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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 TRANSACTIONS —  
PURCHASE FRAMEWORK AGREEMENTS  
AND  
SALES FRAMEWORK AGREEMENT**

**PURCHASE FRAMEWORK AGREEMENTS**

On 17 July 2019,

- (1) the Company and Guizhou Aerospace entered into the Purchase Framework Agreement I, pursuant to which the Company will purchase equipment and products including rig parts, forged parts of solution tanks and blanks from Guizhou Aerospace;
- (2) the Company and Aerospace Cloud entered into the Purchase Framework Agreement II, pursuant to which the Company will purchase products including servers and related technology services from Aerospace Cloud; and
- (3) the Company and Aerospace Sanjiang entered into the Purchase Framework Agreement III, pursuant to which the Company will purchase products including whole towing devices, LNG auxiliary equipment and downhole testing equipment and related services from Aerospace Sanjiang.

## **SALES FRAMEWORK AGREEMENT**

On 17 July 2019, the Company and Guizhou Aerospace entered into the Sales Framework Agreement, pursuant to which the Company will sell products including steel structure and related processing services to Guizhou Aerospace.

## **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 directly holds 100%, 49.51% and 100% equity interest in Guizhou Aerospace, Aerospace Cloud and Aerospace Sanjiang, respectively, thus Guizhou Aerospace, Aerospace Cloud and Aerospace Sanjiang are all Associates of CASIC and in turn connected persons of the Company. Therefore, the Purchase Transactions and the Sales Transactions constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

In relation to the Purchase Transactions, together with transactions under the purchase framework agreement dated 31 May 2019, as one or more of the applicable percentage ratios thereof calculated under Rule 14A.81 of the Listing Rules, on an aggregated basis, exceed 0.1% but are less than 5%, the Purchase 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.

In relation to the Sales Transactions, as one or more of the applicable percentage ratios with respect to the Sales Transactions exceed 0.1% but are less than 5%, the Sales 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**

On 17 July 2019,

- (1) the Company and Guizhou Aerospace entered into the Purchase Framework Agreement I, pursuant to which the Company will purchase equipment and products including rig parts, forged parts of solution tanks and blanks from Guizhou Aerospace;
- (2) the Company and Aerospace Cloud entered into the Purchase Framework Agreement II, pursuant to which the Company will purchase products including servers and related technology services from Aerospace Cloud;
- (3) the Company and Aerospace Sanjiang entered into the Purchase Framework Agreement III, pursuant to which the Company will purchase products including whole towing devices, LNG auxiliary equipment and downhole testing equipment and related services from Aerospace Sanjiang; and

- (4) the Company and Guizhou Aerospace entered into the Sales Framework Agreement, pursuant to which the Company will sell products including steel structure and related processing services to Guizhou Aerospace.

### **Purchase Framework Agreements**

*Parties and Subject matters:*

<b>No.</b>	<b>Name of the Agreements</b>	<b>Parties</b>	<b>Subject matters</b>
(1)	The Purchase Framework Agreement I	The Company (as purchaser, for itself and on behalf of its subsidiaries) and Guizhou Aerospace (as supplier, for itself and on behalf of its Associates)	Equipment and products including rig parts, forged parts of solution tanks and blanks
(2)	The Purchase Framework Agreement II	The Company (as purchaser, for itself and on behalf of its subsidiaries) and Aerospace Cloud (as supplier, for itself and on behalf of its Associates)	Products including servers and related technology services
(3)	The Purchase Framework Agreement III	The Company (as purchaser, for itself and on behalf of its subsidiaries) and Aerospace Sanjiang (as supplier, for itself and on behalf of its Associates)	Products including whole towing devices, LNG auxiliary equipment and downhole testing equipment and related services

Save as disclosed above, other contents of each of the Purchase Framework Agreements are similar, and key terms of each of the Purchase Framework Agreements include the following:

*Date:*

17 July 2019

*Term of agreements:*

The term of each of the Purchase Framework Agreements will commence on the date of the agreement and expire on 31 December 2021.

