
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about this Circular or as to the action to be taken, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Honghua Group Limited, you should at once hand this Circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

Hong Kong Exchange and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this Circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Circular.



宏华集团
HONGHUA GROUP

Honghua Group Limited

宏華集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 196)

**CONTINUING CONNECTED TRANSACTIONS –
(1) PURCHASE FRAMEWORK AGREEMENT
(2) SALES FRAMEWORK AGREEMENT
(3) FINANCE LEASE FRAMEWORK AGREEMENT**

**CONTINUING CONNECTED TRANSACTION AND
MAJOR TRANSACTION –
FINANCIAL SERVICES FRAMEWORK AGREEMENT
ELECTION OF DIRECTORS
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

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



Gram Capital Limited
嘉林資本有限公司

A notice convening the extraordinary general meeting of Honghua Group Limited to be held at 10/F, United Centre, 95 Queensway, Admiralty, Hong Kong on Tuesday, 25 October 2022 at 10:00 a.m. is set out on pages 65 to 67 of this Circular. A form of proxy for use at the extraordinary general meeting is also enclosed. Such form of proxy is also published on the website of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk).

If you do not propose to attend the meeting, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return the same to the Company's Branch Share Registrar and Transfer Office in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the extraordinary general meeting (i.e. not later than 10:00 a.m. on Sunday, 23 October 2022 (Hong Kong time)) or the adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude shareholders from attending and voting in person at the meeting should they so wish.

* *References to time and dates in this Circular are to Hong Kong time and dates.*

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DEFINITIONS

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

“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;
“Current Articles of Association”	the current articles of association of the Company;
“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;

DEFINITIONS

“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;
“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 resolutions contained in the notice of the meeting which is set out on pages 65 to 67 of this Circular and at any adjournment thereof;
“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;

DEFINITIONS

“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;
“Latest Practicable Date”	30 September 2022, being the latest practicable date prior to the printing of this Circular for the purpose of ascertaining certain information contained herein;
“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;
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong;
“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;
“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.

LETTER FROM THE BOARD



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)

Executive Directors:

Mr. Jin Liliang (*Chairman*)
Mr. Zhu Hua

Non-executive Directors:

Mr. Zhang Mi
Mr. Yang Yong

Independent non-executive Directors:

Mr. Chen Guoming
Ms. Su Mei
Mr. Chang Qing
Mr. Wei Bin
Mr. Zhang Shiju

Head Office:

99 East Road, Information Park
Jinniu District, Chengdu
Sichuan
People's Republic of China
Post code: 610036

*Principal place of business in
Hong Kong:*

5/F, Manulife Place
348 Kwun Tong Road, Kowloon
Hong Kong

Registered office:

Clifton House, 75 Fort Street
PO Box 1350, Grand Cayman
KY1-1108, Cayman Islands

6 October 2022

To the Shareholders

Dear Sir or Madam,

**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
AND
ELECTION OF DIRECTORS**

1. INTRODUCTION

We refer to the announcement of the Company dated 30 September 2022 in relation to, among other things, (1) the entering into the Purchase Framework Agreement; (2) the entering into the Sales Framework Agreement; (3) the entering into the Finance Lease Framework Agreement; and (4) the entering into the Financial Services Framework Agreement. Reference is made to the announcement of the Company dated 4 July 2022 in relation to, among other things, the appointment of directors and board committee members. Unless the context otherwise requires, capitalised terms and expressions used in this Circular shall have the same meaning as those defined in the above-mentioned announcements.

LETTER FROM THE BOARD

The purposes of this Circular are, among other matters:

- (a) to provide you with details of Dongfang Electric Continuing Connected Transactions and the election of directors;
- (b) to set out the recommendations from the Independent Board Committee in respect of the Dongfang Electric Framework Agreements and the proposed annual caps of the Dongfang Electric Continuing Connected Transactions;
- (c) to set out the advice from Gram Capital in respect of the Dongfang Electric Framework Agreements and the proposed annual caps of the Dongfang Electric Continuing Connected Transactions;
- (d) to provide the Shareholders with other information required under the Listing Rules;
and
- (e) to provide the Shareholders with the notice of the EGM.

2. PURCHASE FRAMEWORK AGREEMENT

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.

LETTER FROM THE BOARD

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.

LETTER FROM THE BOARD

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

LETTER FROM THE BOARD

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 Latest Practicable Date, 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.

LETTER FROM THE BOARD

3. SALES FRAMEWORK AGREEMENT

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:

LETTER FROM THE BOARD

- (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.

LETTER FROM THE BOARD

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, wind power project and 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.

LETTER FROM THE BOARD

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 Latest Practicable Date, 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.

4. FINANCE LEASE FRAMEWORK AGREEMENT

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

LETTER FROM THE BOARD

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 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.

LETTER FROM THE BOARD

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.

LETTER FROM THE BOARD

Listing Rules implications

As at the Latest Practicable Date, 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.

5. FINANCIAL SERVICES FRAMEWORK AGREEMENT

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”)

LETTER FROM THE BOARD

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.

LETTER FROM THE BOARD

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:

	For the period from 26 October to 31 December 2022 RMB	For the year ending 31 December 2023 RMB	For the year ending 31 December 2024 RMB
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

LETTER FROM THE BOARD

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.

LETTER FROM THE BOARD

(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 Latest Practicable Date, 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.

LETTER FROM THE BOARD

6. 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;

LETTER FROM THE BOARD

- (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;

LETTER FROM THE BOARD

- (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.

LETTER FROM THE BOARD

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.

7. 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.

LETTER FROM THE BOARD

8. INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

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.

9. ELECTION OF DIRECTORS

Pursuant to article 112 of the Current Articles of Association, the Board shall have power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy or as an additional Director but so that the number of Directors so appointed shall not exceed the maximum number determined from time to time by the Shareholders in general meeting. Any Director so appointed shall hold office only until the next general meeting of the Company and shall then be eligible for re-election at the meeting but shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at such meeting.

As stated in the announcement of the Company dated 4 July 2022, Mr. Zhu Hua has been appointed as an executive Director of the Company; Mr. Yang Yong has been appointed as a non-executive Director of the Company; and Mr. Zhang Shiju has been appointed as an independent non-executive Director of the Company. They will hold office for a term of three years commencing on 4 July 2022 and are subject to retirement by rotation and re-election in accordance with the Current Articles of Association.

To ensure that the Board has a balance of skills, knowledge, experience and diversity of perspectives appropriate to the Company's business needs and development, the Board reviews its structure, size and composition annually. The Nomination Committee and the Board, when forming their recommendations on the proposal on election of a new Director, have followed the Company's nomination policy which sets out a mechanism for nominating talented and capable person(s) to lead the Company.

In considering candidates for independent non-executive Directors, the Nomination Committee has taken into account Mr. Zhang Shiju's independence, professional background, knowledge and experience. Mr. Zhang Shiju's educational background, experience and practice enable him to provide valuable relevant insights and contribute to diversity on the Board.

Details of the Directors to be elected at the EGM are set out in Appendix I to this Circular.

LETTER FROM THE BOARD

10. EXTRAORDINARY GENERAL MEETING AND PROXY ARRANGEMENT

The notice of the Extraordinary General Meeting is set out on pages 65 to 67 of this Circular. At the Extraordinary General Meeting, resolutions will be proposed to approve, *inter alia*, the Dongfang Electric Framework Agreements (including the Dongfang Electric Continuing Connected Transactions and the proposed annual caps thereof) and the election of Directors.

A form of proxy for use at the Extraordinary General Meeting is also enclosed with this Circular and such form of proxy is also published on the website of the Stock Exchange (www.hkexnews.hk). To be valid, the form of proxy must be completed and signed in accordance with the instructions printed thereon and deposited, together with the power of attorney or other authority (if any) under which it is signed or a certified copy of that power of attorney or authority, at the Company's Branch Share Registrar and Transfer Office in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the Extraordinary General Meeting (i.e. not later than 10:00 a.m. on Sunday, 23 October 2022 (Hong Kong time)) or the adjourned meeting (as the case may be). Completion and delivery of the form of proxy will not preclude Shareholders from attending and voting at the Extraordinary General Meeting if they so wish.

