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Hilong Holding Limited

海隆控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1623)

**CONTINUING CONNECTED TRANSACTIONS
RENEWAL OF LEASING OF OFFICE PREMISES
AND REVISION OF ANNUAL CAP**

References are made to the announcements of Company dated 28 December 2016 and 1 August 2017 regarding the Existing Tenancy Agreements and the Supplemental Agreements. Since the Existing Tenancy Agreements (as supplemented by the Supplemental Agreements) will expire on 31 December 2019, on 1 January 2020, Beijing Huashi Investment as landlord entered into the Renewed Tenancy Agreements with Hilong Oil Service as tenant. Pursuant to each of the Renewed Tenancy Agreements, Beijing Huashi Investment agreed to lease and Hilong Oil Service agreed to rent the same premises under the Existing Tenancy Agreements (as supplemented by the Supplemental Agreements) for a term of one year commencing from 1 January 2020.

As at the date of this announcement, Mr. ZHANG Jun, the controlling shareholder and a director of the Company, holds 95.65% of the interest in Huashi Hailong, which in turn holds 98.0% of the interest in Beijing Huashi Investment; meanwhile, Mr. ZHANG Jun also directly holds 1.0% of the interest in Beijing Huashi Investment. As such, Beijing Huashi Investment is an associate of Mr. ZHANG Jun and thus a connected person of the Company. The transactions contemplated under the Renewed Tenancy Agreements therefore constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

* For identification purposes only

Given that the Renewed Tenancy Agreements and the 2017 Tenancy Agreements are (i) similar in nature; (ii) entered into by the Group as tenants and counterparties who are associates of Mr. ZHANG Jun as landlords; and (iii) transactions entered into or completed within a 12-month period, the transactions contemplated under the Renewed Tenancy Agreements and the 2017 Tenancy Agreements would have to be aggregated for the purpose of considering the Company's compliance obligations pursuant to Rule 14A.81 of the Listing Rules. Further, the original annual cap for the year ending 31 December 2020 for the continuing connected transactions under the 2017 Tenancy Agreements would not be sufficient and need to be revised.

As the highest applicable percentage ratio in respect of the revised annual cap for the Renewed Tenancy Agreements and the 2017 Tenancy Agreements, on an aggregated basis, exceeds 0.1% but is less than 5%, the leasing of premises contemplated under the Renewed Tenancy Agreements and the revised annual cap for the Renewed Tenancy Agreements and the 2017 Tenancy Agreements will be exempted from the independent shareholders' approval requirement but is subject to the reporting, announcement and the annual review requirements under Chapter 14A of the Listing Rules.

INTRODUCTION

References are made to the announcements of Company dated 28 December 2016 and 1 August 2017 regarding the Existing Tenancy Agreements and Supplemental Agreements. Since the Existing Tenancy Agreements (as supplemented by the Supplemental Agreements) will expire on 31 December 2019, on 1 January 2020, Beijing Huashi Investment as landlord entered into the Renewed Tenancy Agreements with Hilong Oil Service as tenant. Pursuant to each of the Renewed Tenancy Agreements, Beijing Huashi Investment agreed to lease and Hilong Oil Service agreed to rent the same premises under the Existing Tenancy Agreements (as supplemented by the Supplemental Agreements) for a term of one year commencing from 1 January 2020.

The major terms of each of the Renewed Tenancy Agreements are set out below.