*Pricing policy:*

The price of products and/or services to be purchased by the Group from Guizhou Aerospace, Aerospace Cloud and Aerospace Sanjiang shall be determined with reference to the prevailing market prices of similar products and/or services (to be obtained through price quotes from at least two independent suppliers of such products and/or services) and based

on arm's length negotiation between the parties after taking into consideration various factors including payment terms, product and/or service quality, delivery terms and other relevant purchase terms. Prices to be determined in respect of Purchase Transactions shall be no less favorable than the purchase prices offered by independent third parties to the Group under the same conditions.

*Proposed annual caps and basis of determination:*

The respective proposed annual caps under each of the Purchase Framework Agreements for each of the three financial years ended 31 December 2019, 2020 and 2021 are as follows:

*Unit: RMB 10,000*

	<b>Twelve months ended 31 December 2019</b>	<b>Twelve months ended 31 December 2020</b>	<b>Twelve months ended 31 December 2021</b>
Purchase Framework Agreement I	600	1,000	1,100
Purchase Framework Agreement II	200	500	1,000
Purchase Framework Agreement III	2,100	5,250	5,750

The respective proposed annual caps under the Purchase Framework Agreements were determined based on the annual production plans from 2019 to 2021 and the corresponding expected procurement needs of the Group, by reference to the historical transaction amounts of the Purchase Transactions.

As for the Purchase Transactions, the historical transaction amounts for the three financial years ended 31 December 2016 to 2018 and six months ended 30 June 2019 are: (i) between the Group and Guizhou Aerospace, amounted to nil, nil, RMB573,699 and RMB571,174, respectively; (ii) between the Group and Aerospace Cloud, amounted to RMB59,000, RMB54,320, RMB580,000 and RMB441,600, respectively; and (iii) between the Group and Aerospace Sanjiang, amounted to nil, RMB1,435.46, nil and nil, respectively.

### **Sales Framework Agreement**

*Parties:*

The Company (as vendor, for itself and on behalf of its subsidiaries) and Guizhou Aerospace (as purchaser, for itself and on behalf of its Associates)

*Subject matters:*

Steel structure products and related processing services

*Date:*

17 July 2019

*Term of agreement:*

The term of the Sales Framework Agreement will commence on the date of the agreement and expire on 31 December 2021.

*Pricing policy:*

The price of products to be sold by the Group to Guizhou Aerospace shall be determined with reference to the prevailing prices of similar products or services (to be obtained through price quotes from at least two independent purchasers of such products and/or services) and based on arm's length negotiation between the parties after taking into consideration various factors including payment terms, product quality and delivery terms. Prices to be determined in respect of Sales Transactions shall be no less favorable than the selling prices offered by the Group to independent third parties under the same conditions.

*Proposed annual caps and basis of determination:*

The respective annual cap under the Sales Framework Agreement for each of the three financial years ended 31 December 2019, 2020 and 2021 is RMB10 million.

The annual caps under the Sales Framework Agreement were determined based on factors including expected procurement needs of Guizhou Aerospace during the abovementioned periods and the expected production costs of the Group.

As for the Sales Transactions, the Company did not engage in any historical transaction with Guizhou Aerospace.

## **REASONS FOR AND BENEFITS OF PURCHASE TRANSACTIONS AND SALES TRANSACTIONS**

The entering of the Purchase Framework Agreements between the Company and Guizhou Aerospace, Aerospace Cloud and Aerospace Sanjiang is beneficial for satisfying the needs for production and operation of the Company, as well as achieving synergic effect between the Company and connected parties.

The entering of the Sales Framework Agreement between the Company and Guizhou Aerospace is beneficial for promoting the sales of relevant products and services of the Company, as well as achieving full synergic effect between the Company and the connected party.

The Company will retain the flexibility and discretion to select suppliers or purchasers among Guizhou Aerospace, Aerospace Cloud, Aerospace Sanjiang and other independent third parties based on arm's length negotiations after taking into consideration commercial terms and other factors.