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 Latest Practicable Date) who are involved in, or interested in the Dongfang Electric Framework Agreements will abstain from voting in the relevant resolution at the EGM.

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of the Shareholders at the Extraordinary General Meeting must be taken by poll except where the chairman of the meeting, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. The Company will announce the results of the poll in the manner prescribed under Rule 13.39(5) of the Listing Rules.

11. RECOMMENDATION

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 Board considers that the Dongfang Electric Framework Agreements (including the Dongfang Electric Continuing Connected Transactions and the proposed annual caps in relation thereto) are fair and reasonable and in the interests of the Company and the Shareholders as

LETTER FROM THE BOARD

a whole and accordingly recommends the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM for approving the Dongfang Electric Framework Agreements (including the Dongfang Electric Continuing Connected Transactions and the proposed annual caps in relation thereto).

The Independent Board Committee, having taken into account the advice of Gram Capital, considers that the Dongfang Electric Framework Agreements (including the Dongfang Electric Continuing Connected Transactions and the proposed annual caps in relation thereto) are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole, and accordingly recommends the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM for approving the Dongfang Electric Framework Agreements (including the Dongfang Electric Continuing Connected Transactions and the proposed annual caps in relation thereto).

In addition, the Directors consider that the proposed election of Directors is in the interests of the Company, the Group and the Shareholders. Accordingly, the Directors recommend the Shareholders to vote in favour of the relevant resolutions on the election of Directors to be proposed at the EGM.

12. GENERAL INFORMATION

Your attention is drawn to the letter of advice from Gram Capital set out in pages 29 to 52 of this Circular which contains its advice to the Independent Board Committee and the Independent Shareholders in connection with the Dongfang Electric Framework Agreements (including the Dongfang Electric Continuing Connected Transactions and the proposed annual caps in relation thereto) and the letter from the Independent Board Committee set out in pages 27 to 28 of this Circular which contains its recommendation to the Independent Shareholders in relation to the Dongfang Electric Framework Agreements (including the Dongfang Electric Continuing Connected Transactions and the proposed annual caps in relation thereto).

13. FURTHER INFORMATION

Your attention is also drawn to the additional information set out in the appendix to this Circular.

Yours faithfully,
Jin Liliang
Chairman of the Board



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)

6 October 2022

To the Independent Shareholders,

Dear Sir or Madam,

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

We refer to the Circular of the Company dated 6 October 2022 (the “**Circular**”) to the Shareholders of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

We have been appointed as the Independent Board Committee to advise the Independent Shareholders on whether Dongfang Electric Framework Agreements, Dongfang Electric Continuing Connected Transactions and the proposed annual caps thereof are fair and reasonable and on normal commercial terms entered into in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

We wish to draw your attention to the letter from the Board set out in pages 4 to 26 of the Circular and the letter from Gram Capital, the Independent Financial Adviser appointed to advise the Independent Board Committee and the Independent Shareholders on Dongfang Electric Framework Agreements, Dongfang Electric Continuing Connected Transactions and the proposed annual caps thereof, as set out on pages 29 to 52 of the Circular.

Having considered the factors and reasons considered by and the opinion of Gram Capital stated in its letter of advice contained in the Circular, we are of the view that Dongfang Electric Framework Agreements, Dongfang Electric Continuing Connected Transactions and the proposed annual caps thereof are fair and reasonable and on normal or better commercial terms entered into in the ordinary and usual course of business of the Group, and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the Extraordinary General Meeting to approve Dongfang Electric Framework Agreements, Dongfang Electric Continuing Connected Transactions and the proposed annual caps thereof.

Yours faithfully,

For and on behalf of the
Independent Board Committee

Mr. Chen Guoming
Mr. Chang Qing

Mr. Wei Bin

Ms. Su Mei
Mr. Zhang Shiju

Independent non-executive Directors

LETTER FROM GRAM CAPITAL

Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Transactions for the purpose of inclusion in this circular.



Room 1209, 12/F.
Nan Fung Tower
88 Connaught Road Central/
173 Des Voeux Road Central
Hong Kong

6 October 2022

To: The independent board committee and the independent shareholders of Honghua Group Limited

Dear Sir/Madam,

CONTINUING CONNECTED TRANSACTIONS AND MAJOR TRANSACTION

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the transactions contemplated under 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 (the “**Transactions**”) and their respective proposed annual caps, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 6 October 2022 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

The Purchase Framework Agreement

On 30 September 2022, the Company and DFEC entered into the Purchase Framework Agreement, pursuant to which the Group will purchase products (including but not limited to equipments, raw materials, 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 (the “**Purchase Transactions**”) for a term from 26 October 2022 to 31 December 2024.

LETTER FROM GRAM CAPITAL

The Sales Framework Agreement

On 30 September 2022, the Company and DFEC entered into the Sales Framework Agreement, pursuant to which the Group will sell products (including but not limited to structural parts, semi-finished products, accessories, equipment, parts and components and others) and provide services (including but not limited to processing services, technical services, inspection and testing services, after-sales and engineering services and others) to DFEC Group (the “**Sales Transactions**”) for a term from 26 October 2022 to 31 December 2024.

The Finance Lease Framework Agreement

On 30 September 2022, the Company and DFEC entered into the Finance Lease Framework Agreement, pursuant to which the Group will provide DFEC Group with finance leasing services, including but not limited to sale and leaseback services and collect rental income from DFEC Group for the provision of such finance leasing services (the “**Finance Leasing Transactions**”) for a term from 26 October 2022 to 31 December 2024.

The Financial Services Framework Agreement

On 30 September 2022, the Company and Dongfang Electric Finance entered into the Financial Services Framework Agreement, pursuant to which Dongfang Electric Finance will provide the Group with the Deposit Services, the Lending Services and the Settlement Services for a term from 26 October 2022 to 31 December 2024.

With reference to the Board Letter, the Transactions constitute continuing connected transactions and the Deposit Services also constitutes major transaction of the Company and are subject to the reporting, announcement, annual review and the Independent Shareholders’ approval requirements under Chapter 14 and Chapter 14A of the Listing Rules.

The Independent Board Committee comprising Mr. Chen Guoming, Ms. Su Mei, Mr. Chang Qing, Mr. Wei Bin and Mr. Zhang Shiju (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Transactions (including the proposed annual caps thereunder) are on normal commercial terms and are fair and reasonable; (ii) whether the Transactions are in the interests of the Company and the Shareholders as a whole and in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolutions to approve the Transactions (including the proposed annual caps thereunder) at the EGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

LETTER FROM GRAM CAPITAL

INDEPENDENCE

During the past two years immediately preceding the Latest Practicable Date, Gram Capital was engaged as independent financial adviser in respect of major and continuing connected transactions of the Company as set out in the Company's circular dated 13 May 2021. Notwithstanding the aforesaid past engagement, as at the Latest Practicable Date, we were not aware of any relationship or interest between Gram Capital and the Company or any other parties that could be reasonably regarded as a hindrance to Gram Capital's independence to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors or the Company's management (the "**Management**"). We have assumed that all information and representations that have been provided by the Directors/Management, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors/Management, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there is no undisclosed private agreement/arrangement or implied understanding with anyone concerning the Transactions. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

The Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, DFEC, Dongfang Electric Finance or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the

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Transactions. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Transactions, we have taken into consideration the following principal factors and reasons:

Information on the Group

With reference to the Board Letter, the Group is principally engaged in the business of developing, manufacturing and selling drilling rigs, rig parts and components and after-sales services.

