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Hilong Holding Limited

海隆控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1623)

CONTINUING CONNECTED TRANSACTIONS

(1) RENEWAL OF TENANCY AGREEMENTS;

(2) EQUIPMENT LEASE AGREEMENT

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

RAINBOW.

RAINBOW CAPITAL (HK) LIMITED
流博資本有限公司

Reference is made to the announcement of the Company dated 5 January 2024 regarding the 2024 Renewed Beijing Huashi Tenancy Agreements, the 2024 Renewed Shine New Material Tenancy Agreement and the 2024 Pipeline Tenancy Agreements. Since each of the above agreements has expired on 30 June 2024, the Group and the relevant counterparties entered into the following renewal agreements:

- (1) the 2024 Supplemental Beijing Huashi Tenancy Agreements entered into between Beijing Huashi Investment (as lessor) and Hilong Oil Service (as lessee) in relation to the lease of premises for office use for a term of six months commencing from 2024 Supplemental Beijing Huashi Effective Date to 31 December 2024 (both days inclusive);
- (2) the 2024 Supplemental Shine New Material Tenancy Agreement entered into between Hilong Group of Companies Ltd. (as lessor) and Hilong Shine New Material (as lessee) in relation to the lease of the premises for a manufacturing plant for a term of six months commencing from 2024 Supplemental Shine New Material Effective Date to 31 December 2024 (both days inclusive); and

- (3) the 2024 Supplemental Pipeline Tenancy Agreements entered into (i) Hilong Group of Companies Ltd. (as lessor) and Hilong Pipeline (as lessee); (ii) Hilong Group of Companies Ltd. (as lessor) and Shenglong Oil and Gas (as lessee); and (iii) Technomash (as lessor) and Drilling Technology (as lessee) in relation to the leases of premises for office use and manufacturing plant for a term of six months commencing from 2024 Supplemental Pipeline Effective Date to 31 December 2024 (both days inclusive).

2024 PIPELINE PETROLEUM EQUIPMENT LEASE AGREEMENT

Drilling Technology (as lessor) had entered into an equipment lease agreement with Hilong Petroleum Pipeline (as lessee) in relation to the operating lease of manufacturing test equipment for a term of six months commencing from 2024 Pipeline Petroleum Equipment Effective Date to 31 December 2024 (both days inclusive).

As of the date of this announcement, the counterparties under the 2024 Supplemental Beijing Huashi Tenancy Agreements, the 2024 Supplemental Shine New Material Tenancy Agreement, the 2024 Supplemental Pipeline Tenancy Agreements and the 2024 Pipeline Petroleum Equipment Lease Agreement are all companies of which a majority of their interests is controlled by Mr. Zhang, a controlling shareholder and a Director. Therefore, the said counterparties are associates of Mr. Zhang and thus connected persons of the Company under Chapter 14A of the Listing Rules.

Given that the 2024 Supplemental Beijing Huashi Tenancy Agreements, the 2024 Supplemental Shine New Material Tenancy Agreement, the 2024 Supplemental Pipeline Tenancy Agreements and the 2024 Pipeline Petroleum Equipment Lease Agreement are entered into by the Group and the counterparties who are associates of Mr. Zhang within a 12-month period and are of similar nature, the transactions contemplated under these agreements would have to be aggregated for the purpose of considering the Company's compliance obligations pursuant to Rules 14A.81 to 14A.83 of the Listing Rules. The aggregate proposed annual caps for the transactions contemplated under the 2024 Supplemental Tenancy CCT Agreements for the financial year ending 2024 is RMB38,782,000.

As the highest applicable percentage ratio in respect of the annual caps of the 2024 Supplemental Beijing Huashi Tenancy Agreements, the 2024 Supplemental Shine New Material Tenancy Agreement, the 2024 Supplemental Pipeline Tenancy Agreements and the 2024 Pipeline Petroleum Equipment Lease Agreement, on an aggregate basis, exceeds 5% but is less than 25%, the continuing connected transactions and the aggregate annual caps contemplated thereunder are subjected to the reporting, announcement, annual review, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

INTRODUCTION

Reference is made to the announcement of the Company dated 5 January 2024 regarding the 2024 Renewed Beijing Huashi Tenancy Agreements, the 2024 Renewed Shine New Material Tenancy Agreement and the 2024 Pipeline Tenancy Agreements. Since each of the above agreements has expired on 30 June 2024, the Group and the relevant counterparties entered into the 2024 Supplemental Beijing Huashi Tenancy Agreements, 2024 Supplemental Shine New Material Tenancy Agreement and 2024 Supplemental Pipeline Tenancy Agreements, in each case, for a term of six months commencing from 2024 Supplemental Beijing Huashi Effective Date, 2024 Supplemental Shine New Material Effective Date and 2024 Supplemental Pipeline Effective Date, respectively, to 31 December 2024 (both days inclusive).

Drilling Technology (as lessor) had entered into an equipment lease agreement with Hilong Petroleum Pipeline (as lessee) in relation to the operating lease of manufacturing test equipment for a term of six months commencing from 2024 Pipeline Petroleum Equipment Effective Date to 31 December 2024 (both days inclusive).

The principal terms of each of the 2024 Supplemental Tenancy CCT Agreements are set out below.

