THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

HILONG

Hilong Holding Limited
海隆控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1623)

DISCLOSEABLE AND CONNECTED TRANSACTION

ACQUISITION OF 51% OF EQUITY INTEREST IN SHANGHAI HILONG SHINE NEW MATERIAL CO., LTD.

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

AJS 安捷融資

AJ Corporate Finance Limited

A letter from the Board is set out on pages 5 to 18 of this circular. A letter from the Independent Board Committee to the Independent Shareholders is set out on page 19 of this circular. A letter from AJ Corporate Finance Limited, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 20 to 39 of this circular.

A notice convening the EGM to be held at Club @28 – VIP Lounge 1, 28/F, Crowne Plaza Hong Kong Causeway Bay, 8 Leighton Road, Causeway Bay, Hong Kong on Monday, 23 December 2019 at 10:00 a.m. is set out on pages 40 to 41 of this circular. A form of proxy for use at the EGM is enclosed with this circular. Such form of proxy is also published on the websites of the Stock Exchange and the Company. Whether or not you are able to attend the EGM, you are requested to complete and sign the form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting thereof should you so wish. In such event, the form of proxy shall be deemed to be revoked.

* *For identification purposes only*

6 December 2019

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In this circular, unless the context otherwise requires, the following expressions have the following meanings:

"Acquisition"	the acquisition of 51% of the equity interest in the Target Company by the Purchaser from the Vendor under the Equity Transfer Agreement
"Appraisal Report"	the appraisal report on the Target Company prepared by Shanghai Lixin Appraisal Co., Ltd.* (上海立信資產評估有限公司)
"associate", "percentage ratio(s)"	each has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Business Day(s)"	a day (other than a Saturday or Sunday or days on which a tropical cyclone warning No. 8 or above or a "black rainstorm warning signal" is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.) on which banks in Hong Kong are open for general banking business
"Company"	Hilong Holding Limited (stock code: 1623), a company incorporated in the Cayman Island with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
"Completion"	completion of the Acquisition in accordance with the terms and conditions of the Equity Transfer Agreement
"Completion Date"	the day on which the completion of the Acquisition shall take place, which shall be the day when all of the conditions precedent mentioned in the Equity Transfer Agreement are satisfied or waived (as the case may be)
"Conditions"	conditions precedent to the Acquisition as set out in the paragraph headed "Conditions precedent" in this circular
"connected person(s)"	has the meaning ascribed thereto under the Listing Rules
"connected transaction"	has the meaning ascribed thereto under the Listing Rules
"Consideration"	a total of RMB84,150,000 to be paid by the Company under the Equity Transfer Agreement

"controlling shareholder(s)"	has the meaning ascribed thereto under the Listing Rules
"Directors"	directors of the Company
"EGM"	the extraordinary general meeting of the Company to be held at Club @28 – VIP Lounge 1, 28/F, Crowne Plaza Hong Kong Causeway Bay, 8 Leighton Road, Causeway Bay, Hong Kong at 10:00 a.m. on Monday, 23 December 2019
"Equity Transfer Agreement"	the Equity Transfer Agreement dated 5 December 2019 entered into between the Vendor and the Purchaser in relation to the Acquisition
"Group"	the Company and its subsidiaries
"Guaranteed Profit"	the net profit after tax (excluding any government subsidies and net profit from one-off gain) as shown in the audited accounts of the Target Company for the year ending 31 December 2020 being no less than RMB7.55 million as warranted and guaranteed by the Vendor to the Purchaser. Details of the Guaranteed Profit is set out in the section headed "The Acquisition — Profit Guarantee" in this circular
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Huashi Hailong"	Beijing Huashi Hailong Oil Equipment Co., Ltd. (北京華實海隆石油機械設備有限公司), a company established in the PRC
"Independent Board Committee"	the independent board committee of the Company formed by all the independent non-executive Directors to advise the Independent Shareholders on the terms of the Equity Transfer Agreement and the transaction contemplated thereunder

"Independent Financial Adviser" or "AJ Corporate Finance"	AJ Corporate Finance Limited, a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activities under the SFO, and appointed to advise the Independent Board Committee and the Independent Shareholders on the Equity Transfer Agreement and the transactions contemplated thereunder
"Independent Shareholders"	Shareholders who are independent of and have no interest in the transaction contemplated under the Equity Transfer Agreement
"Independent Valuer"	Shanghai Lixin Appraisal Co., Ltd.* (上海立信資產評估有限公司), an independent valuer appointed by the Company
"Latest Practicable Date"	5 December 2019, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"PRC"	the People's Republic of China, which for the purpose of this circular excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Purchaser"	Hilong Pipeline Engineering Technology Service Co., Ltd. (海隆管道工程技術服務有限公司), a wholly owned subsidiary of the Company established in the PRC
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong
"Share(s)"	ordinary share(s) of HK$0.1 each in the share capital of the Company
"Shareholder(s)"	The registered holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

"Target Business"	the principal business of the Target Company, which is the manufacture and sales of heavy-duty coating materials, including marine coating materials applied on ships, vessels, etc., and protective coating materials applied in specific industrial areas, such as bridges, power-related projects, storage and transmission for petrochemicals, infrastructure, etc.
"Target Company"	Shanghai Hilong Shine New Material Co., Ltd. (上海海隆賽能新材料有限公司), a company established in the PRC
"Vendor"	Beijing Huashi Hilong Oil Investment Co., Ltd. (北京華實海隆石油投資有限公司), a company incorporated in the PRC and an associate of Mr. ZHANG Jun. It holds 100% of the equity interest in the Target Company as at the Latest Practicable Date
"%"	per cent

For the purpose of this circular, unless otherwise specified or the context requires otherwise, "*" denotes a Chinese or English (as the case may be) name and is for identification purpose only. In the event of any inconsistency, the original names shall prevail.

* *For identification purpose only*

Hilong Holding Limited
海隆控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1623)

Executive Directors:
Mr. ZHANG Jun *(Chairman and Executive Chairman)*
Mr. WANG Tao (汪濤) *(Chief Executive Officer)*

Non-executive Directors:
Ms. ZHANG Shuman
Mr. YUAN Pengbin
Dr. YANG Qingli

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

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

Principal place of business in Hong Kong:
Suite 3206, Tower One
Times Square
1 Matheson Street
Causeway Bay
Hong Kong

6 December 2019

To the Shareholders

Dear Sir / Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION
IN RELATION TO THE ACQUISITION OF 51% OF EQUITY INTEREST
IN THE TARGET COMPANY
AND
NOTICE OF FIRST EXTRAORDINARY GENERAL MEETING OF 2019**

INTRODUCTION

Reference is made to the announcement of the Company dated 5 December 2019 relating to the Acquisition.

The purpose of this circular is to give you, among other things, (i) further information on the Equity Transfer Agreement; (ii) the recommendation of the Independent Board Committee regarding the terms of the Equity Transfer Agreement; (iii) the advice of the Independent Financial Adviser regarding the terms of the Equity Transfer Agreement; (iv) the notice of EGM; and (v) other information as required under the Listing Rules.

* *For identification purposes only*

THE ACQUISITION

Introduction

The Board is pleased to announce that on 5 December 2019, the Purchaser, a wholly owned subsidiary of the Company, entered into the Equity Transfer Agreement with the Vendor, pursuant to which the Vendor, an associate of the controlling shareholder of the Company, has conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase 51% of the equity interest in the Target Company at a consideration of RMB84,150,000.

Principal Terms of the Equity Transfer Agreement

Date: 5 December 2019

Parties:

(1) Purchaser: Hilong Pipeline Engineering Technology Service Co., Ltd.

(2) Vendor: Beijing Huashi Hailong Oil Investment Co., Ltd.

Acquisition

Pursuant to the Equity Transfer Agreement, the Purchaser conditionally agreed to acquire and the Vendor conditionally agreed to sell 51% of the equity interest in the Target Company.

Consideration

The Consideration of RMB84,150,000 was arrived at after arm's length negotiation between the Vendor and the Purchaser after taking into account (i) an appraised value of the Target Company of RMB170,000,000 as at 31 May 2019 as set out in the Appraisal Report prepared by the Independent Valuer, which was based on the market approach with reference to comparable companies and was adjusted after taking into account several discount factors; (ii) the business and financial performance of the Target Company; and (iii) the reasons set forth in the section headed "Reasons for and Benefits of the Acquisition" below.

The Directors have considered the competence and independence of the Independent Valuer before engaging the Independent Valuer. Having considered that (i) the Independent Valuer is qualified to practice securities and futures related businesses, (ii) the Independent Valuer is one of the appraisal firms that have been approved by the China Securities Regulatory Commission (CSRC) to be eligible to engage in assets valuation business and (iii) the person performing the appraisal has over 15 years of experience in business enterprises valuation in the PRC, the Directors believe that the Independent Valuer has sufficient qualification and experience in performing the appraisal of the Target Company. To the best knowledge of the Directors and having made all reasonable enquiries, the Independent Valuer is independent from the Group, the Vendor, the Target Company and their respective beneficial owners and close associates.

In arriving at the appraised value of the Target Company (the "**Appraisal**"), the guideline company method under the market approach was considered appropriate and adopted by the Independent Valuer. The appraised value represents an implied price to earnings ratio ("**P/E Ratio**") of approximately 22.5 multiplied by the Guaranteed Profit. The implied P/E Ratio is based on the average P/E Ratio of five public companies that are comparable to the Target Company and selected for the purpose of the Appraisal by the Independent Valuer. The Independent Valuer used Guaranteed Profit as a parameter in determining the value of the Target Company as opposed to the historical earnings because it better reflects the future earning capacity of the Target Company. Furthermore, the Independent Valuer had applied a discount of 42.7% to the average P/E Ratio of the comparable companies after taking into account the business volume, market capitalization value, total asset size, operating capability, and liquidity of the shares of each of the comparable companies. Based on the average P/E Ratio of the five comparable companies, the Guaranteed Profit and after taking into account the discount factors, the Target Company was valued at RMB170,000,000 in total.

In assessing the fairness and reasonableness of the Appraisal, the Directors considered the following factors:

With respect to the adoption of the market approach, the Directors understand that the Independent Valuer had considered three approaches that are generally accepted in business valuation, namely income-based approach, asset-based approach and market approach. Given that the Target Business has developed rapidly and has gradually established its market presence in the heavy-duty anti-corrosion industry in the PRC during the past two years, the Independent Valuer considered that the market approach is more appropriate as compared to the other two methods, and therefore adopted such approach in conducting the Appraisal. The income-based approach was not adopted because it would require a financial projection of at least five years, and thus would involve making assumptions on remote years. Since the Target Business are mainly project-based and the customer base of the Target Company is not concentrated, the Independent Valuer considered it is difficult to project the performance of the Target Company in remote years, and the assumptions made on remote years would significantly affect the fair market value of the Target Company. Asset-based approach was not adopted because it could not reflect the future earning potential and economic value of the Target Company, and thus, could not reflect the true market value of the Target Business.

