Hilong Holding Limited
海隆控股有限公司*
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1623)

VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION IN RELATION TO THE DISPOSAL OF 100% EQUITY INTEREST IN THE TARGET COMPANY

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

RAINBOW CAPITAL (HK) LIMITED
浤博資本有限公司

THE EQUITY TRANSFER AGREEMENT

On March 31, 2023 (after trading hours), the Vendor, an indirect wholly-owned subsidiary of the Company, and the Purchaser entered into the Equity Transfer Agreement, pursuant to which the Vendor conditionally agreed to sell, and the Purchaser conditionally agreed to acquire, certain of the Group's businesses comprising multi-functional coating materials and coating services, inspection services and maintenance services for various pipes utilized in oil and gas drilling and transmission processes in the PRC as well as overseas markets (the "**Target Business**") which will be effected by sale of the Sale Interests (representing 100% of the equity interest in the Target Company) at the Consideration of RMB700 million, subject to the terms and conditions of the Equity Transfer Agreement. Upon Completion, the Company will not hold any interest in the Target Company, and each member of the Target Group will cease to be a subsidiary of the Company.

LISTING RULES IMPLICATIONS

As the highest applicable percentage ratio in respect of the Disposal under the Equity Transfer Agreement exceeds 75%, the Disposal constitutes a very substantial disposal for the Company pursuant to Rule 14.06(4) of the Listing Rules and is therefore subject to reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

Additionally, as at the date of this announcement, the Purchaser is a wholly-owned subsidiary of BHH Petroleum Machine Equipment, which is held as to approximately 95.65% by Mr. Zhang, the chairman of the Board, and approximately 4.35% by Ms. Zhang Jingying, the mother of Mr. Zhang. As such, each of BHH Petroleum Machine Equipment and the Purchaser is an associate of Mr. Zhang and thus a connected person of the Company. Therefore, the Disposal under the Equity Transfer Agreement also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements.

GENERAL

The Company will convene an EGM to approve the Equity Transfer Agreement and the transactions contemplated thereunder. An Independent Board Committee comprising all the independent non-executive Directors has been established by the Company to consider the Equity Transfer Agreement and the transactions contemplated thereunder and to advise the Independent Shareholders as to whether the Equity Transfer Agreement and the transactions contemplated thereunder are on normal commercial terms or better, fair and reasonable, and in the interests of the Company and the Shareholders as a whole. The Company has appointed the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders of the same.

A circular containing, among other things, information relating to the Equity Transfer Agreement and on the Disposal, recommendation of the Independent Board Committee in respect of the Disposal, the advice of the Independent Financial Advisor, a notice of EGM and other information as required under the Listing Rules is expected to be despatched to the Shareholders on or before March 31, 2023.

Completion of the Disposal is conditional upon the satisfaction of the conditions set out in the section headed "The Equity Transfer Agreement – Conditions Precedent" in this announcement. Accordingly, the Disposal may or may not proceed. Shareholders and potential investors are therefore advised to exercise caution when dealing in the Shares.

INTRODUCTION

On March 31, 2023 (after trading hours), the Vendor, an indirect wholly-owned subsidiary of the Company, and the Purchaser entered into the Equity Transfer Agreement, pursuant to which the Vendor conditionally agreed to sell, and the Purchaser conditionally agreed to acquire, certain of the Group's businesses comprising multi-functional coating materials and coating services, inspection services and maintenance services for various pipes utilized in oil and gas drilling and transmission processes in the PRC as well as overseas markets (the "**Target Business**") which will be effected by sale of the Sale Interests (representing 100% of the equity interest in the Target Company) at the Consideration of RMB700 million, subject to the terms and conditions of the Equity Transfer Agreement. Upon Completion, the Company will not hold any interest in the Target Company, and each member of the Target Group will cease to be a subsidiary of the Company.

THE EQUITY TRANSFER AGREEMENT

Principal terms of the Equity Transfer Agreement are summarized below:

Date:	March 31, 2023
Parties:	(1) the Vendor; and (2) the Purchaser
Subject Matter:	Pursuant to the Equity Transfer Agreement, the Vendor conditionally agreed to sell, and the Purchaser conditionally agreed to acquire, the Sale Interests in the Target Company. The Sale Interests represent 100% of the equity interest in the Target Company. Upon Completion, the Company will not hold any interest in the Target Company, and each member of the Target Group will cease to be a subsidiary of the Company.
Consideration and payment:	The Consideration for the Disposal, pursuant to the Equity Transfer Agreement, is RMB700 million, 10% of which shall be paid in cash by the Purchaser to the Vendor at the Vendor's designated bank account by wire transfer within 30 days from the date of fulfilment of all the conditions precedent (the "**First Instalment**"), and the remainder shall be paid in cash by the Purchaser to the Vendor at the Vendor's designated bank account by wire transfer within 60 days from the Completion Date.
Basis of the Consideration:	The Consideration was determined after arm's length negotiations between the Vendor and the Purchaser on normal commercial terms with reference to, among other things, (1) the Target Group's appraised valuation at RMB1,004.5 million as of December 31, 2021 as set out in the Valuation Report, and supported by the supplemental analysis report dated March 29, 2023; (2) the unaudited consolidated financial statements of the Target Group for the three financial years ended December 31, 2019, 2020 and 2021, and the nine months ended September 30, 2022; (3) the potential development of the Target Business with reference to the latest operational and financial performance of the Target Group, including cash and cash equivalents of the Target Group as at September 30, 2022; (4) the distribution of dividends by the Target Company to the Remaining Group in an aggregate amount of RMB339 million which was approved by the shareholder of the Target Company in December 2022 and January 2023, respectively – the Target Company expects to complete the payment of the dividend to the Remaining Group within three months after the completion of the Disposal using its internal financial resources; (5) exemption of payables of RMB100 million payable by the Vendor to the Target Group; and (6) the factors set out in the paragraph headed "Reasons For and the Benefits of the Disposal" below.

Based on the Valuation Report, the Target Group was valued at approximately RMB1,004.5 million as at December 31, 2021 based on the asset-based approach. After taking into account the cash and cash equivalents of the Target Group as at September 30, 2022, the adjusted appraised value of the Target Group as at March 31, 2022 under the asset-based approach is RMB1,052.24 million. Assuming that the distribution of dividends by the Target Company to the Remaining Group in the amount of RMB339 million and the exemption of payables of RMB100 million payable by the Vendor to the Target Group had taken place on December 31, 2022, the adjusted valuation of the Target Group as at December 31, 2021 would be approximately RMB565.5 million. The Consideration of the Disposal of approximately RMB700 million hence represents a premium of approximately 23.8% over the adjusted valuation of the Target Group, which the Directors consider to be fair and reasonable after taking into account the other bases of the Consideration as mentioned above.

Conditions Precedent: Completion of the Disposal is subject to the fulfillment of following conditions, or the written consents by the parties to waive parts or all of the conditions:

(1) the Equity Transfer Agreement being executed by the parties, or their respective representatives;

(2) the transactions contemplated under the Equity Transfer Agreement not violating any responsibilities or obligations of the Target Company, the Vendor, the Purchaser, and each of their connected persons under any agreement;

(3) there being no material adverse change to the business operations, assets, liabilities, tax or financial position of the Target Company from the date on which the Equity Transfer Agreement is executed;

(4) the parties having performed all internal procedures with respect to the execution, delivery and performance of the Equity Transfer Agreement and the transactions contemplated thereunder, including, but not limited to, the directors' and/or shareholders' approvals, the Company's board of Directors' approval, and the Company's Independent Shareholders' approval of the Equity Transfer Agreement and the transactions contemplated thereunder at the EGM; and

(5) all representations and warranties of the parties are true, accurate and complete.

