jun (張軍)	-	831	666	-	37	52	-	-	-	-	-	1,586
Wang Tao (汪濤)	-	730	596	-	49	69	-	-	-	-	-	1,444
Zhang Shuman (張殊曼)	207	452	481	15	25	40	-	-	-	-	-	1,220
Cao Hongbo (曹宏博)	-	457	405	-	37	55	-	-	-	-	-	954
Yang Qingli (楊慶理)	207	-	-	-	-	-	-	-	-	-	-	207
Wang Tao (王濤)	207	-	-	-	-	-	-	-	-	-	-	207
Wong Man Chung Francis (黃文宗)	207	-	-	-	-	-	-	-	-	-	-	207
Shi Zheyuan (施哲彥)	207	-	-	-	-	-	-	-	-	-	-	207
Fan Ren Da Anthony (范仁達)*	225	-	-	-	-	-	-	-	-	-	-	225
	1,260	2,470	2,148	15	148	216	-	-	-	-	-	6,257

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 20 BENEFITS AND INTERESTS OF DIRECTORS (continued)

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

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 contribution plans	Pension costs – defined benefit plans	Other social security costs, housing benefits and employee benefits	Allowance	Share options	Employer's contribution to a retirement benefit scheme	Remunerations paid or receivable in respect of 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
<b>Year ended 31 December 2021</b>												
Zhang Jun (張軍)	-	807	687	-	25	36	-	-	-	-	-	1,555
Wang Tao (汪濤)	-	730	588	-	49	71	-	-	-	-	-	1,438
Zhang Shuman (張妹嫻)	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 Zheyuan (施哲彥)	199	-	-	-	-	-	-	-	-	-	-	199
	995	2,436	2,167	15	126	176	-	-	-	-	-	5,915

\* Appointed on 25 July 2022.

#### (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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 21 OTHER INCOME

	Year ended 31 December	
	2022 RMB'000	2021 RMB'000
Government grants	14,015	8,852

### 22 OTHER GAINS – NET

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

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 23 FINANCE COSTS – NET

	Year ended 31 December	
	2022 RMB'000	2021 RMB'000
Finance income:		
– Interest income derived from bank deposits	5,336	3,612
– Fair value gains on financial assets at FVPL	–	439
– Fair value gains on cross currency swap	–	1,499
	5,336	5,550
Finance costs:		
– Interest expense on Senior Notes and other borrowings	(333,468)	(272,046)
– Exchange (losses)/gains	(221,480)	56,736
– Fair value loss on cross currency swap		

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

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

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

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

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

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

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

### Additional deduction for research and development expenses

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

## 25 EARNINGS PER SHARE

### Basic earnings per share

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

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

### Diluted earnings per share

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

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

As at 31 December 2022, there were 15,350,700 (31 December 2021: 15,350,700) share options outstanding related to 2013 Share Option Scheme (Note 17(b)(i)). For the years ended 31 December 2022 and 31 December 2021, as the average market share price of the ordinary shares during the years was lower than the exercise price, the impact on earnings per share was anti-dilutive.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 26 DIVIDENDS

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

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

### 27 CASH GENERATED FROM OPERATIONS

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

	Year ended 31 December	
	2022 RMB'000	2021 RMB'000
Profit before income tax for the year	210,823	143,328
Adjustments for:		
– Depreciation of property, plant and equipment ( <i>Note 6</i> )	257,849	267,498
– Amortisation of Right-of-use assets ( <i>Note 7</i> )	7,205	11,575
– Amortisation of intangible assets ( <i>Note 8</i> )	9,188	7,811
– Amortisation of long term assets ( <i>Note 10</i> )	25,645	24,717
– Provision/(reversal of) for loss allowance of receivables ( <i>Note 3.1(b)</i> )	77,211	(16,763)
– Share of profit of investments accounted for using equity method ( <i>Note 9</i> )	(5,799)	(768)
– Gains on disposal of subsidiaries ( <i>Note 22</i> )	(1)	(91,882)
– Finance costs ( <i>Note 23</i> )	495,503	321,399
– Gains on disposal of property, plant and equipment ( <i>Note 22</i> )	(4,228)	(6,955)
	1,073,396	659,960
Changes in working capital:		
– (Increase)/decrease in trade and other receivables	(284,667)	70,940
– Increase in financial assets at FVOCI	(23,928)	(111,862)
– Increase in inventories	(233,104)	(95,565)
– (Increase)/decrease in restricted cash	(42,932)	18,087
– Increase/(decrease) in deferred revenue	17,159	(3,939)
– Increase/(decrease) in trade and other payables	172,832	(21,407)
	(394,640)	(143,746)
Cash generated from operations	678,756	516,214