With respect to the selection of comparable companies, having discussed with the Independent Valuer regarding the selection of comparable companies, the Directors understand that the comparable companies were selected mainly with reference to the following selection criteria: (a) principally engaged in businesses similar to the Target Business, such as the manufacture and sales of chemical materials and products; (b) has over three years of listing and operating history; and (c) has similar business size or market capitalisation as the Target Company. Furthermore, the Directors note that the Independent Valuer had made best efforts to search for and identify appropriate comparable companies through publicly available sources. The Independent Valuer went through the following steps to identify the comparable companies: (i) having searched on the Hong Kong Stock Exchange, Shanghai Stock Exchange and the Shenzhen Stock Exchange, the Independent Valuer first located an aggregate of 245 listed companies which are classified as engaging in the manufacture of chemical products by the China Securities Regulatory Commission; (ii) companies identified in step (i) above were narrowed down to 12 companies that produce coating materials, new materials and anti-corrosion materials which have a similar nature of business to the Target Company; and (iii) out of the 12 companies identified in step (ii) above, five companies were considered as the closest comparable companies to the Target Company in terms of products offering, revenue, and asset structure and size, and are therefore included in the final list of the comparable companies. Furthermore, according to the Independent Valuer, it is not uncommon to have a sample size of 3-5 comparable companies when the market approach is adopted for the appraisal. The Independent Valuer considered that the five comparable companies selected represent fair and reasonable samples, and are sufficient for the purpose of the Appraisal.

With respect to the use of Guaranteed Profit, the Directors consider that the major purpose of the Acquisition is for the Company to capture the future earning capacity of the Target Company by acquiring (a) the existing client base and contracts of the Target Company; (b) the established research and development team of approximately 30 experts, all of whom have professional qualifications in chemical engineering and related fields, and (c) intellectual properties held by the Target Company including 27 valid patents. Furthermore, according to the Independent Valuer, it is not uncommon to use guaranteed profits in P/E calculation if the future earning capacity of a company is one of the key determining factors of its value, and in this context, instead of referring to the operating history of the Target Company and its minimal profit level in the past, using Guaranteed Profit as a parameter would better reflect the true market value of the Target Company.

Furthermore, in assessing the reasonableness of the Appraisal, the Directors have also considered the valuation (the "**Previous Valuation**") conducted for the Target Business mentioned in the announcement of the Company dated 25 September 2017 (the "**Previous Announcement**") in relation to the disposal of 100% of the equity interest in the Target Company to the Vendor by the Company (the "**Previous Disposal**").

In the Previous Valuation, given the relatively short operating history, small business size and asset structure of the Target Business in 2017, the then valuer considered that the book value of the assets and liabilities was more appropriate in measuring the market value of the Target Business, and therefore decided to adopt the asset-based approach in the Previous Valuation. In the Previous Valuation, the then valuer had reviewed the audited financial statements for the year ended 31 December 2016 and unaudited financial statements for the six months ended 30 June 2017 of the Target Company. In addition, income-based approach was not adopted for the Previous Valuation because the Target Business was still rather small and subject to uncertainties. In 2017, the heavy-duty anti-corrosion coating market in China was still immature given that the follow-on policy of China's 13th Five-Year Plan, which classified the heavy-duty coating materials as "New Materials" was only announced a year ago. Therefore, the profitability and potential of the Target Business was subject to uncertainties as there was no clear picture of the impact of the government policy on the market, and the actual financial performance of the Target Business may significantly deviate from the projection. Moreover, due to the relatively young market and small size of the Target Business, no close comparable companies could be identified from the market, and therefore the market approach was not considered as an appropriate method for the Previous Valuation.

Despite that the approach adopted in the Appraisal Report is different from the approach adopted for the Previous Valuation, the Directors concurred with the Independent Valuer's view that the bases, valuation methodology, selection basis of comparable companies and assumptions adopted in the Appraisal Report are appropriate under the current circumstances.

The Consideration under the Equity Transfer Agreement was set at a discount of approximately 2.94% to the corresponding appraised value of the 51% of the equity interest in the Target Company under the Equity Transfer Agreement, which the Directors consider to be fair and reasonable after taking into account other bases of the Consideration as mentioned above.

Pursuant to the terms of the Equity Transfer Agreement, the Purchaser shall pay RMB10,000,000 representing approximately 11.9% of the Consideration, to the Vendor in cash on the Completion Date. Within five (5) Business Days after the Completion Date, the Vendor shall register with relevant authorities the transfer of 51% of the equity interest in the Target Company to the Purchaser. Within thirty (30) Business Days upon the completion of such registration, the Purchaser shall pay the outstanding balance of the Consideration to the Vendor in cash. The Consideration will be funded by internal resources of the Group.

As at 30 June 2019, the balance of cash and cash equivalents of the Company amounted to approximately RMB625.4 million. Given that the balances of cash and cash equivalent of the Company far exceed the Consideration, the Directors believe that the Company has sufficient internal resources to settle the Consideration.

Profit Guarantee

According to the Equity Transfer Agreement, the Vendor has irrevocably warranted and guaranteed to the Purchaser that the net profit after tax (excluding any government subsidies and net profit from one-off gain) as shown in the audited accounts of the Target Company for the year ending 31 December 2020 shall not be less than RMB7.55 million. In the event that the actual net profit after tax (excluding any government subsidies and net profit from one-off gain) for the year ending 31 December 2020 (the "**Actual Profit**") does not meet the Guaranteed Profit, the Company will disclose information as required by Rule 14A.63 of the Listing Rules in its announcement and next annual report, and the Vendor shall be obliged to compensate the Purchaser an amount calculated as follows:

If there is Actual Profit

$$A = (\text{Guaranteed Profit} - \text{Actual Profit}) * 21.9^{(Note)} * 51\%$$

If the Target Company records actual net loss

A = RMB84,150,000

Note: 21.9 equals to $\dfrac{\textit{Consideration}}{51\% * \textit{Guaranteed Profit}}$

In such event, the Vendor shall pay to the Purchaser a sum equivalent to "A" in cash within ten (10) Business Days upon the publication of the audited accounts of the Target Company for the year ending 31 December 2020. Both parties agreed that they shall use their best efforts to ensure that the audited accounts of the Target Company for the year ending 31 December 2020 to be published within four months after the end of the financial year of 2020.

The amount of the Guaranteed Profit represents a level of business that both the Company and the Vendor consider to be feasible, and an amount the Vendor is willing and prepared to guarantee and make good if it is not in fact achieved. The Guaranteed Profit was determined through arm's length negotiation between the Purchaser and the Vendor, having considered (i) the number of secured contracts and partially secured contracts of the Target Company with a total contract value of approximately RMB52.3 million and RMB10.5 million, respectively; (ii) the increase in the number of the customers by 102.7% in 2018 and by 36.2% as of October 2019 comparing to the number of customers at the beginning of the relevant years; and (iii) the future prospects of the Target Company as discussed in the section headed "Reasons for and Benefits of the Acquisition" below.

In assessing the reasonableness and achievability of the Guaranteed Profit, the Directors also take into account the following factors: (i) the number of contracts currently under negotiation which could potentially generate more revenue; (ii) the customer retention rate of nearly 100% over the past few years; and (iii) the Target Business' track record of 98.4% year-on-year revenue growth in 2018. The Directors note that the Guaranteed Profit is subject to uncertainties, for example in the materialisation of the partially secured contracts on hand, securing additional contracts and clients. However, having reviewed the Target Company's financial performance for the year ended 31 December 2018 and for the six months ended 30 June 2019, the capability and expertise of the Target Company, and the favorable market environment for the Target Business, the Directors believe that the assumptions used to determine the Guaranteed Profit are fair and reasonable.

Although the Consideration will be fully paid to the Vendor upon the Completion and the Guaranteed Profit only covers one financial year, in the event that the Guaranteed Profit is not reached, the Vendor shall compensate the Purchaser 21.9 times of the shortfall of the Guaranteed Profit. Having reviewed the management accounts of the Vendor for the nine months ended 30 September 2019, the Directors note that the Vendor had: (i) cash and bank balance in an aggregate amount of approximately RMB16.5 million; (ii) trade and other receivables in an aggregate amount of approximately RMB322.5 million; and (iii) net current assets of RMB298.5 million and had not recorded material provisions for impairment in the past. Based on the above and having taken into account the Consideration to be paid to the Vendor following the Completion of the Acquisition, the Directors therefore have reasonable grounds to believe that, in the event that the Guaranteed Profit is not reached, the Vendor would have sufficient financial resources to settle the compensation amount.

Conditions precedent

Completion under the Equity Transfer Agreement is subject to, among others, the following conditions precedent being satisfied or waived (if applicable):

a) the Acquisition does not contravene with any rights and obligations contemplated under any agreement or contract to which the Vendor, the Purchaser, the Target Company or any of their respective associates is a party;

b) there has not been any material adverse change in the business, operation, assets, liabilities, tax or other financial conditions of the Target Company since the date of the Equity Transfer Agreement;

c) the representations and warranties of the Vendor and the Purchaser remain true, complete and accurate; and

d) the Equity Transfer Agreement and the Acquisition having been approved by the Independent Shareholders at the EGM.

Completion

Completion will take place on the Completion Date, which is the day when all of the conditions precedent mentioned in the Equity Transfer Agreement are satisfied or waived (as the case may be).

Upon Completion, the Target Company will become a non-wholly owned subsidiary of the Company and the financial results of the Target Company will be consolidated into the Group's financial statements.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Board believes that the Acquisition is in the interests of the Company and its Shareholders as a whole for the following reasons:

Continuous growth of the Target Business supported by favorable industry policy

Reference is made to the Previous Announcement, the Company had agreed to dispose of and the Vendor had agree to purchase 100% of the equity interest in the Target Company on 25 September 2017. Before the Previous Disposal in 2017, the heavy-duty anti-corrosion coating market in China was still immature given that the follow-on policy of China's 13th Five-Year Plan, which classified the heavy-duty coating materials as "New Materials" was only announced a year ago. Therefore, the profitability and potential of the Target Business was still subject to uncertainties. Furthermore, given that the heavy-duty anti-corrosion coating market is highly technical and requires special technology and research and development ("**R&D**") facilities, it would require substantial investment in the Target Company to develop the Target Business. Having considered the market uncertainty relating to the relevant industry in China, potential costs in developing the Target Business, the loss-making status of the Target Company, and the then business strategy of the Group to improve its overall financial performance, the Directors believed that it was in the interest of the Group and its Shareholders to transfer the Target Company to the Vendor. The Vendor, on the other hand, decided to acquire the Target Company with the aim to explore such niche market and seize business opportunities to realize the growth potential of the Target Business. Since the completion of the Previous Disposal, the Vendor had contributed RMB35 million to the paid-in capital of the Target Company and provided shareholder loans to fund and develop the Target Business, in particular, the marketing activities and research and development of the Target Company. As a result of these efforts, the number of customers of the Target Company has increased by approximately 102.7% in 2018 and 36.2% as of October 2019 comparing to the number of customers at the beginning of the relevant years. As of the Latest Practicable Date, the Target Company had secured contracts and partially secured contracts with a total contract value of approximately RMB52.3 million and RMB10.5 million, respectively. As a result, as disclosed under the section headed "Financial Information of the Target Company" above, the Target Company saw a year-over-year revenue growth of 98.4% in 2018.