PRINCIPAL TERMS OF THE 2024 SUPPLEMENTAL TENANCY CCT AGREEMENTS

(A) 2024 SUPPLEMENTAL BEIJING HUASHI TENANCY AGREEMENTS

Date:	1 July 2024			
Term:	The period commencing from Supplemental Beijing Huashi Effective Date, being (i) 1 July 2024; or (ii) the date of passing by the Independent Shareholders at the EGM of ordinary resolution(s) approving the 2024 Supplemental Beijing Huashi Tenancy Agreements, the transactions contemplated thereunder and the proposed revised annual cap, whichever is later, to 31 December 2024 (both days inclusive)			
	2024 Supplemental Beijing Huashi Tenancy Agreement No. 1	2024 Supplemental Beijing Huashi Tenancy Agreement No. 2	2024 Supplemental Beijing Huashi Tenancy Agreement No. 3	2024 Supplemental Beijing Huashi Tenancy Agreement No. 4
Lessor:	Beijing Huashi Investment	Beijing Huashi Investment	Beijing Huashi Investment	Beijing Huashi Investment
Lessee:	Hilong Oil Service	Hilong Oil Service	Hilong Oil Service	Hilong Oil Service

Leased premises:	20/F., Building 1, 13 Workers' Stadium North Road, Chaoyang District, Beijing, PRC	Room 502, 5/F., Building 1, 13 Workers' Stadium North Road, Chaoyang District, Beijing, PRC	Room 503-1, 5/F., Building 1, 13 Workers' Stadium North Road, Chaoyang District, Beijing, PRC	Room 501, 5/F., Building 1, 13 Workers' Stadium North Road, Chaoyang District, Beijing, PRC
Leased area:	1,850.32 square metres	476.99 square metres	126.12 square metres	276.74 square metres
Monthly rental:	RMB644,412.49 per month excluding utility fees	RMB160,608.50 per month excluding utility fees	RMB30,650.84 per month excluding utility fees	RMB93,434.34 per month excluding utility fees
Rental deposits:	RMB1,288,824.98	RMB321,217	RMB61,301.68	RMB186,868.68
Usage:	Office	Office	Office	Office
Payment:	The total rental of RMB5,574,637.02 is payable by Hilong Oil Service in full together with the rental deposits on the date of the 2024 Supplemental Beijing Huashi Tenancy Agreements.			
Renewal of leases:	Prior to the expiration of the term of the 2024 Supplemental Beijing Huashi Tenancy Agreements, the parties may enter into renewal agreement(s) subject to negotiations of the parties upon Hilong Oil Service's request to renew the 2024 Supplemental Beijing Huashi Tenancy Agreements and compliance with all the rules and requirements set out in the applicable laws and regulations (including the Listing Rules).			

Basis of consideration

In arriving at the monthly rental, the Directors have considered: (i) the historical rental amounts payable by Hilong Oil Service under the 2024 Renewed Beijing Huashi Tenancy Agreements for the six months ended 30 June 2024 with the unit rental price of RMB340.31 per square meter per month, which is the same as the proposed rental amount under the 2024 Supplemental Beijing Huashi Tenancy Agreements; (ii) superior location of the premises to be leased under the 2024 Supplemental Beijing Huashi Tenancy Agreements in Sanlitun (三里屯), which is a popular destination for shopping and dining in Beijing with high rental demand; (iii) the condition of the premises to be leased including the interior design and decorations; (iv) rental levels of similar properties in the vicinity of the leased premises (taking into account factors such as leased areas and floor levels); (v) discount and credit term on property management fee; (vi) naming right of the building, being the right of use granted by the lessor for free; (vii) the prevailing market rents with respect to the premises to be leased, which is obtainable as public information from the online rental platforms.

(B) 2024 SUPPLEMENTAL SHINE NEW MATERIAL TENANCY AGREEMENT

Date:	1 July 2024
Term:	The period commencing from Supplemental Shine New Material Effective Date, being (i) 1 July 2024; or (ii) the date of passing by the Independent Shareholders at the EGM of ordinary resolution(s) approving the 2024 Supplemental Shine New Material Tenancy Agreement, the transaction contemplated thereunder and the proposed revised annual cap, whichever is later, to 31 December 2024 (both days inclusive)
Lessor:	Hilong Group of Companies Ltd. ⁽¹⁾
Lessee:	Hilong Shine New Material
Premises:	Factory premises located at No. 1825, Luodong Road, Baoshan District, Shanghai, PRC
Leased area:	22,135.46 square meters
Monthly rental:	RMB358,574.99 per month. Accordingly, the total rental to be received by Hilong Group of Companies Ltd under the agreement is RMB2,151,449.95.
Utility fees:	RMB192,916.67 per month, which consists of water and electricity fees. Accordingly, the total utility fees to be received by Hilong Group of Companies Ltd under the agreement is RMB1,157,500.
Usage:	Manufacturing plant
Payment:	The total rental and utility fees in the amount of RMB3,308,949.95 is payable by Hilong Shine New Material within 15 days from the date of the 2024 Supplemental Shine New Material Tenancy Agreement.
Renewal of leases:	Subject to compliance with all the rules and requirements set out in the applicable laws and regulations (including the Listing Rules) and negotiation of the parties, Hilong Shine New Material has the option to renew the 2024 Supplemental Shine New Material Tenancy Agreement by giving 60 days' prior written notice to Hilong Group of Companies Ltd. before the expiration of the 2024 Supplemental Shine New Material Tenancy Agreement. New tenancy agreements or renewal agreements may be entered into by the parties.

Note:

- (1) The ownership of the premises was transferred from Hilong Zhizao Consulting, an indirect wholly-owned subsidiary of the Company, to Hilong Group of Companies Ltd.

Basis of consideration

The terms of the 2024 Supplemental Shine New Material Tenancy Agreement was determined on an arm's length basis and normal commercial terms taking into account: (i) the historical rental amounts payable by Hilong Shine New Material under the 2024 Renewed Shine New Material Tenancy Agreement for the six months ended 30 June 2024, which was RMB17.88 per square meter per month, representing a decrease of approximately 9.42% for the proposed unit rental price under the 2024 Supplemental Shine New Material Tenancy Agreement. The decrease in rental amounts is due to the fact that part of the rental area is no longer leased by Shine New Material which results in overall decrease in unit rental price to reflect the decrease in leased area; (ii) the maintenance costs of the premises to be leased, such as the costs of roof reinforcement and cost of waterproofing, which will be borne by the lessee; (iii) the location of the premises to be leased, which is relatively remote and is inconvenient in traffic; (iv) low customized requirements, being no stringent requirements for air cleanliness and green coverage rate; (v) the floor area, structure and type of the premises to be leased; (vi) construction cost of the premises to be leased; (vii) the prevailing market rents with respect to the premises to be leased, which is obtainable as public information from the surrounding rental market and after consulting the advices of several reputable local real estate agents. The utility fees are determined by reference to the latest charging rates of the respective utilities as set by the government or the utilities suppliers and the estimated consumption level of Hilong Shine New Material.

