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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

THE COATING SERVICES AND HARDBANDING SERVICES AGREEMENT AND THE WELDING WIRE SUPPLY AGREEMENT

THE COATING SERVICES AND HARDBANDING SERVICES AGREEMENT AND THE WELDING WIRE SUPPLY AGREEMENT

The Board announces that on 22 December 2023, Hilong Energy and Hilong Pipeline entered into the Hilong Energy CCT Agreements, including:

- (i) the Coating Services and Hardbanding Services Agreement in relation to the provision of coating services and hardbanding services by Hilong Pipeline Group to Hilong Energy Group; and
- (ii) the Welding Wire Supply Agreement in relation to the provision of welding wires by Hilong Energy Group to Hilong Pipeline Group.

Listing Rule Implications

As at the date of this announcement, Hilong Energy is an indirect wholly-owned subsidiary of the Company, and Hilong Pipeline is a wholly-owned subsidiary of Hilong Shine New Material. Hilong Shine New Material is held as to approximately 89.15% by 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, Hilong Pipeline is an associate of Mr. Zhang and thus a connected person of the Company.

Given the Coating Services and Hardbanding Services Agreement and the Welding Wire Supply Agreement are entered into within a 12-month period with the same connected person and are of a similar nature, the transactions contemplated under the Coating Services and Hardbanding Services Agreement and the Welding Wire Supply Agreement shall be aggregated in accordance with Rules 14A.81 to 14A.83 of the Listing Rules.

The aggregate annual caps for the transactions contemplated under the Coating Services and Hardbanding Services Agreement and the Welding Wire Supply Agreement for the period from 22 December 2023 to 31 December 2023 and from 1 January 2024 to 31 January 2024 are RMB18.2 million and RMB19.0 million, respectively.

As the highest applicable percentage ratio in respect of the aggregate annual caps for the transactions contemplated under the Coating Services and Hardbanding Services Agreement and the Welding Wire Supply Agreement for the period from 22 December 2023 to 31 December 2023 and from 1 January 2024 to 31 January 2024 is more than 0.1% but less than 5%, each of the above transactions is subject to the reporting, announcement and annual review requirements but is exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

INTRODUCTION

The Board announces that on 22 December 2023, Hilong Energy and Hilong Pipeline entered into (i) the Coating Services and Hardbanding Services Agreement, and (ii) the Welding Wire Supply Agreement.

THE COATING SERVICES AND HARDBANDING SERVICES AGREEMENT

Principal Terms

Date:	22 December 2023
Parties:	i. Hilong Energy; and ii. Hilong Pipeline
Subject:	Hilong Pipeline Group shall provide Hilong Energy Group with coating services and hardbanding services.
Term:	The Coating Services and Hardbanding Services Agreement will commence on 22 December 2023 and end on 31 January 2024, subject to renewal upon mutual agreement of both parties and compliance with the Listing Rules.

Pricing policy:

Prices are determined after arm's length negotiations between the parties with references to prevailing market prices within the industry and considering regional price differences, with reference to:

- i. Coating services pricing policy
 - a. PRC Market: the reference prices formulated by China National Petroleum Corporation (CNPC) and China Petroleum & Chemical Corporation (Sinopec Corp.) for similar types, specifications, techniques, and standards on an annual basis. Hilong Pipeline offers a certain discount to Hilong Energy based on the above reference prices.
 - b. Overseas Market: the prevailing market prices based on comparing quotations obtained from other Independent Third Parties for similar types, specifications, techniques, and standards of services. Hilong Pipeline offers a certain discount to Hilong Energy based on the prevailing market prices.

ii. Hardbanding services pricing policy

The prevailing market prices are based on comparing quotations obtained from other Independent Third Party suppliers in the market for similar types, specifications, techniques, and standards. Hilong Pipeline offers a certain discount to Hilong Energy based on the prevailing market prices.

In any event, the prices and conditions for coating services and hardbanding services offered by Hilong Pipeline Group shall be no less favorable to Hilong Energy Group than any of those available from Independent Third Parties.

Historical transaction amounts:

For the financial year ended 31 December 2021	For the financial year ended 31 December 2022	For the nine months ended 30 September 2023
<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>

The historical transaction amounts in relation to the coating services and hardbanding services provided by Hilong Pipeline Group to Hilong Energy Group

134,643	230,124	236,336
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Annual Cap:

The annual caps for the transaction amounts to be paid by Hilong Energy Group to Hilong Pipeline Group in relation to the coating services and hardbanding services under the Coating Services and Hardbanding Services Agreement for the period from 22 December 2023 to 31 December 2023 and from 1 January 2024 to 31 January 2024 is RMB17.0 million and RMB19.0 million, respectively.