In addition to the efforts put into the market promotion, the Target Company also invested in its R&D facilities and initiated a number of new R&D projects in respect of the Target Business, some of which are currently under late-stage development and are expected to commercialize in the next two to three years. Since the completion of the Previous Disposal and up to the Latest Practicable Date, the Target Company had initiated a total of 48 R&D projects, as compared to seven R&D projects in respect of the Target Business initiated in 2017. Furthermore, the Target Company had also made significant progress in patent applications and obtaining licenses. Since the completion of the Previous Disposal, the Target Company has filed 13 patent applications, obtained five patent authorisations and 17 qualifications and certifications, all of which are essential to the development of the Target Business.

According to China's 13th Five-Year Plan and its follow-on policies, heavy-duty coating materials are classified as "New Materials" which is being supported by the PRC government and considered as a key industry to be developed. With such policy support, it is anticipated that China's dependency on foreign imports of heavy-duty coating materials will reduce and demands for domestic counterparts will be increasing. In addition, the overall policy environment has also been changing since the Previous Disposal. Against the backdrop of the Sino-US Trade War starting in 2018, China has been advocating the development of "domestic alternatives" to reduce China's reliance on goods imported from the US. As such, it is expected that the Target Business will benefit from a steady growth as a result of the increasing domestic demands. The policy support also promoted academia-industry collaborations for R&D of heavy-duty anti-corrosion market in recent years. Accordingly, the Target Company had entered into three collaboration arrangements with companies and universities in 2019 to develop advanced technology in heavy-duty coating materials.

Moreover, as stated in the Previous Announcement, the Target Business may be further developed if introduced into and applied to military industry. Generally, a foreign-owned entity is not permitted to engage in military-related projects. Since the Previous Disposal, the Target Company had obtained licenses to provide certain types of products for military-related projects in the PRC. In anticipation of the Acquisition, the Target Company has conducted an interview with the competent authority responsible for issuing the military licenses. According to such competent authority, as long as the legal representative and major investor of the Target Company remain a domestic citizen and a domestic entity, respectively, the Target Company will be eligible to hold the military licenses. Based on the response from the competent authority, since the Purchaser is a PRC-incorporated company, the Target Company, as controlled by the Purchaser after the Acquisition, will still be eligible to hold the military licenses, provided that the change of shareholding is duly reported to the competent authority.

Despite the above, in determining the Consideration, neither the Purchaser nor the Vendor has taken into account such potential business opportunities in the military-related projects. As advised by the Target Company, the Target Business has already generated strong income and become the main revenue contributor to the Target Company. The Target Company does not expect that the military-related business will become a major source of income and profit in the near future. This background information is offered to provide the investors with more information about the development plan and growth potential of the Target Company.

Leveraging on the existing client base and contracts and the established research and development team of the Target Company, and the intellectual properties held by the Target Company which are essential to the operation of the Target Business, upon Completion of the Acquisition, the Company intends to use its existing business networks to attract potential clients and explore more overseas opportunities for the Target Company. The Company will also allocate resources to the Target Company to facilitate its future development as and when necessary.

Enhancing the diversification of the business lines, expanding revenue-generating channels and improving risk resistance capacity

As one of the core businesses of the Group is the manufacture and sales of coating materials for OCTG and petroleum transmission pipeline, the Board believes that the performance of the Target Company, the technologies developed by the Target Company in the field of heavy-duty coating materials, as well as its market share and customer base, would strengthen the Group's existing coating material businesses and further expand our scope of services in respect of the general coating materials market as a whole. Therefore, the Acquisition would not only expand the business coverage, but also improve the profitability of the Group in the long run.

Focusing on oil-related industry, the performance of the Group is impacted by the fluctuation of the oil price to certain extent. The field of heavy-duty coating materials production which the Target Company focuses on, is less restrained by the cycle of oil price. In terms of customer concentration, industry cycle and raw material procurement, the Acquisition would improve the Group's risk resistance capacity and business stability.

Serving as an integral part of the business optimization and restructuring, which enables the Group to enhance Shareholder's value and gain access to capital markets

Furthermore, the Group is currently planning a business restructuring ("**Restructuring**") by re-aligning various business segments in the Group through a series of intra-group transactions as well as the Acquisition to optimize the operational efficiency and investment return of the Group. Following the Restructuring, certain business segments will be consolidated under a financing platform within the Group. As part of its future development plan, the Group, through such financing platform, is expected to undergo certain financing or fund raising activities on the capital markets to pursue external financing resources. The diversified business portfolio, improved operational efficiency and unified financing platform resulting from the Restructuring would improve the performance of Group, and enable the Group to gain broader access to capital markets. For the reasons mentioned above, the Directors believe that the Acquisition would serve as an integral part of the Restructuring which is expected to enhance the synergy of the Group's businesses, attract investments and create enhanced value of the Shareholders.

Taking into account the above as well as the appraised value of the Target Company prepared by the Independent Valuer, the Directors (other than members of the Independent Board Committee, who will give their opinion after having considered the recommendation from the Independent Financial Adviser) consider that the Equity Transfer Agreement was entered into in the ordinary and usual course of business of the Company and consider that the terms of the Equity Transfer Agreement are on normal commercial terms and are fair and reasonable and that the Acquisition is in the interests of the Company and its Shareholders as a whole.

INFORMATION ABOUT THE PURCHASER

Hilong Pipeline Engineering Technology Service Co., Ltd. is incorporated in the PRC and is a wholly-owned subsidiary of the Company. It is principally engaged in anti-corrosion coating, processing, inspection, maintenance and technical service for petroleum transmission pipelines.

INFORMATION ABOUT THE VENDOR

Beijing Huashi Hailong Oil Investment Co., Ltd. is a company incorporated in the PRC and is owned by Huashi Hailong and Mr. ZHANG Jun as to 98.0% and 1.0%, respectively. Huashi Hailong is owned by Mr. ZHANG Jun, a Director and controlling shareholder of the Company as at the Latest Practicable Date, as to 95.65%. It is principally engaged in investment holding and management.

INFORMATION ABOUT THE TARGET COMPANY

The net asset value of the Target Company was RMB50,458,061 as at 31 October 2019 based on its unaudited management accounts for the ten months ended 31 October 2019 prepared in accordance with the PRC Accounting Standard for Business Enterprises. The original cost to the 100% equity interest in the Target Company paid by the Vendor was RMB35,000,000, details of which were set out in the Previous Announcement.

Based on the unaudited financial statements for the years ended 31 December 2017 and 2018 prepared in accordance with the PRC Accounting Standard for Business Enterprises and the unaudited management accounts for the ten months ended 31 October 2019 of the Target Company, the revenue and net profit/(loss) (both before and after tax) of the Target Company attributable to the Target Business for the relevant periods were as follows:

	Year ended 31 December 2017[1] *(RMB)*	**Year ended 31 December 2018**[2] *(RMB)*	**Ten months ended 31 October 2019**[2] *(RMB)*
Revenue	46,367,000	91,982,918	83,146,105
Net profit/(Loss) before tax	(16,440,592)	(8,651,877)	(5,007,691)
Net profit/(Loss) after tax	(16,440,592)	(8,651,877)	(5,007,691)

Notes:

1. The revenue and net loss before and after tax for the year ended 31 December 2017 were adjusted by excluding the revenue and net profits derived from discontinued operations (i.e., the oil country tubular goods ("**OCTG**") coating materials) and operations which are expected to be discontinued upon the Completion of the Acquisition (i.e., the line pipe coating materials).

2. The revenue and net loss before and after tax for the year ended 31 December 2018 and for the ten months ended 31 October 2019 were adjusted by excluding the revenue and net profits derived from operations which are expected to be discontinued upon the Completion of the Acquisition (i.e. the line pipe coating materials).

LISTING RULES IMPLICATIONS

As the highest applicable percentage ratios in respect of the Acquisition is greater than 5% but less than 25%, as calculated under Rule 14.07 of the Listing Rules, the Acquisition constitutes a discloseable transaction for the Company and is subject to the notification and publication requirements under Chapter 14 of the Listing Rules.

As of the Latest Practicable Date, Mr. ZHANG Jun, the controlling shareholder and a director of the Company, holds 95.65% of the equity interest in Huashi Hailong, which in turn holds 98.0% of the equity interest in the Vendor; meanwhile, Mr. ZHANG Jun also directly holds 1.0% of the equity interest in the Vendor. As such, the Vendor is an associate of Mr. ZHANG Jun and thus a connected person of the Company. The Acquisition therefore constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

Since the applicable percentage ratios set out in Rule 14.07 of the Listing Rules in respect of the Acquisition exceed 5%, the Acquisition is subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Mr. ZHANG Jun, a chairman of the Board who is also the ultimate controlling shareholder of the Target Company is considered to have a material interest in the Acquisition. Mr. ZHANG Jun, and Ms. ZHANG Shuman, who is an associate of Mr. ZHANG Jun for the purpose of Chapter 14A of the Listing Rules, have abstained from voting on the board resolutions approving the Equity Transfer Agreement and the Acquisition contemplated thereunder.

The EGM will be convened for the Independent Shareholders to consider if thought fit, to approve the Equity Transfer Agreement and the transaction contemplated thereunder. Pursuant to 14A.36 of the Listing Rules, any Shareholder who has a material interest in the Equity Transfer Agreement shall abstain from voting to approve the Equity Transfer Agreement and the Acquisition at the EGM. As at the Latest Practicable Date, each of Hilong Group Limited, Younger Investment Limited, North Violet Investment Limited and LongZhi Investment Limited which are interested in an aggregate of 993,881,800 Shares, is held by Mr. ZHANG Jun's trust and family trusts, with Standard Chartered Trust (Singapore) Limited acting as trustee of Mr. ZHANG Jun's trust and family trusts. Mr. ZHANG Jun holds interest in 760,000 Shares in his capacity as a beneficial owner, and is the founder of Mr. ZHANG Jun's trust and family trusts as well as the sole director of Hilong Group Limited, North Violet Investment Limited and LongZhi Investment Limited. In addition, Ms. ZHANG Shuman holds interest in 692,000 Shares in her capacity as a beneficial owner, and deemed to be interested in the Shares held by Younger Investment Limited of which she is the sole director. Accordingly, each of Hilong Group Limited, Younger Investment Limited, North Violet Investment Limited, Longzhi Investment Limited, Mr. ZHANG Jun and Ms. ZHANG Shuman, who are interested in an aggregate of 995,333,800 Shares, representing approximately 58.67% of the total issued Shares of the Company as of the Latest Practicable Date, will be required to abstain from voting on the relevant resolutions at the EGM accordingly. Save as disclosed above, to the best knowledge of the Directors, no other Shareholder would be required to abstain from voting thereat as no other Shareholder has any interest in the Equity Transfer Agreement which is different from the other Shareholders.

