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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 Islands with limited liability)

(Stock Code: 196)

**SUPPLEMENTARY ANNOUNCEMENT
CONTINUING CONNECTED TRANSACTION –
PURCHASE FRAMEWORK AGREEMENT**

Reference is made to the announcement of Honghua Group Limited (the “**Company**”) dated 22 January 2020 in respect of the continuing connected transaction contemplated under the Purchase Framework Agreement (the “**Announcement**”). Unless stated otherwise, capitalised terms used in this announcement shall have the same meaning as those defined the Announcement.

The board of directors of the Company would like to provide further information regarding the Announcement as follows:

Reasons and the basis for determining the annual cap for the year ending 31 December 2020

As disclosed in the Announcement, the annual cap of RMB100 million for purchase of the Products and Services by Sichuan Honghua and its Associates from Shanghai Offshore and its Associates under the Purchase Framework Agreement for the year ending 31 December 2020 was determined based on historical transaction amount between the parties and the expected procurement needs of Sichuan Honghua.

The expected procurement needs of Sichuan Honghua are primarily based on Sichuan Honghua’s business development plan in 2020 and the current discussion of several contracts which, if materialise, will have a total contract sum in the range of RMB400 million, among which, a contract sum in the range of RMB100 million forms the annual cap for purchase of the Products and Services from Shanghai Offshore and its Associates. One of such proposed contracts being discussed is with a well-known state-owned enterprise (an independent third party) for obtaining its engagement in the construction of a large scale steel structure module for an offshore wind power project (the “**Project**”). Should Sichuan Honghua be awarded the engagement contract, Sichuan Honghua would need to outsource and/or purchase the Products and Services from Shanghai Offshore and its Associates and/or other independent third parties to enable it to undertake the Project. Therefore, the annual cap for 2020 is significantly higher than the historical transaction amount as it has taken into account the possible transaction amounts of the Products and Services that may be sourced from Shanghai Offshore and its Associates in the event Sichuan Honghua be awarded the engagement contract for the Project.

As Sichuan Honghua is still in discussion with the potential parties, there is no assurance that the engagement of the Project and other contracts be finally awarded to Sichuan Honghua and, if awarded, whether the final terms of engagement for the Project and other contracts meet with the expectation of the Group. Depending on the status of development and the actual scale (with detailed terms) of the Project and other contracts, the Company may publish further announcement(s) to adjust the terms and/or magnitude of the annual cap and if required obtain the approval from independent shareholders at general meeting.

Pricing policy

Prices and terms payable by the Group to Shanghai Offshore and its Associates for the Products and Services shall be based on the costs of the materials and services plus a charge of not more than 10% or on terms no less favourable than those terms offered by independent third party suppliers. Enquiry process will be conducted by making reference to at least two other transactions with unrelated third parties with similar procurement qualifications and capabilities for provision of similar Products and Services to make the comparison and determine if the prices and terms offered by Shanghai Offshore and its Associates are better, and are fair and reasonable and comparable to those offered by independent third parties.

If the prices and terms for the Products and Services offered by Shanghai Offshore and its Associates are similar to those offered by independent third parties, preference will be given to Shanghai Offshore and its Associates since it will enhance the value of the 49% equity interests of Shanghai Offshore currently held by the Group.

Moreover, due to the limitations on the technical specifications for certain equipment or specific requirements for the supply of certain products, there are situations where the Company could only obtain one quotation. Upon such situation, the Company will consider the recent purchase price of such products and services and the market fluctuation of the costs of the materials and the price will be determined after arm's length negotiation.

Internal control

The Group will, through the Group's internal control procedures and a series of risk management arrangements in accordance with the regulatory requirements, endeavor to maintain its independency in decision-making as well as the fairness of the prices and terms of each continuing connected transaction.

Such arrangements shall include:

1. each continuing connected transaction contemplated under the Purchase Framework Agreement shall be conducted on a non-exclusive basis. The Group has the flexibility to enter into arrangement with third party for purchasing or selling equipment and materials and/or provision of services as it deems fit;

2. the Group will keep and continue to update a centralised list of eligible suppliers whom are shortlisted based on their procurement qualification, capability to procure products with specific technical requirements, and the Group's past experience in dealing with each of such suppliers. Prior to the entering into of the transactions by Sichuan Honghua and Shanghai Offshore under the Purchase Framework Agreement, the business department of Sichuan Honghua shall submit an application and the procurement department of Sichuan Honghua shall organize and select suppliers from the list, which shall also be subject to consideration and approval by the Chairman's Office of Sichuan Honghua so as to ensure the fairness and reasonableness of relevant terms and pricing;
3. the pricing mechanism is transparent and the implementation of such pricing mechanism is subject to strict scrutiny by the finance department, technical department, internal audit department and the legal department of the Company. This will ensure that the transactions are conducted in accordance with the relevant pricing policies and the quotes obtained meet with the specification requirements; and
4. The internal audit department of the Company will also conduct audit on the continuing connected transactions to ascertain whether such continuing connected transactions are conducted under fair and reasonable terms and accordingly whether the interest of the Company will be affected. 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 cap have been exceeded.

On behalf of the Board
Honghua Group Limited
Jin Liliang
Chairman

PRC, 11 February 2020

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, Mr. Chang Qing and Mr. Wei Bin.