Save as conditions (2), (3) and (5) above, none of the above conditions can be waived.

Completion: Completion of the Disposal shall take place on the date on which the First Instalment is paid by the Purchaser.

The parties shall complete the industrial and commercial transfer registration (工商變更登記) of the Sale Interests pursuant to the Equity Transfer Agreement within 10 days of the date of Completion.

Upon Completion, the Company will not hold any interest in the Target Company. Each member of the Target Group will cease to be a subsidiary of the Company and their financials will no longer be consolidated into the Group's consolidated financial statements.

VALUATION

In arriving at the appraised value of the Target Group, the Valuer, an independent valuer engaged by the Company, considered the market approach, the income approach and the asset-based approach:

According to the Valuation Report, for the market approach, the preconditions for the adoption of the market approach are a developed, fair and active open market with sufficient market information and the availability of comparable transactions on the open market. The Target Business is operated in a niche market, and despite the fact that the Valuer had made best efforts to search for and identify appropriate comparable companies through publicly available sources, there is a lack of sufficient samples of companies from the PRC market that are comparable in terms of addressable markets, business model, enterprise scale, revenue, asset structures and sizes. Therefore, the adoption of the market approach for the Target Group may not be appropriate.

For the income-based approach, it focuses on evaluating an enterprise from the perspective of expected profitability. This approach relies heavily on long-term financial forecast and could be heavily influenced by multiple factors, such as the overall supply and demand relationship of the industry in which the Target Group operates, PRC regulatory policies in energy sector, geopolitical risks, uncertainty in the Target Group's overseas business in Russia, significant fluctuation in energy price and exchange rate risk caused by the uncertainty of the Russia-Ukraine conflict. The above factors could be further influenced by other uncertain factors such as the actions of major oil producing countries and other energy prices, all of which are beyond the Company's control.

Based on the Valuation Report, the Target Group was valued at approximately RMB982.87 million as at March 31, 2022 based on the income-based approach. Considering the cash and cash equivalents balance stood at a higher level as of September 30, 2023, the management of the Company considered to add back a further cash item of RMB54.51 million, which was estimated as twice of the Target Group's cash balance as of March 31, 2022. Accordingly, the adjusted appraised value of the Target Company as at March 31, 2022 under income-based approach is RMB1,037.38 million.

As of March 31, 2022, the adjusted value of RMB1,037.38 million under income-based approach was approximately 4.0% higher than the value of RMB997.73 million under asset-based approach in the Valuation Report, and is slightly less than the adjusted appraised value of the Target Group as at March 31, 2022 under the asset-based approach of RMB1,052.24 million, after taking into account the cash and cash equivalents of the Target Group as at September 30, 2022. The difference between two valuation approaches was relatively small. Meanwhile, since there are many limitations to the assumptions for profit forecast and the risks that the Target Business' revenue is exposed to and could not be accurately measured. Therefore, the adoption of the income-based approach for the Target Group may not be appropriate.

For the asset-based approach, it uses the balance sheet as at the valuation benchmark date of the appraised entity as the basis for determining the value of the appraisal subject by reasonably appraising the value of the entity's on-balance sheet and identifiable off-balance sheet assets and liabilities. It estimates each asset and liability of an enterprise from the perspective of the current reconstruction of its assets and liabilities, and summarize them to obtain the value of shareholders' equity. The Target Company satisfies the requirements of the asset-based approach, i.e. it is in continuing use, and historical operating information is available. The asset-based approach could relatively fairly reflect the value of all shareholders' equity value of the entity on the benchmark date.

Having considered the above, the Valuer concluded that valuation results of the asset-based approach are relatively reliable, comparing to that of the income-based approach, and the valuation results derived from the asset-based approach was taken as the Target Group's final valuation. The valuation result under the income-based approach ("**Income Approach Valuation**") constitutes a profit forecast under Rule 14.61 of the Listing Rules. For the purpose of complying with Rules 14.60A and 14.62 of the Listing Rules, set out below are the principal assumptions, including commercial assumptions, upon which the Income Approach Valuation was based are as follows and in Appendix I to this announcement:

(I) Basic Assumptions

1. Transaction assumption

The transaction assumption assumes that all assets to be analyzed are in the process of transaction, and the asset valuer will make estimation in a simulated market according to the transaction conditions of assets to be evaluated. The transaction assumption is one of the most fundamental assumptions for the further implementation of the asset valuation.

2. Open market assumption

The open market assumption is an assumption about the market conditions into which an asset is intended to enter and what effects the asset will receive under such market conditions. An open market is a fully developed and comprehensive market condition and a competitive market with willing buyers and sellers, where buyers and sellers are on equal footing and have access to adequate market information, and where transactions between buyers and sellers are conducted under voluntary, rational, non-compulsory or unrestricted conditions. The open market assumption is based on the assumption that assets are publicly tradable in the market.

3. Enterprise going concern assumption

The enterprise going concern assumption assumes that the Appraised Entity can legally continue its production and operation business as they are within the foreseeable future operating period under the existing asset resources conditions and there will be no major adverse changes in the operating conditions.

4. ***Assumption about the use of an asset for its existing purpose***

The assumption about the use of an asset for its existing purpose assumes that the assets will continue to be used for their current purpose. Firstly, it is assumed that the assets within the scope of valuation are in use. Then it is assumed that the assets will continue to be used for the current purpose and mode of use without considering asset use conversion or optimal utilization conditions.

(II) General Assumptions

1. This analysis assumes that there will be no unforeseeable significant adverse changes in the external economic environment, including the relevant laws, macroeconomic, financial and industrial policies prevailing in China after the valuation benchmark date, and that there will be no significant impact caused by other human force majeure and unforeseeable factors.

2. This analysis does not consider the impact on the appraised entity's valuation conclusion of any collateral or guarantee that the Appraised Entity and its assets may assume in the future, or any additional price that may be paid as a result of special transactions.

3. It is assumed that there will be no significant changes in the socio-economic environment in which the appraised entity is located or the fiscal and taxation policies in place, such as taxes and tax rates, and that the credit policy, interest rate, exchange rate and other financial policies will be generally stable.

4. The current and future business operations of the appraised entity are and will be legal and in compliance with the relevant provisions of its business license and articles of association.

(III) Special Assumptions for the Income Approach Valuation

1. The future income of the appraised entity can be reasonably expected and measured in currency; the risk corresponding to the expected income is measurable; the period of future income can be determined or reasonably expected.

2. The current and future management of the appraised entity will perform their business and management functions in compliance with laws and with diligence. After the implementation of this economic act, there will be no significant impact on the development of the Company or detriment to the interests of Shareholders, and the Company will continue to maintain the current business and management model as well as management level.

3. In the future forecast period, the core management personnel and technical personnel of the assessed entity are relatively stable, and there will be no major changes that affect the business development and profit realization of the enterprise.

4. The accounting policies adopted by the appraised entity after the benchmark date are consistent with the accounting policies adopted at the time of preparation of this report in material aspects.

5. It is assumed that the inflow and outflow of cash flow of the appraised entity after the benchmark date are both even.

6. The assessed entity and their subsidiaries have mostly been high-tech enterprises in recent years. It is assumed that the assessed entity remains qualified for the recognition as a high-tech enterprise in the future and can continue to enjoy preferential income tax policies.