(C) 2024 SUPPLEMENTAL PIPELINE TENANCY AGREEMENTS

Date: 1 July 2024

Term: The period commencing from 2024 Supplemental Pipeline Effective Date, being (i) 1 July 2024; or (ii) the date of passing by the Independent Shareholders at the EGM of ordinary resolution(s) approving the 2024 Supplemental Pipeline Tenancy Agreements, the transactions contemplated thereunder and the proposed revised annual cap, whichever is later, to 31 December 2024 (both days inclusive)

	2024 Supplemental Pipeline Tenancy Agreement No. 1	2024 Supplemental Pipeline Tenancy Agreement No. 2	2024 Supplemental Pipeline Tenancy Agreement No. 3
Lessor:	Hilong Group of Companies Ltd. ⁽¹⁾	Hilong Group of Companies Ltd. ⁽¹⁾	Technomash
Lessee:	Hilong Pipeline	Shenglong Oil and Gas	Drilling Technology
Leased premises:	Premises in D plant, F plant and 4th floor of main building, No. 1825 Luodong Road, Baoshan Industrial Zone, Shanghai, PRC	Premises in F plant, G plant and 4th floor of main building, No. 1825 Luodong Road, Baoshan Industrial Zone, Shanghai, PRC	Premises in 47/1, 10A, 10B and 10C, Demyan Bedny Street, Nevyansk, Sverdlovsk Region, Russian Federation

Leased area:	14,617.06 square meters	3,862.22 square meters	19,640.87 square meters
Monthly rental:	RMB241,418.24 per month	RMB52,790.41 per month	RUB9,366,229.50 per month (equivalent to approximately RMB756,561.35) (inclusive of water and electricity fees) ⁽²⁾
Utility fees:	RMB995,983.33 per month, which consists of water and electricity fees. Accordingly, the total utility fees to be received by Hilong Group of Companies Ltd. under the agreement is RMB5,975,900.	RMB4,029 per month, which consists of water and electricity fees. Accordingly, the total utility fees to be received by Hilong Group of Companies Ltd. under the agreement is RMB24,174.	
Usage:	Office use and manufacturing plant		
Payment:	The total rental and utility fees in the amount of RMB7,424,409.44 is payable in full by the lessee to the lessor within 15 days from the date of the agreement.	The total rental and utility fees in the amount of RMB340,916.46 is payable in full by the lessee to the lessor within 15 days from the date of the agreement.	The monthly rental is payable on a monthly basis by the end of the preceding month. The total rental under the agreement is RUB56,197,377 (equivalent to approximately RMB4,539,368.09) ⁽²⁾ .
Renewal of leases:	Subject to compliance with all the rules and requirements set out in the applicable laws and regulations (including the Listing Rules) and negotiation of the parties, the lessee has the option to renew the 2024 Supplemental Pipeline Tenancy Agreements by giving 60 days' prior written notice to the lessor before the expiration of the lease. New tenancy agreements or renewal agreements may be entered into by the parties.		

Note:

- (2) For the purpose of this announcement, unless otherwise indicated, the exchange rate of RMB1.00 to RUB12.38 has been used, where applicable, for purpose of illustration only and such conversion should not be construed as a representation that any amount has been, could have been or may be, exchanged at this or any other rate.

Basic of consideration

The terms of the 2024 Supplemental Pipeline Tenancy Agreement was determined on an arm's length basis and normal commercial terms taking into account: (i) the historical rental amounts payable by Hilong Pipeline and Shenglong Oil and Gas to Hilong Group of Companies Ltd. and Drilling Technology to Technomash under the 2024 Pipeline Tenancy Agreement No. 1, 2024 Pipeline Tenancy Agreement No. 2 and 2024 Pipeline Tenancy Agreement No. 3 for the six months ended 30 June 2024, which was RMB16.52, RMB13.18 and RMB35.13 per square meter per month respectively. The proposed rental amount of the 2024 Supplemental Pipeline Tenancy Agreement No. 1 is the same as the rental amount under the 2024 Pipeline Tenancy Agreement No. 1 and the proposed unit rental price of the 2024 Supplemental Pipeline Tenancy Agreement No. 2 is comparable to 2024 Pipeline Tenancy Agreement No. 2, representing a slight increase of 3.67% for the new tenancy agreement. The proposed unit rental price under the 2024 Supplemental Pipeline Tenancy Agreement No. 3 has increased by 9.64% as compare to 2024 Pipeline Tenancy Agreement No. 3 to reflect an increase in the projected consumption of water and electricity for the six months ended 31 December 2024, which aligns with regular course of our business operations; (ii) the maintenance costs of the premises to be leased, such as the costs of roof reinforcement and cost of waterproofing, which will be borne by the lessee; (iii) the location of the premises to be leased, which is relatively remote and is inconvenient in traffic; (iv) low customized requirements, being no stringent requirements for air cleanliness and green coverage rate; (v) the floor area, structure and type of the premises to be leased; (vi) construction cost of the premises to be leased; (vii) the prevailing market rents with respect to the premises to be leased, which is obtainable as public information from the surrounding rental market and after consulting the advices of several reputable local real estate agents. The utility fees are determined by reference to the latest charging rates of the respective utilities as set by the government or the utilities suppliers and the estimated consumption level of Hilong Pipeline and Shenglong Oil and Gas.

