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**宏华集团**  
HONGHUA GROUP

**HONGHUA GROUP LIMITED**

宏華集團有限公司

*(a company incorporated in the Cayman Island with Limited Liability)*

**(Stock Code: 196)**

## **CONTINUING CONNECTED TRANSACTIONS**

### **The New Purchase Framework Agreement**

References are made to the announcements of the Company dated 16 December 2009 and 26 June 2012 and disclosures made in annual reports of the Company from 2009 to 2014 in respect of the continuing connected transactions contemplated under the Agreements. Pursuant to the Agreements, the Group purchased low value consumables, auxiliary accessories, tools, welding materials and worker-protection items from Hongtai Company. The Renewal Purchase Framework Agreement was for a term of three years commencing from 1 January 2010 and expiring on 31 December 2012. The Purchase Framework Agreement was for a term of three years commencing from 1 January 2013 and expiring on 31 December 2015.

Given that the forthcoming expiry of the Purchase Framework Agreement, Honghua Company and Hongtai Company entered into the New Purchase Framework Agreement on 30 December 2015 for a further term of three years commencing from 1 January 2016 and expiring on 31 December 2018.

The Directors (including the independent non-executive Directors) consider that the New Purchase Framework Agreement and the transactions contemplated thereunder were entered into in the ordinary and usual course of the business of the Group, and have been negotiated on an arm's length basis between the parties on normal commercial terms. The terms of the agreement (including the Annual Caps) are fair and reasonable and are in the interests of the Company and its Shareholders as a whole.

### **Listing Rules Implications**

Hongtai Company is owned as to 73.125% by the spouses of certain members of the Concert Group, namely Mr. Zhang Mi, Mr. Fan Bing, Mr. Zhang Yanyong, Mr. Zhou Bing, Mr. Zhang Xu, Mr. Ren Jie, Mr. Zuo Huixian, Mr. Wang Jiangyang and Mr. Liu Xuetian (deceased) and therefore Hongtai Company is a connected person of the Company under the Listing Rules. The New Purchase Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions under Chapter 14A of the Listing Rules.

Considering that each of the applicable percentage ratios calculated in accordance with Rule 14.07 of the Listing Rules with reference to each of the Annual Caps under the New Purchase Framework Agreement is less than 5%, the continuing connected transactions contemplated under the New Purchase Framework Agreement are subject to annual review, reporting and announcement requirements but exempt from the independent shareholders' approval requirement under Rules 14A.76 of the Listing Rules.

## **INTRODUCTION**

References are made to the announcements of the Company dated 16 December 2009 and 26 June 2012 and disclosures made in annual reports of the Company from 2009 to 2014 in respect of the continuing connected transactions contemplated under the Renewal Purchase Framework Agreement and Purchase Framework Agreement (**the "Agreements"**). Pursuant to the Agreements, the Group purchased low value consumables, auxiliary accessories, tools, welding materials and worker-protection items from Hongtai Company. The Renewal Purchase Framework Agreement was for a term of three years commencing from 1 January 2010 and expiring on 31 December 2012. The Purchase Framework Agreement was for a term of three years commencing from 1 January 2013 and expiring on 31 December 2015.

Given that the forthcoming expiry of the Purchase Framework Agreement, Honghua Company and Hongtai Company entered into the New Purchase Framework Agreement on 30 December 2015 for a further term of three years commencing from 1 January 2016 and expiring on 31 December 2018.

## **THE NEW PURCHASE FRAMEWORK AGREEMENT**

### **Date**

30 December 2015

### **Parties**

- (1) Honghua Company as purchaser; and
- (2) Hongtai Company as vendor

### **Term**

The New Purchase Framework Agreement is for a term of three years commencing

from 1 January 2016 and expiring on 31 December 2018.

### **Nature of the New Purchase Framework Agreement**

Pursuant to the New Purchase Framework Agreement, Honghua Company shall purchase low value consumables, auxiliary accessories, tools, welding materials and worker-protection items from Hongtai Company.

During the term of the New Purchase Framework Agreement, the parties agree that they will enter into further individual purchase agreement(s) from time to time subject to specific terms and conditions agreed between the parties on arm's length basis and on normal commercial terms. If there is no sufficient comparable transaction to judge for the normal commercial terms, the terms of the transaction shall be no less favourable to the Group than terms available from independent third parties for similar products in comparable quantities.

### **Price**

The purchase price for the transactions contemplated under the New Purchase Framework Agreement is at a cost plus basis. Honghua Company will pay to Hongtai Company at the purchase cost of the products plus a margin of about 10%. The aggregate annual purchase amount shall not exceed the Annual Caps for the relevant financial year.

### **ANNUAL CAPS AND DETERMINATION**

The annual caps under the Renewal Purchase Framework Agreement for each of the three financial years ended 31 December 2010, 31 December 2011 and 31 December 2012 were RMB28,000,000, RMB26,000,000 and RMB26,000,000 respectively. The annual caps under the Purchase Framework Agreement for each of the three financial years ended 31 December 2013, 31 December 2014 and 31 December 2015 were RMB26,000,000 respectively.

It is expected that the maximum aggregate annual purchase amount, the Annual Caps, payable by Honghua Company to Hongtai company under the New Purchase Framework Agreement shall be RMB26,000,000, RMB26,000,000 and RMB26,000,000 for each of the three financial years ending 31 December 2016, 31 December 2017 and 31 December 2018 respectively.

