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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 AND MAJOR TRANSACTION FINANCIAL COOPERATION AGREEMENT

As disclosed by the announcement dated 1 June 2018 and the circular dated 5 June 2018 of the Company, the Company and Aerospace Science and Industry Financial Corporation entered into the Existing Financial Cooperation Agreement on 1 June 2018, which will expire on 31 May 2021. On 12 May 2021, the Company and Aerospace Science and Industry Financial Corporation entered into a Financial Cooperation Agreement, pursuant to which, Aerospace Science and Industry Financial Corporation will provide the Company with deposit services, lending and other comprehensive credit facilities services, and settlement services.

IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, CASIC indirectly holds 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 and its subsidiaries together hold a 100% equity interest in Aerospace Science and Industry Financial Corporation, thus Aerospace Science and Industry Financial Corporation is an associate of CASIC and in turn a connected person of the Company. Therefore, the transactions under the Financial Cooperation Agreement constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

In respect of the deposit services under the Financial Cooperation Agreement, as one or more of the applicable percentage ratios of the transaction are higher than 25% but all are less than 100%, the above transactions also constitute major transaction of the Company under Chapter 14 of the Listing Rules. In respect of the lending and other comprehensive credit facilities services under the Financial Cooperation Agreement, one or more of the applicable percentage ratios of the transactions are higher than 5%. Therefore, the deposit services under the Financial Cooperation Agreement are subject to the reporting, announcement, annual review and the Independent Shareholders' approval requirements under Chapters 14 and 14A of the Listing Rules, and the lending and other comprehensive credit facilities services under the Financial Cooperation Agreement are subject to the reporting, announcement, annual review and the Independent Shareholders' approval requirements under Chapters 14A of the Listing Rules.

The Company has established an Independent Board Committee and has appointed Gram Capital as an independent financial adviser. Independent Shareholders' approval for the Financial Cooperation Agreement will be sought at the AGM. A circular containing, among others, details on the Financial Cooperation Agreement, a letter of recommendation from the Independent Board Committee to the Independent Shareholders, and a letter of advice from Gram Capital to the Independent Board Committee and the Independent Shareholders will be despatched to Shareholders on or before 14 May 2021. As CASIC is deemed to have interest in the Financial Cooperation Agreement and thus CASIC and its associates will abstain from voting on approving the Financial Cooperation Agreement (including the proposed annual caps thereunder) at the AGM.

I. FINANCIAL COOPERATION AGREEMENT

As disclosed by the Company's announcement dated 1 June 2018 and circular dated 5 June 2018, the Company and Aerospace Science and Industry Financial Corporation entered into the Existing Financial Cooperation Agreement on 1 June 2018, which will expire on 31 May 2021.

Upon the approval of the Board of the Company, the Company and Aerospace Science and Industry Financial Corporation entered into the Financial Cooperation Agreement on 12 May 2021. A summary of the principal terms of the Financial Cooperation Agreement is set out as follows:

Parties:

- (1) the Company; and
- (2) Aerospace Science and Industry Financial Corporation

Term:

Three years from 1 June 2021

Provision of Financial Services

According to the Financial Cooperation Agreement, Aerospace Science and Industry Financial Corporation will provide the Group with financial services including:

- (1) deposit services;
- (2) lending and other comprehensive credit facilities services; and
- (3) free settlement services.

Proposed Annual Caps of Transactions under the Financial Cooperation Agreement

	For the year ending 31 December 2021 <i>RMB</i>	For the year ending 31 December 2022 <i>RMB</i>	For the year ending 31 December 2023 <i>RMB</i>	For the 5 months from 1 January 2024 to 31 May 2024 <i>RMB</i>
Daily maximum balance of deposits (including accrued interests) placed by the Group with Aerospace Science and Industry Financial Corporation	1,500,000,000	1,500,000,000	1,500,000,000	1,500,000,000
Cap of lending and other comprehensive credit facilities services provided by Aerospace Science and Industry Financial Corporation to the Group and secured by the Group's assets	650,000,000	650,000,000	650,000,000	650,000,000

In determining the proposed annual caps under the Financial Cooperation Agreement, the Board has considered the following factors: (i) the historical transaction data between the Group and Aerospace Science and Industry Financial Corporation; (ii) the total cash and cash equivalents of the Group of RMB0.889 billion and RMB0.952 billion as at 31 December 2019 and 31 December 2020 respectively; and (iii) the total cash and cash equivalents of the Group of RMB1.85 billion as at 30 June 2017; and (iv) the maximum balance of the loan of the Group of RMB0.543 billion and RMB0.653 billion due to Aerospace Science and Industry Financial Corporation for the year ended 31 December 2019 and the year ended 31 December 2020 respectively.