Confirmations

PricewaterhouseCoopers, acting as the Company's reporting accountant (the "**Reporting Accountant**"), has reported on whether the discounted future estimated cash flows in connection with the business valuation of the Target Group, so far as the calculations are concerned, have been properly complied with by the Directors, in all material aspects in accordance with the bases and assumptions as set out in the Valuation Report issued by Shanghai Orient Appraisal Co., Ltd. The Board has reviewed and considered Income Approach Valuation including the principal assumptions upon which the Income Approach Valuation was based. On the basis of the foregoing, the Board is of the opinion that the Income Approach Valuation has been made after due and careful enquiry.

A report from the Reporting Accountant and a letter from the Board are included in the appendices to this announcement for the purpose of Rules 14.60A and 14.62 of the Listing Rules.

Experts and Consents

The qualifications of the Valuer and Reporting Accountant are as follows:

Name	**Qualifications**
Shanghai Orient Appraisal Co., Ltd.* (上海東洲資產評估有限公司)	Independent Professional Valuer
PricewaterhouseCoopers	Certified Public Accountants under Professional Accountants Ordinance (Cap. 50) Registered Public Interest Entity Auditor under Accounting and Financial Reporting Council Ordinance (Cap. 588)

To the best knowledge, information and belief of the Board and having made all reasonable enquiries, each of the Valuer and Reporting Accountant is a third party independent of the Group and is not a connected person of the Group. As at the date of this announcement, neither of the Valuer and Reporting Accountant has any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate person(s) to subscribe for securities in any member of the Group. As at the date of this announcement, each of the Valuer and Reporting Accountant does not have any direct or indirect interests in any assets which have been since 31 December 2021 (the date to which the latest published annual result of the Group 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. Each of the Valuer and Reporting Accountant has given and has not withdrawn its written consent to the publication of this announcement with inclusion of its opinion and advice in its report/letter and all references to its name in the form and context in which it appears in this announcement.

INFORMATION OF THE PARTIES TO THE EQUITY TRANSFER AGREEMENT

The Group

The Group is principally engaged in the 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 (1) oilfield equipment manufacturing and services, which is the production of oilfield equipment and provision of OCTG coating services; (2) line pipe technology and services, which is the provision of coating services related to transmission line pipes and production of coating materials; (3) oilfield services, which is the provision of well drilling services, OCTG trading and related services to oil and gas producers; and (4) offshore engineering services, which is the provision of offshore engineering services and offshore engineering design services.

The Vendor

The Vendor is a company incorporated in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company. The Vendor is principally engaged in the distribution of oil and gas equipment. It is an integrated oilfield equipment manufacturer and service provider in the fields of drill pipes, transmission line pipes, oilfield services and offshore engineering services.

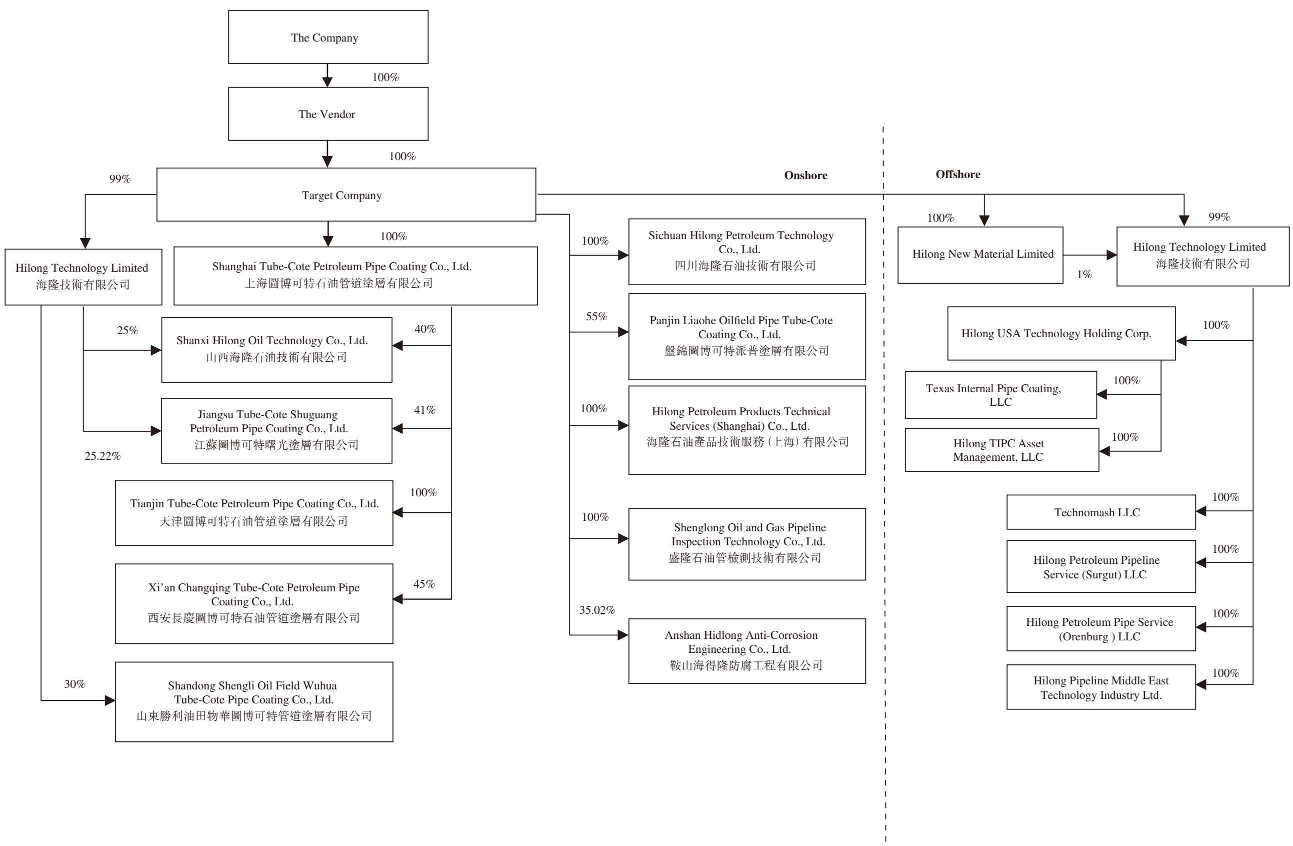
The Purchaser

The Purchaser is a company incorporated in the PRC with limited liability and is principally engaged in the manufacture and sales of heavy-duty coating materials applicable in various industries. The Purchaser is a wholly-owned subsidiary of BHH Petroleum Machine Equipment, which is held as to approximately 95.65% by Mr. Zhang, the chairman of the Board, and approximately 4.35% by Ms. Zhang Jingying, the mother of Mr. Zhang. As such, each of BHH Petroleum Machine Equipment and the Purchaser is an associate of Mr. Zhang and thus a connected person of the Company.

The Target Company

The Target Company was established in the PRC in 2005 and an indirect wholly-owned subsidiary of the Company. The Target Group consists of the Target Company and its subsidiaries. The Target Group is principally engaged in the Target Business, comprising multi-functional coating materials and coating services, inspection services and maintenance services for various pipes utilized in oil and gas drilling and transmission processes in the PRC and overseas markets.