Set out below are the audited consolidated financial information of the Group for the two years ended 31 December 2021 as extracted from the Company's annual report for the year ended 31 December 2021 (the "2021 Annual Report") and the unaudited consolidated financial information of the Group for the six months ended 30 June 2022 as extracted from the Company's interim report for the six months ended 30 June 2022 (the "2022 Interim Report"):

	For the six months ended 30 June 2022 RMB'000	For the year ended 31 December 2021 RMB'000	For the year ended 31 December 2020 RMB'000	Change from 2020 to 2021 %
Revenue	1,509,177	2,936,604	3,931,492	(25.31)
Gross (loss)/profit (Loss)/profit attributable to owners of the Company	(71,172) (523,382)	363,004 (717,191)	1,180,365 49,660	(69.25) (1,544.20)

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As illustrated in the above table, the Group recorded revenue of approximately RMB2,937 million for the year ended 31 December 2021 (“FY2021”), representing a decrease of approximately 25.31% as compared to that for the year ended 31 December 2020 (“FY2020”). With reference to the 2021 Annual Report, such decrease was mainly due to the influence of the COVID-19 epidemic, which resulted in decrease in overseas orders for rigs and weakened business performance in international markets.

As illustrated in the above table, the Group’s gross profit for FY2021 decreased by approximately 69.25% as compared to that for FY2020. With reference to the 2021 Annual Report, such decrease was mainly due to restructuring of the group’s business, decrease in drilling rig sales and increase in proportion of products with low gross margin.

As illustrated in the above table, loss attributable to owners of the Company for FY2021 was approximately RMB717 million as compared with profit attributable to owners of the Company of approximately RMB50 million for FY2020. With reference to the 2021 Annual Report, such turnaround was primarily due to decrease in the Group’s gross profit and increase in net impairment losses on financial assets and contract assets.

With reference to the 2022 Interim Report, the Group’s slight decrease in revenue and substantial increase in cost of sales for the six months ended 30 June 2022 as compared to those for the corresponding period in 2021 led to the Group’s gross loss for the six months ended 30 June 2022. The Group also continued to record loss attributable to owners of the Company for the six months ended 30 June 2022.

With reference to the 2022 Interim Report, the Group formulated an operating strategy of “expanding the market externally, focusing on management internally and strengthening synergy fully.” The Group will adhere to the strategy of comprehensively balancing “cash flow, profit, revenue and quality”, grasp the direction, progress and intensity of industrial adjustment, and properly achieve a dynamic balance between cash flow, benefit and scale. The Group will re-establish its competitiveness based on the standards of leading technology, excellent quality, controllable cost and first-class service. The Group will seize the opportunity from the recovery of the oil and gas industry to actively promote the large-scale sales of new products, the expansion of new overseas markets and the application of its products in new areas.

Information on DFEC

With reference to the Board Letter, 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. DFEC is a connected person of the Company. 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.

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Information on Dongfang Electric Finance

With reference to the Board Letter, Dongfang Electric Finance, a limited liability company incorporated in the PRC, is a subsidiary of Dongfang Electric Corporation. 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.

A. THE PURCHASE FRAMEWORK AGREEMENT

1. Reasons for entering into the Purchase Framework Agreement

With reference to the Board Letter, 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 the PRC. 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.

With reference to the Board Letter, during FY2021 and the seven months ended 31 July 2022, the aggregate amount of products and services purchased by the Group from DFEC Group were approximately RMB60 million and RMB79 million, respectively. As advised by the Management, such purchases were mainly applied for re-sale to or production of products for sale to the Group's end-customers.

With reference to the Company's announcement dated 29 June 2022, the Company was informed on the same date that Kehua Technology Co., Limited and Dongfang Electric Investment (a wholly-owned subsidiary of Dongfang Electric Corporation) completed the share transfer procedures for transferring 1,606,000,000 shares of the Company (accounting for 29.98% of the then total issued share capital of the Company). As advised by the Management, the Group intended to deepen the co-operation in various aspects such as (a) electricity, power

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generation equipment, new energy and oil related equipment and ancillary materials; and (b) oil and gas related construction and services, between the Group and Dongfang Electric Corporation after it became a substantial Shareholder.

Having considered the above factors, we concur with the Directors that the Purchase Transactions are conducted in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

2. Principal terms of the Purchase Framework Agreement

Date

30 September 2022

Parties

- (1) The Company (as purchaser and on behalf of its subsidiaries); and
- (2) DFEC (as 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

With reference to the Board Letter, 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.

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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.

With reference to the Board Letter, 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 (the “**IC Procedures**”) 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. Details of the IC Procedures are set out under the section headed “6. INTERNAL CONTROL” of the Board Letter. We consider that effective implementation of the IC Procedures can ensure fair pricing of the Purchase Transactions in accordance with the above-mentioned pricing principles.

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Proposed annual caps

Set out below are (i) the historical amount of Purchase Transactions for FY2021 and the seven months ended 31 July 2022; and (ii) the proposed annual caps of the Purchase Transactions for the period from 26 October to 31 December 2022, the year ending 31 December 2023 (“**FY2023**”) and the year ending 31 December 2024 (“**FY2024**”) (the “**Purchase Cap(s)**”) as extracted from the Board Letter:

	For the year ended 31 December 2021 RMB		For the seven months ended 31 July 2022 RMB
Historical amount	60,256,153		78,844,540
	For the period from 26 October to 31 December 2022 RMB	For the year ending 31 December 2023 RMB	For the year ending 31 December 2024 RMB
Purchase Caps	550,000,000	1,000,000,000	1,000,000,000

With reference to the Board Letter, the Purchase Caps were determined based on the factors as set out under the sub-section headed “2. PURCHASE FRAMEWORK AGREEMENT – Proposed annual caps and basis of determination” of the Board Letter.

We noticed that the historical amounts of the Purchase Transactions for FY2021 and the seven months ended 31 July 2022 were much less than the Purchase Caps for the period from 26 October 2022 to 31 December 2024. We enquired into the Management in this regard and the Management advised us that the Group intended to deepen the co-operation in various aspects such as (a) electricity, power generation equipment, new energy and oil related equipment and ancillary materials; and (b) oil and gas related construction and services, between the Group and Dongfang Electric Corporation after it became a substantial Shareholder. Accordingly, the amount of the Purchase Transactions is expected to increase significantly.

For our due diligence purpose, we obtained from the Company the calculation of the Purchase Caps for the period from 26 October 2022 to 31 December 2024 (the “**Purchase Caps Calculation**”). The Purchase Caps Calculation included a list of projects/items in respect of the amount of Purchase Transactions in negotiation and the amount of additional estimated demand for the Purchase Transactions.

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Based on the Purchase Caps Calculation, the Purchase Cap for the period from 26 October to 31 December 2022 was calculated based on the amount of Purchase Transactions in negotiation and the amount of additional estimated demand for the Purchase Transactions, the total sum of which equals to Purchase Cap for the period from 26 October to 31 December 2022. The Company also provided us with supporting documents for projects/items in respect of the amount of Purchase Transactions in negotiation and the amount of additional estimated demand for the Purchase Transactions, such as related historical contracts, abstract of executed co-operation agreement between member of DFEC Group and member of the Group, executed/draft agreements by the Group's end-customers which indicated the possible demand for the Purchase Transactions.

Based on the Purchase Caps Calculation, the Purchase Caps for FY2023 was calculated based on the amount of estimated demand for the Purchase Transactions. We noticed from the Purchase Caps Calculation that a substantial portion of the amount of estimated demand for the Purchase Transactions for FY2023 was derived from a continuous project which is expected to commence during the period from 26 October to 31 December 2022 and the remaining portion was derived from the Group's intended co-operation with DFEC in various aspects and penetration into the international market. The Company also provided us with supporting documents for the remaining portion of the amount of estimated demand for the Purchase Transactions such as executed co-operation agreement between member of DFEC Group and member of the Group which indicated the possible demand for the Purchase Transactions.