In particular, in determining the proposed annual caps of lending and other comprehensive credit facilities services to be provided by Aerospace Science and Industry Financial Corporation to the Group under the Financial Cooperation Agreement, the Board has taken into account the following additional factors: (i) according to the Group's business plan and budget, the Group expects to have relatively large capital needs in several drilling rig projects, offshore wind power projects, and fracturing service businesses; (ii) Aerospace Science and Industry Financial Corporation, which used to provide financial support to the Group and has historical cooperation with the Group, has sufficient capital sources, relatively low capital costs and relatively stable credit policy, and can provide the Group with stable financing support; in comparison, the credit policy of independent-third-party financial institutions, which are affected by various factors such as regulatory policies, the credit scale of the head office, the capital costs and other factors, is relatively uncertain. Therefore, the Group needs the continuous and stable financing support from Aerospace Science and Industry Financial Cooperation.

In accordance with its management requirements, Aerospace Science and Industry Financial Cooperation conducts a thorough assessment on its borrowers on annual basis based on the borrowers' financial and operating conditions in the previous year, determines the ratings of the borrowers, and in turn determines the amount of credit facilities to be granted to the borrowers in accordance with their respective rating. Due to the impacts of COVID-19 and declined demands in the oil service market, the financial performance of the Group in the year of 2020 recorded a decline as compared with the years of 2018 and 2019, which is not expected to suffice for obtaining 100% unsecured loans and/or credit facilities from Aerospace Science and Industry Financial Corporation in the year of 2021. Furthermore, since the COVID-19 has not been fully controlled, there still exist uncertainties in the oil and gas market, thus the loan policy to be provided by Aerospace Science and Industry Financial Corporation to the Group during the future three years is likely to become increasingly stricter.

According to the credit approval requirements of Aerospace Science and Industry Financial Cooperation, asset security must be provided by the Group for certain proportion of the loans and credit facilities granted as credit enhancement measures, and the proportion of secured loans and credit facilities will be determined according to the Group's annual ratings and other specific conditions. Therefore, there are uncertainties in respect of the amount of secured loan and/or credit facilities during the term of the Financial Cooperation Agreement. In order to facilitate flexible management, an annual cap of RMB650 million for lending and other credit facilities services secured by the Group's assets is proposed for Independent Shareholders' approval for each of the year during the term of the Financial Cooperation Agreement.

Historical Transaction Amounts of Transactions under the Financial Cooperation Agreement

	For the year ended 31 December 2018 <i>RMB</i>	For the year ended 31 December 2019 <i>RMB</i>	For the year ended 31 December 2020 <i>RMB</i>	For the three months from 1 January 2021 to 31 March 2021 <i>RMB</i>
Daily maximum balance of deposits (including accrued interests) placed by the Group with Aerospace Science and Industry Financial Corporation	93,424,000	304,713,773	515,182,818	58,207,162
Maximum balance of lending and other comprehensive credit facilities provided by Aerospace Science and Industry Financial Corporation to the Group and secured by the Group assets	70,000,000	70,000,000	0	0

Annual Caps under the Existing Financial Cooperation Agreement

	For the year ended 31 December 2018 <i>RMB</i>	For the year ended 31 December 2019 <i>RMB</i>	For the year ended 31 December 2020 <i>RMB</i>	For the 5 months ending 31 May 2021 <i>RMB</i>
Daily maximum balance of deposits (including accrued interests) placed by the Group with Aerospace Science and Industry Financial Corporation	1,500,000,000	1,500,000,000	1,500,000,000	1,500,000,000

The Directors monitor the transaction amounts under the Existing Financial Cooperation Agreement on an ongoing basis. As at the date of this announcement, the transaction amounts under the Existing Financial Cooperation Agreement have not exceeded the annual cap for the 5 months ending 31 May 2021.

