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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)**

**CONTINUING CONNECTED TRANSACTIONS –**

**(1) PURCHASE FRAMEWORK AGREEMENT**

**(2) SALES FRAMEWORK AGREEMENT**

**(3) FINANCE LEASE FRAMEWORK AGREEMENT**

**CONTINUING CONNECTED TRANSACTION AND**

**MAJOR TRANSACTION –**

**FINANCIAL SERVICES FRAMEWORK AGREEMENT**

**Independent Financial Adviser to the  
Independent Board Committee and the Independent Shareholders**



**Gram Capital Limited**  
**嘉林資本有限公司**

**PURCHASE FRAMEWORK AGREEMENT**

On 30 September, 2022, the Company entered into the Purchase Framework Agreement with DFEC, pursuant to which, the Group will purchase products and services from DFEC Group.

**SALES FRAMEWORK AGREEMENT**

On 30 September, 2022, the Company entered into the Sales Framework Agreement with DFEC, pursuant to which, the Group will sell products and services to DFEC Group.

**FINANCE LEASE FRAMEWORK AGREEMENT**

On 30 September, 2022, the Company entered into the Finance Lease Framework Agreement with DFEC, pursuant to which, the Group will provide DFEC Group with finance leasing services.

**FINANCIAL SERVICES FRAMEWORK AGREEMENT**

On 30 September, 2022, the Company entered into the Financial Services Framework Agreement with Dongfang Electric Finance, pursuant to which, Dongfang Electric Finance will provide the Group with deposit services, lending services and settlement services.

## **LISTING RULES IMPLICATIONS**

As at the date of this announcement, as Dongfang Electric Corporation directly and indirectly holds approximately 29.98% of the issued share capital of the Company, it is a substantial shareholder within the meaning of the Listing Rules and is therefore a connected person of the Company. Dongfang Electric Corporation is the controlling shareholder of DFEC within the meaning of the Listing Rules. DFEC is an associate of Dongfang Electric Corporation and therefore a connected person of the Company. Accordingly, the Dongfang Electric Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios related to the transactions under the Purchase Framework Agreement, Sales Framework Agreement and Finance Lease Framework Agreement exceed 5%, the transactions are subject to the reporting, announcement, annual review requirements and Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

In respect of the Deposit Services under the Financial Services Framework Agreement, as one or more of the applicable percentage ratios of the transaction are higher than 25%, such transactions also constitute major transaction of the Company under Chapter 14 of the Listing Rules. Therefore, the transactions relating to the Deposit Services under the Financial Services Framework Agreement are subject to the reporting, announcement, annual review and the Independent Shareholders' approval requirements under Chapters 14 and 14A of the Listing Rules.

In respect of the Lending Services under the Financial Services Framework Agreement, one or more of the applicable percentage ratios of the transactions are higher than 5% but less than 25%. The transactions relating to the Lending Services under the Financial Services Framework Agreement are subject to the reporting, announcement, annual review and the Independent Shareholders' approval requirements under Chapters 14A of the Listing Rules.

In respect of settlement services under the Financial Services Framework Agreement, each of the applicable percentage ratios is less than 0.1% on an annual basis. The transaction relating to the settlement services under the Financial Services Framework Agreement are exempt from the reporting, announcement, annual review and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

## **APPROVAL FROM THE INDEPENDENT SHAREHOLDERS**

The Company will seek approval from the Independent Shareholders in respect of the Dongfang Electric Framework Agreement (including the Dongfang Electric Continuing Connected Transactions and the annual proposed caps in relation thereto) at the EGM. A circular containing, among others, details on the Dongfang Electric Framework 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 6 October 2022.

Dongfang Electric Corporation and its associates (holding 1,606,000,000 Shares or approximately 29.98% of the Shares in the Company as at the date of this announcement) who are involved in, or interested in the Dongfang Electric Framework Agreements will abstain from voting in the relevant resolution at the EGM.

## 1. PURCHASE FRAMEWORK AGREEMENT

On 30 September, 2022, the Company entered into the Purchase Framework Agreement with DFEC, pursuant to which, the Group will purchase products and services from DFEC Group, the details of which are as follows.

### Principal terms

The principal terms of the Purchase Framework Agreement are summarised as follows:

Date:	30 September 2022
Parties:	1) The Company (as the Purchaser and on behalf of its subsidiaries); and 2) DFEC (as the Seller, for itself and on behalf of its subsidiaries and associates)
Term:	From 26 October 2022 to 31 December 2024
Subject matter:	The Group will purchase products (including but not limited to materials and equipments such as steel, oil storage tanks, casing heads and preventers, semi-finished products, parts and components, production tools and others) and services (including but not limited to processing services, technical services, inspection and testing services, after-sales and engineering services, transportation services and others) from DFEC Group.

### Pricing principles

The relevant terms for the provision of the products and services by DFEC Group to the Group will be determined based on the nature of each transaction. The details of pricing will be determined by taking into account comprehensive factors, such as the quality, payment terms and transportation conditions of the products and services provided by DFEC Group in accordance with the Group's request on the specifications of the relevant products and services, after the arm's length negotiation with reference to the prevailing market prices (including the quotation for similar products and services offered by Independent Third Parties), and on normal commercial terms and terms no less favourable than terms of the transactions between the Group and Independent Third Parties.