Based on the Purchase Caps Calculation, the Purchase Caps for FY2024 was calculated based the amount of estimated demand for the Purchase Transactions. We noticed from the Purchase Caps Calculation that the amount of estimated demand for the Purchase Transactions for FY2024 was the same as that for FY2023 and derived from the Group's intended co-operation with DFEC in various aspects and penetration into the international market. As advised by the Management, the Group currently intends to maintain the Purchase Transactions amount for FY2024 as the same as that for FY2023.

In light of the above, we consider that the Purchase Caps are fair and reasonable.

Shareholders should note that as the Purchase Caps are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2024, and they do not represent forecasts of purchase/cost to be incurred from the Purchase Transactions. Consequently, we express no opinion as to how closely the actual cost to be incurred from the Purchase Transactions will correspond with the Purchase Caps.

Having considered the pricing of the Purchase Transactions and the Purchase Caps for the period from 26 October 2022 to 31 December 2024 as aforementioned, we are of the view that the terms of the Purchase Transactions are on normal commercial terms and are fair and reasonable.

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B. THE SALES FRAMEWORK AGREEMENT

1. Reasons for entering into the Sales Framework Agreement

With reference to the Board Letter, 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.

With reference to the Board Letter, during FY2021 and the seven months ended 31 July 2022, the aggregate amount of the Sales Transaction were approximately RMB198 million and RMB13 million, respectively. As aforementioned, the Group intended to deepen the co-operation in various aspects such as (a) electricity, power generation equipment, new energy and oil related equipment and ancillary materials; and (b) oil and gas related construction and services, between the Group and Dongfang Electric Corporation after it became a substantial Shareholder. The Management advised us that the Sales Transactions are expected to generate additional revenue to the Group.

Having considered the above factors, we concur with the Directors that the Sales Transactions are conducted in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

2. Principal terms of the Sales Framework Agreement

Date

30 September 2022

Parties

- (1) The Company (as seller and on behalf of its subsidiaries); and
- (2) DFEC (as purchaser, for itself and on behalf of its subsidiaries and associates)

Term

From 26 October 2022 to 31 December 2024

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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

With reference to the Board Letter, 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'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

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- (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.

As aforementioned, 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 the IC Procedures 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. Details of the IC Procedures are set out under the section headed "6. INTERNAL CONTROL" of the Board Letter. We consider that effective implementation of the IC Procedures can ensure fair pricing of the Sales Transactions in accordance with the above-mentioned pricing principles.

3. Proposed annual caps

Set out below are (i) the historical amount of Sales Transactions for FY2021 and the seven months ended 31 July 2022; and (ii) the proposed annual caps of the Sales Transactions for the period from 26 October to 31 December 2022, FY2023 and FY2024 (the "Sales Cap(s)") as extracted from the Board Letter:

	For the year ended 31 December 2021 RMB	For the seven months ended 31 July 2022 RMB
Historical amount	197,859,517	12,533,473

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	For the period from 26 October to 31 December 2022 RMB	For the year ending 31 December 2023 RMB	For the year ending 31 December 2024 RMB
Sales Caps	500,000,000	800,000,000	800,000,000

With reference to the Board Letter, the Sales Caps were determined based on the factors as set out under the sub-section headed “3. SALES FRAMEWORK AGREEMENT – Proposed annual caps and basis of determination” of the Board Letter.

We noticed that the historical amounts of the Sales Transactions for FY2021 and the seven months ended 31 July 2022 were much less than the Sales Caps for the period from 26 October 2022 to 31 December 2024. We enquired into the Management in this regard and the Management advised us that the Group intended to deepen the co-operation between the Group and Dongfang Electric Corporation after it became a substantial Shareholder. Accordingly, the amount of the Sales Transactions is expected to increase significantly.

For our due diligence purpose, we obtained from the Company the calculation of the Sales Caps for the period from 26 October 2022 to 31 December 2024 (the “**Sales Caps Calculation**”). The Sales Caps Calculation included a list of projects/items in respect of the amount of Sales Transactions in negotiation and the amount of additional estimated demand for the Sales Transactions.

Based on the Sales Caps Calculation, the Sales Cap for the period from 26 October to 31 December 2022 was calculated based on the amount of Sales Transactions in negotiation and the amount of additional estimated supply under the Sales Transactions, the total sum of which equals to Sales Cap for the period from 26 October to 31 December 2022. The Company also provided us with supporting documents for the amount of Sale Transactions in negotiation and the amount of additional estimated supply under the Sales Transactions such as (a) co-operation agreement member of DFEC Group and member of the Group in relation to their joint participation in construction project (the Group will sell products and services to DFEC Group and DFEC Group will deliver the final products and services (including DFEC Group’s own products and services) to end-customers); (b) list of proposed sales products; (c) notice from member of DFEC Group notifying member of the Group regarding its successful bidding in a procurement transaction of the member of DFEC Group and the member of the Group shall commence sales upon execution of formal agreement, which indicated the possible supply under the Sales Transactions.

Based on the Sales Caps Calculation, the Sales Caps for FY2023 and FY2024 was calculated based on the amount of estimated supply under the Sales Transactions. We noticed from the Sales Caps Calculation that the amounts of estimated supply under the Sales Transactions for FY2023 and FY2024 was derived from various projects of DFEC which will

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demand the Sales Transactions. The Company provided us with supporting documents for the amount of estimated supply under the Sales Transactions such as (a) co-operation agreement member of DFEC Group and member of the Group in relation to their joint participation in construction project (the Group will sell products and services to DFEC Group and DFEC Group will deliver the final products and services (including DFEC Group's own products and services) to end-customers); and (b) list of proposed sales products, which indicated the possible supply under the Sales Transactions. In addition, the Management advised us that the Group currently intends to maintain the Sales Transactions amount for FY2024 as the same as that for FY2023.

In light of the above, we consider that the Sales Caps are fair and reasonable.

Shareholders should note that as the Sales Caps are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2024, and they do not represent forecasts of revenue to be generated from the Sales Transactions. Consequently, we express no opinion as to how closely the actual revenue to be generated from the Sales Transactions will correspond with the Sales Caps.

Having considered the pricing of the Sales Transactions and the Sales Caps for the period from 26 October 2022 to 31 December 2024 as aforementioned, we are of the view that the terms of the Sales Transactions are on normal commercial terms and are fair and reasonable.

C. THE FINANCE LEASE FRAMEWORK AGREEMENT

1. Reasons for entering into the Finance Lease Framework Agreement

With reference to the Board Letter, the entering into the Finance Lease Framework Agreement meets the business needs of the Group. On 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 it to continue to acquire more finance leasing services from the Company.

As advised by the Management, provision of finance leasing services is one of the Group's business activities and the lease interest and handling fee arising therefrom has been accounting for the Group's revenue.

Having considered the above factors, we concur with the Directors that the Finance Leasing Transactions are conducted in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

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2. Principal terms of the Finance Lease Framework Agreement

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

From 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 collect rental income from DFEC Group for the provision of such finance leasing services.

Pricing principles

With reference to the Board Letter, 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.

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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 consider, 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.

As aforementioned, 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 the IC Procedures 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. Details of the IC Procedures are set out under the section headed "6. INTERNAL CONTROL" of the Board Letter. We consider that effective implementation of the IC Procedures can ensure fair pricing, interest and handling fee determination of the Finance Leasing Transactions in accordance with the above-mentioned pricing principles.

3. Proposed annual caps

With reference to the Board Letter, there was no Finance Leasing Transactions conducted for FY2021 and from 1 January 2022 to the Latest Practicable Date.

Set out below are the proposed annual caps of the Finance Leasing Transactions for the period from 26 October to 31 December 2022, FY2023 and FY2024 (the "Lease Cap(s)") as extracted from the Board Letter:

	For the period from 26 October to 31 December 2022 RMB	For the year ending 31 December 2023 RMB	For the year ending 31 December 2024 RMB
Lease Caps	50,000,000	150,000,000	150,000,000

With reference to the Board Letter, the Lease Caps were determined based on the factors as set out under the sub-section headed "4. FINANCE LEASE FRAMEWORK AGREEMENT – Proposed annual caps and basis of determination" of the Board Letter.