The following chart sets forth the simplified shareholding structure of the Target Group as at the Latest Practicable Date:



Set out below is a summary of the unaudited consolidated financial information of the Target Group (prepared in accordance with the Hong Kong Financial Reporting Standards) for the three financial years ended December 31, 2019, 2020 and 2021, and the nine months ended September 30, 2022:

	For the financial year ended December 31,			For the nine months ended September 30,
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	1,263,956	1,295,536	1,246,831	766,384
Net profit before taxation	180,046	115,519	281,645	103,042
Net profit after taxation	148,946	104,510	251,537	103,662

Based on the unaudited consolidated financial information of the Target Group, the total assets value, net assets value and net asset value attributable to equity owners of the Target Group were approximately RMB2,587.7 million, RMB1,270.8 million and RMB1,221.1 million, respectively as of September 30, 2022.

Set out below is the unaudited financial information of the Target Group according to the unaudited consolidated management accounts of the Target Group as of and for the financial year ended December 31, 2022, which was reviewed by the management of the Company and prepared in accordance with the Company's accounting policy:

	As of and for the financial year ended December 31, 2022
	RMB'000
Revenue	1,081,832
Net profit before taxation	151,166
Net profit after taxation	128,491
Total assets value	2,333,626
Net assets value	1,262,785
Net assets value attributable to equity owners of the Target Group	1,211,167

BUSINESS OF THE REMAINING GROUP

Following completion of the Disposal, the Remaining Group will comprise the following businesses:

1) **Drill pipe-related business**: the manufacture and distribution of drill pipes and related products in both domestic and global markets. The Company provides the customers with both standard and customized drill pipe products applied in various downhole environment. The Company has developed a variety of high-end drill pipe products to meet the specific needs of different customers over the years, and has gradually expanded to provide the repairment services for drilling tools in recent years, which will further strengthen the cooperation between the Company and its customers.

2) **The oilfield services business**: the provision of drilling and workover services, technical services and trading services. The Company capitalizes its rig fleet and provides services to world-leading oil and gas companies and national oil companies in major oil and gas production countries around the globe, such as Shell, BP and Petroleum Development Oman. In recent years, the Company has successfully operated various technical services such as cuttings treatment, mud service, directional well drilling, cementing and casing running. Moving forward, the Company will further expand its integrated services to include well completion and stimulation, drilling speed and efficiency improvement, and oilfield environmental protection, so as to diversify its revenue streams and enhance customer stickiness.

3) **The offshore engineering services**: the provision of offshore engineering design, procurement, construction and installation services mainly in China and Southeast Asia by utilizing the Company's offshore pipe-laying vessel "Hilong 106." In 2020, the Company made a breakthrough in this segment by providing vessel leasing and operations-related services for an offshore wind power construction project. Beyond the oil and gas industry, the Company has been actively seeking other opportunities to expand into the field of public infrastructure engineering services. The Company intends to leverage its extensive experience and know-how accumulated from various projects, and deliver efficient and high-quality offshore engineering services to its customer.

The revenue from the Remaining Group's businesses, excluding intercompany sales, accounted for approximately 72.99% and 79.54% of the Group's total revenue for the financial year ended December 31, 2021 and the nine months ended September 30, 2022, respectively.

Business prospects of the Remaining Group

1) **Drill pipe-related business**: Compared with other large-scale drilling equipment, drill pipe is a daily consumable that requires regular replacement in oil and gas exploration and development activities. The Company's drill pipe-related business remained relatively steady across industry cycles. Going forward, the Company will capitalize on its strong research and development strengths and emphasize more on developing and promoting high-end products, which will be less impacted by industry fluctuations.

Following Completion, the Company will increase its marketing efforts to explore new large-scale customers while maintain all existing strategic partners. The Company will also take differentiated strategies in different regional markets. In terms of improving the operational efficiency, the Company will actively seek high-quality and economical sources of pipe materials to reduce manufacturing costs.

The Company's drill pipe business in domestic markets will benefit from the implementation of the "Seven-Year Action Plan of 2019-2025 for China's Oil and Gas Industry" (中國油氣行業2019-2025七年行動方案) (the "**Seven-Year Action Plan**"), which was launched and promoted by the National Energy Administration (國家能源局). The "Seven-Year Action Plan" intends to ensure the stable and secure supply of energy at the national level with a key focus on promoting upstream oil and gas exploration and development activities. It is expected that the consumption of drill pipes and the major tools used in drilling activities will rise significantly, and considering the national guidance on encouraging import substitutions, the Company's leading position as a domestic drill pipe supplier will benefit from this business opportunity.

Further, the Company has maintained a steady pace in the development of overseas markets, and has achieved significant progress in this regard starting from 2021 and continued such momentum since then.

In the second half of 2022, the Company has entered into a series of drill pipe supply contracts with several customers. In the Middle East market, the Company has signed contracts with National Drilling & Services Company LLC and Arabian Drilling Company for the provision of drill pipes, drill collars and related products. The total contract value is approximately US$8.3 million. Later in 2022, the Company signed a contract with ADNOC Drilling company PJSC for the provision of drilling tubulars to be used for onshore land rigs and offshore jackup rigs. The total contract value is approximately US$61.5 million. The signing of the aforementioned contracts demonstrates that the Company's drill pipes and related products are further accredited by the customers in the Middle East market.

Apart from strengthening its presence in the Middle East market, the Company has made progress in European market. The Company signed a drill pipe supply contract with Eavor GmbH, a German based geothermal company for the provision of V150 high strength drill pipe to be used in geothermal drilling. The total contract value of such contract is approximately US$4.9 million.

The Company's drill pipe business has also made significant progress in the North and South America markets. With respect to the South America market, the Company entered into several contracts with Ventura Petroleo S.A. and Weatherford Industria e Comercio Ltda. for the provision of ultra-deep water drilling tools. The signing of the contracts with the above renowned Brazilian customers represents the Company's successful expansion into the South American market.

As for the North America market, the Company signed a series of drill pipe supply contracts with Ensign US Southern Drilling LLC and Ensign United States Drilling Inc., subsidiaries of Ensign Energy Services Inc. which the Company has maintained well-established business relationship with. Furthermore, the Company entered into contracts for the provision of drill pipes with several customers in Canada, including Horizon Drilling, Precision Drilling Canada Limited Partnership, Complete Tubular Products Ltd, Savanna Drilling Corp. and Bonanza Drilling Inc. These new business opportunities demonstrated that the Group has made significant inroads in the Canadian market as part of the Group's strategy to expand its international footprint. The total value of the drill pipe supply contracts that the Company obtained in the North and South America markets in 2022 amounts to approximately US$72 million.

The signing of the above contracts is a testament to the quality of the Company's drill pipe and related products, as part of the Group's continuous efforts in refining its production techniques through years of experience. These drill pipe supply contracts will further solidify the Group's presence in the international markets and demonstrate that the Group's drill pipe production capability is highly recognized in the industry worldwide.

2) **The oilfield services business**: The oilfield services segment has always been the Company's major revenue stream over the years. Though the segment has been through difficulties in 2020 mainly due to the recurring COVID-19 pandemic, the business has gradually recovered since 2022. The Company strengthened its market development efforts by coordinating all internal resources to maximize the synergies among various business departments. As a result, the utilization rate of the rig fleet has been effectively improved and the price has been restored to an acceptable level since the first half of 2021.

Earlier in 2022, the Company signed a contract with Kuwait Energy Iraq Ltd. ("**KE Iraq**") in relation to the provision of turnkey drilling services for three wells with contract value of approximately US$33.1 million. It is the Company's first turnkey project in Iraq. The turnkey drilling services contract demonstrates that the Company's oilfield services is widely recognized in the industry and lays a solid foundation for the Company's future development in international markets.