Furthermore, prices payable by the Group to DFEC Group for the products and services shall be determined as follows:

- (a) where there are market prices for the relevant products and services, the prices shall be determined with reference to the prevailing market prices, which is:
  - (i) price offered by DFEC Group to an Independent Third Party customer in respect of the supply or provision of the same or similar products or services on normal commercial terms in the ordinary course of business. In terms of product prices, pricing is generally based on the estimated costs (including but not limited to raw material costs, labor costs and other production related costs) incurred in providing

the products, and is calculated based on the expected reasonable profit margin level. In terms of service prices, the pricing is generally based on the estimated costs (including but not limited to labor costs, administrative management costs and material costs) incurred in providing the services, and is calculated based on the expected reasonable profit margin level; or

- (ii) the price obtained by the Group by way of open tender or negotiated tender, provided that Independent Third Parties shall participate in the open tender or negotiated tender and the procedures of the open tender or negotiated tender shall comply with the requirements of applicable laws; and
- (b) where there are no market prices for the relevant products and services which meet the specific business needs of the Group, the prices shall be determined after arm's length negotiation based on the costs of the materials and services plus a charge of not more than 15%.

The Group will obtain the prevailing market prices through various channels (if applicable), including (i) recent comparable transactions involving Independent Third Party suppliers; and (ii) contacting Independent Third Party suppliers by phone calls and emails for communication of similar product and service prices.

### **Historical amount**

During the year ended 31 December 2021 and the seven months ended 31 July 2022, the aggregate amount of products and services purchased by the Group from DFEC Group were RMB60,256,153 and RMB78,844,540, respectively.

### **Proposed annual caps and basis of determination**

The respective annual caps under the Purchase Framework Agreement for the period from 26 October to 31 December 2022 and each of the years ended 31 December 2023 and 2024 are RMB550 million, RMB1,000 million, and RMB1,000 million, respectively.

The annual caps of the Purchase Framework Agreement are determined based on the following factors:

- (i) the historical transactions between the Group and DFEC Group;
- (ii) the proposed cooperation projects of the Group with DFEC Group, the progress of project delivery, and the Company's expected procurement needs in respect of the relevant products and services during the term of the Purchase Framework Agreement. After Dongfang Electric Corporation became the substantial shareholder of the Company, the Company intends to strengthen business cooperation in the fields of electricity, new energy, petroleum machinery and ancillary materials, and oil services by combining the advantages and characteristics of both parties. The cooperation projects mainly include (a) the oil storage tank material project, casing head and preventer project, coal-fired power plant project, wind power project and steel procurement planned to be launched in 2022; (b) wind power projects and steel procurement such as coal-fired power plant project, booster station and jacket manufacturing planned to be launched in 2023; and (c) wind power project and steel procurement planned to be launched in 2024; and

- (iii) It is estimated that most of the transactions will be completed by 2022, based on the proposed plan on the cooperation progress and delivery requirements with DFEC Group. Therefore, the cap under the Purchase Framework Agreement for the period from 26 October to 31 December 2022 is 50% higher than the annual caps for each of 2023 and 2024.

### **Reasons and benefits of the transaction**

The purchase of the products and services by the Group from DFEC Group is based upon comprehensive consideration of the competitive edges of DFEC Group such as its qualifications, experience, centralized procurement, payment terms and transportation capabilities, all of which are conducive to meeting the Group's needs for quality and delivery time. After purchasing steel, oil storage tanks, casing heads and other equipments from DFEC Group, the Group will trade these products to overseas independent third-party customers to meet the needs of Nigeria oil storage tank project, Turkmenistan casing head and blowout preventer project and Uzbekistan coal-fired power station project. The Group will also process steel materials procured from DFEC Group into steel structural parts and sell them to independent wind power project contractors in China. Therefore, entering into the Purchase Framework Agreement is conducive to broadening the Group's customer base and sales channels, expanding the Group's international sales market share and increasing the Group's sales revenue. The Group and DFEC Group have well-established cooperation foundation and smooth communication, which is conducive to the implementation and furtherance of transactions. In addition, through business cooperation in multiple projects, the Company and DFEC Group can make full use of the industrial foundation and advantages of both parties, and further enhance the strength of both companies.

The Company will retain the flexibility and discretion to select products and services suppliers from DFEC Group and/or other Independent Third Parties based on arm's length negotiations after taking into consideration commercial terms and other factors.

Accordingly, the Directors (excluding independent non-executive Directors who will express their views in the Letter from the Independent Board Committee) are of the view that the Purchase Framework Agreement (including the transactions as contemplated thereunder and the proposed annual caps in relation thereto) are carried out in the ordinary course of business of the Group, on normal commercial terms which are fair and reasonable, and in the interest of the Company and the Shareholders as a whole.

### **Listing Rules implications**

As at the date of this announcement, as Dongfang Electric Corporation directly and indirectly holds approximately 29.98% of the issued share capital of the Company, it is a substantial shareholder within the meaning of the Listing Rules and is therefore a connected person of the Company. Dongfang Electric Corporation is the controlling shareholder of DFEC within the meaning of the Listing Rules. DFEC is an associate of Dongfang Electric Corporation and therefore a connected person of the Company. Accordingly, the Purchase Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios related to the transactions under the Purchase Framework Agreement exceed 5%, the transaction is subject to the reporting, announcement, annual review requirements and Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

## 2. SALES FRAMEWORK AGREEMENT

On 30 September, 2022, the Company entered into the Sales Framework Agreement with DFEC, pursuant to which, the Group will sell products and services to DFEC Group, the details of which are as follows.

