宏华集团
HONGHUA GROUP

HONGHUA GROUP LIMITED
宏 華 集 團 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 196)

CONNECTED TRANSACTIONS — PROCESSING CONTRACT AND CONSTRUCTION CONTRACT

PROCESSING CONTRACT

On 16 November 2018, Sichuan Honghua and Aerospace Industrial entered into the Processing Contract, pursuant to which Aerospace Industrial shall provide Sichuan Honghua with the processing and contracting services of solution tank (液缸) at a consideration of RMB2,256,000.

CONSTRUCTION CONTRACT

On 16 November 2018, Sichuan Honghua and Innovation Center entered into the Construction Contract, pursuant to which Innovation Center shall provide Sichuan Honghua with the hardware and software as well as labour, training and technical services for the intelligent centralized control system of power distribution (project) at a consideration of RMB1,472,000.

LISTING RULES IMPLICATIONS

As at the date of this announcement, CASIC indirectly holds approximately 29.98% of the shares of the Company through Kehua, its wholly-owned subsidiary, and therefore is a substantial shareholder and a Connected Person of the Company. CASIC and its subsidiaries jointly hold 100% of equity interests in Aerospace Industrial and 70% of equity interests in Innovation Center respectively. Therefore, Aerospace Industrial and Innovation Center are the Associates of CASIC and thus the Connected Persons of the Company. Accordingly, the Transactions constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios calculated under Rule 14A.81 of the Listing Rules, on an aggregated basis, exceed 0.1% but less than 5%, the Transactions are only subject to the reporting and announcement requirements but are exempt from the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

INTRODUCTION

On 16 November 2018, Sichuan Honghua and Aerospace Industrial entered into the Processing Contract, pursuant to which Aerospace Industrial shall provide Sichuan Honghua with the processing and contracting services of solution tank (液缸) at a consideration of RMB2,256,000.

On 16 November 2018, Sichuan Honghua and Innovation Center entered into the Construction Contract, pursuant to which Innovation Center shall provide Sichuan Honghua with the hardware and software as well as labour, training and technical services for the intelligent centralized control system of power distribution (project) at a consideration of RMB1,472,000.

PROCESSING CONTRACT

Date:

16 November 2018

Parties:

(1) Sichuan Honghua

(2) Aerospace Industrial

Subject Matter:

Pursuant to the Processing Contract, Aerospace Industrial shall provide Sichuan Honghua with the processing and contracting services of solution tank, involving the manufacturing of forged blanks of solution tanks (液缸鍛件毛坯).

Consideration and Payment:

The consideration for the Processing Contract is RMB2,256,000. The price is determined based upon parties' arm's length negotiation after the comparison conducted by Sichuan Honghua on the quotations for the same type of products and services provided by five independent third parties and with reference to the prevailing market price.

After Aerospace Industrial has delivered products meeting the contractual requirements, Sichuan Honghua shall pay 95% of such consideration to Aerospace Industrial within nine months after receipt of invoice, while holding 5% of such consideration as the quality security deposit which will be paid to Aerospace Industrial upon the expiry of the product warranty period.

CONSTRUCTION CONTRACT

Date:

16 November 2018

Parties:

(1) Sichuan Honghua

(2) Innovation Center

Subject Matter:

Pursuant to the Construction Contract, Innovation Center shall provide Sichuan Honghua with the hardware and software as well as labour, training and technical services for the intelligent centralized control system of power distribution (project), including hardware and software for the system, system installation testing, technical training, up-grade and maintenance, post-sale services within warranty period.

Consideration and Payment:

The consideration for the Construction Contract is RMB1,472,000. The price is determined based upon parties' arm's length negotiation after the comparison conducted by Sichuan Honghua with other suppliers' quotations via tendering process under PRC laws and regulations and with reference to the prevailing market price.

Sichuan Honghua will make a prepayment of 30% of such consideration within three working days after entering into the Construction Contract. 65% of such consideration will be paid within five working days after Sichuan Honghua's inspection and testing of project, both parties' signing of the relevant testing report and after the provision of value-added tax invoice of full amount by Innovation Center. The remaining 5% of such consideration will be paid within five days after expiration of twelve months after the inspection and acceptance of the project.

REASONS FOR AND BENEFITS OF THE TRANSACTIONS

Sichuan Honghua's procurement of the processing and contracting services of solution tank from Aerospace Industrial serves better to reduce the Group's costs while satisfying project needs in terms of price, payment method and delivery period.

The Group has selected Innovation Center through tendering process for the construction of the intelligent centralized control system of power distribution, which further and better guarantees the safe electricity utilisation in Sichuan Honghua's factories.