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For our due diligence purpose, we obtained from the Company the calculation of the Lease Caps for the period from 26 October 2022 to 31 December 2024 (the “**Lease Caps Calculation**”).

We noticed from the Lease Caps Calculation that the Lease Caps for the period from 26 October to 31 December 2022, FY2023 and FY2024 were calculated based on the following factors:

- (i) Estimated principal amount for the Finance Leasing Transactions to be conducted: Such principal amounts were estimated based on discussions between member of the Group and members of DFEC. For our due diligence purpose, we obtained the Company’s internal record on the aforesaid discussions.
- (ii) Estimated interest rate and handling fee which were based on historical charges to the Group’s customers.

Having considered the Lease Caps Calculation and the above-mentioned factors, we are of the view that the Lease Caps are fair and reasonable.

Shareholders should note that as the Lease Caps are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2024, and they do not represent forecasts of principal, lease interest and handling fees under the Finance Leasing Transactions. Consequently, we express no opinion as to how closely the actual principal, lease interest and handling fees under the Finance Leasing Transactions will correspond with the Finance Leasing Caps.

Having considered the pricing of the Finance Leasing Transactions and the Lease Caps for the period from 26 October 2022 to 31 December 2024 as aforementioned, we are of the view that the terms of the Finance Leasing Transactions are on normal commercial terms and are fair and reasonable.

D. THE FINANCIAL SERVICES FRAMEWORK AGREEMENT

1. Reasons for entering into the Financial Services Framework Agreement

With reference to the Board Letter, 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) Subject to compliance with the relevant laws, regulations and regulatory requirements, Dongfang Electric Finance will provide the 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

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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) The 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) 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) By entering into the Financial Services Framework Agreement with Dongfang Electric Finance, the Group will be able to obtain 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.

Having considered (i) that the Deposit Services and the Lending Services are required for the Group's business operation; and (ii) the reasons for and benefits of the Deposit Services and the Lending Services as set out above, we concur with the Directors that the Deposit Services and the Lending Services are in the interests of the Company and the Shareholders as a whole and are conducted under the ordinary and usual course of business of the Group.

2. Principal terms of the Financial Services Framework Agreement

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

26 October 2022 to 31 December 2024

LETTER FROM GRAM CAPITAL

Subject matter

Dongfang Electric Finance will provide the Group with financial services including the Deposit Services, the Lending Services and the Settlement Services.

Pricing principles

With reference to the Board Letter, 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; and
- (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.

As aforementioned, 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 the IC Procedures 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. Details of the IC Procedures are set out under the section headed "6. INTERNAL CONTROL" of the Board Letter. We consider that effective implementation of the IC Procedures can ensure fair interest determination of the Deposit Services and the Lending Services in accordance with the above-mentioned pricing principles.

3. Proposed annual caps

With reference to the Board Letter, there was no Deposit Services and Lending Services for FY2021 and from 1 January 2022 to the Latest Practicable Date.

LETTER FROM GRAM CAPITAL

Set out below are the proposed annual caps of the Deposit Services (the “**Deposit Cap(s)**”) and Lending Services (the “**Lending Cap(s)**”) for the period from 26 October to 31 December 2022, FY2023 and FY2024 as extracted from the Board Letter:

	For the period from 26 October to 31 December 2022 RMB	For the year ending 31 December 2023 RMB	For the year ending 31 December 2024 RMB
Deposit Caps (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 Caps (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

With reference to the Board Letter, the Deposit Caps and the Lending Caps were determined based on the factors as set out under the sub-section headed “5. FINANCIAL SERVICES FRAMEWORK AGREEMENT – Proposed annual caps and basis of determination” of the Board Letter.

For our due diligence purpose, we obtained from the Company the calculation of the Lending Caps for the period from 26 October 2022 to 31 December 2024 (the “**Lending Caps Calculation**”).

Based on the Lending Caps Calculation, the Lending Cap for the period from 26 October to 31 December 2022 was calculated by the sum of estimated demand for the Lending Services according to the following funding needs of the Group:

- (i) RMB500 million to RMB600 million for refinancing a bridge loan;
- (ii) RMB400 million to RMB500 million for payment in advance for the Group’s projects; and
- (iii) RMB200 million for rental payment.

LETTER FROM GRAM CAPITAL

The sum of the above funding needs is RMB1,100 million to RMB1,300 million with average of RMB1,200 million (which equals to the Lending Cap for the period from 26 October to 31 December 2022).

The Company also provided us with supporting documents for the aforesaid funding needs, including (i) loan documents and the Group's internal records regarding the bridge loan refinancing arrangements; (ii) executed agreements/draft agreements/notice of successful bidding regarding the Group's projects which require payment in advance (for purposes such as construction cost, operational cost including procurement and wage); and (iii) calculation of the funding needs for rental payment.

As advised by the Management, in FY2023, the Group is expected to maintain the loan amount previously obtained. The Group is also expected to demand additional Lending Services of (i) RMB300 million for the Group's projects; and (ii) RMB300 million for replacement of borrowings with relatively high interest. The Company also provided us with supporting documents for the aforesaid funding needs, including project plan and list of borrowings subject to possible replacement.

Based on the Lending Caps Calculation, the Lending Cap for FY2023 was calculated by adding the above expected demand to the the Lending Cap of RMB1,200 million for the period form 26 October to 31 December 2022.

As advised by the Management, in FY2024, the Group is expected to maintain the loan amount previously obtained. Accordingly, the Lending Cap for FY2024 will remain the same as that for FY2023.

In respect of the Deposit Caps from 26 October 2022 to 31 December 2024, we noticed that they are much higher than the Group's cash and cash equivalents of approximately RMB952 million, RMB703 million and RMB347 million as at 31 December 2020, 31 December 2021 and 30 June 2022, respectively.

Upon our enquiry, the Management advised us that when the Group obtain loan from Dongfang Electric Finance, the funds obtained will be firstly deposited in the Group's account with Dongfang Electric Finance and accounted for deposits (before utilisation). Accordingly, the Deposits Caps were set to be the same as the Lending Caps to cover possible deposits arising therefrom and the deposits with the Group's own fund.

In light of the above, we consider that the Deposit Caps and the Loan Caps are fair and reasonable.

LETTER FROM GRAM CAPITAL

Shareholders should note that as the Deposit Caps and the Loan Caps are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2024, and they do not represent forecasts of deposits to be placed under the Deposit Services/loans to be obtained under the Lending Services. Consequently, we express no opinion as to how closely the actual deposits to be placed under the Deposit Services/loans to be obtained under the Lending Services will correspond with the Deposit Caps and the Loan Caps.

Having considered the pricing of the Deposit Services and the Lending Services, the Deposit Caps and the Lending Caps for the period from 26 October 2022 to 31 December 2024 as aforementioned, we are of the view that the terms of the Deposit Services and the Lending Services are on normal commercial terms and are fair and reasonable.

LISTING RULES IMPLICATION

The Management confirmed that the Company shall comply with the requirements of Rules 14A.53 to 14A.59 of the Listing Rules pursuant to which (i) the values of the Transactions must be restricted by their respective proposed annual caps; (ii) the terms of the Transactions (including their respective proposed annual caps) must be reviewed by the independent non-executive Directors annually; (iii) details of independent non-executive Directors' annual review on the terms of the Transactions must be included in the Company's subsequent published annual reports and financial accounts. Furthermore, it is also required by the Listing Rules that the auditors of the Company must provide a letter to the Board confirming, among other things, whether anything has come to their attention that causes them to believe that the Transactions (i) have not been approved by the Board; (ii) were not, in all material respects, in accordance with the pricing policies of the Group (for the products sale and service provision); (iii) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and (iv) have exceeded the proposed annual caps. In the event that the total amounts of the Transactions are anticipated to exceed their respective proposed annual caps, or that there is any proposed material amendment to the terms of the Transactions, as confirmed by the Management, the Company shall comply with the applicable provisions of the Listing Rules governing continuing connected transactions.