### Principal terms

The principal terms of the Sales Framework Agreement are summarised as follows:

Date:	30 September 2022
Parties:	1) The Company (as the Seller and on behalf of its subsidiaries); and 2) DFEC (as the Purchaser, for itself and on behalf of its subsidiaries and associates)
Term:	From 26 October 2022 to 31 December 2024
Subject matter:	The Group will sell products (including but not limited to structural parts such as weldments products for containers, steel structure products, semi-finished products, accessories, equipments such as fuel tank, oil tank and pressure vessels, parts and components and others) and provide services (including but not limited to processing services, technical services, inspection and testing services, sales of electronic control, electric machinery products and after-sales services, engineering services and others) to DFEC Group.

### Pricing principles

The relevant terms for the provision of the products and services by the Group to DFEC Group will be determined based on the nature of each transaction. The details of pricing will be determined by taking into account comprehensive factors such as the quality, payment terms and transportation conditions of the products and services provided by the Group in accordance with DFEC Group's request on the specifications of the relevant products and services, after the arm's length negotiation with reference to the prevailing market prices (including the quotation for similar products and services offered by Independent Third Parties), and on normal commercial terms and terms no less favourable than terms of the transactions between the Group and Independent Third Parties.

Furthermore, prices payable by DFEC Group to the Group for the products and services shall be determined as follows:

- (a) where there are market prices for the relevant products and services, the prices shall be determined with reference to the prevailing market prices, which is:
  - (i) price offered by the Group to an Independent Third Party customer in respect of the supply or provision of the same or similar products or services on normal commercial terms in the ordinary course of business. In terms of product prices, pricing is generally based on the estimated costs (including but not limited to raw material costs, labor costs and other production related costs) incurred in providing the products, and is calculated based on the expected reasonable profit margin

level. In terms of service prices, the pricing is generally based on the estimated costs (including but not limited to labor costs, administrative management costs and material costs) incurred in providing the services, and is calculated based on the expected reasonable profit margin level; or

- (ii) the price obtained by DFEC Group by way of open tender or negotiated tender, provided that Independent Third Parties shall participate in the open tender or negotiated tender and the procedures of the open tender or negotiated tender shall comply with the requirements of applicable laws; and
- (b) where there are no market prices for the relevant products and services which meet the specific business needs of DFEC Group, the prices shall be determined after arm's length negotiation based on the costs of the materials and services plus a charge of not more than 15%. The Group expects that the minimal markup on the costs of the materials and services as provided will be 5%.

The Group will obtain the prevailing market prices through various channels (if applicable), including (i) recent comparable transactions involving Independent Third Party customers; and (ii) contacting Independent Third Party customers by phone calls and emails for communication of similar product and service prices.

### **Historical amount**

During the year ended 31 December 2021 and the seven months ended 31 July 2022, the aggregate amount of products and services (mainly including steel structure products and construction services such as jackets and booster stations required for wind power projects) offered by the Group to DFEC Group were RMB197,859,517 and RMB12,533,473, respectively. For the seven months ended 31 July 2022, the total amount of products and services provided by the Group to the DFEC Group decreased significantly as compared to the year ended 31 December 2021 because the Group's sales of products and services to the DFEC Group in 2021 were mainly for the construction of steel structures such as jackets and booster stations for wind power projects. Due to the cyclical nature of the approval and undertaking of wind power projects, the cooperation projects in negotiation between the Group and the DFEC Group are expected to commence in the second half of 2022.

### **Proposed annual caps and basis of determination**

The respective annual caps under the Sales Framework Agreement for the period from 26 October to 31 December 2022 and each of the years ended 31 December 2023 and 2024 are RMB500 million, RMB800 million, and RMB800 million, respectively.

The annual caps of the Sales Framework Agreement are determined based on the following factors:

- (i) the historical transactions between the Group and DFEC Group;
- (ii) the proposed cooperation projects of the Group with DFEC Group, the progress of project delivery, and expected procurement needs in respect of the relevant products and services of DFEC Group during the term of the Sales Framework Agreement. After Dongfang Electric Corporation became the substantial shareholder of the Company, the Company intends to strengthen business cooperation in the fields of electricity, new energy, petroleum machinery and ancillary materials, and oil services by combining the

advantages and characteristics of both parties. The cooperation projects are managed by and/or with participation of DFEC Group, which mainly include (a) the Shandong Muping project, the wind power project, the steel structure project, the provision of electrical control equipment and motor services, the contracting of high and low voltage cabinets, the centralized procurement of high and low voltage devices and new energy photovoltaic power station planned to be launched in 2022; (b) wind power project and steel structure project planned to be launched in 2023; and (c) wind power project and steel structure project planned to be launched in 2024; and

- (iii) It is estimated that most of the transactions will be completed by 2022, based on the proposed plan on the cooperation progress and delivery requirements with DFEC Group. Therefore, the caps under the Purchase Framework Agreement for the period from 26 October to 31 December 2022 are 50% higher than the annual caps for each of 2023 and 2024.

### **Reasons and benefits of the transaction**

Due to the production needs of the projects, DFEC Group needs to purchase a large number of products and services including raw materials, equipment and parts and components related to the projects. The Group currently possesses relevant products and technical services, which can meet the needs of the projects of DFEC Group. Entering into the Sales Framework Agreement is beneficial for selling relevant products and technical services to DFEC Group, thus increasing the Group's revenue. In addition, entering into the Sales Framework Agreement is in line with the business development needs of the Group, achieving full synergic effect between the Group and DFEC Group in fair and reasonable manner, and realising the complementarity of resources and win-win situation for all parties.