Following Completion, the Company intends to develop turnkey projects and technical services, facilitate foreign cooperation and seek expansion and transformation based on existing mature businesses. The Company will strive to make breakthroughs in China, the Middle East and Africa, and endeavor to increase the utilization rate of existing drilling and workover rigs. Currently, the Company is actively obtaining the qualification certification of core domestic customers, and is committed to grasping market opportunities brought by the new round of development in China's domestic oil and gas industry.

3) **The offshore engineering services**: The Company's offshore engineering services segment has seen smooth development over the past years and a significant growth since 2020. In particular, the Company has established a solid and promising market cooperation with CNOOC Limited ("**CNOOC**"), one of its core domestic customers. In September 2022, the Company signed a contract with Offshore Oil Engineering Co., Ltd, (海洋石油工程股份有限公司), a subsidiary of CNOOC, in relation to the submerged pipeline laying project in the Bohai Sea. The value of the contract is over RMB100 million. The contract demonstrates that the Company's offshore engineering services are highly recognized by leading players in the industry.

Following Completion, the Company will continue to pursue potential opportunities brought by the Seven-Year Action Plan. Meanwhile, the Company will also actively attain other customers, and place more emphasis on the offshore wind power-related business going forward. The Company will leverage on its joint venture platform Ocentra Offshore Pte. Ltd. to consolidate its position in the Southeast Asian market and pay closer attention to opportunities in the Middle Eastern market.

The Company will continue the strategy of focusing on international and high-end customers and high value-added products and services. The Company believes that such strategy will accelerate the collection of trade payables, improve the Company's operational efficiency and gradually generate more revenue streams.

In recent years, the Company's drill pipe products have been further recognized by more major global customers. Recently, the Company obtained the certification from Saudi Aramco, one of the world's largest and most influential companies in the oil and gas sector. The recognition of such global brands will further enhance the Company's market presence. Further, these major companies have a large portfolio of drilling rigs in key oil and gas producing regions around the world, presenting various opportunities for the Company's drill pipe-related business. The Company expects that the revenue of the drill pipe-related business will continue to grow steadily in the next few years, while the gradual increase in the sales proportion of high value-added products and services will also contribute to the improvement of the Company's profit margins.

The Company will also continue to develop its oilfield services business, including onshore drilling and workover services, technical services and turnkey services. The utilization rate of the drilling rigs has gradually recovered and expected to remain at the high level in the near future. The Company's technical services including drilling fluid, directional drilling, well completion, cementing and other integrated technical services have grown steadily, and will be complemented by the development of its oil reserve stimulation services. In addition, the Company intends to leverage on bases already built in several overseas markets to promote the oil service related products and equipment of domestic suppliers to global customers. The Company believes that this strategy will expand revenue streams of its oilfield services business effectively without generating more fixed assets.

FINANCIAL IMPACT OF THE DISPOSAL AND USE OF PROCEEDS

Financial Impact

Upon Completion, each member of the Target Group will cease to be subsidiaries of the Company, and the financial information of the Target Group will no longer be consolidated into the Group's consolidated financial statements. The gross proceeds from the Disposal are expected to be RMB700 million and the net proceeds (after deducting transaction costs and professional expenses) are expected to be approximately RMB693.3 million. The Company estimates to record a loss on Disposal of approximately RMB32.87 million, after taking into the account of the Consideration, the net asset value of the Target Group attributable to the Shareholders as of September 30, 2022, exemption of payables payable by the Vendor to the Target Group and the estimated relevant fees and expenses in relation to the Disposal.

The above financial impact is shown for illustrative purpose only and the actual gain or loss as a result of the Disposal to be recorded by the Group is subject to, among other things, the audited net asset value of the Target Company on the day of Completion and the audit to be conducted by the auditors of the Company upon finalization of the consolidated financial statements of the Group for the year ending December 31, 2023.

Use of Proceeds

The Group intends to use the net proceeds to (1) repay the Company's existing indebtedness before April 2024; (2) to bid for turnkey projects in the oilfield service segment and upgrade the production facility for the drill pipe segment of the Company before April 2024; and (3) for general corporate purpose, including the payment of salaries, expenses incurred in research and development activities, travel and communication expenses and sales expenses incurred in daily business operation and management, before October 2023..

REASONS FOR AND BENEFITS OF THE DISPOSAL

Financial Considerations

In recent years, the Group has focused on developing oilfield services and offshore engineering services and has financed the expansion of such businesses through debt issuances. Although the Company's leverage ratio has increased, the Company has always endeavored to develop steadily. Due to the COVID-19 pandemic and other factors, the Company was unable to repay its senior notes due June 2020, and had gone through a debt restructuring exercise, which was completed in May 2021, together with the issuance of a new round of senior notes in the principal amount of USD379,135,000 due November 2024. The interest rate of the new senior notes is higher comparing to the senior notes due June 2020, which causes greater financial pressure on the Group. To achieve steady business growth and to gradually reduce the Group's leverage ratio, the Board intends to dispose a non-core business of the Group and use the proceeds to repay certain principal amount of the new notes and alleviate the burden of the Group's financial expenses. The Disposal will significantly reduce future interest expenses and improve the Group's gearing ratio and cash ratio.

Additionally, the Remaining Group's businesses, particularly the drill pipe-related business and the oilfield services are capital-intensive. For instance, to better improve the operational efficiency for the drill pipe business, the Company intends to expand its existing production facility for drill pipes, which requires capital investments. Since the second half of 2022, the end to quarantine and easing of COVID-19 restrictions have contributed to the gradual recovery of the Remaining Group's oilfield services. As the overall business opportunities of the oilfield services segment start to pick up, the Remaining Group will also require certain amount of capital to resume its operations of drilling and well workover services. Also, the Group has been seeking opportunities for turnkey projects in the oilfield service business over the past few years, which require massive initial capital investment.

Turnkey project is a diversified and comprehensive service, and its scope of services include drilling, mud treatment, well completion, directional drilling, case running, oilfield environmental protection and so on. The Company intends to bid for more turnkey projects and believes that it will become one of the main focuses for its oilfield services segment and help maintain its long-term competitiveness in the industry. Further, turnkey contract is a type of engineering, procurement, and construction (EPC) business, which requires a higher standard of operational capabilities and management experience. Successfully bidding and completing turnkey projects will demonstrate the Company's overall strength and further enhance its industry reputation and consolidate its market position. At the same time, the profit margin of turnkey projects is generally higher than that of drilling services and oil well workover projects, which can generate a better return for the Company and its shareholders.

Currently, while continuing to develop the Company's drilling and oil well workover projects, the Company has been actively seeking for suitable turnkey projects in Iraq, Ecuador and other regional markets. Although the Group usually excels in customers' evaluation of our technical strengths, project management and track record, it often faced tough competition in terms of timely amassing sufficient cash flow upfront to commit to projects, which is the industry practice in turnkey projects bidding. This posed a challenge for the Company given it has less cash in hand in recent years.

Therefore, the expansion of the Group's turnkey services has fallen behind schedule and the further expansion of the Group's business has been restrained. The Group has made continuous efforts to reduce capital expenditures such as disposing inefficient drilling rigs to increase cash inflows and optimizing supply chain management to reduce procurement costs, but the speed at which cash is generated from these endeavors is limited. The Board therefore believes that the liquidity generated by the Disposal will equip the Group with a sizable capital that will put the Group in more favorable positions to bid for desirable projects in the foreseeable future.