(D) 2024 PIPELINE PETROLEUM EQUIPMENT LEASE AGREEMENT

Date:	1 July 2024
Term:	The period commencing from 2024 Pipeline Petroleum Equipment Effective Date, being (i) 1 July 2024; or (ii) the date of passing by the Independent Shareholders at the EGM of ordinary resolution(s) approving the 2024 Pipeline Petroleum Equipment Lease Agreement, the transaction contemplated thereunder and the proposed annual cap, whichever is later, to 31 December 2024 (both days inclusive)
Lessor:	Drilling Technology
Lessee:	Hilong Petroleum Pipeline
Subject Matter:	Manufacturing test equipment for production of drill pipes
Monthly rental:	RUB22,600 (equivalent to approximately RMB1,825.53) ⁽²⁾

Payment: The monthly rental is payable on a monthly basis by the end of the preceding month. The total rental under the agreement is RUB135,600 (equivalent to approximately RMB10,953.15)⁽²⁾.

Renewal of leases: Subject to compliance with all the rules and requirements set out in the applicable laws and regulations (including the Listing Rules), the lessee has the option to renew the lease by giving 60 days' prior written notice to the lessor before the expiration of the lease. Renewal agreements may be entered into by the parties.

Basic of consideration

The terms of the 2024 Pipeline Petroleum Equipment Lease Agreement was determined on an arm's length basis and normal commercial terms taking into account: (i) the conditions of the equipment to be leased to Hilong Petroleum Pipeline, which has been used for more than two years with low production efficiency; (ii) the rental amount of the equipment to be leased remain similar to the prevailing market price, despite their relatively less efficient conditions; and (iii) the prevailing market rates with reference to prices quoted by Independent Third Parties which provide similar equipment, which is obtainable as public information from the online rental platforms.

Accounting Treatment with respect to the 2024 Supplemental Beijing Huashi Tenancy Agreements and the 2024 Supplemental Pipeline Tenancy Agreement No. 3

According to applicable accounting standards, generally, the Group as the lessee shall recognize a lease as a right-of-use asset in the consolidated statement of financial position of the Group according to HKFRS 16. Since the term of each of the 2024 Supplemental Beijing Huashi Tenancy Agreements and the 2024 Supplemental Pipeline Tenancy Agreement No. 3 is no more than 12 months, the Group may elect not to recognize assets and liabilities for the leases contemplated under the 2024 Supplemental Beijing Huashi Tenancy Agreements and the 2024 Supplemental Pipeline Tenancy Agreement No. 3 in its consolidated statement of financial position according to HKFRS 16. Accordingly, the rental payable by the Group pursuant to the 2024 Supplemental Beijing Huashi Tenancy Agreements and the 2024 Supplemental Pipeline Tenancy Agreement No. 3 will be recognized as expenses in the Group's profit and loss accounts in the period in which they are incurred, and the payment of such rental will be regarded as continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

HISTORICAL TRANSACTION AMOUNTS AND ANNUAL CAPS

Historical transaction amount

The historical aggregated transaction amounts relating to the 2024 Renewed Beijing Huashi Tenancy Agreements, the 2024 Renewed Shine New Material Tenancy Agreement and the 2024 Pipeline Tenancy Agreements are as follows:

	Six months ended 30 June 2024
Aggregate historical transaction amounts under the 2024 Renewed Beijing Huashi Tenancy Agreements	5,574,637
Aggregate historical transaction amounts under the 2024 Renewed Shine New Material Tenancy Agreement	3,411,597
Aggregate historical transaction amounts under the 2024 Pipeline Tenancy Agreements⁽²⁾	<u>8,589,106</u>
Total	<u><u>17,575,340</u></u>

The aforesaid aggregate transaction amounts have not exceeded the applicable annual cap for the six months ended 30 June 2024.

Based on the terms of the 2024 Supplemental Tenancy CCT Agreements, the Company estimated that the annual caps (rounded up to the nearest thousand RMB) for the six months ended 31 December 2024 are as follows:

	Six months ended 31 December 2024 (RMB'000)
Proposed aggregate annual cap for the 2024 Supplemental Beijing Huashi Tenancy Agreements	5,575
Proposed aggregate annual cap for the 2024 Supplemental Shine New Material Tenancy Agreement	3,309
Proposed aggregate annual cap for the 2024 Supplemental Pipeline Tenancy Agreements	12,310
Proposed aggregate annual cap for the 2024 Pipeline Petroleum Equipment Lease Agreement	<u>11</u>
Total	<u><u>21,205</u></u>

In arriving at the aggregate annual caps of RMB21,205,000, which comprises (i) the aggregate amount of the rental payable by the Group to Beijing Huashi Investment under the 2024 Supplemental Beijing Huashi Tenancy Agreements; (ii) the amount of the rental and utility fees payable by Hilong Shine New Material to the Group under the 2024 Supplemental Shine New Material Tenancy Agreement; (iii) the aggregate amount of rental and utility fees payable by Hilong Pipeline and Shenglong Oil and Gas to the Group and rental payable by the Group to Technomash under the 2024 Supplemental Pipeline Tenancy Agreements; and (iv) the amount of rental payable by Hilong Petroleum Pipeline to the Group under the 2024 Pipeline Petroleum Equipment Lease Agreement, the Directors have taken into account the historical transaction amounts and aggregate estimated amounts payable or to be received by the Group under the such agreements.