The Company will retain the flexibility and discretion to select products and services purchasers among DFEC Group and/or other Independent Third Parties based on arm's length negotiations after taking into consideration commercial terms and other factors.

Accordingly, the Directors (excluding independent non-executive Directors who will express their views in the Letter from the Independent Board Committee) are of the view that the Sales Framework Agreement (including the transactions as contemplated thereunder and the proposed annual caps in relation thereto) are carried out in the ordinary course of business of the Group, on normal commercial terms which are fair and reasonable, and in the interest of the Company and the Shareholders as a whole.

### **Listing Rules implications**

As at the date of this announcement, as Dongfang Electric Corporation directly and indirectly holds approximately 29.98% of the issued share capital of the Company, it is a substantial shareholder within the meaning of the Listing Rules and is therefore a connected person of the Company. Dongfang Electric Corporation is the controlling shareholder of DFEC within the meaning of the Listing Rules. DFEC is an associate of Dongfang Electric Corporation and therefore a connected person of the Company. Accordingly, the Sales Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios related to the transactions under the Sales Framework Agreement exceed 5%, the transaction is subject to the reporting, announcement, annual review requirements and Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.



### 3. FINANCE LEASE FRAMEWORK AGREEMENT

On 30 September, 2022, the Company entered into the Finance Lease Framework Agreement with DFEC, pursuant to which, the Group will provide DFEC Group with finance leasing services, the details of which are as follows.

#### Principal terms

The principal terms of the Finance Lease Framework Agreement are summarised as follows:

Date:	30 September 2022
Parties:	(1) The Company (as the Lessor and on behalf of its subsidiaries); and (2) DFEC (as the Lessee, for itself and on behalf of its subsidiaries and associates)
Term:	26 October 2022 to 31 December 2024
Subject matter:	The Group will provide DFEC Group with finance leasing services, including but not limited to sale and leaseback services and direct leasing services, and collect rental income from DFEC Group for the provision of the such finance leasing services.

#### Pricing principles

The lease consideration is made up by the purchase price (in the case of direct lease) or value (in the case of the sale and leaseback) of the leased equipment, the lease interest and handling fee (if any) agreed by both parties. The lease consideration will be determined after arm's length negotiation between the Group and DFEC Group with reference to the market price of the same type of finance leased assets.

- In terms of the sale and leaseback services, the Group will purchase the leased properties from DFEC Group and then lease the same back for an agreed term and receive lease payment on a periodic basis. The basis for determining the value of the leased properties follows the market practice and the lease principal will not exceed the net book value or appraised value of the leased properties;
- In terms of the direct finance leasing services, the Group will purchase the leased properties from suppliers upon the instructions and selection of DFEC Group, and then lease the properties to DFEC Group for an agreed term and receive lease payment on a periodic basis. The principal amount is the purchase price of the leased properties from the supplier which is negotiated by the lessee with the supplier on normal commercial terms and by reference to the market price of such properties.

In determining the lease interest charged to DFEC Group, the Company will consider, among other things: (i) market conditions and the benchmark interest rate for term loans announced by the PBOC from time to time; (ii) terms and conditions no less favourable to the Group than those offered to similarly qualified lessees; and (iii) the credit evaluation of the lessee, the term of the finance leasing agreement, the principal amount, regulatory policy orientation, industry development strategies and the lessee's business model and credit enhancement measures.

In determining the handling fee charged to DFEC Group, the Company will be considered, among other things: (i) the applicable rates for related services as announced by the PBOC from time to time; and (ii) for the Group no less favourable than terms and conditions offered to similarly qualified lessees.

### **Historical amount**

During the years ended 31 December 2021, the Group did not provide finance leasing services to DFEC Group. From 1 January 2022 to the Latest Practicable Date, the Group has also not provided finance leasing services to DFEC Group.

### **Proposed annual caps and basis of determination**

The annual caps (including principal, lease interest and handling fees) under the Finance Lease Framework Agreement for the period from 26 October to 31 December 2022 and each of the years ended 31 December 2023 and 2024 are RMB50 million, RMB150 million, and RMB150 million, respectively.

The annual caps of the Finance Lease Framework Agreement are determined based on the following factors:

- (i) The proposed cooperation projects of the Group with DFEC Group during the term of the Finance Lease Framework Agreement. After Dongfang Electric Corporation became the substantial shareholder of the Company, the Company intends to strengthen business cooperation in the financial leasing business and adopt the method of financial leasing for part of the purchase business in order to optimize the financing structure and reduce the overall financing cost. Cooperation projects include financial leasing projects in respect of control systems, large components required for equipment and its products;
- (ii) current market conditions (including interest rate levels) and the possibility of future adjustments by the PBOC on loan interest rates; and
- (iii) the expected demand for finance leasing services by DFEC Group in accordance with their current business strategy.

### **Reasons and benefits of the transaction**

Entering into the Finance Lease Framework Agreement meets the business needs of the Group. On the one hand, the Company is familiar with the business and demands of DFEC Group while the provision of finance leasing services to DFEC Group provides stable and low-risk income to the Group. On the other hand, the on-going provision of finance leasing services to DFEC Group will help to keep DFEC Group to continue to acquire more finance leasing services from the Company.

The Company will retain the flexibility and discretion to select lessees among DFEC Group and/or other Independent Third Parties based on arm's length negotiations after taking into consideration commercial terms and other factors.

