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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)

CONNECTED TRANSACTION RENEWAL OF TENANCY AGREEMENTS

RENEWAL OF TENANCY AGREEMENTS

References are made to the announcement dated 4 August 2020 in relation to the 2020 Longshi Investment Tenancy Agreements.

Since each of the 2020 Longshi Investment Tenancy Agreements has expired on 31 July 2023, the Board is pleased to announce that on 1 August 2023, Hilong Group of Companies (as lessee) and the Hilong Petroleum Offshore Engineering (as lessee) have entered into the following renewal agreements with Longshi Investment (as lessor), respectively:

- 1) 2023 Longshi Investment Tenancy Agreement No. 1 entered into between Longshi Investment (as lessor) and Hilong Group of Companies (as lessee) in relation to the lease of an office premise for a term of three years commencing from 1 August 2023 to 31 July 2026;
- 2) 2023 Longshi Investment Tenancy Agreement No. 2 entered into between Longshi Investment (as lessor) and Hilong Petroleum Offshore Engineering (as lessee) in relation to the lease of an office premise for a term of three years commencing from 1 August 2023 to 31 July 2026.

* For identification purposes only

LISTING RULES IMPLICATIONS

As of the date of this announcement, Longshi Investment is held as to 50.0% by Beijing Huashi Investment and 50% by Wuxi Hongyuan Enterprise Management Co., Ltd. (無錫虹元企業管理有限公司), an independent third party of the Group. Beijing Huashi Investment is held as to 98% by BHH Petroleum Machine Equipment, 1% by Mr. Zhang, the chairman of the Board and a controlling shareholder of the Company, and 1% by Ms. Zhang Jingying, the mother of Mr. Zhang. BHH Petroleum Machine Equipment is held as to approximately 95.65% by Mr. Zhang and approximately 4.35% by Ms. Zhang Jingying. As such, Longshi Investment is an associate of Mr. Zhang and thus a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the entering into of the 2023 Longshi Investment Tenancy Agreements constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

In accordance with HKFRS 16 “Leases”, the Company will recognise the leases contemplated under the 2023 Longshi Investment Tenancy Agreements as right-of-use asset. Accordingly, the entering into of the 2023 Longshi Investment Tenancy Agreements will be recognised as an acquisition of right-of use asset which will constitute a one-off connected transaction of the Company under Chapter 14A of the Listing Rules.

Since the highest applicable percentage ratio (as defined in Rule 14.07 of the Listing Rules) in respect of the value of the right-of-use asset (unaudited) to be recognised by the Group under the 2023 Longshi Investment Tenancy Agreements exceeds 0.1% but less than 5%, the entering into of the 2023 Longshi Investment Tenancy Agreements is subject to the reporting and announcement requirements, but exempt from the circular (including independent financial advice) and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

INTRODUCTION

References are made to the announcement dated 4 August 2020 in relation to the 2020 Longshi Investment Tenancy Agreements. Since each of the 2020 Longshi Investment Tenancy Agreements has expired on 31 July 2023, on 1 August 2023, Hilong Group of Companies (as lessee) and Hilong Petroleum Offshore Engineering (as lessee) have entered into the following renewal agreements with Longshi Investment (as lessor), respectively:

- 1) 2023 Longshi Investment Tenancy Agreement No. 1 entered into between Longshi Investment (as lessor) and Hilong Group of Companies (as lessee) in relation to the lease of an office premise for a term of three years commencing from 1 August 2023 to 31 July 2026;
- 2) 2023 Longshi Investment Tenancy Agreement No. 2 entered into between Longshi Investment (as lessor) and Hilong Petroleum Offshore Engineering (as lessee) in relation to the lease of an office premise for a term of three years commencing from 1 August 2023 to 31 July 2026.