Business Considerations

The Target Group only contributed to approximately 27.01% and 20.46% of the Group's revenue (excluding intercompany sales) for the financial year ended December 31, 2021 and the nine months ended September 30, 2022, respectively. It is not the Company's main revenue stream, and more importantly its business has limited synergy with the rest of the Group's core businesses – oilfield services and offshore engineering service. Compared to the Target Group, the operations of the Remaining Group have been more significantly impacted by the Covid-19 pandemic. Since February 2020, due to complex and unpredictable governmental measures and economic downturn during the pandemic, the Remaining Group's oilfield services segment, in particular, drilling services and oil well workover services in overseas markets have been interrupted to varying degrees. For instance, the Remaining Group received notices from customers to temporarily halt its services. The revenue and profit margin of its oilfield services segment decreased due to increase in staff cost, contributed by limited labor availability and quarantine measures, and reduction in overall drilling activity. Since the second half of 2022, the end to quarantine and easing of Covid-19 restrictions have contributed to the gradual recovery of the Remaining Group's oilfield services.

Recent geopolitical development has also caused impact on the Target Group. A significant portion of the Target Group's revenue is generated in Russia. As a result, the Target Group faces certain inherent risks in its operations in Russia. Russia-Ukraine conflict may continue for an extended period, which may hinder economic growth in the region and slowdown the Target Group's business operations, and also compound its difficulty in forecasting raw materials, labor and inventory at appropriate levels. Although the Target Group has adopted appropriate measures to minimize its exposure risks in Russia, the impact of the Russia-Ukraine conflict on the Target Group's business, financial condition and results of operations is still uncertain. On the other hand, the Remaining Group's operations is spread in East Europe, South Asia and Southeast Asia, North and South America and the Middle East. As governments continue to relax Covid-19 policy, the Company expects the Remaining Group's business to gradually recover in the near future. The Company believes that the Remaining Group's business is comparatively stable in the near future and the development of its oilfield services and offshore engineering services remains to be the focus of the Company's business strategy.

The Board considers that the Disposal is one of the Group's restructuring strategies which is expected to enhance the Group's operational efficiency and optimize investment return for the Shareholders. Upon Completion, the Group will focus on providing customers with diversified onshore drilling services and offshore engineering services as well as drill pipe production business.

In addition, the Disposal is mutually complementary and beneficial to the Group and the Purchaser. While the Group will be able to strengthen its overall financial position and redirect its resources to the core-businesses, the Purchaser will also reap synergistic benefits by integrating the Target Group's business. The anti-corrosion coating business in the Target Group will form synergies with the Purchaser in areas such as cost reduction of raw materials procurement, sharing of research and development achievements as well as the optimized utilization of production facilities and the subsequent efficiency improvement.

In light of the above, since the first half of 2021, the Group and the Purchaser had been discussing about the opportunity of forming a cooperative relationship given the potential synergies of the anti-corrosion coating business in the Target Group with the heavy-duty coating materials business of the Purchaser, and had come to a more established plan for the Disposal following the Group's debt restructuring completed in the second half of 2021. In searching for the potential buyer for the Disposal, as the Target Group is operating in a niche market in the oil and gas industry, there are only a few market players comprising mainly overseas companies with no connection with the Group, or large PRC oil and gas companies that already have their established in-house team to operate the relevant business. On the other hand, the Group has a long-term relationship with the Purchaser and they are very familiar with the businesses of each other. Having considered the above, the Directors believed that it would be time and cost efficient to negotiate with the Purchaser regarding the terms of the Disposal. Further, comparing to the price offered by a potential buyer engaged in construction coating in the PRC, the price offered by the Purchaser was the best offer received by the Company at that time.

As such, the Directors believe that the Disposal (i) will not have any material adverse impact of the Company's ability to maintain its business at a viable and sustainable level; (ii) aligns with the long-term business strategy of the Company and (iii) will reduce debt and interest burden of the Company and strengthen its financial position.

The terms of the Equity Transfer Agreement were determined after arm's length negotiations between the parties thereto and the Directors (including the independent non-executive Directors) are of the view that the terms of the Equity Transfer Agreement are fair and reasonable, and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable, and in the interests of the Company and the Shareholders as whole.

POTENTIAL TRANSACTIONS AFTER COMPLETION OF DISPOSAL

Upon Completion, the Target Group will become a wholly-owned subsidiary of the Purchaser and accordingly, each member of the Target Group constitutes an associate of Mr. Zhang and thus a connected person of the Company. Therefore, any transactions between the Remaining Group and Target Group after the Completion will constitute connected transaction of the Company under Chapter 14A of the Listing Rules.

As of the date of this announcement, the Target Group has been leasing premises from the Remaining Group for office use for a term of one year with effect from 1 January 2023. Such leasing transaction is expected to continue after the Completion and will therefore constitute continuing connected transaction of the Company. Based on the existing leasing agreements between the Remaining Group and the Target Group, the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules in respect of the aggregate amount of the annual rental payable by Target Group to the Remaining Group exceeds 0.1% but is below 5%. Accordingly, before the Completion Date, the Remaining Group and the Target Group will discuss the terms of the agreements and determine the relevant annual cap with respect to such leasing transaction, and the Company will comply with the relevant reporting, announcement, circular and Independent Shareholders' requirements, where applicable, under the Listing Rules upon the Completion.

The Remaining Group had been engaging the Target Group for provision of coating services in relation to certain of its oil and gas drilling pipe projects on project basis in the past. In those transactions, the provision of coating services by the Target Group to the Remaining Group was charged by the reference price of coating services formulated by China National Petroleum Corporation (CNPC) and China Petroleum & Chemical Corporation (Sinopec Corp.) on annual basis. After the Disposal, the Remaining Group, may in the future, enter into such transactions as and when necessary, and such transactions may constitute continuing connected transactions of the Group under Chapter 14A of the Listing Rules. As of the date of this announcement, the Remaining Group and the Target Group have no actual plan to enter into the above transaction immediately following the completion of Disposal. In the event that the Remaining Group and the Target Group enter into the above transaction in the future, the Company will comply with the relevant requirements under the Listing Rules applicable to such transaction.

In addition, as confirmed by the Directors, immediately prior to the Completion, there will be no outstanding loans or non-trade balances due to or from the Target Group, nor will there be any outstanding financial assistance, security, pledges or guarantees provided by or to any member of the Target Group. Save for certain continuing connected transactions as mentioned above, there are no other side arrangements or continuing connected transactions expected to be entered into between the Remaining Group and the Target Group immediately following the Completion.

LISTING RULES IMPLICATIONS

As the highest applicable percentage ratio in respect of the Disposal under the Equity Transfer Agreement exceeds 75%, the Disposal constitutes a very substantial disposal for the Company pursuant to Rule 14.06(4) of the Listing Rules and is therefore subject to reporting, announcement, circular and Shareholders' approval requirement under Chapter 14 of the Listing Rules.

Additionally, as at the Latest Practical Date, the Purchaser is a wholly-owned subsidiary of BHH Petroleum Machine Equipment, which is held as to approximately 95.65% by Mr. Zhang, the chairman of the Board, and approximately 4.35% by Ms. Zhang Jingying, the mother of Mr. Zhang. As such, each of BHH Petroleum Machine Equipment and the Purchaser is an associate of Mr. Zhang and thus a connected person of the Company. Therefore, the Disposal under the Equity Transfer Agreement also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements.