Independent Board Committee

In compliance with the Listing Rules, the Independent Board Committee has been established to consider the terms of the Equity Transfer Agreements and to advise the Independent Shareholders as to whether they are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole and to give its recommendation as to the voting in respect of the resolution to be proposed at the EGM for approving the Acquisition, after taking into account the recommendation of the Independent Financial Adviser. In this connection, the Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders regarding the terms of the Acquisition. The text of the letter from the Independent Board Committee is set out on page 19 of this circular and the text of the letter from the Independent Financial Adviser containing its advice is out on pages 20 to 39 of this circular.

EGM

Set out on pages 40 to 41 is a notice convening the EGM to be held at Club @28 – VIP Lounge 1, 28/F, Crowne Plaza Hong Kong Causeway Bay, 8 Leighton Road, Causeway Bay, Hong Kong at 10:00 a.m. on Monday, 23 December 2019 to approve the Equity Transfer Agreement and the transactions contemplated thereunder.

A form of proxy for appointing proxy is despatched with this circular and published on the websites of Stock Exchange and the Company. Whether or not you intend to attend the EGM, you are requested to complete the form of proxy in accordance with the instructions stated thereon and return it to the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not less than 48 hours before the time appointed for the EGM (i.e. not later than 10:00 a.m. on Saturday, 21 December 2019 (Hong Kong time)) or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM and at any adjournment thereof if you so wish. In such event, the form of proxy shall be deemed to be revoked.

The register of members of the Company will be closed from Friday, 20 December 2019 to Monday, 23 December 2019, both days inclusive, during which period no transfer of Shares will be registered. Shareholders whose names appear on the register of members of the Company at close of business on Thursday, 19 December 2019 are entitled to attend and vote at the EGM. In order to be eligible to attend and vote at the EGM, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Thursday, 19 December 2019.

RECOMMENDATION

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, considers that the Acquisition is fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolution approving the Acquisition at the EGM.

In the light of the above, the Directors believe that the proposal at the EGM is in the best interests of the Company and its Shareholders. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of all of the resolution to be proposed at the EGM.

ADDITIONAL INFORMATION

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

Yours faithfully,
By Order of the Board of
Hilong Holding Limited
ZHANG Jun

Hilong Holding Limited
海隆控股有限公司*

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

6 December 2019

To the Independent Shareholders

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF 51% OF THE EQUITY INTEREST IN THE TARGET COMPANY

We refer to the circular of the Company dated 6 December 2019 (the "**Circular**") of which this letter forms part. Terms defined in the Circular shall have the same meanings herein unless the context otherwise requires.

We have been appointed to form the Independent Board Committee to consider and advise the Independent Shareholders as to whether, in our opinion, the terms of the Equity Transfer Agreement and the transaction contemplated thereunder, details of which are set out in the letter from the Board contained in the Circular, are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

The Independent Board Committee considers that (i) the terms of the Equity Transfer Agreement are on normal commercial terms and are fair and reasonable, (ii) entering into the Equity Transfer Agreement is in the ordinary and usual course of business of the Company; and (iii) the Acquisition is in the interests of the Company and its Shareholders as a whole.

Having considered the terms of the Equity Transfer Agreement and the advice of the Independent Financial Adviser in relation thereto as set out on pages 20 to 39 of this Circular, we are of the opinion that the terms of the Equity Transfer Agreement are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Independent Shareholders and the Company as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the Acquisition.

Yours faithfully,
For and on behalf of the Independent Board Committee

Mr. Wang Tao (王濤)
Independent non-executive Director

Mr. Wong Man Chung Francis
Independent non-executive Director

Mr. Shi Zheyan
Independent non-executive Director

* *For identification purpose only*

The following is the letter of advice from AJ Corporate Finance Limited, the Independent Financial Adviser, to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.

AJ CORPORATE FINANCE LIMITED
Units 08-09, 39/F
COSCO Tower
183 Queen's Road Central
Hong Kong

AJS 安捷融資

6 December 2019

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO ACQUISITION OF 51% OF EQUITY INTEREST IN SHANGHAI HILONG SHINE NEW MATERIAL CO., LTD.

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Acquisition. Details of the Acquisition are set out in the circular issued by the Company to the Shareholders dated 6 December 2019 (the "**Circular**"), of which this letter forms part. Unless the context otherwise requires, capitalized terms used in this letter shall have the same meanings as those defined in the Circular.

On 5 December 2019, the Purchaser and the Vendor entered into the Equity Transfer Agreement pursuant to which the Purchaser conditionally agreed to purchase, and the Vendor conditionally agreed to dispose of 51% equity interest in the Target Company at a consideration of RMB84,150,000.

Mr. ZHANG Jun, the controlling shareholder and a director of the Company, holds 95.65% of the equity interest in Huashi Hailong, which in turn holds 98.0% of the equity interest in the Vendor; meanwhile, Mr. ZHANG Jun also directly holds 1.0% of the equity interest in the Vendor. As such, the Vendor is an associate of Mr. ZHANG Jun and thus a connected person of the Company. The Acquisition therefore constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. As certain of the applicable percentage ratios stipulated under Rule 14.07 of the Listing Rules in respect of the Acquisition exceed 5% but all applicable percentage ratios are less than 25% and the Consideration exceeds HK$10 million, the Acquisition also constitutes a discloseable transaction of the Company, and, under the Listing Rules, the entering into the Equity Transfer Agreement as a connected transaction is subject to the reporting, announcement and Independent Shareholders' approval requirements set out in Chapter 14A of the Listing Rules. In this regard, the Company is seeking the Independent Shareholders' approval for entering into the Equity Transfer Agreement and the Acquisition at the EGM.

The Independent Board Committee, comprising all of the independent non-executive Directors, namely Mr. WANG Tao, Mr. WONG Man Chung Francis and Mr. SHI Zheyan, has been established to consider and make recommendations to the Independent Shareholders on whether the terms of the Equity Transfer Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and whether the Acquisition is in the interests of the Company and the Shareholders as a whole. We, AJ Corporate Finance, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

During the past two years, there were no engagements between the Company and AJ Corporate Finance. As at the Latest Practicable Date, there were no relationships or interests between AJ Corporate Finance on one hand and the Company, the Vendor or their respective core connected persons, close associates or associates on the other hand that could reasonably be regarded as a hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition pursuant to the Equity Transfer Agreement. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, the Vendor or their respective core connected persons, close associates or associates.

BASIS OF OUR OPINION

In formulating our opinion, we have reviewed, among other things, the Equity Transfer Agreement, the interim report of the Company for the six months ended 30 June 2019 (the "**2019 Interim Report**"), the annual report of the Company for the year ended 31 December 2018 (the "**2018 Annual Report**"), the audited report of the Target Company for the years ended 31 December 2018 and 31 December 2017 prepared in accordance with the generally accepted accounting principles of the PRC, the unaudited reconciliated financial information of the Target Company for the years ended 31 December 2018 and 31 December 2017, the appraisal report on Target Company (the "**Appraisal Report**") prepared by Shanghai Lixin Appraisal Co., Ltd. (上海立信資產評估有限公司, "**Shanghai Lixin**" or the "**Independent Valuer**"), an independent valuer appointed by the Company and the information as set out in the Circular. We have discussed the business and future prospects of the Group as they may be affected by the Acquisition with the management of the Group. We have also discussed the appraisal methodology and bases and assumptions used in the Appraisal Report with Shanghai Lixin.

We have relied on the information and facts supplied, and the opinions expressed, by the Directors and management of the Group and the Directors have confirmed that all information and representations provided by the Directors and management of the Group, for which they are solely and wholly responsible, are true, accurate and complete in all material aspects and will remain so up to the date hereof. We have also assumed that all statements of belief, opinion and intention of the Directors as set out in the letter from the Board contained in the Circular in connection with the Acquisition were reasonably made after due and careful enquiry. We have also sought and received confirmation from the

Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We have no reason to believe that any material information has been withheld from us, or to doubt the truth or accuracy of the information provided. We have relied on such information and consider that the information we have received is sufficient for us to reach our advice and recommendation as set out in this letter and to justify our reliance on such information. We have not, however, conducted any independent investigation into the business and affairs of the Group or the Target Company, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether the terms of the Equity Transfer Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and whether the Acquisition is in the interests of the Company and the Shareholders as a whole, we have taken into account the principal factors and reasons set out below:

1. Principal business activities and financial information of the Group

The Group is principally engaged in manufacture and distribution of oil and gas drilling equipment and provide oilfield and offshore engineering services worldwide. The Group operates its business through four segments, namely (i) Oilfield Equipment Manufacturing and Services segment, which is engaged in the production of oilfield equipment and oil country tubular goods ("**OCTG**") coating services; (ii) Line Pipe Technology and Services segment, which is engaged in the provision of services related to oil and gas pipe line and production of coating materials; (iii) Oilfield Services segment, which is engaged in the provision of well drilling services, OCTG trading and related services to oil and gas producers; and (iv) Offshore Engineering Services segment, which is engaged in the provision of offshore engineering services and offshore design services.

The following is a summary of the financial performance of the Group for the six months ended 30 June 2019 and 30 June 2018 and years ended 31 December 2018 and 31 December 2017, respectively, as extracted from the 2019 Interim Report and the 2018 Annual Report.

	Six months ended 30 June		**Year ended 31 December**	
RMB thousands	**2019**	**2018**	**2018**	**2017**
Revenue	1,859,567	1,504,695	3,222,416	2,669,347
Gross profit	609,845	489,605	1,020,682	845,601
Profit before income tax	198,500	115,534	232,543	171,613
Profit for the period	150,422	76,115	150,531	125,700
Profit attributable to:				
Equity owners of the Company	148,742	70,775	148,741	119,150

For the year ended 31 December 2018, the Group achieved a revenue of approximately RMB3,222.4 million, representing a growth of approximately 20.7% from the same period of 2017. Profit attributable to equity owners for the year ended 31 December 2018 amounted to approximately RMB148.7 million, representing an increase of 24.8% from approximately RMB119.2 million in 2017. As stated in the 2018 Annual Report, such increase was mainly attributable to the Group's expansion in the overseas onshore oilfield service segment and completion of offshore engineering service contracts in Southeast Asia.