PRINCIPAL TERMS OF THE RENEWED TENANCY AGREEMENTS

Date: 1 January 2020

Term: 1 January 2020 to 31 December 2020

	Renewed Tenancy Agreement No. 1	Renewed Tenancy Agreement No. 2	Renewed Tenancy Agreement No. 3
Lessor:	Beijing Huashi Investment	Beijing Huashi Investment	Beijing Huashi Investment
Lessee:	Hilong Oil Service	Hilong Oil Service	Hilong Oil Service
Leased premises:	20/F., Building 1, 13 Workers' Stadium North Road, Chaoyang District, Beijing, PRC	Room 502, 5/F., Building 1, 13 Workers' Stadium North Road, Chaoyang District, Beijing, PRC	Room 503-1, 5/F., Building 1, 13 Workers' Stadium North Road, Chaoyang District, Beijing, PRC
Leased area:	1,850.32 square meters	476.99 square meters	126.12 square meters
Monthly rental:	RMB644,412.49 per month excluding utility fees	RMB160,608.50 per month excluding utility fees	RMB30,650.84 per month excluding utility fees
Rental deposits:	RMB1,288,824.98	RMB321,217.0	RMB61,301.68
Usage:	Office	Office	Office
Renewal of leases:	Upon the expiration of the term of the Renewed Tenancy Agreements, the parties may enter into renewal agreement(s) subject to negotiations of the parties upon Hilong Oil Service's request to renew the Renewed Tenancy Agreements		

Payment of rental

Annual rental is payable by Hilong Oil Service in two instalments. Hilong Oil Service is required to pay six months of rental together with the rental deposits on the date of the Renewed Tenancy Agreements. Thereafter, the Group is required to make rental payment every six months.

In arriving at the monthly rental, the Directors have considered (i) the historical rental amounts payable by Hilong Oil Service under the Existing Tenancy Agreements (as supplemented by the Supplemental Agreements) for the three years ended 31 December 2019; (ii) the prevailing market rents with respect to the leased premises under the Renewed Tenancy Agreements (which is obtainable as public information and after consulting the advice of several reputable local real estate agents for benchmark of assessment of the monthly rental for the year ending 31 December 2020); (iii) rental levels of similar properties in the vicinity of the leased premises (taking into account factors such as leased areas and floor levels); (iv) the conditions of the leased premises; (v) the location of the leased properties; and (vi) the availability of properties with similar sizes and in similar locations.

HISTORICAL TRANSACTION AMOUNTS AND REVISED ANNUAL CAP

The historical figures relating to the Existing Tenancy Agreements are as follows:

	Financial year ended 31 December 2017 (RMB)	Financial year ended 31 December 2018 (RMB)	Financial year ended 31 December 2019 (RMB)
Aggregate amount of historical rental paid under the Existing Tenancy Agreements	5,299,241.93	4,772,837.85	7,122,837.85

Due to the entering into of the Renewed Tenancy Agreements, the original annual cap for the rental payable by the Group under the 2017 Tenancy Agreements for the year ending 31 December 2020 would not be sufficient and need to be revised.

Based on the terms of the Renewed Tenancy Agreements and the 2017 Tenancy Agreements, the Company estimated that the revised annual cap for the continuing connected transactions under the Renewed Tenancy Agreements and the 2017 Tenancy Agreements for the year ending 31 December 2020 are as follows:

Financial year	Original annual cap for the 2017 Tenancy Agreements	Proposed annual cap for the Renewed Tenancy Agreements	Revised annual cap
For the year ending 31 December 2020	RMB3,921,099	RMB10,028,061.96	RMB13,949,160.96

In arriving at the above revised annual cap, which is the aggregate amounts payable by Hilong Oil Services to Beijing Huashi Investment under the Renewed Tenancy Agreements and the 2017 Tenancy Agreements for the year ending 31 December 2020, the Directors have taken into account the rental payable or estimated figures to be paid by the Group under the 2017 Tenancy Agreement and the Renewed Tenancy Agreements for the year ending 31 December 2020.

The Directors are of the view that the revised annual cap is in line with the estimated development of the business of the Group, and is determined based on the principles of fairness and reasonableness.

REASONS FOR AND BENEFITS IN RELATION TO THE TRANSACTIONS

The Group has been leasing office premises from Beijing Huashi Investment since 28 February 2011 and has practical needs to continue the leasing of such office premises. The leases of the office premises under the Existing Tenancy Agreements (as supplemented by the Supplemental Agreements) will expire on 31 December 2019. The Company believes that it is time and cost efficient for the Group to continue to lease premises from Beijing Huashi Investment rather than seeking for alternative locations, which would incur unnecessary moving costs and cause potential disruption to the daily operations of the Group.