Pricing Policy

The price of each transaction under the Financial Cooperation Agreement shall be determined in accordance with the following pricing policy:

- (1) the applicable deposit interest rate of the Group at Aerospace Science and Industry Financial Corporation shall not be lower than the benchmark interest rate stipulated by the PBOC for such type of deposit during the same period, and shall be determined on general commercial terms;
- (2) the interest rates for the loans granted by Aerospace Science and Industry Financial Corporation to the Group shall be in accordance with the relevant regulations of the PBOC and the relevant loan interest rate policies and regulations of Aerospace Science and Industry Financial Corporation. At the time of entering into each loan contract, both parties shall negotiate with each other based on the market conditions of the time, and the interest rate shall generally not exceed the interest rate of the same kind of loans obtained by the Group from major commercial banks in the PRC during the same period;
- (3) for various financial services other than deposits and loans provided to the Group, fees charged by Aerospace Science and Industry Financial Corporation shall follow the principle of fairness and reasonableness and shall be charged at a rate no higher than the fair market price or the standard prescribed by the PRC;
- (4) the settlement expenses incurred by Aerospace Science and Industry Financial Corporation for the provision of settlement services for the Group shall be borne by Aerospace Science and Industry Financial Corporation. The Group shall not bear the relevant settlement expenses.

II. INTERNAL CONTROL PROCEDURES FOR THE TRANSACTIONS UNDER THE FINANCIAL COOPERATION AGREEMENT

In respect of the deposit services, the personnel in the finance department of the Group is responsible for comparing the interest rates offered by Aerospace Science and Industry Financial Corporation against the deposit interest rates announced by the PBOC, and further against the deposit interest rates offered by at least two major commercial banks in the PRC, so as to confirm that the interest rates offered by Aerospace Science and Industry Financial Corporation are not less favourable than such interest rates in respect of the Group, while all of this information together with the daily deposit amount (with the corresponding accrued interests) will be included in the report to be submitted to the Chief Financial Officer of the Group for review, verification and approval. The auditors and audit committee of the Company will also conduct annual review of the deposit services to confirm whether such services have been conducted in compliance with the pricing policies or system and whether the relevant annual caps have been exceeded. The above control procedures will make sure the interest rates and terms of the deposit services offered to the members of the Group are in compliance with the terms and conditions under the Financial Cooperation Agreement, and can monitor that the aggregate daily deposit amount (together with the corresponding accrued interests) placed by the Group with Aerospace Science and Industry Financial Corporation will not exceed the relevant proposed annual caps.

In respect of lending and other comprehensive credit facilities services, the personnel in the finance department of the Group is responsible for comparing the lending rates offered by Aerospace Science and Industry Financial Corporation against the benchmark lending rates announced by the PBOC, and further against the lending rates offered by at least two major commercial banks in the PRC, so as to confirm that the lending rates offered by Aerospace Science and Industry Financial Corporation are not higher than the rates applicable to the same type of loan services provided by major commercial banks in the PRC to the Group, and loan agreements shall be determined on normal commercial terms. Each of the loans of the Group at Aerospace Science and Industry Financial Corporation will be submitted to the management of the Group for review and approval in accordance with the relevant policies. The auditors and audit committee of the Company will also conduct annual review of the lending and other comprehensive credit facilities services to confirm whether such services have been conducted in compliance with the pricing policies or system and whether the relevant annual caps have been exceeded. The above control procedures will make sure the loans of the Group at Aerospace Science and Industry Financial Corporation are in compliance with the terms and conditions under the Financial Cooperation Agreement, and can monitor that the amount of mortgage loans secured by the Group from Aerospace Science and Industry Financial Corporation will not exceed the relevant proposed annual caps.