Accordingly, the Directors (excluding independent non-executive Directors who will express their views in the Letter from the Independent Board Committee) are of the view that the Finance Lease Framework Agreement (including the transactions as contemplated thereunder and the proposed annual caps in relation thereto) are carried out in the ordinary course of business of the Group, on normal commercial terms which are fair and reasonable, and in the interest of the Company and the Shareholders as a whole.

**Listing Rules implications**

As at the date of this announcement, as Dongfang Electric Corporation directly and indirectly holds approximately 29.98% of the issued share capital of the Company, it is a substantial shareholder within the meaning of the Listing Rules and is therefore a connected person of the Company. Dongfang Electric Corporation is the controlling shareholder of DFEC within the meaning of the Listing Rules. DFEC is an associate of Dongfang Electric Corporation and therefore a connected person of the Company. Accordingly, the Finance Lease Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios related to the transactions under the Finance Lease Framework Agreement exceed 5%, the transaction is subject to the reporting, announcement, annual review requirements and Independent Shareholders’ approval requirement under Chapter 14A of the Listing Rules.

**4. FINANCIAL SERVICES FRAMEWORK AGREEMENT**

On 30 September, 2022, the Company entered into the Financial Services Framework Agreement with Dongfang Electric Finance, pursuant to which, Dongfang Electric Finance will provide the Group with deposit services, lending services and settlement services, the details of which are as follows.

**Principal terms**

The principal terms of the Financial Services Framework Agreement are summarised as follows:

- Date: 30 September 2022
- Parties:
  - 1) the Company (as the Services Purchaser and on behalf of its subsidiaries); and
  - 2) Dongfang Electric Finance (as the Services Seller)
- Term: From 26 October 2022 to 31 December 2024

Subject matter: Dongfang Electric Finance will provide the Group with financial services including:

- 1) deposit services (“Deposit Services”);
- 2) lending services (“Lending Services”); and
- 3) settlement services (“Settlement Services”), the aggregate amount of which for the whole term of the agreement shall not exceed RMB1 million).

(collectively known as “Financial Services”)

### **Pricing principles**

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

- (i) in respect of Deposit Services: the deposit interest rate applicable to the Group’s deposit at Dongfang Electric Finance 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 normal commercial terms;
- (ii) in respect of Lending Services: the interest rates for the loans granted by Dongfang Electric Finance to the Group shall be in accordance with the relevant regulations of the PBOC and the relevant loan interest rate policies and regulations of Dongfang Electric Finance. At the time of entering into each specific 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; and
- (iii) in respect of Settlement Services: the aggregated settlement expenses incurred by Dongfang Electric Finance for the provision of settlement services for the Group during the agreement period shall not exceed RMB1 million.

### **Historical amount**

During the year ended 31 December 2021, Dongfang Electric Finance did not provide any financial services to the Group. From 1 January 2022 to the Latest Practicable Date, Dongfang Electric Finance has also not provided any Financial Services to the Group.

## Proposed annual caps and basis of determination

During the relevant periods, the proposed annual caps of the Deposit Services and Lending Services under the Financial Services Framework Agreement are:

	<b>For the period from 26 October to 31 December 2022 RMB</b>	<b>For the year ending 31 December 2023 RMB</b>	<b>For the year ending 31 December 2024 RMB</b>
Deposit Service:			
Daily maximum balance of deposits placed by the Group with Dongfang Electric Finance	1,200,000,000	1,800,000,000	1,800,000,000
Lending Services:			
Cap of lending provided by Dongfang Electric Finance to the Group and secured by the Group's assets	1,200,000,000	1,800,000,000	1,800,000,000

In determining the proposed annual caps of Deposit Service and Lending Services under the Financial Services Framework Agreement, the Company has considered the following factors: (i) the cash and cash equivalents of the Group of RMB952.384 million and RMB703.417 million as at 31 December 2020 and 31 December 2021, respectively; and (ii) the cash and cash equivalents of the Group of RMB347.194 million as at 30 June 2022.

In determining the proposed annual caps of Lending Services to be provided by Dongfang Electric Finance to the Group under the Financial Services Framework Agreement, the Company 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 and offshore wind power projects;
- (ii) Dongfang Electric Finance has sufficient capital sources, relatively low capital costs and relatively stable credit policy, and can provide the Group with stable financing support; and
- (iii) 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.

With aforesaid backdrops, the Group needs continuous and stable financing support from Dongfang Electric Finance. However, Dongfang Electric Finance, as a lender, shall conduct a thorough assessment on its borrowers on annual basis based on its borrowers' financial and operating conditions in the previous year, so as to determine the ratings of the borrowers, and in turn to determine the amount of credit facilities to be granted to the borrowers in accordance with their respective rating. Due to the impacts of COVID-19 in abroad, the financial performance of the Group has not been significantly improved over the previous year, which is expected that the Group is not qualify to obtain 100% unsecured loans and/or credit facilities from Dongfang Electric Finance in the year of 2022. Furthermore, since the COVID-19 has not been fully controlled, there still exist uncertainties in the oil and gas market, thus Dongfang Electric Finance is likely to be more cautious about its lending policy to be applied to the Group for the next three years.

As such, as per the credit approval requirements of Dongfang Electric Finance, 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 by reference to the Group's annual ratings and other specific conditions.