The terms of each of the Renewed Tenancy Agreements were negotiated by the parties on arm's length basis, taking into account prevailing market rentals, but in any event at leasing terms and rental rates no less favourable than those offered to the Group by independent third parties for the same or similar types of leased premises. Based on the above reasons, the Directors (including the independent non-executive Directors) are of the view that the terms of the continuing connected transactions contemplated under each of the Renewed Tenancy Agreements are fair and reasonable, such continuing connected transactions are on normal commercial terms and in the ordinary and usual course business of the Group, and the entering into of such continuing connected transactions is in the interests of the Company and its shareholders as a whole. The Directors (including the independent non-executive Directors) are also of the view that the annual cap for the Renewed Tenancy Agreements and the revised annual cap for the 2017 Tenancy Agreement and the Renewed Tenancy Agreements set out above are fair and reasonable and in the interests of the Company and its shareholders as a whole.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Mr. ZHANG Jun, the controlling shareholder and a director of the Company, holds 95.65% of the interest in Huashi Hailong, which in turn holds 98.0% of the interest in Beijing Huashi Investment; meanwhile, Mr. ZHANG Jun also directly holds 1.0% of the interest in Beijing Huashi Investment. As such, Beijing Huashi Investment is an associate of Mr. ZHANG Jun and thus a connected person of the Company. The leasing of premises contemplated under the Renewed Tenancy Agreements therefore constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Upon the implementation of HKFRS 16 “Lease” effective from 1 January 2019, generally, the Group as the lessee shall recognize a lease as a right-of-use asset in the consolidated statement of financial position of the Group according to HKFRS 16. However, since the term of each of the Renewed Tenancy Agreements is no more than 12 months, the Group may elect not to recognize assets and liabilities for the leases contemplated under the Renewed Tenancy Agreements in its consolidated statement of financial position according to HKFRS 16.

Given that the Renewed Tenancy Agreements and the 2017 Tenancy Agreements are (i) similar in nature; (ii) entered into by the Group as tenants and counterparties who are associates of Mr. ZHANG Jun as landlords; and (iii) transactions entered into or completed within a 12-month period, the transactions contemplated under the Renewed Tenancy Agreements and the 2017 Tenancy Agreements would have to be aggregated for the purpose of considering the Company’s compliance obligations pursuant to Rule 14A.81 of the Listing Rules. Further, the original annual cap for the year ending 31 December 2020 for the continuing connected transactions under the 2017 Tenancy Agreements would not be sufficient and need to be revised.

As the highest applicable percentage ratio in respect of the revised annual cap for the Renewed Tenancy Agreements and the 2017 Tenancy Agreements, on an aggregated basis, exceeds 0.1% but is less than 5%, the leases of the premises contemplated under the Renewed Tenancy Agreements and the revised annual cap for the Renewed Tenancy Agreements and the 2017 Tenancy Agreements will be exempted from the independent shareholders’ approval requirement but is subject to the reporting, announcement and the annual review requirements under Chapter 14A of the Listing Rules.

Mr. ZHANG Jun, who has a material interest in the Renewed Tenancy Agreements, and Ms. ZHANG Shuman, who is an associate of Mr. ZHANG Jun for the purpose of Chapter 14A of the Listing Rules, abstained from voting on the board resolutions approving the Renewed Tenancy Agreements and the transactions contemplated thereunder and the revised annual cap.

GENERAL INFORMATION

The Group

The Company is an investment holding company. The principal business activities of the Group are manufacturing of drill pipes and other oilfield equipment, production of line pipe and OCTG coating materials and provision of drilling and offshore engineering services.

Beijing Huashi Investment

Beijing Huashi Investment is an associate of Mr. ZHANG Jun and is principally engaged in investment management and sales of chemical industry products.

Hilong Oil Service

Hilong Oil Service is an indirect wholly-owned subsidiary of the Company and is principally engaged in the provision of drilling and completion services, petroleum engineering and auxiliary services, and other technical services for oil and gas industry.