Given the above stipulated requirements for continuing connected transactions pursuant to the Listing Rules, we are of the view that there are adequate measures in place to monitor the Transactions and thus the interest of the Independent Shareholders would be safeguarded.

LETTER FROM GRAM CAPITAL

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Transactions are on normal commercial terms and are fair and reasonable; and (ii) the Transactions are conducted in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Transactions and we recommend the Independent Shareholders to vote in favour of the resolutions in this regard.

Yours faithfully,
For and on behalf of
Gram Capital Limited
Graham Lam
Managing Director

Note: Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 25 years of experience in investment banking industry.

Pursuant to the Listing Rules, the biographies of the Directors to be elected at the EGM as required by the current Articles are as follows:

Mr. Zhu Hua (“**Mr. Zhu**”), aged 38, was appointed as executive Director of the Company on 4 July 2022.

Experience

Mr. Zhu joined the Dongfang Electric Corporation in 2009 and once served as a director, general manager and party secretary of MHI Power Dongfang Boiler Co., Ltd., a subsidiary of Dongfang Electric Corporation. He once served as the deputy director of the boiler technology department, the deputy director of the product project management department, the director of the marketing center and the director of the thermal power marketing department of Dongfang Boiler Co., Ltd. Mr. Zhu has served as the general manager of Sichuan Honghua Petroleum Equipment Co., Ltd. since August 2022, and has been a director of Honghua (China) Investment Co., Ltd. and a director of Honghua Holdings Limited since September 2022. Mr. Zhu has extensive experience in technology and corporate management. Mr. Zhu obtained a Bachelor’s Degree in Thermal and Power Engineering from Zhejiang University in 2006, a Master’s Degree in Mechanical Engineering from the Hong Kong University of Science and Technology in 2008, and a Doctorate Degree in Power Engineering and Engineering Thermophysics from Xi’an Jiaotong University in 2020.

Save as disclosed above, Mr. Zhu did not hold any positions with the Company and members of the Group in the past three years nor hold any directorships in any other listed companies.

Length of service and emoluments

Mr. Zhu has entered into an executive director’s service contract with the Company for a term of three years with effect from 4 July 2022, subject to retirement by rotation and re-election in accordance with the Current Articles of Association. Mr. Zhu does not receive director’s remuneration from the Company.

Relationships

Other than the relationship arising from his being the Company’s executive director, member of the Strategic Investment and Risk Control Committee, Mr. Zhu does not have any relationships with any Director, senior management, substantial shareholders (as defined in the Listing Rules), or controlling shareholders (as defined in the Listing Rules) of the Company.

Interests in Shares

As at the Latest Practicable Date, Mr. Zhu did not have any referenced shares or underlying shares under Part XV of the SFO.

Matters that need to be brought to the attention of the Shareholders

There is no information that needs to be disclosed pursuant to any of the requirements of the provisions under paragraphs 13.51(2)(h) to 13.51(2)(v) of the Listing Rules, and there are no other matters concerning Mr. Zhu that need to be brought to the attention of the Shareholders.

Mr. Yang Yong (“**Mr. Yang**”), aged 49, was appointed as non-executive Director of the Company on 4 July 2022.

Experience

Mr. Yang joined the Dongfang Electric Corporation in 1998, and served as the chairman and party secretary of DEC (Chengdu) Hydrogen Fuel Cell Technology Co., Ltd., the vice president of Central Research Institute of Dongfang Electric Corporation and Deputy General Manager of Dongfang Electric Corporation Academy of Science and Technology Co., Ltd. Mr. Yang has extensive experience in corporate management. Mr. Yang obtained a Bachelor’s Degree from the School of Materials Science and Engineering of Xi’an University of Technology specializing in casting in 1998, and completed a Doctoral Program in Management jointly organized by the University of Electronic Science and Technology of China and the University of Lisbon, Portugal in 2012 where he obtained a Doctorate in Management. Mr. Yang has been appointed as the Deputy Secretary of the Party Committee and Secretary of the Disciplinary Committee of HongHua (China) Investment Co., Ltd., a subsidiary of the Company, and has been a director of Honghua (China) Investment Co., Ltd. and a director of Honghua Holdings Limited since September 2022.

Save as disclosed above, Mr. Yang did not hold any positions with the Company and members of the Group in the past three years nor hold any directorships in any other listed companies.

Length of service and emoluments

Mr. Yang has entered into a non-executive director’s s service contract with the Company for a term of three years with effect from 4 July 2022, subject to retirement by rotation and re-election in accordance with the Current Articles of Association. Mr. Yang does not receive director’s remuneration from the Company.

Relationships

Other than the relationship arising from his being the Company’s non-executive director, Mr. Yang does not have any relationships with any Director, senior management, substantial shareholders (as defined in the Listing Rules), or controlling shareholders (as defined in the Listing Rules) of the Company.

Interests in Shares

As at the Latest Practicable Date, Mr. Yang did not have any referenced shares or underlying shares under Part XV of the SFO.

Matters that need to be brought to the attention of the Shareholders

There is no information that needs to be disclosed pursuant to any of the requirements of the provisions under paragraphs 13.51(2)(h) to 13.51(2)(v) of the Listing Rules, and there are no other matters concerning Mr. Yang that need to be brought to the attention of the Shareholders.

Mr. Zhang Shiju (“**Mr. Zhang**”), aged 44, was appointed as independent non-executive Director of the Company on 4 July 2022.

Experience

Mr. Zhang is currently a senior partner of Beijing Yingke Law Firm Shanghai Office. Mr. Zhang holds a Master’s Degree in Economic Law from Nanjing University. He is a member of the Legal Counsel Professional Committee of the All-China Lawyers Association, an external expert of the Shanghai Technology Exchange Expert Think Tank, and a management consulting service expert of the Management Consulting Professional Committee of the China Enterprise Confederation. Mr. Zhang served as the Deputy Secretary-General of Shanghai Youth Entrepreneurship and Employment Foundation, a co-tutor for graduate students of Tsinghua University and Shanghai Jiaotong University Law School, and an adjunct professor of Jilin University Business School. Mr. Zhang has extensive experience in legal services such as investment and mergers and acquisitions, IPO listing, corporate governance, and industrial funds.

Save as disclosed above, Mr. Zhang did not hold any positions with the Company and members of the Group in the past three years nor hold any directorships in any other listed companies.

Length of service and emoluments

Mr. Zhang has entered into an independent non-executive director service contract with the Company for a term of three years commencing from 4 July 2022, and is subject to retirement by rotation and re-election in accordance with the Current Articles of Association. Mr. Zhang will receive an annual director’s remuneration of HK\$120,000, which will be determined by the Board of the Company with reference to his qualifications, experience and responsibilities.

Relationships

Other than the relationship arising from his being the Company’s independent non-executive director, member of Audit Committee, Remuneration Committee and Nomination Committee, Mr. Zhang does not have any relationships with any Director, senior management, substantial shareholders (as defined in the Listing Rules), or controlling shareholders (as defined in the Listing Rules) of the Company.

Interests in Shares

As at the Latest Practicable Date, Mr. Zhang did not have any referenced shares or underlying shares under Part XV of the SFO.

Matters that need to be brought to the attention of the Shareholders

There is no information that needs to be disclosed pursuant to any of the requirements of the provisions under paragraphs 13.51(2)(h) to 13.51(2)(v) of the Listing Rules, and there are no other matters concerning Mr. Zhang that need to be brought to the attention of the Shareholders.