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 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	
	2022 RMB'000	2021 RMB'000
Net book amount (Note 6)	18,534	83,000
Net gains on disposal of property, plant and equipment (Note 22)	4,228	6,955
Proceeds from disposal of property, plant and equipment	22,762	89,955
Collected in the year	11,901	15,460
Collected from disposal of subsidiaries	–	43,449
Not yet collected (i)	10,861	31,046
	22,762	89,955

- (i) The not yet collected amount of RMB31,046,000 as at 31 December 2021 has been fully collected in 2022.

#### (c) Net debt reconciliation

	As at 31 December	
	2022 RMB'000	2021 RMB'000
Cash and cash equivalents (Note 13(d))	778,440	628,805
Restricted cash (Note 13(d))	95,755	60,379
Borrowings – repayable within one year (Note 13(e))	(569,197)	(607,352)
Borrowings – repayable after one year (Note 13(e))	(2,546,163)	(2,432,509)
Lease liabilities	(19,144)	(17,547)
Dividends payable	(10,496)	(10,496)
Interest payables	(33,439)	(35,067)
Net debt	(2,304,244)	(2,413,787)
Cash and liquid investments	874,195	689,184
Gross debt – fixed interest rates	(3,020,888)	(2,914,358)
Gross debt – variable interest rates	(94,472)	(125,503)
Lease liabilities	(19,144)	(17,547)
Dividends payable	(10,496)	(10,496)
Interest payables	(33,439)	(35,067)
Net debt	(2,304,244)	(2,413,787)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 27 CASH GENERATED FROM OPERATIONS (continued)

#### (c) Net debt reconciliation (continued)

	Liability from financing activities					Other assets			Total RMB'000
	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	
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(e))	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)
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)
Cash flows	(13,411)	50,240	7,251	-	285,396	132,078	34,429	-	495,983
Foreign exchange adjustments	(3,152)	(220,740)	(41)	-	(2,828)	4,334	947	-	(221,480)
Amortisation	-	(52,528)	(1,280)	-	-	-	-	-	(53,808)
Other non-cash movements (Note 13(e))	54,718	109,374	(7,527)	-	(280,940)	13,223	-	-	(111,152)
Net debt as at 31 December 2022	(569,197)	(2,546,163)	(19,144)	(10,496)	(33,439)	778,440	95,755	-	(2,304,244)

### 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 48.59% (31 December 2021: 58.90%) equity interest in the Company as at 31 December 2022. 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 2022 and 2021, and balances arising from related party transactions as at 31 December 2022 and 2021.

### (a) Name and relationship with related parties

#### **Controlling Shareholder**

Mr. Zhang Jun

#### **Close family member of the Controlling Shareholder**

Ms. Zhang Shuman

#### **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.

#### **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.

## 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 2022 and 2021, the Group had the following significant transactions with related parties:

	Year ended 31 December	
	2022 RMB'000	2021 RMB'000
<b>Sales of goods or services:</b>		
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	8,527	12,041
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	3,823	7,301
Shanghai Hilong Shine New Material Co., Ltd.	2,787	8,735
	<b>15,137</b>	28,077
<b>Purchase of goods or services:</b>		
Shanghai Hilong Shine New Material Co., Ltd.	10,693	8,256
<b>Short-term rental expenses:</b>		
Beijing Huashi Hailong Oil Investments Co., Ltd.	11,149	11,149
<b>Interest expenses on lease liabilities:</b>		
Shanghai Longshi Investment Management Co., Ltd.	190	347
<b>Rental income:</b>		
Shanghai Hilong Shine New Material Co., Ltd.	3,305	2,584

