HONGHUA GROUP LIMITED

宏華集團有限公司

(a company incorporated in the Cayman Islands with limited liability)

(Stock Code: 196)

ANNOUNCEMENT

CONTINUING CONNECTED TRANSACTIONS

PURSUANT TO RULE 14A.60 OF THE LISTING RULES

References are made to the announcements of the Company dated 28 November 2021, 22 June 2022 and 29 June 2022, in relation to the Gratuitous Transfer of 1,606,000,000 shares of the Company (accounting for 29.98% of the total issued share capital of the Company) from Kehua Technology, the largest shareholder of the Company, to Electric Investment Company. Kehua Technology and Electric Investment Company have completed the share transfer procedures on 29 June, 2022.

Before the completion of share transfer procedures, the Group and Dongfang Electric entered into several agreements and various continuing transactions thereunder, which, upon completion of the share transfer procedures have become continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

IMPLICATIONS OF THE LISTING RULES

Electric Investments Company holds 1,606,000,000 shares of the Company (accounting for 29.98% of the total issued share capital of the Company) and is the major shareholder of the Company as of the date of this announcement. Electric Investment Company is a wholly-owned subsidiary of Dongfang Electric. Therefore, Dongfang Electric and its associates are deemed to be connected persons of the Company in accordance with Chapter 14A of the Listing Rules.

In accordance with Rule 14A.60 of the Listing Rules, the Company is required to comply with the applicable annual review and disclosure requirements under Chapter 14A of the Listing Rules regarding such continuing connected transaction, including issuance of announcements and annual reporting. If the Agreements are renewed or their terms governing the Transactions are amended, the Company will comply with all applicable reporting, announcement and, if applicable, independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

BACKGROUND

References are made to the announcements of the Company dated 28 November 2021, 22 June 2022 and 29 June 2022, in relation to the Gratuitous Transfer of 1,606,000,000 shares of the Company (accounting for 29.98% of the total issued share capital of the Company) from Kehua Technology, the largest shareholder of the Company, to Electric Investment Company. Kehua Technology and Electric Investment Company have completed the share transfer procedures on 29 June, 2022.

Before the completion of share transfer procedures, the Group and Dongfang Electric entered into several agreements (the "**Agreements**") and various continuing transactions thereunder (the "**Transactions**"). The Transactions mainly relate to transactions involving the outstanding sales (including weldments and accessories for containers, raw material physical and chemical testing and weldments, metalwork flaw testing and other testing services) as of the date of this announcement between the subsidiaries of the Company (including Hanzheng Testing and Sichuan Honghua) and the subsidiaries of Dongfang Electric (including Dongfang Electric Machinery, DEC Electric Motor and Dongfang Autocontrol). The Transactions have constituted continuing connected transactions of the Company under Chapter 14A of the Listing Rules upon the completion of the share transfer procedures.

DETAILS OF THE AGREEMENTS AND THE TRANSACTIONS THEREUNDER

Major terms of the Agreements are set out below:

Testing Service Agreement between Hanzheng Testing and Dongfang Electric Machinery (the "Testing Service Agreement")

Date: 1 November 2020

Parties:

(1) Hanzheng Testing (as the vendor)

(2) Dongfang Electric Machinery (as the purchaser)

Agreement term: From 1 November 2020 to 31 December 2022

Subject matter: Under the Testing Service Agreement, Hanzheng Testing will provide raw material physical and chemical testing services for Dongfang Electric Machinery.

Consideration and payment:

The consideration for the Testing Service Agreement shall be RMB2, 645,709.00 (tax inclusive). The consideration is determined after arm's length negotiations between the parties, with taking into account the forecast demand for each testing service of Dongfang Electric Machinery during the term of the agreement and the Group's individual service price, which is based on the Group's cost of providing such service and a reasonable profit margin (not less than 8%) acceptable by the market for similar services. The terms entered into with Dongfang Electric Machinery will be no less favourable than those of similar services between the Company and independent third parties during the same period.

Settlement shall be made on a quarterly basis, with specific contracts entered into based on the actual number of testing performed in each quarter, and full payment shall be made in the following month after the vendor has issued a full-amount invoice of the contract to be settled for the current period and provided proof of delivery and acceptance and other relevant information, subject being examined to be correct by the purchaser.

Supply Agreement between Hanzheng Testing and DEC Electric Motor (the "Supply Agreement")

Date: 14 October 2021

Parties:

(1) Hanzheng Testing (as the vendor)

(2) DEC Electric Motor (as the purchaser)

Agreement term: From 14 October 2021 to 31 December 2022

Subject matter: Under the Supply Agreement, Hanzheng Testing will provide raw material physical and chemical testing services for DEC Electric Motor.