Basis for the annual cap:

The annual caps in respect of the Coating Services and Hardbanding Services Agreement were determined with reference to (i) historical transaction amount in relation to the coating services and hardbanding services provided by Hilong Pipeline Group to Hilong Energy Group; and (ii) the anticipated demand for coating services and hardbanding services required by Hilong Energy Group based on drill-pipe production orders already received by the Group as of the date of this announcement.

Payment terms:

Hilong Energy Group shall pay Hilong Pipeline Group within 90 days from the date of invoice.

Reasons for entering into the Coating Services and Hardbanding Services Agreement

The Group requires coating services and hardbanding services for drill pipes production and sales during its ordinary and usual course of business. The Group needs to collaborate with a qualified coating services supplier when participating in the bidding process for the sale of drill pipes.

The Company considers that Hilong Pipeline Group is specialized and experienced in coating services through years of cooperation between the Group and Hilong Pipeline Group. Hilong Pipeline is one of the recognized suppliers by market leaders such as CNPC, Sinopec Corp., ADNOC Drilling company PJSC (ADNOC) and Ensign. In terms of the global market, certain drill pipe clients also designate Hilong Pipeline as the coating services provider for its capability to provide high-performance coatings under extremely harsh exploration conditions. Drill pipe clients which have a long-standing relationship with the Company such as PetroChina Company Limited (中國石油天然氣股份有限公司), Sinopec Corp., ADNOC also recognized Hilong Pipeline as an approved coating services supplier.

Furthermore, since both parties are familiar with each other's background, communication between parties would be faster and easier, risks and costs for transaction will also be reduced. Hilong Pipeline Group is also familiar with the business needs, quality standards and operation requirements of the Group. Moreover, since the Group's drill-pipe production facility and Hilong Pipeline's coating manufacturing plant are located close to each other, cooperating with Hilong Pipeline will save the Group considerable transportation costs. As set out in the section headed "Internal Control Measures" in this announcement, service providers of coating services and hardbanding services will be selected and determined by comparing quotations obtained from Hilong Pipeline and Independent Third Party providers. The entering into of the Coating Services and Hardbanding Services Agreement could provide flexibility to the Group in securing reliable coating services and hardbanding services.

The terms of the Coating Services and Hardbanding Services Agreement were reached after arm's length negotiation between Hilong Energy and Hilong Pipeline. Taking into consideration (i) the entering into of the Coating Services and Hardbanding Services Agreement is in the ordinary and usual course of business of the Group; (ii) the Coating Services and Hardbanding Services Agreement is non-exclusive in nature; and (iii) Hilong Energy Group will only procure coating services and hardbanding services from Hilong Pipeline Group when the price offered by Hilong Pipeline Group is no less favorable to the Group as compared to other quotations received, the Board (including the independent non-executive Directors) considers that the Coating Services and Hardbanding Services Agreement, the transactions contemplated thereunder and the annual caps related thereto are on normal commercial terms, fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

THE WELDING WIRE SUPPLY AGREEMENT

Principal Terms

Date:	22 December 2023
Parties:	i. Hilong Energy; and ii. Hilong Pipeline
Subject:	Hilong Energy Group shall supply welding wires and related products to Hilong Pipeline Group.

Term: The Welding Wire Supply Agreement will commence on 22 December 2023 and end on 31 December 2023, subject to renewal upon mutual agreement of both parties and compliance with the Listing Rules.

Pricing policy: Prices are determined after arm's length negotiations between the parties with references to the final price of welding wires sold by Hilong Energy Group to Independent Third Parties in the previous financial year, or the prevailing market price of similar products under similar sales terms and conditions if certain specifications have not been sold to Independent Third Parties in recent years.

In any event, the prices and conditions for welding wires offered by Hilong Energy Group to Hilong Pipeline Group shall be no more favorable than those offered by Hilong Energy Group to Independent Third Parties.

Historical transaction amounts:

	For the financial year ended 31 December 2021 <i>RMB'000</i>	For the financial year ended 31 December 2022 <i>RMB'000</i>	For the nine months ended 30 September 2023 <i>RMB'000</i>
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The historical transaction amounts in relation to the supply of welding wires by Hilong Energy Group to Hilong Pipeline Group

5,164	22,717	21,503
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Annual Cap: The annual caps for the transaction amounts to be paid by Hilong Pipeline Group to Hilong Energy Group in relation to the supply of welding wires under the Welding Wire Supply Agreement for the period from 22 December 2023 to 31 December 2023 is RMB1.2 million.

Basis for the annual cap: The annual cap in respect of the Welding Wire Supply Agreement was determined with reference to (i) historical transaction amount in relation to the supply of welding wires by Hilong Energy Group to Hilong Pipeline Group; and (ii) the existing orders already received by Hilong Energy Group from Hilong Pipeline Group as of the date of this announcement.