For the six months ended 30 June 2019, the Group had a revenue of approximately RMB1,859.6 million, representing a growth of approximately 23.6% from the same period of 2018. Such increase was mainly due to the increase in revenue from oilfield equipment manufacturing and services segment and oilfield services segment. Profit attributable to equity owners of the Company for the six months ended 30 June 2019 was RMB148.7 million, representing a significant increase of approximately 110% from the same period of 2018.

The Group's gross profit increased by RMB175.1 million or 20.7%, from RMB845.6 million in 2017 to RMB1,020.7 million in 2018. The gross profit margin was 31.7% in 2018, which remained generally the same as in 2017. For the six months ended 30 June 2019, gross profit of the Group was approximately RMB609.8 million with profit margin of approximately 32.8%.

Set out below is the breakdown of the revenue in respect of the four business sections for the financial years 2017 and 2018, and for the six months ended 30 June 2019 and 30 June 2018 respectively.

	Six months ended 30 June		**Year ended 31 December**	
RMB thousands	**2019**	**2018**	**2018**	**2017**
Oilfield equipment manufacturing and services	841,400	662,329	1,428,731	1,316,232
Line pipe technology and services	200,870	195,446	326,440	329,536
Oilfield services	694,896	461,492	1,134,413	880,745
Offshore engineering services	122,401	185,428	332,832	142,834

For the financial year 2018 and the 2019 interim period, revenue of the Group was mainly attributable to the oilfield equipment manufacturing and services (44.3% for the financial year 2018 and 45.2% for the 2019 interim period) and oilfield service (35.2% for the financial year 2018 and 37.4% for the 2019 interim period).

A summary of the financial position of the Group as at 30 June 2019, 31 December 2018 and 31 December 2017 as extracted from the 2019 Interim Report and the Annual Report 2018 is set out below:

RMB thousands	**As at 30 June 2019** (Unaudited)	**As at 31 December 2018** (Audited)	**As at 31 December 2017** (Audited)
Total assets	8,242,769	7,899,697	7,150,556
Total liabilities	4,553,737	4,377,687	3,686,781
Total borrowings	3,094,452	3,070,615	2,449,452
Less: (i) Cash and cash equivalents	625,387	661,738	389,014
(ii) Restricted Cash	190,552	184,479	150,006
(iii) Financial assets at fair value through profit or loss	–	–	24,040
Net debt	2,278,513	2,224,398	1,886,392
Gearing ratio (net debt/total capital)	38.2%	38.7%	35.3%

The Group had a total assets value of approximately RMB8,242.8 million and RMB7,899.7 million as at 30 June 2019 and 31 December 2018 respectively, and a total liabilities of approximately RMB4,553.7 million as at 30 June 2019 and RMB4,377.7 million as at 31st December 2018. Of the total asset as at 30 June 2019, cash and cash equivalent amounted to approximately RMB625.4 million. Gearing ratio was kept in a quite steady level of approximately 38.2%, 38.7% and 35.3% for the six months ended 30 June 2019, years ended 31 December 2018 and 2017 respectively.

2. Information on the Target Company

(a) Background information of the Target Company

Shanghai Hilong Shine New Material Co., Ltd (上海海隆賽能新材料有限公司) is a company incorporated in the PRC. It is principally engaged in the manufacture and sales of heavy-duty coating materials, including marine coating materials applied on ships and vessels as well as protective coating materials applied in specific industrial areas such as bridges, power-related projects, storage and transmission of petrochemicals and infrastructure. As advised by the management team of the Company, prior to June 2017, the Target Company also operated OCTG-related coating business, but such operations discontinued as from June 2017.

As advised by the management team of the Company, currently the Target Company has a research and development team of approximately 30 experts, and they all have professional qualifications in chemical engineering and related fields. The Target Company has obtained 47 patents, amongst which 27 of them are being in use as valid patents. Since 2016, the Target Company has provided coating materials to more than 600 vessels in relation to construction, maintenance and repair and two of its independently developed products, namely self-polishing coating materials and thermal pipe inner wall anti-corrosion coating materials, were the first domestic products of their respective kinds and were admitted into the Directory for Guiding the Exemplary Application of the First Batch of Key New Materials (重點新材料首批應用示範目錄) issued by the Ministry of Industry and Information Technology of the PRC in 2017 and 2018 respectively.

As the Latest Practicable Date, Mr. ZHANG Jun, the controlling shareholder and a director of the Company, holds 95.65% of the equity interest in Huashi Hailong, which in turn holds 98.0% of the equity interest in the Vendor; meanwhile, Mr. ZHANG Jun also directly holds 1.0% of the equity interest in the Vendor. Mr. ZHANG Jun and his associates acquired the Target Company from the Group in December 2017 for a consideration of RMB35,000,000. Based on the audited accounts of the Target Company prepared in accordance with the PRC accounting standards, as at 31 December 2017, share capital and net asset value of the Target Company was RMB15,000,000 and approximately RMB23,500,000 respectively. After completion of the acquisition of the Target Company by Mr. ZHANG Jun and his associates, the Target Company further developed the business relating to manufacture and sales of heavy-duty coating materials, including marine coating materials applied on ships, vessels and protective coating materials applied in specific industrial areas such as bridges, power-related projects, storage and transmission of petrochemicals and infrastructure.

(b) Financial information of the Target Company

Set out below are certain financial information of the Target Company:

RMB thousands **Profit and Loss Items** (unaudited)	**For the year ended 31 December 2018** *(Note)*	**For the year ended 31 December 2017** *(Note)*	**Year on year change** %
Revenue	91,983	46,367	98.4%
Net profit/(loss) before tax	(8,652)	(16,441)	N/A
Net profit/(loss) after tax	(8,652)	(16,441)	N/A

RMB thousands **Balance Sheet Items** (audited)	**As at 31 December 2018**	**As at 31 December 2017**	**Year on year change** %
Total assets	135,820	90,110	50.7%
Total liabilities	76,272	66,633	14.5%
Net asset value (net of minority interest)	59,548	23,477	153.6%
Cash and cash equivalents	7,518	4,240	77.3%
Total borrowings	5,000	0	N/A

Note: The revenue and net loss before and after tax for the years ended 31 December 2017 and 2018 were adjusted by excluding the revenue and the net profits derived from operations other than the Target Business (i.e. the OCTG coating materials which was discontinued in 2017 and line pipe coating materials, operation of which will be ceased upon the Completion).

As set out in the table above, the Target Company recorded an unaudited net loss in respect of the Target Business of approximately RMB16.4 million for the year ended 31 December 2017 and approximately RMB8.7 million for the year ended 31 December 2018. The decrease in losses was mainly due to the expanded and improved business operation of the Target Company focusing on the of manufacturing and sales of heavy-duty coating materials in 2018. As stated in the Letter from the Board, the Target Company recorded an unaudited net loss in respect of the Target Business of approximately RMB5 million for the ten months ended 31 October 2019.

The Target Company recorded a net asset value of approximately RMB59.5 million and RMB23.5 million as at 31 December 2018 and 31 December 2017 respectively. As stated in the Letter from the Board in the Circular, based on the unaudited management accounts for the ten months ended 31 October 2019, the unaudited net asset value of the Target Company as at 31 October 2019 was approximately RMB50.5 million.

According to the unaudited financial statements of the Target Company for the first three quarters of 2019, as of 30 September 2019, the unaudited net asset value of the Target Company attributable to the shareholder was approximately RMB49.3 million. As at 30 September 2019, the total assets of the Target Company stood at RMB182.7 million which comprised of mainly receivables, bills receivables, cash and bank balances and stock, and the total liabilities of the Target Company stood at RMB133.4 million of which RMB75.0 million were short term loans the drawdown of which took place in April 2019 for the purpose of enhancing the production capacity in anticipation of the increase of orders from customers, and other liabilities consist of bills payable, advances and payables.

3. Industry overview

(a) Overview of the coatings market

A coating is a covering that is applied to the surface of an object. The purpose of applying the coating may be decorative and/or functional and coatings are used in a wide variety of industries such as construction, shipping, transportation and home appliances. As stated in the Appraisal Report, according to the World Paint & Coatings Industry Association, a total of 71.44 million tonnes of coatings were produced globally in 2017 with a total worth of about US$192.9 billion, and coatings production in the PRC from 2005 to 2017 saw a compounded annual growth rate ("**CAGR**") of about 7% to 10% with a total production size and value of about 20.36 million tonnes and US$64 billion in 2017, respectively.

In functional terms, coatings are applied to materials to provide protection and enhance durability and different types of coatings offer different kinds of protection, such as anti-corrosion, wear resistance, waterproofing, insulation, passive fire protection, antimicrobial and antifouling. According to the Report on Market Demand and Investment Consultation in relation to the China's Anti-Corrosion Materials Industry for 2016-2021 (《2016-2021年中國防腐塗料行業市場需求與投資諮詢報告》), amongst the foregoing, the domestic production of anti-corrosion coatings in the PRC has been growing at a steady pace and reached 6 million tonnes in 2017, representing an increase of 7% compared to the previous year.

(b) Characteristics and outlook of the anti-corrosion coatings market

Anti-corrosion coatings are extensively used in industries such as oil and gas, marine, transportation and construction. Based on the different levels of corrosion resistance and application requirements of the coating film, anti-corrosion coatings are generally divided into two categories: regular coatings and heavy-duty coatings. Regular coatings protect metal surfaces from corrosion under normal circumstances and, on the other hand, heavy-duty coatings protects metal and concrete surfaces against damage and corrosion under extreme environmental conditions.

According to the information provided by the management team of the Company, in particular, a market research prepared by Beijing Boyan Zhishang Information Consulting Co., Ltd. (北京博研智尚信息諮詢有限公司), the size of international anti-corrosion coating market grew from USD19.3 billion in 2012 to USD24.8 billion in 2017, and is estimated to grow to USD37.6 billion in 2024, representing a CAGR of approximately 6.1% from 2017 to 2024 and, on the other hand, the size of anti-corrosion coating market of China is estimated to grow from RMB95.3 billion in 2017 to RMB161.5 billion in 2024, representing a compounded annual growth rate of approximately 7.8% from 2017 to 2024. Such estimation shows that the China anti-corrosion coating market is growing steadily at a rate faster than the global market.

At present, as advised by the management team of the Company, about half of the anti-corrosion coatings that are domestically produced has high quantities of organic solvent and the application of such coatings may cause the release of volatile organic compounds which would result in environmental pollution. Despite the use of environmentally-friendly equivalents such as water-borne coatings and high-solid coatings by domestic consumers is increasing, the supply of such environmentally-friendly materials in China is still dominated by international coating corporations due to the high technical barrier. In order to achieve self-sufficiency and reduce reliance from imports, the State Council of the PRC issued "Made in China 2025" in May 2015, in which it stated the determination to upgrade the manufacturing capabilities of Chinese industries, with one of the aims being the realization of 70% self-sufficiency in core basic components and key basic materials. Furthermore, under the "13th Five-year plan" (十三五計劃), China will launch a number of key science and technology projects and major development projects of national strategic significance, including the research and application of major new materials. As advised by the management team of the Company, certain types of heavy-duty coating materials have been admitted into the Directory for Guiding the Exemplary Application of the First Batch of Key New Materials (重點新材料首批應用示範目錄) issued by the Ministry of Industry and Information Technology of the PRC, and it is expected that the development of advanced heavy-duty materials will receive prioritized support from the government with a view to achieving fully independent production.