DEFINITIONS

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

“2017 Tenancy Agreements”	collectively, the New Tenancy Agreement 1, New Tenancy Agreement 2, New Tenancy Agreement 3, New Tenancy Agreement 4 and New Tenancy Agreement 5 as disclosed in the announcement of the Company dated 1 August 2017
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Beijing Huashi Investment”	Beijing Huashi Hailong Oil Investment Co., Ltd. (北京華實海隆石油投資有限公司), a company established in the PRC, and an associate of Mr. ZHANG Jun
“Company”	Hilong Holding Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“connected person”	has the meaning ascribed to it in the Listing Rules
“controlling shareholder”	has the meaning ascribed to it in the Listing Rules
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Hilong Oil Service”	Hilong Oil Service and Engineering Co., Ltd. (海隆石油技術服務有限公司), a company established in the PRC and an indirect wholly-owned subsidiary of the Company
“HKFRS”	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China

“Huashi Hailong”	Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd. (北京華實海隆石油機械設備有限公司), an entity controlled by Mr. ZHANG Jun, a controlling shareholder and director of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Existing Tenancy Agreement”	the three tenancy agreements dated 28 December 2016 entered into between Hilong Oil Service as tenant and Beijing Huashi Investment as landlord for a term of three years commencing from 1 January 2017 to 31 December 2019 in respect of the leasing of the office premises located at (i) 20/F., Building 1, 13 Workers’ Stadium North Road, Chaoyang District, Beijing, the PRC with a total leasing area of 1,850.32 square meters; (ii) Room 502, 5/F., Building 1, 13 Workers’ Stadium North Road, Chaoyang District, Beijing, the PRC, with a total leasing area of 476.99 square meters; and (iii) Room 503-1, 5/F., Building 1, 13 Workers’ Stadium North Road, Chaoyang District, Beijing, the PRC with a total leasing area of 126.12 square meters respectively, as disclosed in the announcement of the Company dated 28 December 2016
“PRC”	the People’s Republic of China
“RMB”	renminbi, the lawful currency of the People’s Republic of China
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Renewed Tenancy Agreement No. 1”	the tenancy agreement dated 1 January 2020 entered into between Hilong Oil Service as tenant and Beijing Huashi Investment as landlord in respect of the leasing of office premises located at 20/F., Building 1, 13 Workers’ Stadium North Road, Chaoyang District, Beijing, the PRC with a total leasing area of 1,850.32 square meters for a term of one year starting from 1 January 2020 to 31 December 2020
“Renewed Tenancy Agreement No. 2”	the tenancy agreement dated 1 January 2020 entered into between Hilong Oil Service as tenant and Beijing Huashi Investment as landlord in respect of the leasing of office premises located at Room 502, 5/F., Building 1, 13 Workers’ Stadium North Road, Chaoyang District, Beijing, the PRC with a total leasing area of 476.99 square meters for a term of one year starting from 1 January 2020 to 31 December 2020

“Renewed Tenancy Agreement No. 3”	the tenancy agreement dated 1 January 2020 entered into between Hilong Oil Service as tenant and Beijing Huashi Investment as landlord in respect of the leasing of office premises located at Room 503-1, 5/F., Building 1, 13 Workers’ Stadium North Road, Chaoyang District, Beijing, the PRC with a total leasing area of 126.12 square meters for a term of one year starting from 1 January 2020 to 31 December 2020
“Renewed Tenancy Agreements”	collectively, Renewed Tenancy Agreement No. 1, Renewed Tenancy Agreement No. 2 and Renewed Tenancy Agreement No. 3
“Supplemental Agreements”	the supplemental agreement dated 10 April 2017 entered into among Hilong Oil Service as tenant, Beijing Huashi Investment as landlord under the Existing Tenancy Agreement No. 2, and Hilong Energy Technology Co., Ltd. whereby Hilong Oil Service agreed to transfer all the rights and obligations under the Existing Tenancy Agreement No. 2 to Hilong Energy Technology, and the supplemental agreement dated 10 April 2017 entered into among Hilong Oil Service as tenant, Beijing Huashi Investment as landlord under the Existing Tenancy Agreement No. 3, and Hilong Energy Technology Co., Ltd. whereby Hilong Oil Services agreed to transfer all the rights and obligations under the Existing Tenancy Agreement No. 3 to Hilong Energy Technology, as disclosed in the announcement of the Company dated 1 August 2017. All other terms and conditions set out in Existing Tenancy Agreement No. 2 and Existing Tenancy Agreement No. 3 remained the same. The supplemental agreements take retrospective effect as from 21 March 2017
“%”	per cent.

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

Hong Kong, 1 January 2020

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