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	
	2022 RMB'000	2021 RMB'000
<b>Trade receivables due from:</b>		
Shanghai Hilong Shine New Material Co., Ltd.	8,143	6,081
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	7,249	2,982
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	–	1,449
	<b>15,392</b>	10,512
<b>Other receivables due from:</b>		
Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd.	50,181	46,280
Xi'an Changqing Tube-Cote Petroleum Pipe Coating Co., Ltd.	29,722	40,187
Shandong Shengli Oil Field Wuhua Tube-Cote Pipe Coating Co., Ltd.	14,861	22,353
Shanghai Hilong Shine New Material Co., Ltd.	16,772	9,808
Hilong Group Limited	1,515	1,515
Shanghai Hilong Special Steel Pipe Co., Ltd.	–	3,389
	<b>113,051</b>	123,532
<b>Lease liabilities due to:</b>		
Shanghai Longshi Investment Management Co., Ltd.	2,041	5,409
<b>Trade payables due to:</b>		
Shanghai Hilong Shine New Material Co., Ltd.	19,326	19,642
Shanghai Longshi Investment Management Co., Ltd.	–	22
	<b>19,326</b>	19,664
<b>Other payables due to:</b>		
Shanghai Longshi Investment Management Co., Ltd.	8,825	3,842
Shanghai Hilong Shine New Material Co., Ltd.	8,132	4,237
Beijing Huashi Hailong Oil Investments Co., Ltd.	5,759	–
Mr. Zhang Jun	938	938
Shanghai Hilong Special Steel Pipe Co., Ltd.	109	–
	<b>23,763</b>	9,017
<b>Dividend receivables:</b>		
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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 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	
	2022 RMB'000	2021 RMB'000
Salaries	6,591	6,446
Discretionary bonus	3,939	3,928
Social security costs	906	809
	<b>11,436</b>	11,183

### 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 (%)		Direct/Indirect	Principal activities
			As at 31 December 2022	2021		
Hilong Energy Holding Limited	British Virgin Islands, 15 October 2008	– (1 share was issued)				

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 30 SUBSIDIARIES (continued)

Company name	Country/place of incorporation and date of incorporation	Registered and issued/paid up capital	Effective interests held by the Group (%)		Direct/Indirect	Principal activities
			As at 31 December 2022	2021		
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 Petropipe Co., Ltd.	Canada, 17 April 2007	CAD100	100%	100%	Indirect	Oil and gas equipment trading and coating service provision
Shanxi Hilong Petroleum Technology 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
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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 30 SUBSIDIARIES (continued)

Company name	Country/place of incorporation and date of incorporation	Registered and issued/paid up capital	Effective interests held by the Group (%)		Direct/Indirect	Principal activities
			As at 31 December 2022	2021		
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
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	Oilfield 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
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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 30 SUBSIDIARIES (continued)

Company name	Country/place of incorporation and date of incorporation	Registered and issued/paid up capital	Effective interests held by the Group (%)		Direct/Indirect	Principal activities
			As at 31 December 2022	2021		
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
Oriental Oil Service & Engineering Ltd.	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
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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 30 SUBSIDIARIES (continued)

Company name	Country/place of incorporation and date of incorporation	Registered and issued/paid up capital	Effective interests held by the Group (%)		Direct/Indirect	Principal activities
			As at 31 December 2022	2021		
Hilong Oil & Gas Service Co., Ltd.	the PRC, 20 March 2017	RMB80,000,000	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%	Indirect	Oilfield service provision
Hilong Group (Shanghai) Information Technology Company	The PRC, 15 June, 2018	RMB900,000	100%	100%	Indirect	Coating service provision
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 & USD31,435,900	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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 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 (%)		Direct/Indirect	Principal activities
			As at 31 December 2022	2021		
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%	100%	Indirect	Consultation service
Hailong Petroleum Engineering (Tianjin) Co., Ltd.	The PRC, 26 November, 2021	RMB50,000,000	90%	90%	Indirect	Offshore oilfield service provision
Hilong Pipeline Middle East Technology Industry Ltd	Abu Dhabi, 07 June, 2022	AED300,000	100%	–	Indirect	Manufacture and distribution of oil and gas equipment
Ocean Oil Service(IA)	Sharjah, 06 September, 2022	Nil	100%	–	Indirect	Offshore oilfield service provision

\* The above subsidiaries established in the PRC are in the legal form of limited liability company.

\* On 28 June 2022, Hilong Oil Service Ltd. transferred its 100% equity interest of Hilong Oriente Co., Ltd. to a third party with a nominal value.