Consideration and payment:

The consideration for the Supply Agreement shall be RMB1,045,711.20 (tax inclusive). The consideration is determined after arm's length negotiations between the parties, with taking into account the forecast demand for each testing service of DEC Electric Motor during the term of the agreement and the Group's individual service price, which is based on the Group's cost of providing such service and a reasonable profit margin (not less than 8%) acceptable by the market for similar services. The terms entered into with DEC Electric Motor will be no less favourable than those of similar services between the Company and independent third parties during the same period.

Settlement shall be made on a quarterly basis, with specific contracts entered into based on the actual number of testing performed in each quarter, and full payment shall be made in the following month after the vendor has issued a full-amount invoice of the contract to be settled for the current period and provided proof of delivery and acceptance and other relevant information, subject being examined to be correct by the purchaser.

Master Supply Agreement between Sichuan Honghua and Dongfang Autocontrol (the "Master Supply Agreement")

Date: 3 March 2022

Parties:

(1) Sichuan Honghua (as the vendor)

(2) Dongfang Autocontrol (as the purchaser)

Agreement term: From 3 March 2022 to 31 March 2023

Subject matter: Under the Master Supply Agreement, Sichuan Honghua will provide weldments and accessories for containers for Dongfang Autocontrol.

Consideration and payment:

The consideration for the Master Supply Agreement shall be RMB5, 330,808.90 (tax inclusive). The consideration is determined through tendering process. Sichuan Honghua has participated in the tendering process organized by Dongfang Autocontrol and determined its quotation with due consideration to the product costs of similar companies within the Group and a reasonable profit margin (not less than 8%) acceptable by the market. The terms entered into with Dongfang Autocontrol will be no less favourable than those of similar transactions between the Company and independent third parties during the same period.

The specific contracts between Sichuan Honghua and Dongfang Autocontrol are governed by the Master Supply Agreement. The method of payment is determined by the contract amount of the specific individual contract. For individual contract amount less than RMB100, 000, the total contract amount (tax inclusive) shall be payable by the purchaser to the vendor within 90 days upon the verification by the purchaser after the goods being inspected and passed without objection. For individual contract amount more than RMB100, 000, 95% of the total contract amount (tax inclusive) shall be payable by the purchaser to the vendor within 90 days upon the verification by the purchaser after the goods being inspected and passed without objection, while the remaining 5% shall be paid as a warranty payment, which will be settled within 30 days after the expiry of the warranty period.

Performance bond: Sichuan Honghua shall pay a one-off performance bond of RMB266, 540.00 to Dongfang Autocontrol. The performance bond shall be refunded without interest within 30 days after the completion of the delivery of the products under the Master Supply Agreement.

Annual Master Contracting Agreement between Hanzheng Testing and Dongfang Electric Machinery (the "Master Contracting Agreement")

Date: 21 January 2022

Parties:

(1) Hanzheng Testing (as the vendor)

(2) Dongfang Electric Machinery (as the purchaser)

Agreement term: 21 January 2022 to 31 March 2023

Subject matter: Under the Master Contracting Agreement, Hanzheng Testing will provide weldments, metalwork flaw testing and other testing services for Dongfang Electric Machinery.

Consideration and payment:

The consideration for the Master Contracting Agreement shall be RMB1, 456,100.80 (tax inclusive). The consideration is determined after arm's length negotiations between the parties, with taking into account the forecast demand for each testing service of Dongfang Electric Machinery during the term of the agreement and the Group's individual service price, which is based on the Group's cost of providing such service and a reasonable profit margin (not less than 8%) acceptable by the market for similar services. The terms entered into with Dongfang Electric Machinery will be no less favourable than those of similar services between the Company and independent third parties during the same period.

Payment shall be made in accordance with the specific contracting contract governed by the Master Contracting Agreement entered into by parties.

REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS

Due to its business development, Dongfang Electric needs weldments and accessories for containers, as well as related testing services. The Group has related products and testing services and can provide related products and testing services for Dongfang Electric. The Transactions have bought and will continue to bring a stable source of income to the Group. The cooperation between the parties gives full play to the more effective synergy between the Group and Dongfang Electric and its associates in the energy equipment industry from various aspects such as industry, market, technology, and achieves a mutually beneficial situation.

The Directors, including the independent non-executive Directors, are of the view that the Transactions have been conducted on normal commercial terms, were entered into in the ordinary and usual course of business of the Group, are fair and reasonable and in the interests of the Company and its shareholders as a whole. None of the Directors is regarded as having a material interest in the Transactions, and hence none of the Directors has abstained from voting on the Board resolution to approve the continuation of the Transactions.

IMPLICATIONS OF THE LISTING RULES

Electric Investments Company holds 1,606,000,000 shares of the Company (accounting for 29.98% of the total issued share capital of the Company) and is the major shareholder of the Company as of the date of this announcement. Electric Investment Company is a wholly-owned subsidiary of Dongfang Electric. Therefore, Dongfang Electric and its associates are deemed to be connected persons of the Company in accordance with Chapter 14A of the Listing Rules.

