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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
DISPOSAL OF EQUITY INTEREST IN A SUBSIDIARY**

DISPOSAL

The Board announces that on 25 September 2017, the Vendor, an indirect wholly-owned subsidiary of the Company, and the Purchaser entered into the Equity Transfer Agreement, pursuant to which the Vendor has conditionally agreed to dispose of, and the Purchaser has conditionally agreed to purchase, the Equity Interest, representing 100% of the equity interest in the Target Company, at a consideration of RMB35,000,000 in cash.

IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, the Purchaser, Mr. ZHANG Jun, is a Director and the controlling shareholder of the Company, and thus a connected person of the Company under the Listing Rules. Accordingly, the Disposal constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratios under the Listing Rules in respect of the Disposal are more than 0.1% but less than 5%, the Disposal is subject to the reporting and announcement requirements and is exempt from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

* For identification purposes only

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EQUITY TRANSFER AGREEMENT

The major terms of the Equity Transfer Agreement are set out below:

Date

25 September 2017

Parties

Vendor

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 holding 100% of the equity interest in the Target Company as at the date of this announcement. It is principally engaged in the distribution of oil and gas equipment.

Purchaser

Mr. ZHANG Jun, a PRC resident, a Director and the controlling shareholder of the Company as at the date of this announcement.

Assets to be disposed of

The Vendor has conditionally agreed to dispose of, and the Purchaser has conditionally agreed to purchase, the Equity Interest, representing 100% of the equity interest in the Target Company. As at the date of this announcement, the Target Company is principally engaged in the manufacture and sales of coating materials for ships, vessels and industrial materials. For more details, please refer to the paragraph headed “The Target Company” in this announcement below.

Conditions precedent to the Disposal

Completion of the Disposal shall be conditional upon a number of conditions precedent being fulfilled or waived which include, amongst others, the following:

- 1 the Disposal does not affect any rights, obligations and undertakings contemplated under any agreement or contract to which the Vendor, the Group, the Target Company or any of their respective associates is a party;
- 2 there has not been any material adverse change in the business, operation, assets, liabilities, tax or other financial conditions of the Target Company since the date of the Equity Transfer Agreement; and
- 3 the Target Company has completed all the necessary registrations and filings required for the Disposal contemplated under the Equity Transfer Agreement (including but not limited to industrial and business registration and tax registration).

Consideration

The consideration for the Disposal is RMB35,000,000 and shall be payable in cash by the Purchaser to the Company within 30 days from the date of Completion.

The Purchaser has engaged an independent valuer, PricewaterhouseCoopers Consultants (Shenzhen) Limited, Beijing Branch, to conduct a valuation on the Target Company. The Consideration was arrived at after arm's length negotiations between the Vendor and the Purchaser on normal commercial terms with reference to, among other things, the Valuation Report. Pursuant to the Valuation Report, the valuation of the Target Company as of 30 June 2017 ranging from RMB28,067,000 to RMB29,954,000 with an intermediate value of approximately RMB29,000,000.

The Directors (including the independent non-executive Directors) are of the view that the basis of determining the consideration for the Disposal, which are determined based on arm's length negotiations between the parties and on normal commercial terms, is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Completion

Completion shall take place on the date when all of the conditions precedent are fulfilled or waived (by the parties in writing).

Immediately after Completion, the Target Company will cease to be a subsidiary of the Company. Accordingly, the financial results of the Target Company will no longer be consolidated into the Group's financial statements after Completion.

INFORMATION ON THE TARGET COMPANY

The Target Company is a company incorporated in the PRC and is an indirect wholly-owned subsidiary of the Company as at the date of this announcement. As at the date of this announcement, the Target Company is principally engaged in the manufacture and sales of coating materials for ships, vessels and industrial materials.

Set out below is a summary of certain unaudited financial information extracted from the unaudited financial statements of the Target Company for each of the financial years immediately preceding the date of the Equity Transfer Agreement:

	For the year ended 31 December	
	2015	2016
	<i>(RMB)</i>	<i>(RMB)</i>
	(unaudited)	(unaudited)
Net loss before taxation	<u>(694,622.79)</u>	<u>(492,767.93)</u>

The unaudited net assets of the Target Company was approximately RMB26,851,059.86 as at 30 June 2017.

FINANCIAL IMPLICATIONS OF THE DISPOSAL

Upon Completion and subject to final audit, it is expected that the Group will record a gain of approximately RMB8,148,940.14 from the Disposal, being the difference between the consideration for the Disposal and the unaudited carrying value of the Group's interest in the Target Company of approximately RMB26,851,059.86 as at 30 June 2017.

The Company intends to use the proceeds of the Disposal for general working capital of the Group.

