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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 TENANCY AGREEMENTS

References are made to the announcement of the Company dated 10 January 2022 regarding the 2022 Renewed Beijing Huashi Tenancy Agreements and the 2022 Renewed Shine New Material Tenancy Agreement. Since each of the 2022 Renewed Beijing Huashi Tenancy Agreements and the 2022 Renewed Shine New Material Tenancy Agreement has expired on 31 December 2022, on 7 February 2023, the Group and the relevant counterparties entered into the following renewal agreements:

- 1) 2023 Renewed Beijing Huashi Tenancy Agreements pursuant to which Beijing Huashi Investment agreed to lease and Hilong Oil Service agreed to rent the same office premises under the 2022 Renewed Beijing Huashi Tenancy Agreements for a term of one year commencing from 1 January 2023; and
- 2) 2023 Renewed Shine New Material Tenancy Agreement pursuant to which Hilong Zhizao Consulting agreed to lease and Hilong Shine New Material agreed to rent the same factory premises under the 2022 Renewed Shine New Material Tenancy Agreement for use as a manufacturing plant for a term of one year commencing from 1 January 2023.

As at the date of this announcement, the counterparties under the 2023 Renewed Beijing Huashi Tenancy Agreements and 2023 Renewed Shine New Material Tenancy Agreement are all companies of which a majority of interests is controlled by Mr. ZHANG Jun, the controlling shareholder and a director of the Company. Therefore the said counterparties are associates of Mr. ZHANG Jun and thus connected persons of the Company under Chapter 14A of the Listing Rules.

Given that the 2023 Renewed Beijing Huashi Tenancy Agreements and 2023 Renewed Shine New Material Tenancy Agreement are (i) entered into by the Group and counterparties who are associates of Mr. ZHANG Jun and (ii) continuing connected transactions entered into within a 12-month period, the transactions contemplated under the 2023 Renewed Beijing Huashi Tenancy Agreements and 2023 Renewed Shine New Material Tenancy Agreement would have to be aggregated for the purpose of considering the Company's compliance obligations pursuant to Rule 14A.81 of the Listing Rules.

As the highest applicable percentage ratio in respect of the 2023 Annual Cap for the 2023 Renewed Beijing Huashi Tenancy Agreements and 2023 Renewed Shine New Material Tenancy Agreement, on an aggregated basis, exceeds 0.1% but is less than 5%, the continuing connected transactions contemplated under the 2023 Renewed Beijing Huashi Tenancy Agreements and 2023 Renewed Shine New Material Tenancy Agreement, and the 2023 Annual Cap will be exempted from the independent shareholders' approval requirement but are subject to the reporting, announcement and the annual review requirements under Chapter 14A of the Listing Rules.

INTRODUCTION

References are made to the announcement of the Company dated 10 January 2022 regarding the 2022 Renewed Beijing Huashi Tenancy Agreements and the 2022 Renewed Shine New Material Tenancy Agreement. Since each of the 2022 Renewed Beijing Huashi Tenancy Agreements and 2022 Renewed Shine New Material Tenancy Agreement has expired on 31 December 2022, on 7 February 2023, the Group and the relevant counterparties entered into the 2023 Renewed Beijing Huashi Tenancy Agreements and 2023 Renewed Shine New Material Tenancy Agreement, in each case, for a term of one year commencing from 1 January 2023.

The principal terms of each of the 2023 Renewed Beijing Huashi Tenancy Agreements and the 2023 Renewed Shine New Material Tenancy Agreement are set out below.

PRINCIPAL TERMS OF 2023 RENEWED BEIJING HUASHI TENANCY AGREEMENTS

Date: 7 February 2023

Term: 1 January 2023 to 31 December 2023

	2023 Renewed Beijing Huashi Tenancy Agreement No. 1	2023 Renewed Beijing Huashi Tenancy Agreement No. 2	2023 Renewed Beijing Huashi Tenancy Agreement No. 3	2023 Renewed Beijing Huashi Tenancy Agreement No. 4
Lessor:	Beijing Huashi Investment	Beijing Huashi Investment	Beijing Huashi Investment	Beijing Huashi Investment
Lessee:	Hilong Oil Service	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	Room 501, 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	276.74 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	RMB93,434.34 per month excluding utility fees
Rental deposits:	RMB1,288,824.98	RMB321,217.0	RMB61,301.68	RMB186,868.68
Usage:	Office	Office	Office	Office
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 2023 Renewed Beijing Huashi Tenancy Agreements. Thereafter, the Group is required to make rental payment every six months.			
Renewal of leases:	Upon the expiration of the term of the 2023 Renewed Beijing Huashi 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 2023 Renewed Beijing Huashi Tenancy Agreements.			

