

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



宏华集团
HONGHUA GROUP

HONGHUA GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 196)

**CONNECTED TRANSACTIONS
FRAMEWORK AGREEMENT FOR
STRATEGIC COOPERATION**

On 30 September 2017, Honghua Investment, Honghua Shenzhen, Honghua Shanghai and ASIFL entered into a framework agreement for strategic cooperation. Pursuant to the framework agreement, ASIFL agreed to purchase from Honghua Investment and its subsidiaries certain equipment and products for the aggregated consideration of up to RMB1.5 billion. ASIFL plans to lease such equipment and products to Honghua Shenzhen or Honghua Shanghai, which will in turn enter into sub-leasing arrangements with third parties in relation to such equipment and products.

LISTING RULES IMPLICATIONS

As at the date of this announcement, CASIC indirectly holds 29.99% of the shares in the Company through its wholly-owned subsidiary Kehua, and therefore is a substantial shareholder and connected person of the Company. CASIC and its subsidiaries together hold a 46.5% equity interest in ASIFL, thus ASIFL is an associate of CASIC and in turn a connected person of the Company. Therefore, the Transactions constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios set out in the Listing Rules in respect of the Transactions is higher than 5.0%, the Transactions are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Company will seek approval from the Independent Shareholders in respect of the Framework Agreement at the forthcoming extraordinary general meeting. A circular containing, among others, details on the Framework Agreement, a letter of recommendation from the Independent Board Committee to the Independent Shareholders, and a letter of advice from the independent financial advisor to the Independent Board Committee and the Independent Shareholders will be dispatched to shareholders on or before 10 November 2017. In view of CASIC's interests in the Framework Agreement, CASIC and its associates will abstain from voting to approve the Framework Agreement at the extraordinary general meeting.

On 30 September 2017, Honghua Investment, Honghua Shenzhen, Honghua Shanghai and ASIFL entered into a framework agreement for strategic cooperation.

PRINCIPAL TERMS AND PARTICULARS OF THE TRANSACTIONS

Principal terms

The principal terms and particulars of the Transactions are as follows:

Sales Transactions:

ASIFL agreed that during the term of the Framework Agreement, ASIFL will purchase from Honghua Investment and its subsidiaries certain equipment and products for the aggregated consideration of up to RMB1.5 billion (the "Sales Transactions"). Details of the purchase of the equipment and products will be set forth in separate purchase agreements.

Leasing Transactions:

Upon purchase, ASIFL plans to lease such equipment and products to Honghua Shenzhen or Honghua Shanghai (the "Leasing Transactions", and together with the Sales Transactions, the "Transactions"), which will in turn enter into sub-leasing arrangements with third parties in relation to such equipment and products. The term of the Framework Agreement is three

years starting from the date of the Framework Agreement.

Annual cap

During the term of the Sales Transactions, the relevant annual caps are:

	From 30 October 2017 to 31 December 2017	For the fiscal year ending 31 December 2018	For the fiscal year ending 31 December 2019	From 1 January 2020 to 29 October 2020
	RMB			
Sales prices	300,000,000	500,000,000	500,000,000	200,000,000

During the term of the Leasing Transactions, the relevant annual caps are:

	From 30 October 2017 to 31 December 2017	For the fiscal year ending 31 December 2018	For the fiscal year ending 31 December 2019	From 1 January 2020 to 29 October 2020
	RMB			
Prepayment	30,000,000	50,000,000	50,000,000	20,000,000
Leasing fee	270,000,000	450,000,000	450,000,000	180,000,000
Interest fee ⁽¹⁾	8,001,340	24,017,859	24,017,859	9,607,144
One-off handling fee	8,100,000	13,500,000	13,500,000	5,400,000
Total	316,101,340	537,517,859	537,517,859	215,007,144

—
Note:

(1) based on the leasing fee and an interest rate of 6%.

Pricing policy

The pricing and payment terms of services and related technical service and products under the Transactions shall be determined by arm's length negotiations between the Group and ASIFL and be determined based on normal commercial terms with reference to prevailing market prices that are fair and reasonable for the relevant equipment and in any event shall be no less favorable to the prices offered by the Group to its independent third parties.

REASONS FOR AND BENEFITS OF THE TRANSACTIONS

The Group expects to generate sales income from the Sales Transactions and leasing income from the sub-leasing arrangements with third parties. The Group expects the aggregate income with exceed the leasing fees to be paid to ASIFL and the Transaction will generate positive revenue for the Group.