Mr. Zhang, a chairman of the Board who is also the ultimate controlling shareholder of the Purchaser, is considered to have a material interest in the Disposal. Mr. Zhang and each of Ms. ZHANG Shuman and Mr. CAO Hongbo, who is an associate of Mr. Zhang 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 transactions contemplated thereunder. Mr. Zhang and his associates will abstain from voting in the resolution approving the Equity Transfer Agreement and the transactions contemplated thereunder at the EGM.

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 Disposal at the EGM. As at the Latest Practicable Date, Hilong Group Limited, Younger Investment Limited, North Violet Investment Limited and LongZhi Investment Limited are interested in an aggregate of 822,961,800 Shares, which are held by Mr. Zhang's trust and family trusts, with Standard Chartered Trust (Singapore) Limited acting as trustee of Mr. Zhang's trust and family trusts. Mr. Zhang is interested in 1,260,000 Shares in his capacity as a beneficial owner, and is the founder of Mr. Zhang'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 is interested in 692,000 Shares in her capacity as a beneficial owner, and is deemed to be interested in the Shares held by Younger Investment Limited of which she is the sole director. Mr. CAO Hongbo is interested in 1,708,000 Shares in his capacity as a beneficial owner. Accordingly, each of Hilong Group Limited, Younger Investment Limited, North Violet Investment Limited, Longzhi Investment Limited, Mr. Zhang, Ms. ZHANG Shuman and Mr. CAO Hongbo, who are interested in an aggregate of 826,621,800 Shares, representing approximately 48.73% 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 to approve the Equity Transfer Agreement and the transactions contemplated thereunder accordingly. Save as disclosed above, to the best knowledge of the Directors, no other Shareholder would be required to abstain from voting as no other Shareholder has any interest in the Equity Transfer Agreement which is different from the other Shareholders.

GENERAL

The Company will convene an EGM to approve the Equity Transfer Agreement and the transactions contemplated thereunder. An Independent Board Committee comprising all the independent non-executive Directors has been established by the Company to consider the Equity Transfer Agreement and the transactions contemplated thereunder and to advise the Independent Shareholders as to whether the Equity Transfer Agreement and the transactions contemplated thereunder are on normal commercial terms or better, fair and reasonable, and in the interests of the Company and the Shareholders as a whole. The Company has appointed the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders of the same.

A circular containing, among other things, information relating to the Equity Transfer Agreement and the Disposal, recommendation of the Independent Board Committee in respect of the Disposal, the advice of the Independent Financial Advisor, a notice of EGM and other information as required under the Listing Rules is expected to be despatched to the Shareholders on or before March 31, 2023.

Completion of the Disposal is conditional upon the satisfaction of the conditions set out in the section headed "The Equity Transfer Agreement – Conditions Precedent" in this announcement. Accordingly, the Disposal may or may not proceed. Shareholders and potential investors are therefore advised to exercise caution when dealing in the Shares.

DEFINITIONS

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

"associate(s)"	has the meaning ascribed to it under the Listing Rules
"BHH Petroleum Machine Equipment"	Beijing Huashi Hailong Petroleum Machine Equipment Co., Ltd.* (北京華實海隆石油機械設備有限公司), a company incorporated in the PRC with limited liability
"Board"	the board of Directors
"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 issued shares of which are listed on the Main Board of the Stock Exchange
"Completion"	completion of the Disposal in accordance with the terms and conditions of the Equity Transfer Agreement
"Completion Date"	the date on which the Completion is to take place
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Consideration"	the consideration of RMB700 million payable by the Purchaser to the Vendor for the transfer of the Sale Interests pursuant to the Equity Transfer Agreement
"controlling shareholder"	has the meaning ascribed thereto in the Listing Rules
"Director(s)"	the directors of the Company
"Disposal"	the disposal by the Vendor of the Sale Interests and the transactions contemplated under the Equity Transfer Agreement
"EGM"	an extraordinary general meeting of the Company to be convened and held to consider and, if thought fit, approve, the Equity Transfer Agreement and the transactions contemplated thereunder
"Equity Transfer Agreement"	the equity transfer agreement dated March 31, 2023 entered into between the Vendor and the Purchaser in relation to the Disposal
"Group"	the Company and its subsidiaries

"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	the board committee of the Company comprising all independent non-executive Directors, namely Mr. WANG Tao (王濤), Mr. WONG Man Chung Francis and Mr. SHI Zheyan, to be established to make recommendation to the Independent Shareholders in respect of the terms of the Equity Transfer Agreement and the transactions contemplated thereunder
"Independent Financial Adviser"	Rainbow Capital (HK) Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders on the Equity Transfer Agreement and the transactions contemplated thereunder
"Independent Shareholders"	the Shareholders, other than Mr. Zhang and his associates, who are entitled to vote at the EGM in respect of the Equity Transfer Agreement and the transactions contemplated thereunder pursuant to the Listing Rules
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Mr. Zhang"	Mr. ZHANG Jun (張軍), the chairman of the Board, an executive Director and a controlling shareholder of the Company
"PRC"	the People's Republic of China which, for the purpose of this announcement, does not include Hong Kong, Macao Special Administrative Region and Taiwan
"Purchaser"	Shanghai Hilong Shine New Material Co., Ltd.* (上海海隆賽能新材料有限公司), a company incorporated in the PRC with limited liability and controlled by Mr. Zhang
"Remaining Group"	the Group after completion of the Disposal
"RMB"	Renminbi, the lawful currency of the PRC
"Sale Interests"	the 100% equity interest of the Target Company

"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 Company"	Hilong Pipeline Engineering Technology Service Co., Ltd.* (海隆管道工程技術服務有限公司), an indirect wholly-owned subsidiary of the Company with a registered share capital of RMB80 million and incorporated in the PRC with limited liability
"Target Group"	the Target Company and its subsidiaries
"Valuation Report"	the valuation report dated December 23, 2022 and the supplemental analysis report dated March 29, 2023 issued by Shanghai Orient Appraisal Co., Ltd.* (上海東洲資產評估有限公司) setting out the appraised market value of the Target Company as of December 31, 2021
"Valuer"	Shanghai Orient Appraisal Co., Ltd* (上海東洲資產評估有限公司), the independent valuer engaged by the Company for the valuation of the Sale Interests of the Target Company
"Vendor"	Hilong Group of Companies Ltd.* (海隆石油工業集團有限公司), an indirect wholly-owned subsidiary of the Company incorporated in the PRC with limited liability
"%"	per cent

* *For identification purpose only*

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

Hong Kong, March 31, 2023

As of 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 Zheyan.

APPENDIX I – KEY PARAMETERS AND MAJOR ASSUMPTIONS OF CASH FLOW PROJECTION

Key Parameters and Major Assumptions of Cash Flow Projection

1. The following is a summary of the key parameters adopted on the valuation date for the weighted average cost of capital of the business enterprise:

	Key parameters	**As at 31 March 2022**
a)	risk-free interest rate	2.80%
b)	market risk premium	6.88%
c)	beta coefficient	0.8133
d)	company-specific risk premium	8.50%
e)	cost of equity	17.50%-17.70%
f)	cost of debt	4.60%
g)	weight of equity value to enterprise value	85.8%-88.10%
h)	weight of debt value to enterprise value	11.90%-14.20%
i)	corporate tax rate	15.00%
		15.7%-15.90%

2. Major assumptions of cash flow projection:

   Projection Period

   The forecast period starts from the second quarter of year 2022 to year 2027, and year 2028 is perpetual year.