In accordance with Rule 14A.60 of the Listing Rules, the Company is required to comply with the applicable annual review and disclosure requirements under Chapter 14A of the Listing Rules regarding such continuing connected transaction, including issuance of announcements and annual reporting. If the Agreements are renewed or their terms governing the Transactions are amended, the Company will comply with all applicable reporting, announcement and, if applicable, independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

GENERAL INFORMATION

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

Sichuan Honghua, accompany incorporated in the PRC, is principally engaged in the research, design, manufacturing and service of drilling and exploiting equipment, the general contracting of petrochemical engineering, the general contracting of construction engineering and the contracting of steel structure engineering. As at the date of this announcement, Sichuan Honghua is a wholly-owned subsidiary of the Company.

Hanzheng Testing, mainly engaged in the testing and inspection of oil drilling and production equipment and tools, the safety evaluation for use of petroleum machinery, instrument testing and calibration, technical consulting on safety (excluding projects restricted by the state), technical consulting on instrument and equipment measurement, and enterprise certification consulting. It undertakes testing business from various machinery enterprises, companies and institutions. As at the date of this announcement, Hanzheng Testing is a wholly-owned subsidiary of the Company.

Dongfang Electric, a company incorporated in the PRC with limited liability. As the only state-owned enterprise headquartered in Sichuan, it is one of the largest general contracting enterprise groups for power generation equipment manufacturing and power plant engineering in the world. Its main products include wind turbines, solar power generation equipment, hydropower units, nuclear power units, thermal power units (gas turbine power generation, high-efficient clean coal power), control systems, environmental protection equipment, industrialized chemical equipment, hydrogen energy and fuel cells, energy storage equipment, new materials, etc.

Dongfang Autocontrol, a company incorporated in the PRC with limited liability. It is mainly engaged in the design, manufacture, service and system integration of the control system for the whole industry chain, including hydropower, thermal power, nuclear power, gas power, wind power, solar power.

Dongfang Electric Machinery, a company incorporated in the PRC with limited liability. It is mainly engaged in the research and development, design, manufacture and service of hydro-generating units, thermal power generating units (including coal-fired, gas-fired, nuclear power), wind power units, AC (DC) motors, phase modifiers, full set of energy-saving and environmental protection equipment, pumps and other equipment, as well as power plant renovation, and completion, installation, maintenance and repair of power plant equipment.

DEC Electric Motor, a company incorporated in the PRC with limited liability. The Company's main products include VF synchronous motor, VF asynchronous motor, nuclear main pump motor, HV and LV high efficiency motor, HV and LV explosion-proof motor, pulse generator, phase modifier, environmental protection equipment, customized motor, water pump, as well as complete sets of motor equipment system.

DEFINITIONS

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

"associate(s)"	has the meaning ascribed to it under the Listing Rules;
"Board"	the board of Directors;

“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;
"continuing connected transaction"	has the meaning ascribed to it under the Listing Rules;
"DEC Electric Motor"	DEC（Deyang）Electric Motor Technology Co., Ltd, a company incorporated in the PRC, and a subsidiary of Dongfang Electric;
“Director(s)”	director(s) of the Company;
“Dongfang Autocontrol”	Dongfang Electric Autocontrol Engineering Co.,Ltd, a company incorporated in Hongkong, and a subsidiary of Dongfang Electric;
"Dongfang Electric"	Dongfang Electric Corporation, a large state-owned company incorporated in the PRC , is one of the largest general contracting enterprise groups for power generation equipment manufacturing and power plant engineering in the world;
“Dongfang Electric Machinery”	Dongfang Electric Machinery Co., Ltd, a company incorporated in the PRC, and a wholly owned subsidiary of Dongfang Electric;
"Electric Investment Company"	Dongfang Electric International Investment Co., Ltd, a company incorporated in Hongkong, and a wholly-owned subsidiary of Dongfang Electric;
“Group”	the Company and its subsidiaries;
"Hanzheng Testing"	Hanzheng Testing Technology Co., Ltd, a company incorporated in the PRC with limited liability, and a wholly-owned subsidiary of the Company;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;

“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
“PRC”	the People’s Republic of China;
“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 nominal value of HK$0.10 each in the share capital of the Company;
“Sichuan Honghua"	Sichuan Honghua Petroleum Equipment Co.,Ltd., 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;
"subsidiary(ies)"	has the meaning ascribed to it under the Listing Rules;
“Transactions”	Several existing transactions among the Group and Dongfang Electric and its subsidiaries in relation to sales and testing services;
“%”	per cent.

On behalf of the Board

Honghua Group Limited

Jin Liliang

Chairman

PRC, 25 July 2022

As at the date of this announcement, the executive directors of the Company are Mr. Jin Liliang (Chairman) and Mr. Zhu Hua; the non-executive directors of the Company are Mr. Zhang Mi and Mr. Yang Yong; and the independent non-executive directors of the Company are Mr. Chen Guoming, Ms. Su Mei, Mr. Chang Qing,Mr. Wei Bin and Mr.Zhang Shiju .