### **Reasons and benefits of the transaction**

The entering into the Financial Services Framework Agreement between the Company and Dongfang Electric Finance is in line with the financial policies of the Group. The major reasons for and benefits of entering into the Financial Services Framework Agreement are as follows:

#### ***(i) Increase interest income and save finance costs***

Subject to compliance with the relevant laws, regulations and regulatory requirements, Dongfang Electric Finance 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. With the deposit arrangement with Dongfang Electric Finance, the Group could handle the settlement business through its internal accounts at Dongfang Electric Finance with reduced charges, which can reduce the Group's financial handling expenses.

#### ***(ii) Raise the efficiency of fund utilization***

Dongfang Electric Finance'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.

#### ***(iii) Enhance the management and control of the Group's funds***

Dongfang Electric Finance 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, thereby reducing and avoiding operational risks.

***(iv) Meet the needs for working funds***

By entering into the Financial Services Framework Agreement with Dongfang Electric Finance, the Group will be able to obtain such loans that meet the needs for working funds for actual business operations, particularly, given the overall business environment in the global oil and gas sectors, the uncertain business prospect of the Group and difficulties in obtaining third party borrowings from the market in a stable and low-cost manner.

Accordingly, the Directors (excluding independent non-executive Directors who will express their views in the Letter from the Independent Board Committee) are of the view that the terms of the Financial Services Framework Agreement (including the Deposit Services and Lending Services contemplated thereunder and the proposed annual caps in relation thereto) 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.

**Listing Rules implication**

As at the date of this announcement, Dongfang Electric Corporation holds 1,606,000,000 shares (representing 29.98% of the total issued share capital of the Company) of the Company through its wholly-owned subsidiary Electric Investment, and therefore is a substantial shareholder and connected person of the Company. DFEC holds 95% of the shares of Dongfang Electric Finance, and Dongfang Electric Corporation holds 5% of the shares of Dongfang Electric Finance, thus Dongfang Electric Finance is an associate of Dongfang Electric Corporation and in turn a connected person of the Company. Therefore, the transactions under the Financial Services Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

In respect of the Deposit Services under the Financial Services Framework Agreement, as one or more of the applicable percentage ratios of the transaction are higher than 25%, such transactions also constitute major transaction of the Company under Chapter 14 of the Listing Rules. Therefore, the transactions relating to the Deposit Services under the Financial Services Framework Agreement are subject to the reporting, announcement, annual review and the Independent Shareholders' approval requirements under Chapters 14 and 14A of the Listing Rules.

In respect of the Lending Services under the Financial Services Framework Agreement, one or more of the applicable percentage ratios of the transactions are higher than 5% but less than 25%. The transactions relating to the Lending Services under the Financial Services Framework Agreement are subject to the reporting, announcement, annual review and the Independent Shareholders' approval requirements under Chapters 14A of the Listing Rules.

In respect of settlement services under the Financial Services Framework Agreement, each of the applicable percentage ratios is less than 0.1% on an annual basis. The transaction relating to the settlement services under the Financial Services Framework Agreement are exempt from the reporting, announcement, annual review and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

## 5. INTERNAL CONTROL

The Company has formulated a number of measures and policies, including connected transaction administrative measures and management measures, to ensure that all connected transactions of the Company are effectively controlled and monitored. The Group will, through its internal control procedures and a series of risk management arrangements in accordance with the regulatory requirements, endeavour to maintain its independence in decision-making as well as the fairness of the prices and terms of each continuing connected transaction.

Such arrangements include:

- (i) before the respective subsidiary of the Company enters into any transaction with DFEC Group according to the Dongfang Electric Framework Agreements, the relevant department will collect the information (including credit certificate) of counterparty (as the case may be) for selection, arrange the legal department, finance department, technical department, production department, quality department and other relevant departments to review the contracts, subject to evaluation, review and approval by the management of the respective subsidiary to ensure the relevant terms and pricing are arrived at on a fair and reasonable basis;
- (ii) the transactions contemplated under the Dongfang Electric Framework Agreements shall be conducted on a non-exclusive basis, and the Group has the flexibility to enter into arrangements with Independent Third Parties;
- (iii) the pricing mechanism is transparent and the implementation of such pricing mechanism on the Dongfang Electric Continuing Connected Transactions 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 Dongfang Electric Continuing Connected Transactions are conducted in accordance with the relevant pricing policies and the quotations obtained meet the specification requirements;
- (iv) with regard to the Purchase Framework Agreement, 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 the Purchaser and the Seller under the Purchase Framework Agreement, the business department of the Purchaser shall submit an application and the procurement department of the Purchaser shall organize and select suppliers from the list, which shall also be subject to consideration and approval by the management of the purchaser(s) so as to ensure the fairness and reasonableness of relevant terms and pricing;
- (v) with regard to the Sales Framework Agreement, the Group strictly follows the internal sales policy to perform relevant pricing and approval procedures. For each type of sales contract, the relevant procedures set forth the functional departments that are required to participate the contract review and due diligence, as well as detailed review standards. In the contract signing phase, a tiered structure of execution authority is implemented, depending on the consideration of the contracts;