The terms of each of the 2024 Supplemental Tenancy CCT Agreements were negotiated by the parties on arm's length basis, taking into account prevailing market rates 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, and with reference to the latest charging rates of the respective utilities as set by the government or the utilities suppliers. Based on the above reasons, the Directors (excluding the independent non-executive Directors, whose opinion on the 2024 Supplemental Tenancy CCT Agreements and the transactions contemplated thereunder will be set forth in the circular by reference to the advice from the Independent Financial Adviser in this regard) are of the view that the terms of the continuing connected transactions contemplated under each of 2024 Supplemental Tenancy CCT Agreements and the aggregate annual caps contemplated thereunder are fair and reasonable, on normal commercial terms and in the ordinary and usual course of business of the Group, and in the interests of the Company and its shareholders as a whole.

REASONS FOR AND BENEFITS IN RELATION TO THE TRANSACTIONS

The Group has been leasing premises from Beijing Huashi Investment for use as offices, and has practical needs to continue to lease such office premises. The leases of the office premises under the 2024 Renewed Beijing Huashi Tenancy Agreements have expired on 30 June 2024. The Company believes that it is time and cost efficient for the Group to continue to lease the premises under the 2024 Supplemental Beijing Huashi Tenancy Agreements rather than seeking for alternative locations, which would incur unnecessary moving costs and cause potential disruption to the daily operations of the Group. The arrangement of upfront payment of entire rent with additional deposits allows the Group to negotiate favourable rental terms for shorter lease term as it is normal market practice to require at least one year of lease term with additional deposit for similar properties in the vicinity of the leased premises. The six months lease term provides more flexibility for our Group to consider other similar properties at more favourable lease terms at the end of the 2024 Supplemental Beijing Huashi Tenancy Agreements without being tied down to longer term commitment. The Board also considers that, compare with normal market practice of one year or longer lease term, the upfront payment of entire rent of six months is economically sensible and will not have material impact on the cash flow of the Group.

The lease of the factory premises under the 2024 Renewed Shine New Material Tenancy Agreement has expired on 30 June 2024. The Company believes that through the leasing of the factory premises to Hilong Shine New Material, the Group is able to continue to achieve use of their resources in a more efficient manner. The rental income received by Hilong Group of Companies Ltd. under the 2024 Supplemental Shine New Material Tenancy Agreement also provides a steady source of revenue to the Group. The arrangement of upfront payment of rental and utility fees from Hilong Shine New Material can mitigate potential risks associated with late or non-payment with upfront payment of entire rents and provide the Group with stable and consistent cash flow without allocating additional resources to search for new lessees.

The 2024 Pipeline Tenancy Agreements have expired on 30 June 2024. Hilong Pipeline and Shenglong Oil and Gas have been long-term lessees of the Group. The Company believes that through the leasing of the premises to Hilong Pipeline and Shenglong Oil and Gas, the Group is able to continue to achieve use of their resources in a more efficient manner. The rental income received by Hilong Group of Companies Ltd. under the 2024 Supplemental Pipeline Tenancy Agreements also provides a steady source of revenue to the Group. The arrangement of upfront payment of rental and utility fees from Hilong Pipeline and Shenglong Oil and Gas can mitigate potential risks associated with late or non-payment with upfront payment of entire rents and provide the Group with stable and consistent cash flow without allocating additional resources to search for new lessees. Drilling Technology has been leasing the premises from Technomash since 2020. The Company believes that it is beneficial for the Group to continue to lease the relevant premises from Technomash to maintain the stability of the Group's daily operations and avoid unnecessary moving costs or disruption to the Group's businesses.

The Company believes that through the leasing of equipment to Hilong Petroleum Pipeline, the Group can optimize the value of our aging equipment. Having considered the pricing of such equipment to be leased is comparable with that of Independent Third Party vendor in the region, the Company believes it is beneficial for the Group to lease our manufacturing test equipment to Hilong Petroleum Pipeline.

INTERNAL CONTROLS FOR THE GROUP'S CONTINUING CONNECTED TRANSACTIONS

As previously disclosed, the Company has established internal control measures to ensure that (i) the terms of the 2024 Supplemental Tenancy CCT Agreements are on normal commercial terms, fair and reasonable, and in the interests of the Company and the Shareholders as a whole; (ii) the transactions are conducted in accordance with the terms of the 2024 Supplemental Tenancy CCT Agreements; and (iii) do not exceed the respective annual caps.

The Company has adopted and implemented a management system on connected transactions ("**Management System**"). Under the Management System, an internal control review committee ("**CCT IC Committee**") is established and comprises the head of the financial department, the head of the marketing department and the head of the audit department. The CCT IC Committee will report to the Board for all significant matters related to the continuing connected transactions of the Group and ensure compliance with the relevant Listing Rules. Prior to entering into the 2024 Supplemental Tenancy CCT Agreements, the marketing

department will closely monitor the prevailing market rent of similar premises in the vicinity of the leased premises. As such, the marketing department of the Group will first obtain quotations from reputable local real estate agents. The CCT IC Committee will then discuss and review the prices and conditions of the leased premises, taking into account other factors such as leased area, floor levels and conditions of the leased premises.

The financial department of the Company will regularly monitor the 2024 Supplemental Tenancy CCT Agreements on a monthly basis and submit monthly reports to the CCT IC Committee to ensure they are conducted in accordance with their respective terms and conditions.

The independent non-executive Directors will review the continuing connected transactions under the 2024 Supplemental Tenancy CCT Agreements semiannually to check and confirm whether such connected leases have been conducted in the ordinary and usual course of business of the Group, on normal commercial terms or better, in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Company and the shareholders as a whole, and whether the internal control procedures put in place by the Company are adequate and effective to ensure that such connected leases are conducted in accordance with the pricing policies set out by the Group.

LISTING RULES IMPLICATIONS

As of date of this announcement, the counterparties under the 2024 Supplemental Beijing Huashi Tenancy Agreements, the 2024 Supplemental Shine New Material Tenancy Agreement, the 2024 Supplemental Pipeline Tenancy Agreements and the 2024 Pipeline Petroleum Equipment Lease Agreement are all companies of which a majority of their interests is controlled by Mr. Zhang, a controlling shareholder and a Director. Therefore, the said counterparties are associates of Mr. Zhang and thus connected persons of the Company under Chapter 14A of the Listing Rules.