The intelligent centralized control system of power distribution, as the major support of the Group's intelligent manufacturing and engineering services, provides guidance for enhancing the Group's manufacturing efficiency and creating a model of green product, green factory, green industrial park and green enterprise, thereby realising the Group's long-term development in an eco-friendly and sustainable fashion and thus building a green manufacturing system.

The Directors, including the independent non-executive Directors, are in the view that the Transactions are carried out in the ordinary course of business of the Group and the terms of the Processing Contract and the Construction Contract are on normal commercial terms and thus fair and reasonable and in the interest of the Company and the Shareholders as a whole.

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As one or more of the applicable percentage ratios calculated under Rule 14A.81 of the Listing Rules, on an aggregated basis, exceed 0.1% but less than 5%, the Transactions are only subject to the reporting and announcement requirements but are exempt from the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

Mr. Jin Liliang, Mr. Han Guangrong and Mr. Chen Wenle in the Company, appointed as the Directors by CASIC and its Associates, are deemed to be interested in these Transactions and therefore have abstained from voting. Save as disclosed above, none of the Directors of the Company has any material interest in these Transactions.

GENERAL INFORMATION

The Group is principally engaged in the business of developing, manufacturing and selling drilling rigs as well as their parts and components and also providing after-sales services.

Sichuan Honghua, a company established in the PRC, is mainly engaged in the research, design, manufacturing and provision of equipments for oil drilling and exploitation.

Aerospace Industrial, a company established in the PRC, is mainly engaged in logistics, international operation, mechanical and electrical equipment agency, electricity supply and installation of electrical engineering.

Innovation Center, a company established in the PRC, is mainly engaged in businesses including installation and maintenance of as well as testing on power facilities, processing and installation of mechanical equipments as well as parts and components, and sales of metal materials, building materials and electricity-related materials etc.

DEFINITIONS

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

"Aerospace Industrial"	Guizhou Aerospace Industrial Co.,Ltd (貴州航天實業有限公司), a company incorporated in the PRC with limited liability;
"Associate(s)"	has the meaning ascribed to it under the Listing Rules;
"Board"	the board of Directors;
"CASIC"	China Aerospace Science and Industry Corporation Limited, a company incorporated in the PRC;
"Company"	Honghua Group 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 of Hong Kong Limited;
"Connected Person(s)"	has the meaning ascribed to it under the Listing Rules;
"Construction Contract"	the construction contract in relation to the construction of intelligent centralized control system of power distribution dated 16 November 2018 entered into between Sichuan Honghua and Innovation Center;
"Director(s)"	director(s) of the Company;
"Group"	the Company and its subsidiaries;
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China;
"Independent Shareholder(s)"	Shareholder(s) other than CASIC and its Associate(s);
"Innovation Center"	Industrial Cloud Manufacturing (Sichuan) Innovation Center Co., Ltd.* (工業雲製造(四川)創新中心有限公司), a company incorporated in the PRC with limited liability;
"Kehua"	Kehua Technology Co., Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of CASIC;
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange;
"Main Board"	the stock market operated by the Stock Exchange other than the GEM;

* *For identification purpose only*

"PRC"	the People's Republic of China;
"Processing Contract"	the processing contract in relation to the provision of the processing and contracting services of solution tank (液缸) dated 16 November 2018 entered into between Sichuan Honghua and Aerospace Industrial;
"RMB"	Renminbi, the lawful currency of the PRC;
"Share(s)"	the ordinary share(s) of HK$0.1 each in the share capital of the Company;
"Shareholder(s)"	holder(s) of ordinary share(s) of HK$0.10 each in the share capital of the Company;
"Sichuan Honghua"	Sichuan Honghua Petroleum Equipment Co., Ltd (四川宏華石油設備有限公司), a company incorporated in the PRC with limited liability, and a wholly-owned subsidiary of the Company;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"Transactions"	the transactions contemplated under the Processing Contract and the Construction Contract; and
"%"	per cent.

By order of the Board
Honghua Group Limited
Jin Liliang
Chairman

PRC, 16 November 2018

As at the date of this announcement, the executive directors of the Company are Mr. Jin Liliang (Chairman), Mr. Zhang Mi and Mr. Ren Jie, the non-executive directors of the Company are Mr. Han Guangrong and Mr. Chen Wenle, and the independent non-executive directors of the Company are Mr. Liu Xiaofeng, Mr. Chen Guoming, Ms. Su Mei, Mr. Poon Chiu Kwok, Mr. Chang Qing and Mr. Wu Yuwu.