- (vi) with regard to the Finance Lease Framework Agreement, the business departments of the members of the Group are responsible for collecting information and initiating a transaction under the Finance Lease Agreement and will also conduct due diligence. The risk control department and financial management department of the members of the Group will review the details of the transaction and compare the major terms of finance leasing services in relation to similar assets provided to members of the Group with similar qualification and terms obtained by the lessee from other financial institutions if applicable at the relevant time. The transaction shall be submitted for approval at the meeting of the general manager office of the relevant Group member. When assessing a specific transaction, the risk control department and financial management department of the members of the Group will take into account factors including regulatory compliance, ownership and operation of the leased properties, litigations involved by the lessee, procurement conditions of the leased equipment, financial condition, cash flow, solvency and control on trade receivables of the lessee, capital resource of the Group for such transaction, financial costs and return to the Group;
- (vii) with regard to the transactions in relation to the Deposit Services under the Financial Services Framework Agreement, the personnel in the finance department of the Group is responsible for comparing the interest rates offered by Dongfang Electric Finance 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 Dongfang Electric Finance 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;
- (viii) with regard to the transactions in relation to the Lending Services under the Financial Services Framework Agreement, the personnel in the finance department of the Group is responsible for comparing the lending rates offered by Dongfang Electric Finance 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 Dongfang Electric Finance 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 Dongfang Electric Finance will be submitted to the management of the Group for review and approval in accordance with the relevant policies;
- (ix) in order to ensure that Dongfang Electric Continuing Connected Transaction will be or have been conducted in accordance with the relevant pricing policies or mechanisms and do not exceed the annual caps of the relevant continuing connected transactions, the relevant departments of the Company will monitor Dongfang Electric Continuing Connected Transactions, including (a) the legal and securities department, in conjunction with the finance department, will regularly monitor the transaction amounts of Dongfang Electric Continuing Connected Transactions on a monthly basis. The business departments shall report to the legal and securities department and the finance department before the 10th of each month the statistical statement of the cumulative connected transaction amount and the transaction contract ledger as of the end of the previous month. The transaction amount statistical statement must be signed and confirmed by each of the business department leaders, financial leaders and general

managers of the Company. The legal and securities department will provide advice to the business departments based on the statistical statement, especially when the cumulative transaction amount reaches 80% of the annual limit, it will warn the business department to conduct connected transactions prudently and not exceed the annual limit; (b) the business departments will review and conduct internal audits on a monthly basis to track, monitor and evaluate the transaction amount of Dongfang Electric Continuing Connected Transactions; (c) the legal and securities department, in collaboration with the sales, purchasing and other business management departments and the audit department will monitor the pricing standards, execution and implementation of Dongfang Electric Continuing Connected Transactions and conduct random checks from time to time to ensure compliance with the pricing policies;

- (x) the independent non-executive Directors shall annually review the transactions contemplated under the Dongfang Electric Framework Agreements, and confirm in the Company's annual report that Dongfang Electric Continuing Connected Transactions have been (a) conducted in the ordinary and usual course of business of the Group; (b) on normal commercial terms or more favourable terms; and (c) in accordance with the Dongfang Electric Framework Agreements, and the terms of the Dongfang Electric Framework Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and
- (xi) the Company's auditor shall be engaged to annually report on the transactions contemplated under the Dongfang Electric Framework Agreements and provide a letter to the Board that nothing has come to their attention that causes them to believe that Dongfang Electric Continuing Connected Transactions (a) have not been approved by the Board; (b) were not, in material respects, consistent with the pricing policies adopted for the Dongfang Electric Continuing Connected Transactions; (c) were not entered into, in material respects, in accordance with the Dongfang Electric Framework Agreements; and (d) exceeded the proposed annual caps of the Dongfang Electric Continuing Connected Transactions.

As the Group adopts an effective set of internal control measures to monitor the Group's continuing connected transactions, the Directors consider that procedures are in place which will ensure that such transactions are conducted on normal commercial terms and not prejudicial to the interests of the Company and its minority Shareholders.

## **6. INFORMATION ON PARTIES**

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.

DFEC, a joint stock limited company incorporated in the PRC with limited liability whose H shares are listed on the Main Board of the Stock Exchange (stock code: 1072) and A shares are listed on the Shanghai Stock Exchange (stock code: 600785), is a subsidiary of Dongfang Electric Corporation. Operating in energy equipment industry, DFEC provides various energy, environmental protection, chemical and other products and systems packages, trade, finance, logistics and other services to global energy operators and other users. DFEC is mainly engaged in development, designing, manufacturing and sale of advanced sets of equipment for the generation of hydropower, thermal power, nuclear power, wind power, steam power and solar power. DFEC is also engaged in such related business as providing global energy operators with construction contracting and services.

Dongfang Electric Finance, a limited liability company incorporated in the PRC, is a subsidiary of Dongfang Electric Corporation (DFEC holds 95% of the shares of Dongfang Electric Finance, and Dongfang Electric Corporation holds 5% of the shares of Dongfang Electric Finance). The main business includes provision of finance and fund-raising consultancy, credit accreditation and related advisory and agency services to members units; assisting members units in receipt and payment of transaction amounts; and arrangement of entrustment loans and entrustment investment among members units.

## **7. INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER**

The Dongfang Electric Framework Agreements (including the Dongfang Electric Continuing Connected Transactions and the proposed annual caps in relation thereto) was approved by all the Directors, none of the Directors is regarded as having a material interest in the Dongfang Electric Continuing Connected Transactions, and hence none of the Directors has abstained from voting on the Board resolution to approve the Dongfang Electric Framework Agreements (including the Dongfang Electric Continuing Connected Transactions and the proposed annual caps in relation thereto).