Basis of consideration

In arriving at the monthly rental, the Directors have considered (i) the historical rental amounts payable by Hilong Oil Service under the 2022 Renewed Beijing Huashi Tenancy Agreements for the year ended 31 December 2022; (ii) the prevailing market rents with respect to the leased premises under the 2023 Renewed Beijing Huashi 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 2023); (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.

Accounting Treatment with respect to the 2023 Renewed Beijing Huashi Tenancy Agreements

According to applicable accounting standards, 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. Since the term of each of the 2023 Renewed Beijing Huashi Tenancy Agreements is no more than 12 months, the Group may elect not to recognize assets and liabilities for the leases contemplated under the 2023 Renewed Beijing Huashi Tenancy Agreements in its consolidated statement of financial position according to HKFRS 16. Accordingly, the rental payable by the Group pursuant to the 2023 Renewed Beijing Huashi Tenancy Agreements will be recognized as expenses in the Group's profit and loss accounts in the period in which they are incurred, and the payment of such rental will be regarded as continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

PRINCIPAL TERMS OF 2023 RENEWED SHINE NEW MATERIAL TENANCY AGREEMENT

Date:	7 February 2023
Term:	1 January 2023 to 31 December 2023
Landlord:	Hilong Zhizao Consulting
Tenant:	Hilong Shine New Material
Premises:	Factory premises located at No. 1825, Luodong Road, Baoshan District, Shanghai, PRC
Leased Area:	22,135.46 square meters
Monthly Rental:	The monthly rental for the aforesaid premises is RMB275,431.46 excluding management fees and utility fees. Accordingly, the maximum rent to be received by Hilong Zhizao Consulting under the tenancy agreement is RMB3,305,177.52.

Payment of rental: Annual rental is payable in full by Hilong Zhizao Consulting within 15 days from the date of the 2023 Renewed Shine New Material Tenancy Agreement entered into by the parties.

Usage: Manufacturing plant

Renewal of leases: Subject to compliance with all the rules and requirements set out in the applicable laws and regulations (including the Listing Rules) and negotiation of the parties, Hilong Shine New Material has the option to renew the 2023 Renewed Shine New Material Tenancy Agreement by giving 60 days' prior written notice to Hilong Zhizao Consulting before the expiration of the 2023 Renewed Shine New Material Tenancy Agreement. New tenancy agreements or renewal agreements may be entered into by the parties.

Basis of consideration

The monthly rental of the 2023 Renewed Shine New Material Tenancy Agreement was determined on arm's length basis and on normal commercial terms taking into account: (i) the prevailing market rents with respect to the premises to be leased (which is obtainable as public information and after consulting the advices of several reputable local real estate agents); (ii) the conditions of the premises to be leased; (iii) the location of the premises to be leased; (iv) rental levels of similar properties in the vicinity of the leased premises (taking into account factors such as leased areas and the age of the building); and (v) the availability of properties with similar sizes and in similar locations.

HISTORICAL TRANSACTION AMOUNTS AND 2023 ANNUAL CAP

The historical figures relating to the 2022 Renewed Beijing Huashi Tenancy Agreements and the 2022 Renewed Shine New Material Tenancy Agreement are as follows:

	Financial year ended 31 December 2022 (RMB)
Aggregate amount of historical rental paid under the 2022 Renewed Beijing Huashi Tenancy Agreements	11,149,274
Aggregate amount of historical rental paid under the 2022 Renewed Shine New Material Tenancy Agreement	<u>3,305,178</u>
Total	<u><u>14,454,452</u></u>

The aforesaid aggregate transaction amounts have not exceeded the applicable annual cap for the year ended 31 December 2022.

Based on the terms of the 2022 Renewed Beijing Huashi Tenancy Agreements and the 2022 Renewed Shine New Material Tenancy Agreement, the Company estimated that the 2023 Annual Cap (rounded up to the nearest thousand RMB) for the year ending 31 December 2023 are as follows:

2023 Annual Cap	Financial year ended 31 December 2023 (RMB'000)
Proposed aggregate annual cap for the 2023 Renewed Beijing Huashi Tenancy Agreements	11,150
Proposed annual cap for the 2023 Renewed Shine New Material Tenancy Agreement	<u>3,306</u>
Total	<u><u>14,456</u></u>

In arriving at the 2023 Annual Cap, which comprises (i) the aggregate amount of the rental payable by the Group to Beijing Huashi Investment under the 2023 Renewed Beijing Huashi Tenancy Agreements and (ii) the aggregate amount of the rental payable by Hilong Shine New Material to the Group under the 2023 Renewed Shine New Material Tenancy Agreement, the Directors have taken into account the historical transaction amounts and aggregate estimated amounts payable or to be received by the Group under the 2023 Renewed Beijing Huashi Tenancy Agreements and 2023 Renewed Shine New Material Tenancy Agreement, respectively.