4. Principal terms of the Equity Transfer Agreement

Principal terms of the Equity Transfer Agreement are summarized below. Further details are set out in the section headed "The Acquisition" in the "Letter from the Board" contained in the Circular.

(a) Subject of the Acquisition

On 5 December 2019, Hilong Pipeline Engineering Technology Service Co., Ltd. (as the Purchaser) entered into the Equity Transfer Agreement with Beijing Huashi Hailong Oil Investment Co., Ltd. (as the Vendor), pursuant to which the Purchaser conditionally agreed to acquire, and the Vendor conditionally agreed to sell, 51% of the equity interest in Shanghai Hilong Shine New Material Co., Ltd. (as the Target Company). Further details of the Target Company are set out in the paragraph headed "2. Information on the Target Company" in the section of Principal Factors and Reasons Considered in this letter above and in the paragraph headed "Information about the Target Company" in the "Letter from the Board" in the Circular.

(b) Consideration and payment terms

The Consideration for the Acquisition is RMB84,150,000 which will be funded by internal resources of the Company. The consideration will be settled in the following manner:

(i) RMB10,000,000 will be payable upon Completion (as described in sub-paragraph (c) under section headed "(c) Conditions precedent" below); and

(ii) The remaining RMB74,150,000 will be payable within 30 Business Days upon the completion of registration with relevant authorities in relation to the transfer by the Vendor of 51% of the equity interest in the Target Company to the Purchaser.

The Consideration for the Acquisition of RMB84,150,000 was determined based on arms' length negotiations and with reference to various factors including: (i) an appraised value of the Target Company of RMB170,000,000 as at 31 May 2019 prepared by the Independent Valuer appointed by the Company, which was based on market approach with reference to comparable companies and was adjusted after taking into account several discount factors; (ii) the business and financial performance of the Target Company; and (iii) the reasons set forth in the section headed "Reasons for and Benefits of the Acquisition" in the "Letter from the Board" in the Circular.

Shareholders should note that Mr. ZHANG Jun and his associates acquired the Target Company from the Group, the completion of which took place in December 2017, for a consideration of RMB35,000,000 (the "**Previous Disposal**"). Shareholders are advised to refer to details of the Previous Disposal in the section of Reasons for and Benefits of the Acquisition in the Letter from the Board. Our further analysis in this regard together with the appraisal of the Target Company are set out in section 6 of this letter.

(c) Conditions precedent

Completion under the Equity Transfer Agreement is subject to, among others, the following conditions precedent being satisfied or waived (if applicable):

(i) the Acquisition does not contravene any rights and obligations contemplated under any agreement or contract to which the Vendor, the Purchaser, the Target Company or any of their respective associates is a party;

(ii) there has not been any material adverse change in the business, operation, assets, liabilities, tax or other financial conditions of the Target Company since the date of the Equity Transfer Agreement;

(iii) the representations and warranties of the Vendor and the Purchaser remain true, complete and accurate; and

(iv) the Equity Transfer Agreement and the Acquisition having been approved by the Independent Shareholders at the EGM.

Completion will take place on the Completion Date, which is the day when all of the conditions precedent mentioned in the Equity Transfer Agreement are satisfied or waived (as the case may be).

(d) Profit guarantee

Pursuant to the Equity Transfer Agreement, the Vendor has irrevocably warranted and guaranteed to the Purchaser that the audited net profit after tax (excluding any government subsidies) of the Target Company as shown in the audited accounts of the Target Company for the year ending 31 December 2020 shall not be less than RMB7.55 million. Such net profit of RMB7.55 million does not include any profit arising from any government subsidies or any profit from one-off gain.

In the event that the actual audited net profit after tax (excluding any government subsidies and excluding profits from one-off gain) of the Target Company for the year ending 31 December 2020 is less than RMB7.55 million, the Vendor shall be obliged to compensate the Purchaser an amount equal to 51% of the aggregate amount of shortfall times 21.9 in cash, and in the event that the Target Company records actual net loss, the Vendor shall be obliged to compensate the Purchaser RMB84,150,000 in cash. In either case, such compensation shall be made within 10 Business Days upon the release of the audited financial statements of the Target Company for the year ending 31 December 2020 (both parties agreed that they shall use their best effort to ensure it shall be released within four months after the Target Company's financial year end of 2020).

We have reviewed the major terms of the Equity Transfer Agreement and consider that the terms of the Equity Transfer Agreement are on normal commercial terms.

5. Reasons for, and benefits of, the Acquisition

The Acquisition enables business diversification and tapping into new income stream for the Group. The Target Company is principally engaged in the manufacture and sale of heavy-duty coating materials for ships, vessels and various industrial uses, which can complement the existing product portfolio of the Group. Products of the Target Group include high quality heavy-duty coating materials. As advised by the management team of the Company, heavy-duty coating materials are classified as "new materials" which is being supported by the PRC government as a key industry under the 13th Five Year Plan. It is anticipated that, as a result of the policy support, demands for domestically produced heavy-duty coating materials will increase as reliance of foreign imports will be reducing. As such, it is expected that the Target Company will benefit from a steady growth as a result of increasing demands for its products from domestic enterprises. Furthermore, the Target Company has a well-established and high-profile research and development team and a variety of advanced technologies ready to be commercialized. With such advanced technological and research and development capabilities as compared with its domestic peers, the Target Company is believed to be in a competitive position to capture such business opportunities in the future.

In addition, as stated in the Company's 2018 Annual Report, as a result of rising energy demand and environmental policy to shift from coal to natural gas, it is expected that the investment in oil and gas pipeline will achieve RMB1,600 billion during the 13th and the 14th five-year plan in China. With the high quality products that the Target Company could offer, the Directors believe that the Acquisition could further enrich the Group's product portfolio and, at the same time, enhance the Group's existing coating services which is vital for the Company to capture the opportunities that they entail.

Upon Completion, the Company will hold 51% interests in the Target Company, which will allow the sharing of client base and technical know-how which gives the enlarged Group an opportunity to enhance and enrich its products in order to fortify its unique competitive advantage that improves customer stickiness.

The Group is planning a business restructuring to align various business segments in the Group and upon Completion, the Acquisition will form part of such exercise, which aims to optimize the operational efficiency and investment return of the Group. Please refer to Letter from the Board for details of the restructuring plan.

6. Appraisal of the Target Company

As stated in the "Letter from the Board" in the Circular, the Consideration for the Acquisition has been determined after taking into account, among other things, the market value of the Target Company as at 31 May 2019 as appraised by the Independent Valuer, which is a qualified valuer in the PRC. According to Rule 13.80(2)(b) Note 1(d) of the Listing Rules, and we have discussed with the Independent Valuer its expertise and obtained the credentials of the person signing the Appraisal Report, who has over 15 years' experience in the appraisal of business enterprises in the PRC. We have also reviewed the Independent Valuer's terms of engagement and discussed with the Independent Valuer its work performed as regards to the appraisal.

(a) Appraisal methodologies

We understand from the Independent Valuer that the Appraisal Report with respect to the market value of the Target Company has been prepared in accordance with the Independent Valuer's standard practice. We have discussed with the Independent Valuer their appraisal methodologies and understand that the market approach (comparing comparable companies' price to earnings ("**P/E**") ratio) was adopted in the appraisal of the Target Company. As advised by the Independent Valuer, comparing the implied P/E ratio of the Target Company with those of the selected listed companies engaging in similar business activities resembles a reasonable proxy of appraisal and it is also an industry practice to perform such comparison in assessing the relevant appraisal. We concur with the Independent Valuer that the market approach is the appropriate method for establishing the market value of the Target Company.

(b) Review of the Appraisal Report

We have reviewed and discussed with the Independent Valuer the key bases and assumptions adopted for the appraisal.

We have discussed with the Independent Valuer that the basis of selecting the comparable companies adopted in the appraisal are (i) companies engaging in the production of coating materials for industrial use as well as for infrastructure and vessels; and (ii) companies having been listed for at least 3 years; and (iii) has annual revenue of RMB2 billion or below.

We understand that, based on the above criteria, the Independent Valuer have searched for companies listed and traded on the Stock Exchange, the Shanghai Stock Exchange and the Shenzhen Stock Exchange as at the Latest Practicable Date, five listed companies are identified as comparable companies in arriving at the appraised value of the Target Company. Having discussed with the Independent Valuer, as no comparable companies listed on the Stock Exchange are identified, the search for comparables focused on companies listed on the Shanghai Stock Exchange and the Shenzhen Stock Exchange and the below comparable companies are selected to be most comparable in terms of business nature, product offering, revenue, asset structure and market capitalization. To the best of our knowledge and as far as we are aware of, we consider such comparable companies are fair and representative samples.

Set out below are the comparable companies adopted by the Independent Valuer:

Comparable company	Stock code (Stock exchange)	Business description	Market capitalisation as at 31 May 2019 *(RMB million)*	P/E ratio *(Note)* 12 months ended 30 June 2019 *(times)*
Asia Cuanon Technology (Shanghai) Co., Ltd	603378 (Shanghai)	Producer of functional coating materials	2,764.2	50.6
Lily Group Co., Ltd	603823 (Shanghai)	Independent producer of high-technology chemical materials	4,027.5	25.7
Jiangxi Hengda Hi-Tech Co., Ltd	002591 (Shenzhen)	Manufacturer of anti-corrosion chemical products	2,368.7	30.6
Guangzhou Jointas Chemical Co., Ltd	002909 (Shenzhen)	Manufacturer of advanced cohesive and coating materials	1,780.8	56.4
Shanghai Phichem Materials Co., Ltd	300398 (Shenzhen)	Manufacturer of high-technology coating materials	6,933.7	33.2
		Maximum		56.4
		Minimum		25.7
		Average		39.3
		Median		33.2
Overall discount applied to average P/E ratio				42.7%
Implied P/E ratio for the Acquisition				**22.5**
Market value of the Target Company				**RMB170 million**

Note: The P/E ratios of the comparable companies as provided by the Independent Valuer are calculated as their respective market capitalisation as at 30 September 2019 divided by their respective net profit attributable to owners of the company for the 12 months ended 30 June 2019.