Payment terms: Hilong Pipeline Group shall pay Hilong Energy Group within 90 days from the date of invoice.

Reasons for entering into the Welding Wire Supply Agreement

In the past, Hilong Pipeline Group has constantly procured the welding wires produced by the Hilong Energy Group, which are processed into hardbandings and sold to customers as part of the coating services. With years of stable and long-term relationship between Hilong Energy and Hilong Pipeline, Hilong Energy Group is familiar with the business needs and quality standards of Hilong Pipeline Group while Hilong Pipeline is familiar with Hilong Energy's production capability and qualification for welding wires, which promotes higher work efficiency. As the Group currently focuses its resources on drill-pipe related and oilfield services, it does not intend to expand the operation size and sales force of the Group's welding wire business given it is already a highly competitive market and it is relatively difficult for the Group to promote its welding wire products into international markets. The sales to Hilong Pipeline Group shall provide a stable stream of revenue to the Group, enhancing the Group's profitability and bringing better returns to Shareholders. The Group also hopes to capitalize on Hilong Pipeline's geographical coverage in both domestic and overseas market and to further promote the Group's market presence.

Further, as set out in the section headed "Internal Control Measures" in this announcement, the relevant departments and the CCT IC Committee will follow the internal control measures such that Hilong Energy will only supply welding wire to Hilong Pipeline when the price offered to Hilong Pipeline is no more favorable than those being offered to Independent Third Party.

The terms of the Welding Wire Supply Agreement were reached after arm's length negotiation between Hilong Energy and Hilong Pipeline. Taking into consideration (i) the entering into of the Welding Wire Supply Agreement is in the ordinary and usual course of business of the Group; and (ii) the Welding Wire Supply Agreement is non-exclusive in nature, the Board (including the independent non-executive Directors) considers that the Welding Wire Supply Agreement, the transactions contemplated thereunder and the annual cap related thereto are on normal commercial terms, fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

INTERNAL CONTROL MEASURES

The Company has established internal control measures to ensure (i) that terms of the Hilong Energy CCT Agreements are on normal commercial terms, fair and reasonable, and in the interests of the Company and the Shareholders as a whole; and (ii) the transactions and the pricing policy are conducted in accordance with the terms of the Hilong Energy CCT Agreements.

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.

Before entering into the transactions under the Coating Services and Hardbanding Services Agreement, the relevant staff of the marketing department will obtain at least two quotations from Independent Third Party service providers selected from a list of pre-approved coating services and hardbanding service providers maintained by the Group from time to time, based on the Group's prior experience in sourcing coating and hardbanding services. For quotation purposes, such service providers will be selected based on their experience, quality of services, capacity and competitiveness of pricing terms offered. The quotations together with the relevant supporting documents will then be reviewed by the finance department and then approved by the CCT IC Committee, to ensure that the pricing and terms of the coating services and hardbanding services provided by Hilong Pipeline Group will be no less favorable to the Group as compared to other quotations received from Independent Third Party service providers.

Before entering into the transactions under the Welding Wire Supply Agreement, the marketing department will closely monitor the prices of the welding wires offered to Hilong Pipeline by evaluating the average price of the welding wires offered to the Independent Third Parties of the Group and the market prices of similar products under similar sales terms and conditions. For the evaluation mentioned above, the marketing department of the Group will first collect market price information available in the public domain. The CCT IC Committee will then discuss and review the prices of the welding wires offered to Hilong Pipeline (taking into account various factors such as costs, transaction volume, sales channel and market competition). In the event of market fluctuations, the CCT IC Committee will also convene meetings on an urgent basis. If at any time the relevant departments of the Group become aware that the price of welding wires offered to Hilong Pipeline is lower than that offered by the Group to Independent Third Parties and/or the terms of welding wires offered to Hilong Pipeline Group are more favorable than those offered by the Group to Independent Third Parties, such findings shall be reported to the CCT IC Committee immediately. The CCT IC committee shall then discuss with the Board to adjust the price offered to Hilong Pipeline Group and/or amend the relevant terms. Hilong Energy Group will only supply welding wires to Hilong Pipeline Group when the sales prices offered to Hilong Pipeline Group are no more favorable than those being offered to Independent Third Party and to ensure that all transactions with Hilong Pipeline Group will comply with the terms of the Welding Wire Supply Agreement.

To ensure the transactions contemplated under the Hilong Energy CCT Agreements do not exceed the respective annual caps, the financial department of the Company regularly monitor the actual amount under the Hilong Energy CCT Agreements on a monthly basis and submit monthly reports to the CCT IC Committee to evaluate and review the implementation progress of the continuing connected transactions. If the financial department notice that the transactions under the Hilong Energy CCT Agreements will have the possibility of exceeding the respective annual caps, it will notify the business and legal departments of the Group at once, as well as the CCT IC Committee to take next steps to ensure compliance with the relevant Listing Rules.