### 31 BALANCE SHEET AND RESERVES MOVEMENTS OF THE COMPANY

		As at 31 December	
		2022	2021
		RMB'000	RMB'000
	<i>Note</i>		
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investments in subsidiaries		54,314	54,314
<b>Current assets</b>			
Derivative financial instrument		–	1,499
Trade and other receivables		5,064,806	4,672,147
– Due from related parties		5,064,222	4,671,602
– Due from third parties		584	545
Cash and cash equivalents		14,931	51,670
Restricted cash		–	4,877
		<b>5,079,737</b>	4,730,193
<b>Total assets</b>		<b>5,134,051</b>	4,784,507
<b>EQUITY</b>			
<b>Capital and reserve attributable to equity owners of the Company</b>			
Ordinary shares		141,976	141,976
Other reserves	<i>Note (a)</i>	1,221,838	1,221,838
Retained earnings	<i>Note (a)</i>	69,225	53,824
<b>Total equity</b>		<b>1,433,039</b>	1,417,638
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings		2,496,567	2,347,987
<b>Current liabilities</b>			
Trade and other payables		1,204,445	1,018,882
<b>Total liabilities</b>		<b>3,701,012</b>	3,366,869
<b>Total equity and liabilities</b>		<b>5,134,051</b>	4,784,507

The balance sheet of the Company was approved by the Board of Directors on 31 March 2023 and was signed on its behalf.

Director: Zhang Jun

Director: Wang Tao (汪濤)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 31 BALANCE SHEET AND RESERVES MOVEMENTS OF THE COMPANY (continued)

Note (a) Reserve movement of the Company

	Retained earnings RMB'000	Other reserves RMB'000
<b>As at 1 January 2021</b>	36,656	1,221,838
Profit for the year	17,168	–
<b>As at 31 December 2021</b>	53,824	1,221,838
<b>As at 1 January 2022</b>	<b>53,824</b>	<b>1,221,838</b>
Profit for the year	<b>15,401</b>	–
<b>As at 31 December 2022</b>	<b>69,225</b>	<b>1,221,838</b>

### 32 EVENTS AFTER THE BALANCE SHEET DATE

On 31 March 2023, the Company entered into an equity transfer agreement with a related party controlled by the controlling shareholder (the “Purchaser”), whereby the Company conditionally agreed to sell and the Purchaser conditionally agreed to acquire certain of the Group’s businesses comprising multi-functional coating materials and coating services, inspection services and maintenance services for various pipes utilized in oil and gas drilling and transmission processes in the PRC as well as overseas markets (the “Target Business”) at the Consideration of RMB700 million, subject to the terms and conditions of the agreement. As at the approval date of these consolidated financial statements, the transaction has not been completed.

## 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				
	2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000
Revenue	<b>3,736,078</b>	2,916,922	2,623,037	3,649,906	3,222,416
Gross profit	<b>1,066,919</b>	898,319	693,983	1,161,181	1,020,682
Gross profit margin	<b>28.6%</b>	30.8%	26.5%	31.8%	31.7%
Operating profit	<b>695,191</b>	460,347	-144,233	582,138	535,108
Operating profit margin	<b>18.6%</b>	15.8%	-5.5%	15.9%	16.6%
Profit for the year	<b>145,754</b>	47,595	-298,697	188,221	150,531
Profit attributable to:					
Equity owners of the Company	<b>140,976</b>	44,249	-298,806	176,818	148,741
Non-controlling interests	<b>4,778</b>	3,346	109	11,403	1,790

Consolidated assets, equity and liabilities	As at 31 December				
	2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000
<b>ASSETS</b>					
Non-current assets	<b>3,187,536</b>	2,945,299	3,277,039	3,867,354	3,864,576
Current assets	<b>4,613,491</b>	4,126,507	4,093,318	4,673,637	4,035,121
Total assets	<b>7,801,027</b>	7,071,806	7,370,357	8,540,991	7,899,697
<b>EQUITY AND LIABILITIES</b>					
Total equity	<b>3,354,974</b>	3,042,827	3,118,298	3,706,463	3,522,010
Non-current liabilities	<b>2,658,952</b>	2,524,859	127,553	1,648,441	2,581,169
Current liabilities	<b>1,787,101</b>	1,504,120	4,124,506	3,186,087	1,796,518
Total liabilities	<b>4,446,053</b>	4,028,979	4,252,059	4,834,528	4,377,687
Total equity and liabilities	<b>7,801,027</b>	7,071,806	7,370,357	8,540,991	7,899,697