As seen from the above table, the average and median P/E ratios calculated with reference to the net profit attributable to owners of the relevant companies for the 12 months ended 30 June 2019 are 39.3 times and 33.2 times respectively. We understand from the Independent Valuer that a discount of approximately 42.7% has been taken into account for applying the average P/E ratios of the comparable companies in arriving at the appraised value of the Target Company. After applying such discount factor, the appraised value of the Target Company is RMB170,000,000, reflecting a P/E ratio of approximately 22.5 times based on the guaranteed profit of RMB7.55 million provided by the Vendor.

We agree that the P/E ratios of the comparable companies should not be strictly used for the appraisal of the Target Company given the listing status of the comparable companies, shares of which have higher liquidity. As such, the Independent Valuer has applied an overall discount of approximately 42.7% in arriving at the appraised value of the Target Company.

In assessing the reasonableness of the discount factor, we have discussed with the Independent Valuer and understand that the Independent Valuer has considered various factors including but not limited to the business volume, market capitalisation value, total asset size, operating capability, and liquidity of the shares of each of the comparable companies to determine the discount factor.

This overall discount of approximately 42.7% to the average P/E ratio of the comparable companies comprises two parts:

(i) adjustments made to each of the comparable company's P/E ratios based on the difference between the Target Company and each of the comparable companies in terms of sales ability, profitability, business development and other factors, and after such assessment by the Independent Valuer, downward adjustments have been made to the P/E ratios of all five comparable companies in order to calculate the implied P/E ratio for the Acquisition which forms the basis of the Target Company's appraised value; and

(ii) the liquidity discount being 28.6% which is calculated by the Independent Valuer and which represents the difference in value due to the illiquid status of the shares of the Target Company. This liquidity discount is calculated by using the option pricing method which, as advised by the Independent Valuer, is one of the most commonly used theoretical models in this regard.

We also note that, based on the information as provided by the Independent Valuer,

(i) in respect of mergers and acquisitions relating to industry of chemical materials and products in 2018, the average P/E ratio of listed targets is approximately 27.9% higher than the average P/E ratio of unlisted targets; and such difference can be used as reference for discount for liquidity;

(ii) the average P/E ratio of the acquisitions relating to chemical materials and products by private companies for the year of 2018 was 21.4 times.

When considering whether the overall discount of approximately 42.7% applied by the Independent Valuer (as a result of which the implied P/E ratio of the Acquisition is 22.5 times) is fair and reasonable, we have taken into account the following:

(i) the liquidity discount of 28.6% applied by the Independent Valuer which is only slightly higher than 27.9% as stated above which serves as another reference for liquidity in general mergers and acquisitions relating to industry of chemical materials and products in 2018; and

(ii) we have cross-checked the information quoted in Wind as provided by the Independent Valuer on the average P/E ratio of the acquisitions relating to chemical materials and products by private companies for the year of 2018 which is 21.4 times. Although it is slightly lower than the implied P/E ratio of the Acquisition which is 22.5 times as valued by the Independent Valuer, the difference is considered not to be material and hence the difference is acceptable.

Based on the above, we consider that the overall discount applied by the Independent Valuer is acceptable, and fair and reasonable.

The consideration for the Acquisition is RMB84,150,000, which implies the P/E ratio of the Target Company of approximately 21.85 times, based on net profit guarantee of RMB7.55 million of financial year of 2020 of the Target Company. Such net profit of RMB7.55 million excludes any profit arising from subsidies from any government and excludes profits from one-off gain. The consideration for the Acquisition of RMB84,150,000 represents a slight discount of 2.9% to the 51% of the appraised value of the Target Company as appraised by the Independent Valuer.

We would like to draw Shareholders' attention to the Previous Disposal that Mr. ZHANG Jun and his associates acquired the Target Company from the Group, the completion of which took place in December 2017, for a consideration of RMB35,000,000. Pursuant to the Equity Transfer Agreement, the consideration for the Acquisition is RMB84,510,000. The market value of the Target Company as at 31 May 2019 as appraised by the Independent Valuer is RMB170,000,000. There is a considerable difference in the value of the Target Company between the Previous Disposal and the Acquisition.

As stated in the Letter from the Board of this Circular, following the completion of the Previous Disposal, the Vendor has been devoting resources to develop the Target Company, in particular the marketing activities of the Target Company. As a result of such effort, the number of customers of the Target Company has increased by approximately 102.7% in 2018 and by 36.2% as of October 2019 comparing to the number of customers at the beginning of the relevant years. In addition, resources has been put into research and development area. Since completion of the Previous Disposal, the Target Company has initiated a total of 48 research and development projects and filed 13 patent applications. In respect of revenue of the Target Company for the Target Business, the Target Company had a revenue of approximately RMB92 million for the year ended 31 December 2018, representing a growth of approximately 98.4% from the same period of 2017, which is a remarkable demonstration of the efforts made in the development of the Target Business after completion of the Previous Disposal. As such, we consider that the current state of business volume and asset structure of the Target Company in respect of the Target Business are in a significantly better situation when comparing with those in December 2017.

We understand from the management team of the Company that in the Previous Disposal, given the relatively short operating history, small business size and asset structure of the Target Business in 2017, the then valuer (which is not the Independent Valuer) considered that the book value of assets and liabilities was more appropriate in measuring the market value of the Target Business, and therefore decided to adopt the asset-based approach in the Previous Disposal and the Target Business was valued at a range of RMB28,067,000 to RMB29,954,000 as at 30 June 2017 with an intermediate value of approximately RMB29 million.

In the Acquisition, the Independent Valuer has adopted the market approach in valuing the Target Company. We understand from the Independent Valuer that market approach with P/E comparison provides a good indication of the fair value of the Target Company since there are sufficient public companies in a similar nature of business to that of the Target Company for comparison. The asset-based approach is not used as it only takes into account the current book value of the Target Company's assets and liabilities, and no consideration will be given to the future earning potential and economic value of the Target Business as a whole.

Given the above, in particular, as regards the Target Business:

(i) the more meaningful business volume and asset structure that the Target Company has at present, which are significantly better than they were in December 2017;

(ii) the better and less risky business prospect that the Target Company has when compared to 2017, details of which are set out in the sections of "Industry Overview" and "Reasons for, and benefit of, the Acquisition" of this letter;

we consider that the market approach adopted by the Independent Valuer which is different from the valuation methodology adopted in the Previous Disposal is fair and reasonable as it is able to reflect the future earning potential and economic value of the Target Company. In addition, having taken into account the Appraisal Report and other factors as discussed in this letter, we consider that the Consideration is fair and reasonable.

(c) Conclusion

Based on the above, we consider the P/E ratios of publicly traded comparable companies together with the discount factor applied by the Independent Valuer provide a relevant benchmark for the purpose of appraisal. In this case, (i) the average and median of the P/E ratios are much higher than those of the Target Company; (ii) after taking into account the discount factor as adopted by the Independent Valuer, 51% of the value of the Target Company as at 31 May 2019 as appraised by the Independent Valuer is slightly higher than the Consideration, (iii) the average P/E ratio of the acquisitions relating to chemical materials and products by private companies for the year of 2018 was 21.44 times as provided by the Independent Valuer which is very close to that of the Acquisition, we consider that the consideration for the Acquisition is fair and reasonable as far as the Company and the Independent Shareholders as a whole are concerned.

7. Financial impacts of the Acquisition

Set out below is a discussion of the effects on NAV, earnings, gearing ratio and working capital of the Group as a result of the Acquisition.

Based on the 2019 Interim Report, as at 30 June 2019, the Group had cash and cash equivalents of approximately RMB625.4 million. The consideration will be funded by internal resources of the Group, and the Directors consider the Company would have sufficient cash to satisfy its payment upon Completion. Upon completion, the Target Company will become an indirectly non wholly-owned subsidiary of the Company and the Target Company's results will be consolidated into the Group's financial statement.

(a) Effects on net asset value

Upon Completion, the Target Company will become an indirectly non wholly-owned subsidiary of the Company, and accordingly, all assets and liabilities of the Target Company will be consolidated into those of the Company.

As advised by the management of the Group, since both the Group and the Target Company are under the common control of Mr. ZHANG Jun before and after the Acquisition, pursuant to the current accounting policy adopted by the Group, the Acquisition will be accounted for based on the principles of merger accounting in accordance with Accounting Guideline 5 "Merger Accounting for Common Control Combination" issued by the Hong Kong Institute of Certified Public Accountants. The net assets of the Group and the Target Company will be consolidated using the existing book values. Adjustments to eliminate share capital of the Target Company against the historical investment cost in the Target Company will be made to merger reserve in the consolidated statement of changes in equity of the Group. Assuming Completion took place on 30 June 2019 and based on (i) the NAV of the Group attributable to the Shareholders of approximately RMB3,475 million as at 30 June 2019; (ii) unaudited net book value of the Target Company attributable to the shareholder of approximately RMB51.0 million as at 30 June 2019; and (iii) the Consideration of approximately RMB84.15 million, the NAV attributable to the Shareholders of Group as enlarged by the Acquisition (the "**Enlarged Group**") as at 30 June 2019 would have decreased by approximately RMB58.15 million, subject to audit. Such decrease is considered acceptable given the amount of RMB58.15 million is not material compared to the NAV of the Group attributable to the Shareholders of approximately RMB3,475 million as at 30 June 2019.

The actual impact on the NAV of the Enlarged Group will be subject to change as such amount will be calculated based on carrying values of the assets and liabilities of the Target Company as of the date on which Completion takes place.

(b) Effects on earnings

Based on the unaudited financial information of the Target Company as provided by the Company, the Target Company recorded an unaudited loss after tax in respect of the Target Business of approximately RMB16.4 million, RMB8.7 million and RMB5 million for the year ended 31 December 2017, the year ended 31 December 2018 and for the ten months ended 31 October 2019 respectively. According to the Equity Transfer Agreement, the net profit after tax of the Target Company (exclusive of any government subsidies and exclusive of profits from one-off gain) for the year ending 31 December 2020 is guaranteed by the Vendor to be not be less than RMB7.55 million and any shortfall will be compensated in accordance with the Equity Transfer Agreement. Based on the Guaranteed Profit, the Acquisition would therefore contribute to the Group's earnings if it is consolidated under the Group's financial statements for the financial year ending 31 December 2020.

(c) Effects on gearing

As at 30 June 2019, the Group's gearing level, calculated as net debt (defined as total borrowings minus cash and cash equivalents, restricted cash, and financial assets at fair value through profit or loss, if any) divided by the total capital (defined as total equity plus net debt), was approximately 38.2%. As at 31 December 2018, the Group's gearing level was approximately 38.7%. Based on the unaudited financial position of the Target Company as at 30 September, 2019, the gearing ratio of the Target Company at 30 September 2019 was 54.5% given the net debt of RMB58.9 million and a total capital of RMB108.2 million. The high gearing ratio of the Target Company as at 30 September is mainly due to a short term loan of RMB75 million the drawdown of which took place in April 2019 for the purpose of enhancing the production capacity in anticipation of the increase of orders from customers. Given the amount of the net debt of the Target Company as at 30 September 2019 is relatively small compared to the net debt amount of the Group, it is expected that, upon Completion, the Acquisition will not have material negative impact on the Group's overall gearing ratio despite the Target Company has a higher gearing ratio than that of the Group.