The Independent Board Committee comprising all the independent non-executive Directors (namely Mr. Chen Guoming, Ms. Su Mei, Mr. Chang Qing, Mr. Wei Bin and Mr. Zhang Shiju) has been established to advise the Independent Shareholders in respect of the Dongfang Electric Framework Agreements, Dongfang Electric Continuing Connected Transactions and the proposed annual caps thereof. 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.

## **8. EXTRAORDINARY GENERAL MEETING**

The Company will seek approval from the Independent Shareholders in respect of the Dongfang Electric Framework Agreement (including the Dongfang Electric Continuing Connected Transactions and the annual proposed caps in relation thereto) at the EGM. A circular containing, among others, details on the Dongfang Electric Framework 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 6 October 2022.

Dongfang Electric Corporation and its associates (holding 1,606,000,000 Shares or approximately 29.98% of the Shares in the Company as at the date of this announcement) who are involved in, or interested in the Dongfang Electric Framework Agreements will abstain from voting in the relevant resolution at the EGM.

## 9. DEFINITIONS

“associate(s)”	has the meaning ascribed to it under the Listing Rules;
“Board”	the Board of Directors or a duly authorised committee of the Board of Directors of the Company;
“Company”	Honghua Group Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Stock Exchange;
“connected person(s)”	has the meaning ascribed to it under the Listing Rules;
“continuing connected transaction”	has the meaning ascribed to it under the Listing Rules;
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules;
“DFEC”	Dongfang Electric Co., Ltd. (東方電氣股份有限公司), a joint stock limited company incorporated in the PRC with limited liability whose H shares are listed on the Main Board of the Stock Exchange (stock code: 1072) and its A shares are listed on the Shanghai Stock Exchange (stock code: 600785) and is a subsidiary of Dongfang Electric Corporation;
“DFEC Group”	DFEC, its subsidiaries and its associates;
“Director(s)”	director(s) of the Company;
“Dongfang Electric Corporation”	Dongfang Electric Corporation (中國東方電氣集團有限公司), a state-owned company incorporated in the PRC, which is one of the largest general contracting enterprise groups for power generation equipment manufacturing and power plant engineering in the world, and also the substantial shareholder of the Company;
“Dongfang Electric Continuing Connected Transaction(s)”	the transactions contemplated under the Dongfang Electric Framework Agreements (excluding the transactions in relation to Settlement Services) which constitute continuing connected transactions of the Company as defined by the Hong Kong Listing Rules;
“Dongfang Electric Framework Agreements”	the Purchase Framework Agreement, the Sales Framework Agreement, the Finance Lease Framework Agreement and the Financial Services Framework Agreement;
“Dongfang Electric Finance”	Dongfang Electric Finance Co., Ltd., a non-bank financial institution incorporated under the laws of the PRC with limited liability and also a subsidiary of Dongfang Electric Corporation;

“Dongfang Electric Investment”	Dongfang Electric International Investment Co., Ltd., a company incorporated in Hong Kong, which is a wholly-owned subsidiary of Dongfang Electric Corporation;
“Financial Services Framework Agreement”	the financial services framework agreement dated 30 September 2022 entered into between the Company and Dongfang Electric Finance;
“Finance Lease Framework Agreement”	the finance lease framework agreement dated 30 September 2022 entered into between the Company and DFEC;
“Group”	the Company and its subsidiaries (within the meaning of the Listing Rules);
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“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 Purchase Framework Agreement, the Sales Framework Agreement, the Finance Lease Framework Agreement, the Deposit Services and Lending Services under the Financial Services Framework Agreement and their respective proposed annual caps;
“Independent Financial Adviser” or “Gram Capital”	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity as defined under the SFO, being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Purchase Framework Agreement, the Sales Framework Agreement, the Finance Lease Framework Agreement, the Deposit Services and Lending Services under the Financial Services Framework Agreement and their respective proposed annual caps;
“Independent Shareholder(s)”	Shareholder(s) other than Dongfang Electric and its associates;
“Independent Third Party(ies)”	person(s) or company(ies) which is/are not connected (within the meaning of the Listing Rules) with the Company;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“PBOC”	the People’s Bank of China;
“PRC”	the People’s Republic of China;

“Purchase Framework Agreement”	the purchase framework agreement dated 30 September 2022 entered into between the Company and DFEC;
“RMB”	Renminbi, the lawful currency of the PRC;
“Sales Framework Agreement”	the sales framework agreement dated 30 September 2022 entered into between the Company and DFEC;
“Share(s)”	the ordinary share(s) of HK\$0.10 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;
“EGM”	the extraordinary general meeting of the Company to be held at 10/F, United Centre, 95 Queensway, Admiralty, Hong Kong on Tuesday, 25 October 2022 at 10:00 a.m. to consider and, if appropriate, to approve the Dongfang Electric Framework Agreement (including the Dongfang Electric Continuing Connected Transactions and the annual proposed caps in relation thereto)
“Subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules;
“Substantial Shareholder(s)”	has the meaning ascribed to it under the Listing Rules;
“%”	per cent.

On behalf of the Board  
**Honghua Group Limited**  
**Jin Liliang**  
*Chairman*

PRC, 30 September 2022

*As at the date of this announcement, the executive directors of the Company are Mr. Jin Liliang (Chairman) and Mr. Zhu Hua; the non-executive directors of the Company are Mr. Zhang Mi and Mr. Yang Yong; and the independent non-executive directors of the Company are Mr. Chen Guoming, Ms. Su Mei, Mr. Chang Qing, Mr. Wei Bin and Mr. Zhang Shiju.*