   Revenue

   During forecast period of 2023-2027, revenue shows a lower compound growth rate. It is mainly due to multiple impacts of uncertainties such as the overall supply and demand relationship of the oil and gas industry, geopolitical risks, overseas business especially in Russia, is affected by significant fluctuation in energy price caused by the uncertainty of the Russia-Ukraine conflict. And extremely low workload in pipeline coating used in transportation process from the end of 2022 also results in the limited overall revenue growth.

   Revenue of 2022 decreased by 13.2% or RMB165 million compared with that of 2021. Revenue of 2023 is forecasted to decrease by 14.6% or RMB158 million compared with that of 2022. The decrease in revenue in 2022 and 2023 is mainly due to the reduce in drill pipe trading business between the Target Group and the Remaining Group which has a low gross profit margin.

Cost of sales and gross profit margin

Cost of sales mainly includes material costs, labor costs, manufacturing expenses and service related costs of the Target company's businesses. Considering stability of product and service categories of the Target Group, gross profit margin is estimated between 36% and 38%, which is based on the average gross profit margin of relevant products and services for 2019, 2020, 2021 and 1st quarter of 2022.

Selling and marketing expenses

As advised by the Management, selling and marketing expenses include all relevant items, which mainly represent personnel salaries, business entertainment expenses, market development expenses and other expenses. The proportion of sales and marketing expenses to revenue is basically stable during the forecast period.

Administrative expenses

As advised by the Management, administrative expenses include all relevant items, which mainly represent personnel salaries, research and development expenses and general administrative expenses with stable annual growth.

Income Tax Expenses

The income tax expense is estimated by adopting comprehensive effective rate of 15% as advised by the Management. The income tax rate of 15% is the average rate of the year of 2019, 2020, 2021 and 1st quarter of 2023. The income tax rate of 2021 was arrived at by deducting the gain from disposal of subsidiaries of RMB79 million.

Depreciation Expenses

The depreciation of fixed assets and projected capital expenditure is based on the straight-line method.

Capital Expenditure

According to the extent of machine obsolescence and operational needs, management estimates that capital expenditure is mainly used for acquisition of new production equipment.

Non-operating assets and liabilities

Non-operating assets and liabilities of this valuation include net of non-operating receivables and payables, net of deferred tax assets and deferred tax liabilities and dividend payables, totalling amount of RMB145.32 million, which is added to the enterprise value.

APPENDIX II – INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE CALCULATIONS OF DISCOUNTED FUTURE ESTIMATED CASH FLOWS IN CONNECTION WITH THE BUSINESS VALUATION OF HILONG PIPELINE ENGINEERING TECHNOLOGY SERVICE CO., LTD.

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this announcement.

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE CALCULATIONS OF DISCOUNTED FUTURE ESTIMATED CASH FLOWS IN CONNECTION WITH THE BUSINESS VALUATION OF HILONG PIPELINE ENGINEERING TECHNOLOGY SERVICE CO., LTD.

TO THE BOARD OF DIRECTORS OF HILONG HOLDING LIMITED

We have completed our assurance engagement to report on the calculations of the discounted future estimated cash flows on which the business valuation (the "**Valuation**") dated 29 March 2023 prepared by Shanghai Orient Appraisal Co., Ltd in respect of the appraisal of the fair value of the 100% equity interests in Hilong Pipeline Engineering Technology Service Co., Ltd. (the "**Target Company**") is based. The Valuation is set out in the announcement of Hilong Holding Limited (the "**Company**") dated 31 March 2023 (the "**Announcement**") in connection with the disposal by the Company of a 100% equity interest in the Target Company. The Valuation based on the discounted future estimated cash flows is regarded as a profit forecast under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

Directors' Responsibility for the Discounted Future Estimated Cash Flows

The directors of the Company are responsible for the preparation of the discounted future estimated cash flows including the bases and assumptions set on pages 6 to 8 and Appendix I of the Announcement on which the discounted future estimated cash flows are based. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation of the discounted future estimated cash flows and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

Our Independence and Quality Management

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Management 1 (HKSQM), *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, issued by the HKICPA, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

It is our responsibility, pursuant to paragraph 14.62(2) of the Listing Rules, to express an opinion on the calculations of the discounted future estimated cash flows, and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We are not reporting on the appropriateness and validity of the bases and assumptions on which the discounted future estimated cash flows are based and our work does not constitute any valuation of the Target Company.

We conducted our work in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* issued by the HKICPA. This standard requires that we plan our work to form the opinion.

This assurance engagement involved performing procedures to obtain sufficient appropriate evidence as to whether the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled, in all material respects, in accordance with the bases and assumptions set out on pages 6 to 8 and Appendix I of the Announcement. The extent of procedures selected depends on the Reporting Accountant's judgement and our assessment of the engagement risk. Within the scope of our work, we, amongst others, reviewed the arithmetical calculations and the compilation of the discounted future estimated cash flows in accordance with the bases and assumptions.

The discounted future estimated cash flows do not involve the adoption of accounting policies. The discounted future estimated cash flows have been prepared using a set of bases and assumptions that include hypothetical assumptions about future events and management's actions that cannot be confirmed and verified in the same way as past results and that are not necessarily expected to occur. Even if the events anticipated under the hypothetical assumptions described above occur, actual results are still likely to be different from the discounted future estimated cash flows since other anticipated events frequently do not occur as expected and the variation may be material. We are not reporting on the appropriateness and validity of the bases and assumptions on which the discounted future estimated cash flows are based and our work does not constitute any valuation of the Target Company.

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

Opinion

In our opinion, based on the foregoing, so far as the calculations are concerned, the discounted future estimated cash flows, have been properly compiled in all material respects in accordance with the bases and assumptions adopted by the directors of the Company as set out on pages 6 to 8 and Appendix I of the Announcement.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 31 March 2023

The following is the text of a letter from the Board for the purpose of incorporation in this announcement.

March 31, 2023

VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION IN RELATION TO THE DISPOSAL OF 100% EQUITY INTEREST IN THE TARGET COMPANY

We refer to the announcement of the Company dated March 31, 2023 (the "**Announcement**"), of which this letter forms part. Unless the context otherwise requires, terms defined in the Announcement shall have the same meanings when used herein.

We refer to the Valuation conducted by Shanghai Orient Appraisal Co., Ltd* (上海東洲資產評估有限公司), an independent valuer. The Valuer conducted an asset-based approach valuation and an income-based approach valuation (the "**Income Approach Valuation**") of the Target Group, among which the Income Approach Valuation (which is based on the discounted cash flow forecast) is regarded as a profit forecast under Rule 14.61 of the Listing Rules. The Valuer concluded that the valuation results of the asset-based approach are relatively reliable, and the valuation results derived from the asset-based approach was taken as the Target Group's final Valuation.

We have discussed with the Valuer the different aspects upon which the Valuation was prepared (including the principal and commercial assumptions) and have reviewed the Valuation for which the Valuer is responsible. Pursuant to Rule 14.62 of the Listing Rules, we have engaged PricewaterhouseCoopers, the auditor of the Company, to report on whether the discounted future estimated cash flows in connection with the business valuation of the Target Group, so far as the calculations are concerned, have been properly complied with by the Directors, in all material aspects in accordance with the bases and assumptions as set out in the Valuation Report.

On the basis of the above, we confirm that the Valuation has been made after due and careful enquiry by us.

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