(d) Effects on working capital

As stated in the letter from the Board, the Consideration of RMB84,150,000 will be satisfied by the internal resources of the Group. The unaudited cash and cash equivalents of the Group as at 30 June 2019 as extracted from the 2019 Interim Report, were approximately RMB625.4 million. On the basis of cash and cash equivalents of the Group and the Group's net current assets of approximately RMB115 million as at 30 June 2019, and cash and cash equivalents of RMB16.1 million of the Target Company and its unaudited net current assets of approximately RMB38.8 million as at 30 September 2019, the Directors are of the view that the settlement of the Consideration will not have any material adverse impact on the working capital of the Group immediately following Completion.

OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that the entering into the Acquisition is in the ordinary and usual course of business of the Group and in the interests of the Company and its Shareholders as a whole and the terms of the Equity Transfer Agreement are on normal commercial terms and fair and reasonable as far as the Independent Shareholders are concerned. We therefore advise the Independent Board Committee to recommend, and we also recommend, the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Acquisition.

Yours faithfully,
for and on behalf of
AJ Corporate Finance Limited

Venus Choi	**Felix Chan**
Managing Director	*Executive Director*

Note: Ms Venus Choi is a licensed person registered with the Securities and Futures Commission and a responsible officer of AJ Corporate Finance Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and has over 20 years of experience in corporate finance industry.

Mr Felix Chan is a licensed person registered with the Securities and Futures Commission and a responsible officer of AJ Corporate Finance Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and has over 10 years of experience in corporate finance industry.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other material matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Directors' and chief executive's interests and short positions in the shares, underlying shares or debentures of the Company or its associated corporations

Save as disclosed, as at the Latest Practicable Date, none of the Directors or chief executive of the Company has any interest or short position in the Shares, convertible securities, warrants, options or derivatives, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); (b) to be recorded in the register required to be kept by the Company pursuant to section 352 of the SFO; or (c) to be notified to the Company and the Stock Exchange pursuant to the Listing Rules, or in accordance with information received by the Company.

(i) Long positions in the shares of the Company

Name of Director	Capacity	Number of shares interested	Approximate percentage of the issued share capital
Mr. Zhang Jun	Founder and beneficiary of Mr. Zhang's trust/Interest of controlled corporation	881,581,000[(1)]	
	Founder and beneficiary of three Mr. Zhang's family trusts/Interest of controlled corporation	112,300,800[(2)]	
	Beneficial owner	760,000	
		994,641,800	58.631%

Name of Director	Capacity	Number of shares interested	Approximate percentage of the issued share capital
Ms. Zhang Shuman	Interest of controlled corporation	24,300,000[(3)]	
	Beneficial owner	692,000	
		24,992,000	1.473%
Mr. Yuan Pengbin	Beneficial owner	1,151,600	0.068%
Mr. Wang Tao (汪濤)	Beneficial owner	1,200,000	0.071%
Dr. Yang Qingli	Interest of spouse	77,000[(4)]	0.005%

Notes:

(1) These shares are held by Hilong Group Limited, the entire share capital of which is held by SCTS Capital Pte Ltd. which is then wholly-owned by Standard Chartered Trust (Singapore) Limited as 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.

(ii) Long positions in the underlying shares of the Company

Name of director	Capacity	Number of underlying shares interested under the Pre-IPO share option scheme	Exercise period	Approximate percentage of the issued share capital
Mr. Zhang Jun	Beneficial owner	600,000	21 April 2012 – 31 December 2020	0.04%
Ms. Zhang Shuman	Beneficial owner	600,000	21 April 2012 – 31 December 2020	0.04%
Mr. Yuan Pengbin	Beneficial owner	2,150,000	21 April 2012 – 31 December 2020	0.13%
Mr. Wang Tao (汪濤)	Beneficial owner	2,150,000	21 April 2012 – 31 December 2020	0.13%

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

Name of Director	Capacity	Name of associated corporation	Number of shares interested	Approximate 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 who have an interest and/or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO

So far as in known to the Directors and chief executive of the Company, as at the Latest Practicable Date, the following persons (other than Directors and chief executives of the Company) had, or were deemed or taken to have an interest or short position in the Shares and underlying Shares of the Company, which are required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of substantial Shareholders	Capacity	Number of shares/ underlying shares interested	Percentage of shareholding in the total registered share capital of the Company
Hilong Group Limited	Beneficial owner	881,581,000(1)	51.97%
SCTS Capital Pte Ltd.	Nominee	1,015,258,800(1)(2)	59.85%
Standard Chartered Trust (Singapore) Limited	Trustee	1,015,258,800(1)(2)	59.85%
Ms. Gao Xia	Interest of spouse	995,241,800(3)	58.67%

Notes:

(1) 881,581,000 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.

3. DIRECTORS' INTERESTS

(a) Interests in contract or arrangement

As disclosed in the 2018 annual report of the Company, the Group (as tenant) has entered into tenancy agreements with Mr. Zhang Jun, Huashi Hailong, Shanghai Longshi Investment Management Company Limited (上海隆視投資管理有限公司) and the Target Company (each as landlord), respectively in relation to lease of office premises. These transactions constitute connected transactions under Chapter 14A of the Listing Rules.

Saved as above, none of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Group.

(b) Interests in assets

As at the Latest Practicable Date, save for the Equity Transfer Agreement and the transactions contemplated thereunder as disclosed in this circular, none of the Directors had any direct or indirect interests in any assets which had been, since 31 December 2018, the date of which the latest published audited consolidated financial statements of the Group were made up, acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

(c) Interests in competing business

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, 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 2018 as disclosed in the 2018 annual report of the Company. 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.

Save as above, as at the Latest Practicable Date, none of the Directors or their respective close associates (as defined in the Listing Rules) had an interest in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group (as would be required to be disclosed under Rule 8.10 of the Listing Rules as if each of them was a controlling Shareholder).

5. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration or claim of material importance and, so far as the Directors were aware, no litigation or claims of material importance are pending or threatened by or against any member of the Group.

6. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Group which was not determinable by the Group within one year without payment of compensation other than statutory compensation.

7. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2018, the date to which the latest published audited consolidated financial statements of the Group were made up.

8. EXPERT AND CONSENT

The following is the qualification of the experts who have given opinion or advice which is contained in this circular:

Name	Qualification
AJ Corporate Finance Limited	a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO
Shanghai Lixin Appraisal Co., Ltd.* (上海立信資產評估有限公司)	Independent Valuer

Each of the experts has given and confirmed that it has not withdrawn its written consent to the issue of this circular with the inclusion herein of its statements and/or references to its name in the form and context in which it appears. Each of the experts has further confirmed that as at the Latest Practicable Date, it was not interested in the share capital of any member of the Group, nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group. It is not interested in any assets which have been, since 31 December 2018 (being the date to which the Company's latest audited financial statements were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

9. GENERAL

(a) The registered office of the Company is situated at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

(b) The principal place of business of the Company in Hong Kong is at Suite 3206, Tower One, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong, China.

(c) The Company's share registrar and transfer office in Hong Kong, Hong Kong Registrars Limited, is at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(d) The Company secretary is Ms. Sham Ying Man (岑影文).

(e) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

10. DOCUMENT AVAILABLE FOR INSPECTION

The Equity Transfer Agreement and the Appraisal Report date 5 December 2019 regarding the appraised value of the Target Company are available for inspection at the principal place of business of the Company in Hong Kong at Suite 3206, Tower One, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong, China, from 9:00 a.m. to 5:00 p.m. on any weekday (Saturdays and public holidays excepted) up to the date of the EGM.

* *For identification purpose only*

Hilong Holding Limited
海隆控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1623)

NOTICE OF EXTRAORDINARY GENERAL MEETING OF 2019

NOTICE IS HEREBY GIVEN that the Extraordinary General Meeting of 2019 (the "**EGM**") of the shareholders of Hilong Holding Limited (the "**Company**") will be held at the Club @28 – VIP Lounge 1, 28/F, Crowne Plaza Hong Kong Causeway Bay, 8 Leighton Road, Causeway Bay, Hong Kong on Monday, 23 December 2019 at 10:00 a.m. for considering and, if thought fit, passing, the following resolution. Unless otherwise defined, capitalised terms used herein shall have the same meanings as ascribed to them in the announcement of the Company dated 5 December 2019.

ORDINARY RESOLUTION

1. "**THAT**: the terms of the Equity Transfer Agreement dated 5 December 2019 entered into between Beijing Huashi Hailong Oil Investment Co., Ltd. (北京華實海隆石油投資有限公司) and Hilong Pipeline Engineering Technology Service Co., Ltd. (海隆管道工程技術服務有限公司) in relation to the acquisition of 51% of the equity interest of Shanghai Hilong Shine New Material Co., Ltd. (上海海隆賽能新材料有限公司) and the transaction contemplated thereunder be and are hereby confirmed, ratified and approved."

By Order of the Board of
Hilong Holding Limited
ZHANG Jun

Hong Kong, 6 December 2019

* *For identification purpose only*

Notes:

1. All resolutions at the Meeting will be taken by poll pursuant to article 66 of the articles of association of the Company. The results of the poll will be published on the websites of Hong Kong Exchanges and Clearing Limited and the Company in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2. A shareholder of the Company entitled to attend and vote at the Meeting is entitled to appoint another person as his proxy to attend and vote instead of him. A shareholder of the Company who is the holder of two or more shares may appoint more than one proxy to represent him. A proxy need not be a shareholder of the Company. If more than one proxy is so appointed, the appointment shall specify the number of shares in respect of which each such proxy is so appointed.

3. In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a certified copy thereof, must be deposited at the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not less than 48 hours before the time appointed for the Meeting (i.e. not later than 10:00 a.m. on Saturday, 21 December 2019 (Hong Kong time)) or any adjournment thereof. Completion and delivery of the form of proxy will not preclude a shareholder of the Company from attending and voting in person at the Meeting and at any adjournment thereof and, in such event, the form of proxy will be deemed to be revoked.

4. For determining the qualification as shareholders of the Company to attend and vote at the Meeting, the register of members of the Company will be closed from Friday, 20 December 2019 to Monday, 23 December 2019, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the Meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 19 December 2019.

As at the date of this notice, the executive directors of the Company are Mr. ZHANG Jun and Mr. WANG Tao (汪濤); the non-executive directors are Ms. ZHANG Shuman, Mr. YUAN Pengbin and Dr. YANG Qingli; and the independent non-executive directors are Mr. WANG Tao (王濤), Mr. WONG Man Chung Francis and Mr. SHI Zheyan.