1. FINANCIAL INFORMATION OF THE GROUP

Details of the financial information of the Group for each of the three years ended 31 December 2019, 2020 and 2021 are disclosed in the annual reports of the Company for the years ended 31 December 2019, 2020 and 2021, respectively. These annual reports are published on the website of the Stock Exchange (<http://www.hkexnews.hk>) and the website of the Company (<http://www.hh-gltd.com>):

- annual report of the Company for the year ended 31 December 2019 published on 27 April 2020;
- annual report of the Company for the year ended 31 December 2020 published on 19 April 2021; and
- annual report of the Company for the year ended 31 December 2021 published on 27 April 2022.

2. STATEMENT OF INDEBTEDNESS

As at the close of business on 31 August 2022, being the latest practicable date for the purpose of this indebtedness statement, the total indebtedness of the Group amounted to approximately RMB5,029,992,000, details of which are set out below:

	<i>RMB'000</i>
Secured bank loans (i)	772,218
Unsecured bank loans	4,226,774
Secured loan from a related party	31,000
	<u>5,029,992</u>

- (i) As at 31 August 2022, the Secured bank loans included secured trade receivables of approximately RMB647,217,900 and pledged equity interest of approximately RMB75,000,000 (for 20% equity interest of Sichuan Honghua Petroleum Equipment Co., Ltd., a subsidiary of the Group), fixed assets mortgage of approximately RMB50,000,000.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities and normal trade payables, as at the close of business on 31 August 2022, the Group did not have any outstanding loan capital, bank overdrafts, loans, or other similar borrowings, liabilities or liabilities under acceptance credit (other than normal trade bills), debentures, mortgages, charges, hire-purchase commitments, guarantees or other material contingent liabilities.

3. WORKING CAPITAL

Having taken into account the financial resources available to the Group, including internally generated funds and the available banking facilities, the Directors of the Company are of the opinion that the Group has sufficient working capital for its requirement for at least 12 months from the date of this Circular.

The Company has obtained the relevant confirmation as required under Rule 14.66(12) of the Listing Rules.

4. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

In the domestic market, with the continuous increase in global oil prices since the first half of 2022, sticking to the bottom line of strategic safety of oil and gas and strengthening the capacity for exploration of oil and gas resources have become an important strategy bearing on the national energy safety of China. The National Energy Administration organized a conference in Beijing to promote the exploration and development of oil and gas in 2022, requiring that efforts should be made to practically improve the political stance, stick to the bottom line of strategic safety of oil and gas, and response to uncertainties of the external environment with the certainties of domestic oil and gas production and supply, and promote the implementation of oil and gas-related plans, and increase upstream investments. It is expected that in the second half of the year, with the support of the strategy of “increasing reserve and production” and the spirit of the conference, exploration and development will be further enhanced and upstream capital expenditure will increase in the oil and gas industry in China.

In the international market, Rystad Energy expects that the global upstream oil and gas capital expenditure will increase by 12% in 2022. However, under the long-term pressure from energy transition, the investment growth in the traditional upstream industry represented by oil giants will be significantly constrained, and the overall growth rate in the future is expected to be limited.

After the completion of the transfer of the equity interest, the Group formulated an operating strategy of “expanding the market externally, focusing on management internally and strengthening synergy.” In terms of market expansion, the Group will comprehensively balance “cash flow, profit, revenue and quality”, grasp the direction, progress and intensity of industrial adjustment, and properly achieve a dynamic balance between cash flow, benefit and scale. The Group will re-establish its competitiveness based on the standards of leading technology, excellent quality, controllable cost and first-class service. The Group will seize the opportunity from the recovery of the oil and gas industry to actively promote the large-scale sales of new products, the expansion of new overseas markets and the application of its products in new areas.

In terms of internal management, the Group carried out the change of internal organizational structure, and promoted the formation of a management structure featuring “professional concentration of business, flat management, and market-based resource allocation.” While achieving flat communication and decision-making, the Group maintained organizational flexibility and streamlining of personnel. In terms of human resources management, the Group continuously promoted the research on the total amount of labour used, reduced redundant posts, and improved the evaluation and appointment system for professional posts; selected excellent members for the cadre team, carried out strict assessment and evaluation of carders, and carried out carder promotion and demotion; enhanced the research on incentive policies to ensure strong linkage between the income of employees and their performance. In the research and development area, the Group adhered to the leading strategy, continuously and deeply promoted product quality improvement and technological upgrading, actively made arrangements for green, digital and intelligent areas, maintained its leading advantage in terms of technical performance of drilling and fracturing products, and enhanced the capability of enabling the use of new technologies and rapidly incubating new industries. In terms of operation and management, the Group promoted the digital transition of operation and management, and improved delicacy management, the cost reduction and efficiency improvement potential, and risk prevention and control capabilities.

In terms of synergy, the Group is positioned as a core platform for oil and gas equipment of Dongfang Electric, a key support for relevant diversified development and an important carrier for international operation. Under the leadership of Dongfang Electric, the Group will be integrated into the development strategy of Dongfang Electric strategically, its innovative research and development system innovatively, and its “two-level marketing” system in terms of market, and its “co-creation” culture culturally.

1. RESPONSIBILITY STATEMENT

This Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this Circular misleading.

2. DISCLOSURE OF INTERESTS

(A) Directors and chief executive of the Company

As at the Latest Practicable Date, the following Directors of the Company had interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would be required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the requirements of the Model Code for Securities Transactions by Directors of Listed Issuers:

(a) Ordinary shares of HK\$0.1 each of the Company

Name	Long/Short Position	Nature of Interest	Number of Shares Held	% of the Issued Share Capital of the Company
Zhang Mi	Long	Personal interest, corporate interest and settlor of a discretionary trust	323,408,548 ⁽¹⁾	6.03%
Su Mei	Long	Personal interest	150,000 ⁽²⁾	0.002%

Notes:

(1) Zhang Mi individually owns 3,050,000 Shares. Yi Langlin, spouse of Zhang Mi, owns 2,156,000 Shares. Zhang Mi is the settlor of a discretionary trust, The ZYL Family Trust, whose trustee, through Wealth Afflux Limited, holds 318,202,548 Shares.

(2) Su Mei individually owns 150,000 Shares.

(b) Share option of the Company

Name	Long/Short Position	Number of Options Held – Personal Interest
Zhang Mi	Long	1,190,000
Chen Guoming	Long	1,050,000

As at the Latest Practicable Date, so far as was known to the Directors, none of the Directors is a director or employee of a company which has an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

(B) Substantial Shareholders

As at the Latest Practicable Date, the register of substantial shareholders maintained by the Company pursuant to Section 336 of Part XV of the SFO showed that the following shareholders had an interest of 5% or more in the issued share capital of the Company and this interest represents long positions in the ordinary shares of HK\$0.1 each of the Company.

Name	Long/Short Position	Number of Shares Held			Total	% of the Issued Share Capital of the Company
		Personal Interest (Share Interest)	Corporate Interest	Corporate Interest and Discretionary Trust Settlor of a Trust		
Wealth Afflux Limited	Long	318,202,548	-	-	318,202,548 ⁽¹⁾	5.94%
Tricor Equity Trustee Limited	Long	-	-	733,545,441	733,545,441 ⁽²⁾	13.69%
Yi Langlin	Long	2,156,000 322,442,548 (family interest)	-	-	324,598,548 ⁽³⁾	6.06%
Dongfang Electric International Investment Co., Ltd.	Long	1,606,000,000	-	-	1,606,000,000 ⁽⁴⁾	29.98%
Dongfang Electric Corporation	Long	-	1,606,000,000	-	1,606,000,000 ⁽⁴⁾	29.98%

Notes:

- (1) Wealth Afflux Limited is held by Tricor Equity Trustee Limited (as the trustee of The ZYL Family Trust). The ZYL Family Trust is a discretionary trust established by Zhang Mi (as the settlor), with Tricor Equity Trustee Limited as the trustee. The beneficiaries under The ZYL Family Trust are Zhang Mi and his family members.
- (2) Tricor Equity Trustee Limited, as the trustee of The ZYL Family Trust and the 5 other Family Trusts, holds 733,545,441 Shares in total.