2023 LONGSHI INVESTMENT TENANCY AGREEMENTS

Principal terms of each of the 2023 Longshi Investment Tenancy Agreements

Date:	1 August 2023	
Term:	1 August 2023 to 31 July 2026	
	2023 Longshi Investment Tenancy Agreement No. 1	2023 Longshi Investment Tenancy Agreement No. 2
Lessor:	Longshi Investment	Longshi Investment
Lessee:	Hilong Group of Companies	Hilong Petroleum Offshore Engineering
Leased premises:	6/F, Building 1, Lane 288 of Shenchang Road, Minhang District, Shanghai, PRC	5/F, Building 1, Lane 288 of Shenchang Road, Minhang District, Shanghai, PRC
Leased area:	327 square meters	1,390.8 square meters
Monthly rental:	RMB54,704.38 per month excluding management fees and utility fees for the period from 1 August 2023 to 31 July 2024;	RMB232,669.25 per month excluding management fees and utility fees for the period from 1 August 2023 to 31 July 2024;
	RMB59,677.5 per month excluding management fees and utility fees for the period from 1 August 2024 to 31 July 2026;	RMB253,821 per month excluding management fees and utility fees for the period from 1 August 2024 to 31 July 2026;
Rental deposits:	RMB109,408.76	RMB465,338.50
Usage:	Office	Office
Payment of Rental:	Annual rental is payable by the Group in every six months period. The Group is required to pay the first six months of rental together with the rental deposits within 3 days from the date of the agreement. Thereafter, the Group is required to make rental payments every six months.	
Renewal of lease:	Subject to compliance with the applicable laws and rules and negotiation of the parties, the Group has the option to renew the 2023 Longshi Investment Tenancy Agreements by giving 60 days prior written notice to Longshi Investment before the expiration of the respective 2023 Longshi Investment Tenancy Agreements. A new tenancy agreement or a renewal agreement may be entered into by the parties.	

Accounting Treatment with respect to the 2023 Longshi Investment Tenancy Agreements

The leases contemplated under the 2023 Longshi Investment Tenancy Agreements will be recognised as right-of-use asset by the Company pursuant to HKFRS 16. Based on a preliminary assessment by the management of the Company pursuant to HKFRS 16, which has not been reviewed or audited by the auditors of the Company, the value of the right-of-use asset (unaudited) for the office premises to be leased by the Group under the 2023 Longshi Investment Tenancy Agreements would be approximately RMB10,172,167. Such acquisition of right-of-use asset will constitute a one-off connected transaction of the Company under Chapter 14A of the Listing Rules.

Basis of Consideration of the Monthly Rental under the 2023 Longshi Investment Tenancy Agreements

In arriving at the monthly rental under the 2023 Longshi Investment Tenancy Agreements, the Directors have considered (i) the historical rental amounts payable by the Group under the 2020 Longshi Investment Tenancy Agreements for the three years ended 31 July 2023; (ii) the prevailing market rents with respect to the leased premises under the 2023 Longshi Investment Tenancy Agreements (which is obtainable as public information and after consulting the advice of several reputable local real estate agents for benchmarks of assessment of the monthly rental for the year ending 31 December 2023 and three years ending 31 July 2026 (as the case may be)); (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 premises; and (vi) the availability of properties with similar sizes and in similar locations.

REASONS FOR AND BENEFITS IN RELATION TO THE TRANSACTIONS

The Group has been leasing premises from Longshi Investment for use as offices and has practical needs to continue the leasing of such office premises. The lease of the office premises under the 2020 Longshi Investment Tenancy Agreements has expired on 31 July 2023. The Company believes that it is time and cost efficient for the Group to continue to lease premises under the 2023 Longshi Investment Tenancy Agreements rather than seeking alternative locations, which would incur unnecessary moving costs and cause potential disruption to the daily operations of the Group.

The terms of each of the 2023 Longshi Investment Tenancy Agreements were negotiated by the parties on an 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 connected transactions contemplated under each of the 2023 Longshi Investment Tenancy Agreements are fair and reasonable, on normal commercial terms and in the ordinary and usual course business of the Group, and in the interests of the Company and its shareholders as a whole.

LISTING RULES IMPLICATIONS

As of the date of this announcement, Longshi Investment is held as to 50.0% interest by Beijing Huashi Investment and 50% by Wuxi Hongyuan Enterprise Management Co., Ltd. (無錫虹元企業管理有限公司), an independent third party of the Group. Beijing Huashi Investment is held as to 98% by BHH Petroleum Machine Equipment, 1% by Mr. Zhang, the chairman of the Board and a controlling shareholder of the Company, and 1% by Ms. Zhang Jingying, the mother of Mr. Zhang. BHH Petroleum Machine Equipment is held as to approximately 95.65% by Mr. Zhang and approximately 4.35% by Ms. Zhang Jingying. As such, Longshi Investment is an associate of Mr. Zhang and thus a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the entering into of the 2023 Longshi Investment Tenancy Agreements constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

Since the highest applicable percentage ratio (as defined in Rule 14.07 of the Listing Rules) in respect of the value of the right-of-use asset (unaudited) to be recognised by the Group under the 2023 Longshi Investment Tenancy Agreements exceeds 0.1% but less than 5%, the entering into of the 2023 Longshi Investment Tenancy Agreements is subject to the reporting and announcement requirements, but exempt from the circular (including independent financial advice) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Mr. Zhang, chairman of the Board and a controlling shareholder, is considered to have a material interest in the 2023 Longshi Investment Tenancy Agreements. 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 2023 Longshi Investment Tenancy Agreements.