The terms of each of the 2023 Renewed Beijing Huashi Tenancy Agreements and 2023 Renewed Shine New Material Tenancy Agreement were negotiated by the parties on arm's length basis, taking into account prevailing market rentals, but in any event at leasing terms and rental rates no less favourable than those offered to the Group by independent third parties for the same or similar types of leased premises. Based on the above reasons, the Directors (including the independent non-executive Directors) are of the view that the terms of the continuing connected transactions contemplated under each of the 2023 Renewed Beijing Huashi Tenancy Agreements, the 2023 Renewed Shine New Material Tenancy Agreement and the 2023 Annual Cap are fair and reasonable, on normal commercial terms and in the ordinary and usual course of business of the Group, and in the interests of the Company and its shareholders as a whole.

REASONS FOR AND BENEFITS IN RELATION TO THE TRANSACTIONS

The Group has been leasing premises from Beijing Huashi Investment for use as offices, and has practical needs to continue to lease such office premises. The leases of the office premises under the 2022 Renewed Beijing Huashi Tenancy Agreements have expired on 31 December 2022. The Company believes that it is time and cost efficient for the Group to continue to lease premises under the 2023 Renewed Beijing Huashi Tenancy Agreements rather than seeking for alternative locations, which would incur unnecessary moving costs and cause potential disruption to the daily operations of the Group.

The lease of the manufacturing plant under the 2022 Renewed Shine New Material Tenancy Agreement has expired on 31 December 2022. The Company believes that through the leasing of the factory premises to Hilong Shine New Material, the Group is able to continue to achieve use of their resources in a more efficient manner. The rental income received by Hilong Zhizao Consulting under the 2023 Renewed Shine New Material Tenancy Agreement also provides a steady source of revenue to the Group.

LISTING RULES IMPLICATIONS

As at the date of this announcement, the counterparties under the 2023 Renewed Beijing Huashi Tenancy Agreements and 2023 Renewed Shine New Material Tenancy Agreement are all companies of which a majority of interests is controlled by Mr. ZHANG Jun, the controlling shareholder and a director of the Company. Therefore the said counterparties are associates of Mr. ZHANG Jun and thus connected persons of the Company under Chapter 14A of the Listing Rules.

Given that the 2023 Renewed Beijing Huashi Tenancy Agreements and 2023 Renewed Shine New Material Tenancy Agreement are (i) entered into by the Group and counterparties who are associates of Mr. ZHANG Jun and (ii) continuing connected transactions entered into within a 12-month period, the transactions contemplated under the 2023 Renewed Beijing Huashi Tenancy Agreements and the 2023 Renewed Shine New Material Tenancy Agreement would have to be aggregated for the purpose of considering the Company's compliance obligations pursuant to Rule 14A.81 of the Listing Rules.

As the highest applicable percentage ratio in respect of the 2023 Annual Cap for the 2023 Renewed Beijing Huashi Tenancy Agreements and the 2023 Renewed Shine New Material Tenancy Agreement, on an aggregated basis, exceeds 0.1% but is less than 5%, the continuing connected transactions contemplated under the 2023 Renewed Beijing Huashi Tenancy Agreements and 2023 Renewed Shine New Material Tenancy Agreement, and the 2023 Annual Cap 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 material interests in the 2023 Renewed Beijing Huashi Tenancy Agreements and the 2023 Renewed Shine New Material Tenancy Agreement, and Ms. ZHANG Shuman and Mr. Cao Hongbo, both are associates of Mr. ZHANG Jun for the purpose of Chapter 14A of the Listing Rules, abstained from voting on the board resolutions approving the 2023 Renewed Beijing Huashi Tenancy Agreements, the 2023 Renewed Shine New Material Tenancy Agreement and the transactions contemplated thereunder and the 2023 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. Beijing Huashi Investment is held as to 98.0% by Huashi Hailong, 1% by Mr. ZHANG Jun and 1% by Ms. ZHANG Jingying, the mother of Mr. ZHANG Jun. Huashi Hailong is a company incorporated in the PRC with limited liability and is held as to approximately 95.65% by Mr. ZHANG Jun and approximately 4.35% by Ms. ZHANG Jingying, the mother of Mr. ZHANG Jun. Huashi Hailong is principally engaged in investment holding and management.

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.

Hilong Zhizao Consulting

Hilong Zhizao Consulting is an indirect wholly-owned subsidiary of the Company incorporated in the PRC and is principally engaged in asset management, consulting services and public relations.

Hilong Shine New Material

Hilong Shine New Material is a wholly-owned subsidiary of Huashi Hailong and therefore an associate of Mr. ZHANG Jun. It is principally engaged in the manufacture and sales of heavy-duty coating materials.