Given that the 2024 Supplemental Beijing Huashi Tenancy Agreements, the 2024 Supplemental Shine New Material Tenancy Agreement, the 2024 Supplemental Pipeline Tenancy Agreements and the 2024 Pipeline Petroleum Equipment Lease Agreement are entered into by the Group and counterparties who are associates of Mr. Zhang within a 12-month period and are of similar nature, the transactions contemplated under these agreements would have to be aggregated for the purpose of considering the Company's compliance obligations pursuant to Rules 14A.81 to 14A.83 of the Listing Rules. The aggregate proposed annual caps for the transactions contemplated under the 2024 Supplemental Tenancy CCT Agreements for the financial year ending 2024 is RMB38,782,000.

As the highest applicable percentage ratio in respect of the annual caps of the 2024 Supplemental Beijing Huashi Tenancy Agreements, the 2024 Supplemental Shine New Material Tenancy Agreement, the 2024 Supplemental Pipeline Tenancy Agreements and the 2024 Pipeline Petroleum Equipment Lease Agreement, on an aggregate basis, exceeds 5% but is less than 25%, the continuing connected transactions and the aggregate annual caps contemplated thereunder are subjected to the reporting, announcement, annual review, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Mr. Zhang, who has material interests in the 2024 Supplemental Tenancy CCT Agreements, and Ms. ZHANG Shuman and Mr. CAO Hongbo, both are associates of Mr. Zhang for the purpose of Chapter 14A of the Listing Rules, abstained from voting on the board resolutions approving the 2024 Supplemental Tenancy CCT Agreements, the transactions contemplated thereunder and the aggregate annual caps related thereto.

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. The Group operates its business through three segments, namely (1) drill pipe-related business; (2) oilfield services business; and (3) offshore-engineering services.

Beijing Huashi Investment

Beijing Huashi Investment is an associate of Mr. Zhang and is principally engaged in investment management and sales of petrochemicals. Beijing Huashi Investment is held as to 98.0% by BHH Petroleum Machine Equipment, 1% by Mr. Zhang and 1% by Ms. ZHANG Jingying (“**Ms. Zhang**”), the mother of Mr. Zhang. BHH Petroleum Machine Equipment is a company incorporated in the PRC with limited liability and is held as to approximately 95.65% by Mr. Zhang and approximately 4.35% by Ms. Zhang, the mother of Mr. Zhang. BHH Petroleum Machine Equipment is an associate of Mr. Zhang and principally engaged in investment holding and management.

Drilling Technology

Drilling Technology is an indirect wholly-owned subsidiary of the Company incorporated in the Russian Federation in 2018 and is principally engaged in manufacture and distribution of oil and gas equipment.

Hilong Pipeline

Hilong Pipeline is established in the PRC in 2005 and is principally engaged in the provision of coating services. Hilong Pipeline Group (“**Hilong Pipeline Group**”) consists of Hilong Pipeline and its subsidiaries. Hilong Pipeline Group is principally engaged in 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. Hilong Pipeline is wholly-owned by Hilong Shine New Material.

Hilong Petroleum Pipeline

Hilong Petroleum Pipeline is incorporated in the Russian Federation in 2017 and is principally engaged in coating service provision. Hilong Petroleum Pipeline is a wholly-owned subsidiary of Hilong Pipeline.

Hilong Oil Service

Hilong Oil Service is an indirect wholly-owned subsidiary of the Company and is principally engaged in the provision of oilfield service.

Hilong Group of Companies Ltd.

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

Hilong Shine New Material

Hilong Shine New Material is an associate of Mr. Zhang and is principally engaged in the manufacture and sales of heavy-duty coating materials. As at the Latest Practicable Date, Hilong Shine New Material is held as to:

- (1) approximately 52.57% by BHH Petroleum Machine Equipment;
- (2) approximately 18.18% by Sinopec Group Capital Co., Ltd. (中國石化集團資本有限公司) (“**Sinopec Group Capital**”), a company incorporated under the laws of the PRC. As at the Latest Practicable Date, Sinopec Group Capital was held as to 51.00% by China Petrochemical Corp. (中國石油化工集團有限公司) which is a state-owned enterprise and 49.00% by China Petroleum & Chemical Corporation (中國石油化工股份有限公司) which is listed on the Stock Exchange (stock code: 00386) and the Shanghai Stock Exchange (stock code: 600028);
- (3) approximately 6.06% by China Building Material (Anhui) New Materials Industry Investment Fund (Limited Partnership) (中建材(安徽)新材料產業投資基金合夥企業(有限合夥)) (“**CBM Anhui**”), a limited partnership incorporated under the laws of the PRC. As at the Latest Practicable Date, the executive partner of CBM Anhui is China Building Materials (Anhui) New materials Fund Management Co., Ltd. (中建材(安徽)新材料基金管理有限公司) which is ultimately controlled by the State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會);
- (4) approximately 5.33% by Zibo Juncihongchuang No.1 Equity Investment Fund Partnership (Limited Partnership) (淄博隽賜虹創壹號股權投資基金合夥企業(有限合夥)) (“**Zibo Juncihongchuang**”), a limited partnership incorporated under the laws of the PRC. As at the Latest Practicable Date, the executive partner of Zibo Juncihongchuang is Shanghai Junci Investment Co., Ltd. (上海隽賜投資管理有限公司), which is owned as to 51.00% by Zhang Fenglin (張鳳林) and 49.00% by Zhang Liying (張利英) who are Independent Third Parties; and
- (5) other 11 shareholders each holding less than 5% of the equity interest in Hilong Shine New Material.