The Annual Caps are determined after taking into consideration of the business volume of Honghua Company in the upcoming three years and the historical transaction amount for the transactions made with Hongtai Company under the Agreements.

For the two financial years ended 31 December 2013 and 31 December 2014 and the period from 1 January 2015 to 30 November 2015, the historical transaction amount paid by Honghua Company to Hongtai Company under the Purchase Framework Agreement amounted to RMB 21,066,664, RMB 23,822,000 and RMB 9,754,908 respectively.

## **REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS**

The continuing connected transactions contemplated under the New Purchase Framework Agreement will occur on a regular and continuing basis in the ordinary and usual course of business of the Group. With the New Purchase Framework Agreement the Group will maintain a centralized purchase system to reduce the cost and keep in line with the production schedule.

The Directors (including the independent non-executive Directors) consider that the New Purchase Framework Agreement and the transactions contemplated thereunder were entered into in the ordinary and usual course of the business of the Group, and have been negotiated on an arm's length basis between the parties on normal commercial terms. The terms of the agreement (including the Annual Caps) are fair and reasonable and are in the interests of the Company and its Shareholders as a whole.

## **LISTING RULES IMPLICATIONS**

Hongtai Company is owned as to 73.125% by the spouses of certain members of the Concert Group, namely Mr. Zhang Mi, Mr. Fan Bing, Mr. Zhang Yanyong, Mr. Zhou Bing, Mr. Zhang Xu, Mr. Ren Jie, Mr. Zuo Huixian, Mr. Wang Jiangyang and Mr. Liu Xuetian (deceased) and therefore Hongtai Company is a connected person of the Company under the Listing Rules. The New Purchase Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions under Chapter 14A of the Listing Rules.

Considering that each of the applicable percentage ratios calculated in accordance with Rule 14.07 of the Listing Rules with reference to each of the Annual Caps under the New Purchase Framework Agreement is less than 5%, the continuing connected transactions contemplated under the New Purchase Framework Agreement are subject to annual review, reporting and announcement requirements but exempt from the independent shareholders' approval requirement under Rules 14A.76 of the Listing Rules.

The Board announces that Mr. Zhang Mi, the Chairman and the executive director of the Company, Mr. Ren Jie and Mr. Liu Zhi (a member of the Concert Group), both the executive directors, have abstained from voting on the resolution approving the New Purchase Framework Agreement due to their conflict of interests with the New Purchase Framework Agreement. Apart from the aforesaid Directors, none of the Directors has abstained from voting on the resolutions approving the New Purchase Framework Agreement and the transactions contemplated thereunder.

## **GENERAL INFORMATION**

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

Honghua Company, an indirect wholly-owned subsidiary of the Company, is engaged

in research, design, manufacture and general assembly of oil drilling rigs and equipments for oil exploration and development.

Hongtai Company, a connected person of the Company under the Listing Rules, is principally engaged in the sale of hard wares, auxiliary accessories and worker-protection items.

## DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms have the following meanings.

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| <b>“Annual Caps”</b>                      | the maximum aggregate annual value of the continuing connected transactions contemplated under the New Purchase Framework Agreement   |
| <b>“Board”</b>                            | the board of Directors of the Company   |
| <b>“Company”</b>                          | Honghua Group Limited, a company incorporated in the Cayman Islands with limited liability and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited |
| <b>“Concert Group”</b>                    | several shareholders of the Company forming a concert group, details of which were set out in the prospectus of the Company dated 25 February 2008                                |
| <b>“Director(s)”</b>                      | director(s) of the Company  |
| <b>“Group”</b>                            | the Company and its subsidiaries  |
| <b>“Honghua Company”</b>                  | Sichuan Honghua Petroleum Equipment Co., Limited, a limited liability company established in the PRC and an indirect wholly-owned subsidiary of the Company                       |
| <b>“Hong Kong”</b>                        | the Hong Kong Special Administrative region of the PRC  |
| <b>“Hongtai Company”</b>                  | Guanghan Hongtai Business Trading Co., Ltd, a limited liability company established in the PRC  |
| <b>“Listing Rules”</b>                    | The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited  |
| <b>“New Purchase Framework Agreement”</b> | the purchase framework agreement entered into between Honghua Company and Hongtai Company on 30 December 2015   |

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| “PRC”                                  | the People’s Republic of China, but for the purpose of this announcement, excluding Hong Kong, the Macau Special Administrative Region and Taiwan |
| “Purchase Framework Agreement”         | the purchase framework agreement dated 26 June 2012 and entered into between Honghua Company and Hongtai Company                                  |
| “Renewal Purchase Framework Agreement” | the renewal purchase framework agreement dated 16 December 2009 and entered into between Honghua Company and Hongtai Company                      |
| “RMB”                                  | Renminbi, the lawful currency of the PRC  |
| “Shareholders”                         | shareholders of the Company   |

By order of the Board  
**Honghua Group Limited**  
**Zhang Mi**  
*Chairman*

PRC, 30 December 2015

*As at the date of this announcement, the executive directors of the Company are Mr. Zhang Mi (Chairman), Mr. Ren Jie and Mr. Liu Zhi, the non-executive directors of the Company is Mr. Siegfried Meissner (Mr. Popin Su as his alternate) and the independent non-executive directors of the Company are Mr. Liu Xiaofeng, Mr. Qi Daqing, Mr. Chen Guoming, Mr. Shi Xingquan and Mr. Guo Yanjun.*