INTERNAL CONTROL

The Sales Transactions and the Leasing Transactions shall be reviewed and approved by the

operational control center and the internal control department prior to the entering into of the relevant transaction agreements with ASIFL to ensure that the terms are set in compliance with the Group's pricing policy. Following the entering into of the continuing connected transactions, the finance department and the legal and securities department will monitor the transactions to ensure that the transactions are conducted in accordance with the relevant pricing policies and the annual caps are not exceeded. The auditors and independent non-executive independent Directors of the Company will also conduct annual review of the continuing connected transactions entered into by the Group on whether the continuing connected transactions have been conducted in compliance of the pricing policies and whether the relevant annual caps have been exceeded.

IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, CASIC indirectly holds 29.99% of the shares in the Company through its wholly-owned subsidiary Kehua, and therefore is a substantial shareholder and connected person of the Company. CASIC and its subsidiaries together hold a 46.5% equity interest in ASIFL, consequently, ASIFL is an associate of CASIC and in turn a connected person of the Company. Therefore, the Transactions constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios set out in the Listing Rules in respect of the Transactions is higher than 5%, the Transactions are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Company will seek approval from the Independent Shareholders in respect of the Framework Agreement at the forthcoming extraordinary general meeting. A circular containing, among others, details on the Framework Agreement, a letter of recommendation from the Independent Board Committee to the Independent Shareholders, and a letter of advice from the independent financial advisor to the Independent Board Committee and the Independent Shareholders will be dispatched to shareholders on or before 10 November 2017. In view of CASIC's interests in the Framework Agreement, CASIC and its associates will abstain from voting to approve the Framework Agreement at the extraordinary general meeting.

INFORMATION ABOUT THE PARTIES

Information on the Group

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

Information on Honghua Investment

Honghua Investment an investment holding company and a wholly-owned subsidiary of the Company.

Information on Honghua Shenzhen

Honghua Shenzhen is a subsidiary of the Company under the definition of the Listing Rules as the Company indirectly holds 60% of its issued shares (the other 40% of which is held by third parties independent of the Company and its connected persons), but is not consolidated in the accounts of the Company. The main business of Shenzhen Honghua is finance leasing, asset leasing, purchase of assets for leasing and related consultancy service.

Information on Honghua Shanghai

Honghua Shanghai is a wholly-owned subsidiary of the Company. The main business of Honghua Shanghai is finance leasing, asset leasing, purchase of assets for leasing and related consultancy service.

Information on ASIFL

ASIFL is company incorporated in the People's Republic of China and its principal business includes finance leasing, disposal of assets under finance lease and related consultancy service.

DEFINITIONS

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

“ASIFL”	Aerospace Science & Industry Financial Leasing Co., Ltd.(航天科工金融租賃有限公司), a company incorporated in the People's Republic of China, in which CASIC and its subsidiaries hold a 46.5% equity
---------	---

	interest;
“associate”	has the same meaning ascribed to it under the Listing Rules;
“Board”	the board of Directors;
“CASIC”	China Aerospace Science and Industry Corporation* (中國航天科工集團公司), 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”	has the same meaning ascribed to it under the Listing Rules;
“Directors”	the director(s) of the Company;
“Framework Agreement”	the framework agreement for strategic cooperation dated 30 September 2017 entered into between Honghua Investment, Honghua Shenzhen, Honghua Shanghai and ASIFL;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administration Region of the PRC;
“Kehua”	Kehua Technology Co., Limited, a limited liability company incorporated in Hong Kong and a wholly owned subsidiary of CASIC;
“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;
“Shareholders”	holder(s) of ordinary share(s) of nominal value of HK\$0.10 each in the share capital of the Company;
“Honghua Investment”	Honghua (China) Investment Co., Ltd (宏華 (中

國) 投資有限公司), a limited liability company incorporated in the PRC and a wholly-owned subsidiary of the Company;

“Honghua Shenzhen”	Honghua Financial Leasing (Shenzhen) Co., Ltd (宏華融資租賃(深圳)有限公司), a limited liability company incorporated in the PRC and in which the Company directly and indirectly holds a 60% equity interest;
“Honghua Shanghai”	Honghua Financial Leasing (Shanghai) Co., Ltd (宏華融資租賃(上海)有限公司), a limited liability company incorporated in the PRC and a wholly-owned subsidiary of the Company;
“Transactions”	the transactions contemplated under the Framework Agreement;
“%”	per cent.

**For identification only*

By order of the Board
Honghua Group Limited
Chen Yajun
Chairman

PRC, 2 October 2017

As at the date of this announcement, the executive directors of the Company are Mr. Chen Yajun (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. Qi Daqing, Mr. Chen Guoming, Ms. Su Mei, Mr. POON Chiu Kwok and Mr. Chang Qing.