III. REASONS FOR AND BENEFITS OF ENTERING INTO THE FINANCIAL COOPERATION AGREEMENT

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

Aerospace Science and Industry Financial Corporation is incorporated in the PRC. As a non-bank financial institution invested and established by CASIC and its affiliates, it is principally engaged in financial services for various units within CASIC, such as deposits and loans, fund settlement, bill acceptance and discounting as well as entrusted loans.

CASIC is incorporated in the PRC and is the ultimate beneficial owner of 100% equity interest in Aerospace Science and Industry Financial Corporation. Its principal business includes the investment, operation and management of state-owned assets; development and production of military, aerospace and civilian products; development and application services of information technology and network platform; construction, finance, healthcare, project contracting, and international operation, etc. The ultimate beneficial owner of CASIC is the State-owned Assets Supervision and Administration Commission of the State Council of the PRC.

Based on the previous cooperation between the Group and Aerospace Science and Industry Financial Corporation, the Group is expected to benefit from Aerospace Science and Industry Financial Corporation's familiarity with the Group's industry and operations. Aerospace Science and Industry Financial Corporation is relatively familiar with the Group's capital structure, business operations, fund-raising requirements, cash flow model, cash management and the entire financial management system, which helps Aerospace Science and Industry Financial Corporation provide the Group with more suitable, effective and flexible services than those provided by independent financial institutions.

The entering into the Financial Cooperation Agreement between the Company and Aerospace Science and Industry Financial Corporation is in line with the financial policies of the Group. The major reasons for and benefits of entering into the Financial Cooperation Agreement are as follows:

(1) Increase interest income and save finance costs

Subject to compliance with the relevant laws, regulations and regulatory requirements, Aerospace Science and Industry Financial Corporation will provide deposit services to the Group on normal commercial terms or more favourable terms, which will help increase the interest income of the Group. The Group handles the settlement business through its internal accounts at Aerospace Science and Industry Financial Corporation with reduced and exempted expenses, which can reduce the Group's financial handling expenses.

(2) Raise the efficiency of fund utilization

Aerospace Science and Industry Financial Corporation's deposit services will strengthen the Company's centralized management of the funds of its subsidiaries and shorten the time for capital transfers, which is beneficial for the Group to enhance fund management and control and to reduce the time for funds in transit, thereby accelerating cash flows.

(3) Enhance the management and control of the Group's funds

Aerospace Science and Industry Financial Corporation has a cutting-edge information system, through which the Group can access the latest information on its collection and payment of funds as well as the status of fund balance at any time to enable the Group, in particular, to monitor that the daily balance of deposits placed with Aerospace Science and Industry Financial Corporation will not exceed the caps, thereby reducing and avoiding operational risks.

(4) Meet the needs for working funds

Since the establishment of the cooperation, Aerospace Science and Industry Financial Corporation has granted comprehensive credit facilities to the Group over past years to provide the Group with a relatively large credit support. By entering into the Financial Cooperation Agreement, the Group will be able to obtain such loans that meet the needs for working funds for actual business operations.

Accordingly, the Directors (excluding independent non-executive Directors who will express their views after receiving opinions from Gram Capital) are of the view that the terms of the Financial Cooperation Agreement (including the deposit services, lending and other comprehensive credit facilities services contemplated thereunder as well as the proposed annual caps for such Transactions) are fair and reasonable and on normal commercial terms entered into in the ordinary and usual course of business of the Group, which are in the interests of the Company and Shareholders as a whole.

IV. IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, CASIC indirectly holds 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 and its subsidiaries together hold a 100% equity interest in Aerospace Science and Industry Financial Corporation, thus Aerospace Science and Industry Financial Corporation is an associate of CASIC and in turn a connected person of the Company. Therefore, the transactions under the Financial Cooperation Agreement constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

In respect of the deposit services under the Financial Cooperation Agreement, as one or more of the applicable percentage ratios of the transaction are higher than 25% but all are less than 100%, the above transactions also constitute major transaction of the Company under Chapter 14 of the Listing Rules. In respect of the lending and other comprehensive credit facilities services under the Financial Cooperation Agreement, one or more of the applicable percentage ratios of the transactions are higher than 5%. Therefore, the deposit services under the Financial Cooperation Agreement are subject to the reporting, announcement, annual review and the Independent Shareholders' approval requirements under Chapters 14 and 14A of the Listing Rules, and the lending and other comprehensive credit facilities services under the Financial Cooperation Agreement are subject to the reporting, announcement, annual review and the Independent Shareholders' approval requirements under Chapters 14A of the Listing Rules.

V. INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee comprising all the independent non-executive Directors (namely Mr. Liu Xiaofeng, Mr. Chen Guoming, Ms. Su Mei, Mr. Poon Chiu Kwok, Mr. Chang Qing and Mr. Wei Bin) has been established to advise the Independent Shareholders in respect of the Financial Cooperation Agreement and the annual caps of the deposit services and lending and other comprehensive credit facilities services thereunder. Gram Capital has been appointed by the Company with the approval of the Board to advise the Independent Board Committee and the Independent Shareholders in this regard.

The entering into of the Financial Cooperation Agreement (including the Transactions contemplated thereunder and the relevant proposed caps) was approved by all the Directors, except for Mr. Jin Liliang, Mr. Han Guangrong and Mr. Chen Wenle, who are Directors appointed by CASIC and its associates and are deemed to have interest in the Financial Cooperation Agreement and thus had abstained from voting on the Financial Cooperation Agreement.

VI. ANNUAL GENERAL MEETING

The Company will seek approval from the Independent Shareholders in respect of the Financial Cooperation Agreement (including the deposit services and lending and other comprehensive credit facilities services contemplated thereunder and the relevant proposed caps) at the AGM. A circular containing, among others, details on the Financial Cooperation Agreement, a letter of recommendation from the Independent Board Committee to the Independent Shareholders, and a letter of advice from Gram Capital to the Independent Board Committee and the Independent Shareholders will be despatched to Shareholders on or before 14 May 2021.

As CASIC has interest in the Financial Cooperation Agreement, CASIC and its associates will abstain from voting on the Financial Cooperation Agreement (including the deposit services and lending and other comprehensive credit facilities services contemplated thereunder and the relevant proposed caps) at the AGM.

VII. DEFINITIONS

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

“Aerospace Science and Industry Financial Corporation”	Aerospace Science and Industry Financial Corporation, a company incorporated in the PRC with limited liability, and a non-bank financial institution established by CASIC and its subsidiaries;
“AGM”	the annual general meeting of the Company to be held in 2021, for the purpose of, inter alia, considering and approving the Financial Cooperation Agreement;
“associate(s)”	has the meaning ascribed to it under the Listing Rules;
“Board”	the board of Directors;
“CASIC”	China Aerospace Science and Industry Corporation (中國航天科工集團有限公司), 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(s)”	has the meaning ascribed to it under the Listing Rules;

“Director(s)”	director(s) of the Company;
“Existing Financial Cooperation Agreement”	the financial cooperation agreement for the provision of financial services dated 1 June 2018 entered into between the Company and Aerospace Science and Industry Financial Corporation;
“Financial Cooperation Agreement”	the financial cooperation agreement for the provision of financial services dated 12 May 2021 entered into between the Company and Aerospace Science and Industry Financial Corporation;
“Group”	the Company and its subsidiaries;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“Independent Board Committee”	the independent committee of the Board, comprising all the independent non-executive Directors, established to make recommendations to the Independent Shareholders in respect of the Financial Cooperation Agreement;
“Independent Financial Adviser” or “Gram Capital”	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Transactions;
“Independent Shareholder(s)”	Shareholder(s) other than CASIC and its associates;
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
“PBOC”	The People’s Bank of China;
“PRC”	the People’s Republic of China;
“RMB”	Renminbi, the lawful currency of the PRC;

“Share(s)”	the ordinary share(s) of HK\$0.1 each in the share capital of the Company;
“Shareholder(s)”	holder(s) of ordinary share(s) of nominal value of HK\$0.10 each in the share capital of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Transactions”	the deposit services and the lending and other comprehensive credit facilities services contemplated under the Financial Cooperation Agreement;
“%”	per cent.

By order of the Board
Honghua Group Limited
Jin Liliang
Chairman

PRC, 12 May 2021

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.