To the best of the Company’s knowledge, information and belief, each of the shareholders of Hilong Shine New Material (other than BHH Petroleum Machine Equipment) and their respective ultimate beneficial owners is an Independent Third Party.

Shenglong Oil and Gas

Shenglong Oil and Gas is established in the PRC in 2013 and is principally engaged in research, inspection and repairment of oil and gas equipment. Shenglong Oil and Gas is a wholly-owned subsidiary of Hilong Pipeline.

Technomash

Technomash is an investment holding company and is incorporated in the Russian Federation in 2009. Technomash is a wholly-owned subsidiary of Hilong Pipeline.

DEFINITIONS

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

“2024 Pipeline Petroleum Equipment Effective Date”	the date on which 2024 Pipeline Petroleum Equipment Lease Agreement becomes effective, being (i) 1 July 2024; or (ii) the date of passing by the Independent Shareholders at the EGM of ordinary resolution(s) approving the 2024 Pipeline Petroleum Equipment Lease Agreement, the transaction contemplated thereunder and the proposed annual cap, whichever is later
“2024 Pipeline Petroleum Equipment Lease Agreement”	the equipment lease agreement dated 1 July 2024 entered into between Drilling Technology (as lessor) and Hilong Petroleum Pipeline (as lessee) in relation to the operating lease of manufacturing test equipment for a terms of six months starting from 2024 Pipeline Petroleum Equipment Effective Date to 31 December 2024 (both days inclusive)
“2024 Pipeline Tenancy Agreements”	collectively, 2024 Pipeline Tenancy Agreement No. 1, 2024 Pipeline Tenancy Agreement No. 2 and 2024 Pipeline Tenancy Agreement No. 3, as disclosed in the announcement of the Company dated 5 January 2024
“2024 Renewed Beijing Huashi Tenancy Agreements”	collectively, 2024 Renewed Beijing Huashi Tenancy Agreement No. 1, 2024 Renewed Beijing Huashi Tenancy Agreement No. 2, 2024 Renewed Beijing Huashi Tenancy Agreement No. 3 and 2024 Renewed Beijing Huashi Tenancy Agreement No. 4, as disclosed in the announcement of the Company dated 5 January 2024
“2024 Renewed Shine New Material Tenancy Agreement”	2024 Renewed Shine New Material Tenancy Agreement as disclosed in the announcement dated 5 January 2024

“2024 Supplemental Beijing Huashi Effective Date”	the date on which 2024 Supplemental Beijing Huashi Tenancy Agreements become effective, being (i) 1 July 2024; or (ii) the date of passing by the Independent Shareholders at the EGM of ordinary resolution(s) approving 2024 Supplemental Beijing Huashi Tenancy Agreements, the transactions contemplated thereunder and the proposed revised annual cap, whichever is later
“2024 Supplemental Beijing Huashi Tenancy Agreement No. 1”	the supplemental agreement dated 1 July 2024 entered into between Hilong Oil Service as lessee and Beijing Huashi Investment as lessor in respect of the leasing of office premises located at 20/F., Building 1, 13 Workers’ Stadium North Road, Chaoyang District, Beijing, PRC to renew for a term of six months starting from 2024 Supplemental Beijing Huashi Effective Date to 31 December 2024 (both days inclusive)
“2024 Supplemental Beijing Huashi Tenancy Agreement No. 2”	the supplemental agreement dated 1 July 2024 entered into between Hilong Oil Service as lessee and Beijing Huashi Investment as lessor in respect of the leasing of office premises located at Room 502, 5/F., Building 1, 13 Workers’ Stadium North Road, Chaoyang District, Beijing, PRC to renew for a term of six months starting from 2024 Supplemental Beijing Huashi Effective Date to 31 December 2024 (both days inclusive)
“2024 Supplemental Beijing Huashi Tenancy Agreement No. 3”	the supplemental agreement dated 1 July 2024 entered into between Hilong Oil Service as lessee and Beijing Huashi Investment as lessor in respect of the leasing of office premises located at Room 503-1, 5/F., Building 1, 13 Workers’ Stadium North Road, Chaoyang District, Beijing, PRC to renew for a term of six months starting from 2024 Supplemental Beijing Huashi Effective Date to 31 December 2024 (both days inclusive)
“2024 Supplemental Beijing Huashi Tenancy Agreement No. 4”	the supplemental agreement dated 1 July 2024 entered into between Hilong Oil Service as lessee and Beijing Huashi Investment as lessor in respect of the leasing of office premises located at Room 501, 5/F., Building 1, 13 Workers’ Stadium North Road, Chaoyang District, Beijing, PRC to renew for a term of six months starting from 2024 Supplemental Beijing Huashi Effective Date to 31 December 2024 (both days inclusive)
“2024 Supplemental Beijing Huashi Tenancy Agreements”	collectively, 2024 Supplemental Beijing Huashi Tenancy Agreement No. 1, 2024 Supplemental Beijing Huashi Tenancy Agreement No. 2, 2024 Supplemental Beijing Huashi Tenancy Agreement No. 3 and 2024 Supplemental Beijing Huashi Tenancy Agreement No. 4

