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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)

**CONTINUING CONNECTED TRANSACTION —
PURCHASE FRAMEWORK AGREEMENT**

THE PURCHASE FRAMEWORK AGREEMENT

On 31 May 2019, Honghua Electric and Aerospace System entered into a Purchase Framework Agreement, pursuant to which Honghua Electric will purchase raw materials, parts and components, equipment and other products from Aerospace System.

LISTING RULES IMPLICATIONS

As at the date of this announcement, CASIC indirectly holds approximately 29.98% 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 holds 100% equity interest in Aerospace System through Aisino Corporation whose 39.8% equity interest is held by CASIC, thus Aerospace System is an associate of CASIC and in turn a connected person of the Company. Therefore, the Transactions constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

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

INTRODUCTION

Honghua Electric and Aerospace System entered into a Purchase Framework Agreement, pursuant to which Honghua Electric will purchase raw materials, parts and components, equipment and other products from Aerospace System.

THE PURCHASE FRAMEWORK AGREEMENT

Date:

31 May 2019

Parties:

- (1) Honghua Electric
- (2) Aerospace System

Subject matter and term of agreement:

Pursuant to the Purchase Framework Agreement, Honghua Electric will purchase raw materials, parts and components, equipment and other products from Aerospace System.

The term of the Purchase Framework Agreement commences at the date of the agreement and will last until 31 December 2019.

Pricing policy:

The price of products to be purchased by Honghua Electric from Aerospace System shall be determined based on the prevailing market prices of similar products (to be obtained through price quotes from at least two independent supplier of such products) and through the arm's length negotiation between the parties with reference to various factors including payment terms, product quality, delivery terms and other relevant purchase terms. Such prices to be determined shall be no less favorable than the purchase prices offered by third parties to Honghua Electric under the same conditions.

Caps and basis of determination

The annual cap under the Purchase Framework Agreement for the year ended 31 December 2019 is RMB100 million. The annual cap under the Purchase Framework Agreement was determined based on the 2019 annual production plan and expected procurement needs of Honghua Electric. As for the transactions under the Purchase Framework Agreement, Honghua Electric and Aerospace System did not engage in any historic transaction in the past.

REASONS FOR AND BENEFITS OF THE TRANSACTIONS

The purchase of raw materials, parts and components, equipment and other products by Honghua Electric from Aerospace System will support the operational needs of Honghua Electric. Given the advantages of Aerospace System on centralized procurement, payment terms and settlement period, the Transactions will effectively help Honghua Electric reduce its procurement costs and meet its operational needs.

Honghua Electric will retain the flexibility and discretion to select Aerospace System and/or other independent suppliers based on fair negotiations and consideration of commercial terms and other factors.

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

INTERNAL CONTROL

Prior to the entering into of the transactions by Honghua Electric and Aerospace System under the Purchase Framework Agreement, the procurement department shall organize and select suppliers. The relevant transactions shall be reviewed and approved by the Chairman's Office of Honghua Electric to ensure the fairness and reasonableness of relevant terms and pricing. The finance department and the legal and securities department of the Company will monitor the continuing connected transactions to ensure that the transactions are conducted in accordance with the relevant pricing policies or system and the annual caps for the continuing connected transactions are not exceeded. The internal audit department of the Company will also conduct audit on the continuing connected transactions and relevant internal control procedures. The auditors and audit committee of the Company will also conduct annual review of the continuing connected transactions to confirm whether the continuing connected transactions have been conducted in compliance of the pricing policies or system and whether the relevant annual caps have been exceeded.

LISTING RULES IMPLICATIONS

As at the date of this announcement, CASIC indirectly holds approximately 29.98% 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 holds 100% equity interest in Aerospace System through Aisino Corporation whose 39.8% equity interest is held by CASIC, thus Aerospace System is an associate of CASIC and in turn a connected person of the Company. Therefore, the Transactions constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios exceed 0.1% but less than 5%, the Transactions are 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 when considering relevant board resolution. Save as disclosed above, none of the Directors of the Company has any material interest in these Transactions and thus need to abstain from voting.

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.

Honghua Electric is a company established in the PRC and an indirectly 83.74%-owned subsidiary of the Company. It is principally engaged in the research, development, manufacture, set-assembly and sales of electric drive system and automatic control system and provision of integrated services.

Aerospace System is a company established in the PRC. It is principally engaged in the technology development and technology service, transfer, consultation; sales of communication equipment, machinery and equipment, electronic products and electronic components, as well as engineering exploration and design services.

DEFINITIONS

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

“Aerospace System”	Aerospace Information System Engineering (Beijing) Limited* (般天信息系統工程(北京)有限公司), a company incorporated in the PRC with limited liability;
“Associate”	has the same 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”	has the same meaning ascribed to it under the Listing Rules;
“Directors”	the director(s) of the Company;
“Group”	the Company and its subsidiaries;
”Honghua Electric”	Sichuan Honghua Electric Co., Ltd., a limited liability company incorporated in the PRC;

“Hong Kong”	the Hong Kong Special Administration Region of the PRC;
“Independent Shareholders”	Shareholders other than CASIC and its associates;
“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;
“Main Board”	The stock market operated by the Stock Exchange, excluding GEM;
“PRC”	The People’s Republic of China;
“Purchase Framework Agreement”	the purchase framework agreement dated 31 May 2019 entered into between Honghua Electric and Aerospace System;
“RMB”	Renminbi, the lawful currency of the PRC;
“Share(s)”	ordinary share(s) of HK\$0.1 each in the capital of the Company;
“Shareholder(s)”	holder(s) of ordinary share(s) of HK\$0.10 each in the capital of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Transactions”	the transactions contemplated under the Purchase Framework Agreement; and
“%”	per cent.

* *For identification only*

By order of the Board
Honghua Group Limited
Jin Liliang
Chairman

PRC, 31 May 2019

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 and Mr. Chang Qing.