REASONS FOR AND BENEFITS OF THE DISPOSAL

The Group is an investment holding company principally engaged in the manufacturing and distribution of oil and gas drilling equipment and coating materials, and provision of coating, oilfield and offshore engineering services. In particular, with respect to the coating business, the Group is principally engaged in the manufacture and sales of coating materials for (1) petroleum drill pipeline; (2) petroleum transporting pipeline; and (3) ships, vessels and industrial materials.

The Target Company, being a subsidiary of the Group as at the date of this announcement, is principally engaged in the manufacture and sales of coating materials for ships, vessels and industrial materials (the "**Target Assets**").

The Target Assets has only been developed by the Group in recent years and has never been core to the Group's business and has not been profitable although the Group has input a considerable amount of financial resources into the Target Company. Accordingly, the Group hopes to devote resources to other more profitable business segments.

Moreover, the future development of the Target Assets would involve substantial amount of investment. The Group plans to focus on the development of petroleum pipeline coatings and petroleum transporting pipeline coatings businesses which are core to the Group's business and are more profitable.

The Target Assets may be further developed if introduced into and applied to military industry, in which the PRC government has highly restricted foreign investment. However, as the Vendor is ultimately controlled by the Company, which is a company incorporated in the Cayman Islands, the Vendor and the Group has been and will be unable to enter into the PRC military industry and generate profit from the Target Assets. The Purchaser, being a PRC resident, may enter the PRC military industry through PRC entities controlled by him and further develop and apply the Target Assets in order to realise the full value of the Target Assets.

On the basis of the aforesaid, following a recent business review by the Group, the Company believes that there will be better prospect and more development/opportunities on the manufacture and distribution of coating materials for petroleum drill pipeline and petroleum transporting pipeline in the future, and it therefore intends to focus on the former in view of bringing greater return to the Shareholders and dispose of the Target Assets.

As the manufacture and distribution of coating materials for ships, vessels and industrial materials have never been core to the Group's business and have not been profitable, the Disposal would not have a negative impact on the financial performance of the Group. On the contrary, the Disposal provides a good opportunity for the Group to realise the value of the Target Assets. This also allows the Group to enhance its financial performance by focusing on its profitable businesses and investing the proceeds elsewhere when suitable opportunities arise.

The Directors (including the independent non-executive Directors but excluding Mr. ZHANG Jun and Ms. ZHANG Shuman) consider that the Disposal is on normal commercial terms and the terms of the Equity Transfer Agreement (including the basis of calculating the consideration) are fair and reasonable and believe that the Disposal is in the interests of the Group and the Shareholders as a whole.

IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, the Purchaser, Mr. ZHANG Jun, is a Director and the controlling shareholder of the Company, and thus a connected person of the Company under the Listing Rules. Accordingly, the Disposal constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratios under the Listing Rules in respect of the Disposal are more than 0.1% but less than 5%, the Disposal is subject to reporting and announcement requirements and is exempt from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

Mr. ZHANG Jun, who has a material interest in the Equity Transfer Agreement, and Ms. ZHANG Shuman, who is an associate of Mr. ZHANG Jun for the purpose of Chapter 14A of the Listing Rules, abstained from voting on the board resolutions approving the Equity Transfer Agreement and the Disposal contemplated thereunder.

DEFINITIONS

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

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	Hilong Holding Limited (stock code: 1623), a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“Completion”	completion of the Disposal pursuant to the terms and conditions of the Equity Transfer Agreement
“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
“Disposal”	the disposal of the Equity Interest by the Vendor pursuant to the terms and conditions of the Equity Transfer Agreement
“Equity Interest”	100% of the equity interest in the Target Company
“Equity Transfer Agreement”	the agreement dated 25 September 2017 between the Vendor and the Purchaser in relation to the transfer of the Equity Interest from the Vendor to the Purchaser
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC

“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“PRC”	the People’s Republic of China
“Purchaser”	Mr. ZHANG Jun, a PRC resident, a Director and the controlling shareholder of the Company
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	ordinary share(s) of HK\$0.1 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Shanghai Hilong Shine New Material Co., Ltd. (上海海隆賽能新材料有限公司), a company established in the PRC and an indirect wholly-owned subsidiary of the Company as at the date of the announcement
“Valuation Report”	the valuation report prepared by an independent professional third party valuer, PricewaterhouseCoopers Consultants (Shenzhen) Limited, Beijing Branch, dated 19 September 2017 in relation to a valuation of the shareholders’ equity value of the Target Company as of 30 June 2017
“Vendor”	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. It holds 100% of the equity interest in the Target Company
“%”	per cent

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

25 September 2017

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, Mr. YUAN Pengbin, Mr. LI Huaiqi and Mr. YANG Qingli; and the independent non-executive directors are Mr. WANG Tao (王濤), Mr. WONG Man Chung Francis, Mr. LIU Haisheng and Mr. SHI Zheyuan.