DEFINITIONS

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

“2022 Renewed Beijing Huashi Tenancy Agreements”	collectively, 2022 Renewed Beijing Huashi Tenancy Agreement No. 1, 2022 Renewed Beijing Huashi Tenancy Agreement No. 2, 2022 Renewed Beijing Huashi Tenancy Agreement No. 3 and 2022 Renewed Beijing Huashi Tenancy Agreement No. 4; entered into by Beijing Huashi Investment and Hilong Oil Service, as disclosed in the announcement of the Company dated 10 January 2022
“2022 Renewed Shine New Material Tenancy Agreement”	2022 Renewed Shine New Material Tenancy Agreement, as disclosed in the announcement of the Company dated 10 January 2022

<p>“2023 Renewed Beijing Huashi Tenancy Agreement No. 1”</p>	<p>the tenancy agreement dated 7 February 2023 entered into between Hilong Oil Service as lessee and Beijing Huashi Investment as lessor in respect of the leasing of office premises located at 20/F., Building 1, 13 Workers’ Stadium North Road, Chaoyang District, Beijing, PRC with a total leasing area of 1,850.32 square meters for a term of one year starting from 1 January 2023 to 31 December 2023</p>
<p>“2023 Renewed Beijing Huashi Tenancy Agreement No. 2”</p>	<p>the tenancy agreement dated 7 February 2023 entered into between Hilong Oil Service as lessee and Beijing Huashi Investment as lessor in respect of the leasing of office premises located at Room 502, 5/F., Building 1, 13 Workers’ Stadium North Road, Chaoyang District, Beijing, PRC with a total leasing area of 476.99 square meters for a term of one year starting from 1 January 2023 to 31 December 2023</p>
<p>“2023 Renewed Beijing Huashi Tenancy Agreement No. 3”</p>	<p>the tenancy agreement dated 7 February 2023 entered into between Hilong Oil Service as lessee and Beijing Huashi Investment as lessor 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, PRC with a total leasing area of 126.12 square meters for a term of one year starting from 1 January 2023 to 31 December 2023</p>
<p>“2023 Renewed Beijing Huashi Tenancy Agreement No. 4”</p>	<p>the tenancy agreement dated 7 February 2023 entered into between Hilong Oil Service as lessee and Beijing Huashi Investment as lessor in respect of the leasing of office premises located at Room 501, 5/F., Building 1, 13 Workers’ Stadium North Road, Chaoyang District, Beijing, PRC with a total leasing area of 276.74 square meters for a term of one year starting from 1 January 2023 to 31 December 2023</p>
<p>“2023 Renewed Beijing Huashi Tenancy Agreements”</p>	<p>collectively, 2023 Renewed Beijing Huashi Tenancy Agreement No. 1, 2023 Renewed Beijing Huashi Tenancy Agreement No. 2, 2023 Renewed Beijing Huashi Tenancy Agreement No. 3 and 2023 Renewed Beijing Huashi Tenancy Agreement No. 4; entered into by Beijing Huashi Investment and Hilong Oil Service, pursuant to which Beijing Huashi Investment agreed to lease and Hilong Oil Service agreed to rent the same office premises under the 2022 Renewed Beijing Huashi Tenancy Agreements for use as offices for a term of one year commencing from 1 January 2023</p>

“2023 Renewed Shine New Material Tenancy Agreement”	the tenancy agreement entered into by Hilong Zhizao Consulting and Hilong Shine New Material, pursuant to which Hilong Zhizao Consulting agreed to lease and Hilong Shine New Material agreed to rent the factory premises located at No. 1825, Luodong Road, Baoshan District, Shanghai, the PRC with a total leasing area of 22,135.46 square meters for use as a manufacturing plant for a term of one year commencing from 1 January 2023
“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* (海隆控股有限公司) (stock code: 1623), a company incorporated in the Cayman Islands with limited liability, the ordinary 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
“Hilong Shine New Material”	Shanghai Hilong Shine New Material Co., Ltd.* (上海海隆賽能新材料有限公司), a wholly-owned subsidiary of Huashi Hailong, which is an associate of Mr. ZHANG Jun, and is principally engaged in the manufacture and sales of heavy-duty coating materials
“Hilong Zhizao Consulting”	Hilong Zhizao (Shanghai) Consulting Management Co., Ltd.* (海隆智造(上海)諮詢管理有限公司), 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
“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
“%”	per cent.

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

Hong Kong, 7 February 2023

As at the date of this announcement, the executive directors of the Company are Mr. ZHANG Jun and Mr. WANG Tao (汪濤); the non-executive directors are Ms. ZHANG Shuman, Dr. YANG Qingli, Mr. CAO Hongbo and Dr. Fan Ren Da Anthony; and the independent non-executive directors are Mr. WANG Tao (王濤), Mr. WONG Man Chung Francis and Mr. SHI Zheyuan.

** For identification purpose only*