The audit department of the Company will review the continuing connected transactions under the Coating Services and Hardbanding Services Agreement and the Welding Wire Supply Agreement annually to check and confirm (among others) the fairness of the pricing terms, the implementation of continuing connected transactions, and the compliance of contract approval, ensuring that the internal control processes and operational procedures are complied in accordance with the requirements of the Management System and the Listing Rules.

The Company's external auditors will review the continuing connected transactions under each of the Hilong Energy CCT Agreements annually to check and confirm (among others) whether the pricing terms have been adhered to and whether the relevant annual caps have been exceeded. Hilong Pipeline Group has agreed to allow the Company and its external auditors to access the information necessary to report on the continuing connected transactions contemplated under the Hilong Energy CCT Agreements.

The independent non-executive Directors will review the continuing connected transactions under the Hilong Energy CCT Agreements annually to check and confirm whether such continuing connected transactions 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 continuing connected transactions are conducted in accordance with the pricing policies set out in such relevant agreements.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Hilong Energy is an indirect wholly-owned subsidiary of the Company, and Hilong Pipeline is a wholly-owned subsidiary of Hilong Shine New Material. Hilong Shine New Material is held as to approximately 89.15% by 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, Hilong Pipeline is an associate of Mr. Zhang and thus a connected person of the Company.

Given the Coating Services and Hardbanding Services Agreement and the Welding Wire Supply Agreement are entered into within a 12-month period with the same connected person and are of a similar nature, the transactions contemplated under the Coating Services and Hardbanding Services Agreement and the Welding Wire Supply Agreement shall be aggregated in accordance with Rules 14A.81 to 14A.83 of the Listing Rules.

The aggregate annual caps for the transactions contemplated under the Coating Services and Hardbanding Services Agreement and the Welding Wire Supply Agreement for the period from 22 December 2023 to 31 December 2023 and from 1 January 2024 to 31 January 2024 are RMB18.2 million and RMB19.0 million, respectively.

As the highest applicable percentage ratio in respect of the aggregate annual caps for the transactions contemplated under the Coating Services and Hardbanding Services Agreement and the Welding Wire Supply Agreement for the period from 22 December 2023 to 31 December 2023 and from 1 January 2024 to 31 January 2024 is more than 0.1% but less than 5%, each of the above transactions is subject to the reporting, announcement and annual review requirements but is exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

Mr. Zhang, the chairman of the Board who is also the ultimate controlling shareholder of Hilong Pipeline, is considered to have a material interest in the Hilong Energy CCT 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 Hilong Energy CCT Agreements, the transactions contemplated thereunder and the annual caps related thereto.

Save as disclosed above, none of the Directors has any material interest in the matters contemplated therein nor is required to abstain from voting on the Board resolutions approving the Hilong Energy CCT Agreements, the transactions contemplated thereunder and the annual caps related thereto.

INFORMATION ON THE PARTIES

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.

Hilong Energy

Hilong Energy is incorporated in Hong Kong in 2008 and is principally engaged in investment holding. Hilong Energy is an indirect wholly-owned subsidiary of the Company. Hilong Energy Group consists of Hilong Energy and its subsidiaries.

Hilong Pipeline

Hilong Pipeline is established in the PRC in 2005 and is principally engaged in the provision of coating services. 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.

DEFINITIONS

“Coating Services and Hardbanding Services Agreement”	the agreement dated 22 December 2023 entered into between Hilong Pipeline and Hilong Energy in relation to the provision of coating services and hardbanding services by Hilong Pipeline Group to Hilong Energy Group
“Welding Wire Supply Agreement”	the agreement dated 22 December 2023 entered into between Hilong Energy and Hilong Pipeline in relation to the provision of welding wires by Hilong Energy Group to Hilong Pipeline Group
“Hilong Energy CCT Agreements”	the Coating Services and Hardbanding Services Agreement and Welding Wire Supply Agreement
“associate(s)”	has the meaning ascribed thereto in 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
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder”	has the meaning ascribed thereto in the Listing Rules
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Hilong Energy”	Hilong Energy Limited (海隆能源有限公司), an indirect wholly-owned subsidiary of the Company incorporated in Hong Kong with limited liability
“Hilong Energy Group”	Hilong Energy and its subsidiaries
“Hilong Pipeline”	Hilong Pipeline Engineering Technology Service Co., Ltd.* (海隆管道工程技術服務有限公司), a company incorporated in the PRC with limited liability
“Hilong Pipeline Group”	Hilong Pipeline and its subsidiaries

“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
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“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
“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
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent

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

Hong Kong, 22 December 2023

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

* For identification purpose only