- (3) Yi Langlin, spouse of Zhang Mi, is deemed to be interested in 324,598,548 Shares in which Zhang Mi holds 1,190,000 share options.
- (4) Dongfang Electric International Investment Co., Ltd. is wholly-owned by Dongfang Electric Corporation (中國東方電氣集團有限公司), and holds 1,606,000,000 shares.

Save as disclosed above, to the best of the Directors and the Chief Executives of the Company's knowledge, there is no person (other than a Director or Chief Executive of the Company) who had an interest in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

3. DIRECTORS' INTERESTS

As at the Latest Practicable Date, none of the Directors had any interests, either directly or indirectly, in any assets which had been acquired or disposed of by or leased to any member of the Group, or which were proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2021, being the date to which the latest published audited consolidated accounts of the Group were made up.

As at the Latest Practicable Date, there was no subsisting contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly.

4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2021, being the date to which the latest published audited consolidated financial statements of the Group were made up.

5. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors nor their respective associates had an interest in any business apart from the Group's business which competes or is likely to compete, either directly or indirectly, with the Group's business.

6. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with the Company or any of its subsidiaries which is not expiring nor determinable by the Company or any of its subsidiaries within one year without payment of compensation other than statutory compensation.

7. EXPERT AND CONSENT

The following is the qualification of the expert who has given opinions or advice contained in this Circular:

Name	Qualification
Gram Capital Limited	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO

Gram Capital has confirmed that as at the Latest Practicable Date, it did not have any beneficial shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group nor did it have any direct or indirect interests in any assets which had been since 31 December 2021 (being the date to which the latest published audited consolidated financial statements of the Company were made up) acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

Gram Capital has given and has not withdrawn its written consent to the issue of this Circular with the inclusion herein of its opinion prepared for the purpose of incorporation in this Circular, and the references to its name and opinion in the form and context in which they respectively appear.

8. DOCUMENTS ON DISPLAY

The following documents are published on the respective websites of Company (<http://www.hh-gltd.com/>) and the Stock Exchange (www.hkexnews.hk) from the date of this Circular up to 14 days thereafter:

- (i) the Purchase Framework Agreement;
- (ii) the Sales Framework Agreement;
- (iii) the Finance Lease Framework Agreement;
- (iv) the Financial Services Framework Agreement;
- (v) the letter of recommendation from the Independent Board Committee;
- (vi) the letter of advice from Gram Capital to the Independent Board Committee and the Independent Shareholders;

- (vii) the written consent as referred to under the section headed “EXPERT AND CONSENT” in this appendix; and
- (viii) this Circular.

9. MATERIAL CONTRACTS

No contract, not being contracts in the ordinary course of business of the Group, has been entered into by the members of the Group within the two (2) years immediately preceding the Latest Practicable Date.

10. LITIGATION

Neither the Group nor any other member of the Group has engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance known to the Directors to be pending or threatened against any member of the Group as at the Latest Practicable Date.

11. MISCELLANEOUS

- (i) Ms. Lee Mei Yi of Tricor Services Limited has been engaged by the Company as its joint company secretary. Her primary contact person at the Company is Ms. Zhuang Wenmin, another joint company secretary of the Company.
- (ii) The registered office of the Company is situated at Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman, KY1-1108, Cayman Islands and the principal place of business of the Company in Hong Kong is situated at 5/F, Manulife Place, 348 Kwun Tong Road, Kowloon, Hong Kong.
- (iii) The Hong Kong branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong.
- (iv) In the event of any inconsistency, the English text of this Circular shall prevail over the Chinese text.

NOTICE OF EXTRAORDINARY GENERAL MEETING



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)

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting (the “**Meeting**”) of Honghua Group Limited (the “**Company**”) will be held at 10/F, United Centre, 95 Queensway, Admiralty, Hong Kong on 25 October 2022 at 10:00 a.m. for the following purposes:

Ordinary Resolution

“THAT:

1. (a) To approve the Purchase Framework Agreement and the transactions contemplated thereunder;
 - (b) To approve the relevant proposed annual caps under the Purchase Framework Agreement for the periods concerned under the Circular; and
 - (c) To authorise any one director on behalf of the Company to sign, execute, perfect, deliver and do all such documents, deeds, acts, matters and things as he may in his discretion consider necessary or desirable for the purposes of or in connection with or to give effect to the Purchase Framework Agreement and the transactions contemplated thereunder (including the relevant proposed annual caps).
2. (a) To approve the Sales Framework Agreement and the transactions contemplated thereunder;
 - (b) To approve the relevant proposed annual caps under the Sales Framework Agreement for the periods concerned under the Circular; and
 - (c) To authorise any one director on behalf of the Company to sign, execute, perfect, deliver and do all such documents, deeds, acts, matters and things as he may in his discretion consider necessary or desirable for the purposes of or in connection with or to give effect to the Sales Framework Agreement and the transactions contemplated thereunder (including the relevant proposed annual caps).

NOTICE OF EXTRAORDINARY GENERAL MEETING

3. (a) To approve the Finance Lease Framework Agreement and the transactions contemplated thereunder;
- (b) To approve the relevant proposed annual caps under the Finance Lease Framework Agreement for the periods concerned under the Circular; and
- (c) To authorise any one director on behalf of the Company to sign, execute, perfect, deliver and do all such documents, deeds, acts, matters and things as he may in his discretion consider necessary or desirable for the purposes of or in connection with or to give effect to the Finance Lease Framework Agreement and the transactions contemplated thereunder (including the relevant proposed annual caps).
4. (a) To approve the Financial Services Framework Agreement and the transactions in relation to Deposit Services and Lending Services contemplated thereunder;
- (b) To approve the relevant proposed annual caps in relation to Deposit Services and Lending Services under Financial Services Framework Agreement for the periods concerned under the Circular; and
- (c) To authorise any one director on behalf of the Company to sign, execute, perfect, deliver and do all such documents, deeds, acts, matters and things as he may in his discretion consider necessary or desirable for the purposes of or in connection with or to give effect to the financial services framework Agreement and the transactions in relation to Deposit Services and Lending Services contemplated thereunder (including the relevant proposed annual caps).
5. (i) (a) To elect Mr. Zhu Hua as an executive Director;
- (b) To elect Mr. Yang Yong as a non-executive Director;
- (c) To elect Mr. Zhang Shiju as an independent non-executive Director; and
- (ii) To authorize the Board of Directors to fix Directors' remuneration."

On behalf of the Board
Jin Liliang
Chairman

PRC, 6 October 2022

NOTICE OF EXTRAORDINARY GENERAL MEETING

Notes:

1. A member of the Company who is entitled to attend and vote at the Meeting convened by the above notice is entitled to appoint a proxy to attend and vote on his behalf. A proxy need not be a member of the Company but must attend in person to represent the member. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed. Every member present in person or by proxy shall be entitled to one vote for each share held by him.
2. In order to be valid, the form of proxy together with any power of attorney or other authority under which it is signed or a certified copy of such power of attorney or authority, must be deposited with the Company's Branch Share Registrar and Transfer Office in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for the above Meeting (i.e. not later than 10:00 a.m. on Sunday, 23 October 2022 (Hong Kong time)) or the adjourned meeting (as the case may be). Completion and delivery of the form of proxy shall not preclude a member of the Company from attending and voting in person at the meeting and in such event, the instrument appointing a proxy shall be deemed to be revoked.
3. For determining the entitlement to attend and vote at the above Meeting, the Register of Members of the Company will be closed from Thursday, 20 October 2022 to Tuesday, 25 October 2022, both dates inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the Meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar and Transfer Office in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 19 October 2022.
4. References to time and dates in this notice are to Hong Kong time and dates.

As at the date of this notice, 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.