GENERAL INFORMATION

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.

Hilong Group of Companies

Hilong Group of Companies is an indirect wholly-owned subsidiary of the Company incorporated in the PRC and is principally engaged in the distribution of oil and gas equipment.

Hilong Petroleum Offshore Engineering

Hilong Petroleum Offshore Engineering is an indirect wholly-owned subsidiary of the Company incorporated in the PRC and is principally engaged in offshore oilfield service provision.

Longshi Investment

Longshi Investment is held as to 50.0% by Beijing Huashi Investment and 50% by Wuxi Hongyuan Enterprise Management Co., Ltd. (無錫虹元企業管理有限公司), an independent third party of the Group. Beijing Huashi Investment is held as to 98% by BHH Petroleum Machine Equipment, 1% by Mr. Zhang and 1% by Ms. Zhang Jingying, the mother of Mr. Zhang. BHH Petroleum Machine Equipment is held as to approximately 95.65% by Mr. Zhang and approximately 4.35% by Ms. Zhang Jingying. As such, Longshi Investment is an associate of Mr. Zhang and thus a connected person of the Company under Chapter 14A of the Listing Rules. It is principally engaged in investment management, business advisory, property management, and sales of daily articles.

DEFINITIONS

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

“2020 Longshi Investment Tenancy Agreement No. 1”	the tenancy agreement dated 4 August 2020 entered into between Hilong Group of Companies (as lessee) and Longshi Investment (as lessor) for a term of three years commencing from 1 August 2020 to 31 July 2023 in respect of the leasing of the office premises located at 6/F, Building 1, Lane 288 of Shenchang Road, Minhang District, Shanghai, PRC, with a total leasing area of 327 square meters
“2020 Longshi Investment Tenancy Agreement No. 2”	the tenancy agreement dated 4 August 2020 entered into between Hilong Petroleum Offshore Engineering (as lessee) and Longshi Investment (as lessor) for a term of three years commencing from 1 August 2020 to 31 July 2023 in respect of the leasing of the office premises located at 5/F, Building 1, Lane 288 of Shenchang Road, Minhang District, Shanghai, PRC, with a total leasing area of 1,390.8 square meters
“2020 Longshi Investment Tenancy Agreements”	2020 Longshi Investment Tenancy Agreement No. 1 and 2020 Longshi Investment Tenancy Agreement No. 2
“2023 Longshi Investment Tenancy Agreement No. 1”	the tenancy agreement dated 1 August 2023 entered into between Hilong Group of Companies (as lessee) and Longshi Investment (as lessor) for a term of three years commencing from 1 August 2023 to 31 July 2026 in respect of the leasing of the office premises located at 6/F, Building 1, Lane 288 of Shenchang Road, Minhang District, Shanghai, PRC, with a total leasing area of 327 square meters

“2023 Longshi Investment Tenancy Agreement No. 2”	the tenancy agreement dated 1 August 2023 entered into between Hilong Petroleum Offshore Engineering (as lessee) and Longshi Investment (as lessor) for a term of three years commencing from 1 August 2023 to 31 July 2026 in respect of the leasing of the office premises located at 5/F, Building 1, Lane 288 of Shenchang Road, Minhang District, Shanghai, PRC, with a total leasing area of 1,390.8 square meters
“2023 Longshi Investment Tenancy Agreements”	2023 Longshi Investment Tenancy Agreement No. 1 and 2023 Longshi Investment Tenancy Agreement No. 2
“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 incorporated in the PRC with limited liability
“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 of the Company
“Company”	Hilong Holding Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“connected person”	has the meaning ascribed to it in the Listing Rules
“controlling shareholder”	has the meaning ascribed to it in the Listing Rules
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Hilong Group of Companies”	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 and is principally engaged in the distribution of oil and gas equipment
“Hilong Petroleum Offshore Engineering”	Hilong Petroleum Offshore Engineering Limited (海隆石油海洋工程有限公司), 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
“independent third party(ies)”	party(ies) independent of and not connected with the Company and its connected persons (as defined under the Listing Rules)
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Longshi Investment”	Shanghai Longshi Investment Management Company Limited (上海隆視投資管理有限公司), an associate of Mr. ZHANG Jun and is principally engaged in investment management, business advisory, property management, and sales of daily articles
“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
“RMB”	renminbi, the lawful currency of the People’s Republic of China
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	percent.

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

Hong Kong, 1 August 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 Zheyang.