“2024 Supplemental Pipeline Effective Date”	the date on which 2024 Supplemental Pipeline Tenancy Agreements become effective, being (i) 1 July 2024; or (ii) the date of passing by the Independent Shareholders at the EGM of ordinary resolution(s) approving 2024 Supplemental Pipeline Tenancy Agreements, the transactions contemplated thereunder and the proposed revised annual cap, whichever is later
“2024 Supplemental Pipeline Tenancy Agreement No. 1”	the supplemental dated 1 July 2024 entered into between Hilong Group of Companies Ltd. as lessor and Hilong Pipeline as lessee in respect of the premises in D plant, F plant and 4th floor of main building, No. 1825 Luodong Road, Baoshan Industrial Zone, Shanghai, PRC for office use and manufacturing plant to renew for a term of six months starting from 2024 Supplemental Pipeline Effective Date to 31 December 2024 (both days inclusive)
“2024 Supplemental Pipeline Tenancy Agreement No. 2”	the supplemental agreement dated 1 July 2024 entered into between Hilong Group of Companies Ltd. as lessor and Shenglong Oil and Gas as lessee in respect of the premises in F plant, G plant and 4th floor of main building, No. 1825 Luodong Road, Baoshan Industrial Zone, Shanghai, PRC for office use and manufacturing plant to renew for a term of six months starting from 2024 Supplemental Pipeline Effective Date to 31 December 2024 (both days inclusive)
“2024 Supplemental Pipeline Tenancy Agreement No. 3”	the supplemental agreement dated 1 July 2024 entered into between Technomash as lessor and Drilling Technology as lessee in respect of the premises in 47/1, 10A, 10B and 10C, Demyan Bedny Street, Nevyansk, Sverdlovsk Region, Russian Federation for office use and manufacturing plant to renew for a term of six months starting from 2024 Supplemental Pipeline Effective Date to 31 December 2024 (both days inclusive)
“2024 Supplemental Pipeline Tenancy Agreements”	collectively, 2024 Supplemental Pipeline Tenancy Agreement No. 1, 2024 Supplemental Pipeline Tenancy Agreement No. 2 and 2024 Supplemental Pipeline Tenancy Agreement No. 3
“2024 Supplemental Shine New Material Effective Date”	the date on which 2024 Supplemental Shine New Material Tenancy Agreement becomes effective, being (i) 1 July 2024; or (ii) the date of passing by the Independent Shareholders at the EGM of ordinary resolution(s) approving 2024 Supplemental Shine New Material Tenancy Agreement, the transaction contemplated thereunder and the proposed revised annual cap, whichever is later

“2024 Supplemental Shine New Material Tenancy Agreement”	the supplemental agreement dated 1 July 2024 entered into between Hilong Group of Companies Ltd. as lessor and Hilong Shine New Material as lessee in respect of the factory premises located at No. 1825, Luodong Road, Baoshan District, Shanghai, the PRC for use as a manufacturing plant to renew for a term of six months starting from 2024 Supplemental Shine New Material Effective Date to 31 December 2024 (both days inclusive)
“2024 Supplemental Tenancy CCT Agreements”	collectively, the 2024 Supplemental Beijing Huashi Tenancy Agreements, the 2024 Supplemental Shine New Material Tenancy Agreement, the 2024 Supplemental Pipeline Tenancy Agreements and the 2024 Pipeline Petroleum Equipment Lease Agreement
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Beijing Huashi Investment”	Beijing Huashi Hailong Oil Investment Co., Ltd.* (北京華實海隆石油投資有限公司), a company established in the PRC, and an associate of Mr. Zhang
“BHH Petroleum Machine Equipment”	Beijing Huashi Hailong Petroleum Machinery Equipment Co., Ltd.* (北京華實海隆石油機械設備有限公司), an entity controlled by Mr. Zhang, a controlling shareholder and director of the Company
“Company”	Hilong Holding Limited (海隆控股有限公司*) (stock code: 1623), a company incorporated in the Cayman Islands with limited liability, the ordinary shares of which are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder”	has the meaning ascribed to it in the Listing Rules
“Director(s)”	the director(s) of the Company
“Drilling Technology”	Drilling Technology Limited liability Company
“EGM”	the extraordinary general meeting of the Company to be convened and held to consider and, if thought fit, approve the 2024 Supplemental Tenancy CCT Agreements, the respective transactions contemplated thereunder and the proposed annual caps related thereto
“Group”	the Company and its subsidiaries

“Hilong Group of Companies Ltd.”	Hilong Group of Companies Ltd.* (海隆石油工業集團有限公司), a company established in the PRC and an indirect wholly-owned subsidiary of the Company
“Hilong Oil Service”	Hilong Oil Service and Engineering Co., Ltd.* (海隆石油技術服務有限公司), a company established in the PRC and an indirect wholly-owned subsidiary of the Company
“Hilong Petroleum Pipeline”	Hilong Petroleum Pipeline Service (Surgut) LLC
“Hilong Pipeline”	Hilong Pipeline Engineering Technology Service Co., Ltd.* (海隆管道工程技術服務有限公司)
“Hilong Shine New Material”	Shanghai Hilong Shine New Material Co., Ltd.* (上海海隆賽能新材料有限公司), a company incorporated in the PRC with limited liability and controlled by Mr. Zhang
“Hilong Zhizao Consulting”	Hilong Zhizao (Shanghai) Consulting Management Co., Ltd.* (海隆智造(上海)諮詢管理有限公司), a company established in the PRC and an indirect wholly-owned subsidiary of the Company
“HKFRS”	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“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 Zheyang, to be established to make recommendation to the Independent Shareholders in respect of 2024 Supplemental Tenancy CCT Agreements, the respective transactions contemplated thereunder and the proposed annual caps related thereto
“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 2024 Supplemental Tenancy CCT Agreements, the respective transactions contemplated thereunder and the proposed annual caps related thereto

“Independent Shareholders”	the Shareholders, other than Mr. Zhang and his associates, who are entitled to vote at the EGM in respect of the 2024 Supplemental Tenancy CCT Agreements, the respective transactions contemplated thereunder and the proposed annual caps related thereto
“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
“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
“RUB”	Russian Ruble, the lawful currency of the Russian Federation
“Shareholder(s)”	The registered holder(s) of the shares of the Company
“Shenglong Oil and Gas”	Shenglong Oil and Gas Pipeline Inspection Technology Co., Ltd. (盛隆石油管檢測技術有限公司)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent.

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

Hong Kong, 18 July 2024

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

** For identification purpose only*