The Directors, including the independent non-executive Directors, are of the view that both of the Purchase Transactions and the Sales Transactions are carried out in the ordinary course of business of the Group and the terms 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 of any of the relevant Purchase Transactions and Sales Transactions by the subsidiaries of the Company, the relevant procurement or sales departments will collect the information of suppliers or purchasers (as the case may be) for selection, which is subject to review and approval by the chairman's office at the board of each subsidiary to ensure the relevant terms and pricing are arrived at on a fair and reasonable basis. The finance department and the legal and securities department of the Company will monitor the continuing connected transactions to ensure that the transactions are to be carried out and have been carried out 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 directly holds 100%, 49.51% and 100% equity interest in Guizhou Aerospace, Aerospace Cloud and Aerospace Sanjiang, respectively, thus Guizhou Aerospace, Aerospace Cloud and Aerospace Sanjiang are all Associates of CASIC and in turn connected persons of the Company. Therefore, the Purchase Transactions and the Sales Transactions constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

In relation to the Purchase Transactions, together with transactions under the purchase framework agreement dated 31 May 2019, as one or more of the applicable percentage ratios thereof calculated under Rule 14A.81 of the Listing Rules, on an aggregated basis, exceed 0.1% but are less than 5%, the Purchase 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.

In relation to the Sales Transactions, as one or more of the applicable percentage ratios with respect to the Sales Transactions exceed 0.1% but are less than 5%, the Sales 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, nominated by CASIC and its Associates and appointed as Directors of the Company, are deemed to be interested in the Purchase Transactions and the Sales Transactions and therefore have abstained from voting when considering relevant board resolutions. Save as disclosed above, none of the Directors of the Company has any material interest in the Purchase Transactions and the Sales Transactions and thus has 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.

Guizhou Aerospace, a limited liability company incorporated in the PRC, is principally engaged in the research, manufacture and sales of electronic information products, development and consultancy of space technology, operation of electromechanical equipment and technologies, as well as design and installation of mechanical equipment.

Aerospace Cloud, a limited liability company incorporated in the PRC, is principally engaged in the software development, technology development, technology consultancy, technology transfer, technology services, etc.

Aerospace Sanjiang, a limited liability company incorporated in the PRC, is principally engaged in the technology development of light-weight vehicles, machinery, complete electromechanical equipment, and communication and transmission equipment and relevant services, engineering contracting, and others.

## DEFINITIONS

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

“Aerospace Cloud”	Aerospace Cloud-Tech Co., Ltd.* (航天雲網科技發展有限責任公司), a limited liability company incorporated in the PRC;
“Aerospace Sanjiang”	China Aerospace Sanjiang Group Co., Ltd.* (中國航天三江集團有限公司), a limited liability company incorporated in the PRC;
“Associate(s)”	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 limited liability 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 same meaning ascribed to it under the Listing Rules;
“Directors”	the director(s) of the Company;
“Group”	the Company and its subsidiaries;

“Guizhou Aerospace”	Guizhou Aerospace Industry Co., Ltd.* (貴州航天工業有限責任公司), 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 Agreements”	collectively, the Purchase Framework Agreement I, the Purchase Framework Agreement II and the Purchase Framework Agreement III;
“Purchase Framework Agreement I”	the purchase framework agreement dated 17 July 2019 entered into between the Company and Guizhou Aerospace;
“Purchase Framework Agreement II”	the purchase framework agreement dated 17 July 2019 entered into between the Company and Aerospace Cloud;
“Purchase Framework Agreement III”	the purchase framework agreement dated 17 July 2019 entered into between the Company and Aerospace Sanjiang;
“Purchase Transactions”	the transactions contemplated under the Purchase Framework Agreements;
“RMB”	Renminbi, the lawful currency of the PRC;
“Sales Framework Agreement”	the sales framework agreement dated 17 July 2019 entered into between the Company and Guizhou Aerospace
“Sales Transactions”	the transactions contemplated under the Sales Framework Agreement;
“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; and

“%” per cent.

\* *For identification only*

By order of the Board  
**Honghua Group Limited**  
**Jin Liliang**  
*Chairman*

PRC, 17 July 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.*