
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, a 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, together with the enclosed form of proxy, to the purchaser or to the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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This circular is for information purpose only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities of the Company.



宏华集团
HONGHUA GROUP

Honghua Group Limited 宏華集團有限公司

(a company incorporated in the Cayman Islands with limited liability)
(Stock code: 196)

**(1) SUBSCRIPTION OF SHARES BY DONGFANG
INVESTMENT AND ISSUE OF SUBSCRIPTION SHARES
UNDER SPECIFIC MANDATE**

**(2) SUBSCRIPTION OF SHARES BY CHENGTONG AND
ISSUE OF SUBSCRIPTION SHARES UNDER SPECIFIC MANDATE**

(3) APPLICATION FOR WHITEWASH WAIVER

(4) SPECIAL DEAL

(5) RE-ELECTION OF A DIRECTOR

AND

(6) NOTICE OF EXTRAORDINARY GENERAL MEETING

Independent Financial Adviser to
the Independent Board Committees and the Independent Shareholders



Gram Capital Limited
嘉林資本有限公司

Letters from the Independent Board Committees to the Independent Shareholders are set out on pages 30 to 32 of this circular. A letter from Gram Capital Limited, the Independent Financial Adviser, containing its advice to the Independent Board Committees and the Independent Shareholders, is set out on pages 33 to 64 of this circular.

A notice convening the EGM of Honghua Group Limited to be held at 10/F, United Centre, 95 Queensway, Admiralty, Hong Kong on Monday, 17 April 2023 at 10 a.m. is set out on pages 92 to 94 of this circular. A form of proxy for use at the EGM is also enclosed. Such form of proxy is also published on the website of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk).

Whether or not you are able to attend the EGM, please complete and sign the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM (i.e. before 10 a.m., on Saturday, 15 April 2023 (Hong Kong time)) or any adjournment thereof. Completion and return of the form of proxy will not preclude Shareholders from attending and voting in person at the EGM if they so wish and in such event, the proxy form shall be deemed to be revoked.

* *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:

“acting in concert”	has the meaning ascribed to it under the Takeovers Code;
“Announcement”	the announcement of the Company dated 18 January 2023, in relation to, among other things, the Dongfang Subscription, the Dongfang Specific Mandate, the Chengtong Subscription, the Chengtong Specific Mandate, the Whitewash Waiver, the Special Deal and appointment of the Independent Financial Adviser;
“Articles of Association”	the articles of association of the Company;
“associate(s)”	has the meaning ascribed to it under Chapter 14A of the Listing Rules;
“Board”	the board of Directors;
“CCHG”	中國誠通控股集團有限公司 (China Chengtong Holdings Group Limited*), the ultimate holding company of Chengtong;
“Chengtong”	China Chengtong Investment Company Limited, a company incorporated in Hong Kong with limited liability and the subscriber of the Chengtong Subscription Shares;
“Chengtong Independent Shareholders”	the Shareholders other than (i) Chengtong and parties acting in concert with it; (ii) Dongfang Investment and parties acting in concert with it; and (iii) any other Shareholders who are involved in or interested in the Chengtong Subscription or the Dongfang Subscription (other than solely as Shareholders of the Company);
“Chengtong Specific Mandate”	the specific mandate proposed to be granted by the Chengtong Independent Shareholders to the Directors at the EGM for the issue of the Chengtong Subscription Shares to Chengtong;
“Chengtong Subscription”	the subscription of the Chengtong Subscription Shares by Chengtong pursuant to the Chengtong Subscription Agreement;

DEFINITIONS

“Chengtong Subscription Agreement”	the conditional subscription agreement dated 18 January 2023 entered into between the Company and Chengtong in relation to the issue and subscription of the Chengtong Subscription Shares;
“Chengtong Subscription Price”	the subscription price under the Chengtong Subscription Agreement of HK\$0.2418 per Share;
“Chengtong Subscription Share(s)”	the 223,000,000 new Shares to be subscribed by Chengtong and issued by the Company pursuant to the Chengtong Subscription Agreement;
“Company”	Honghua Group Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange;
“connected person(s)”	has the meaning ascribed to it under the Listing Rules;
“connected transaction(s)”	has the meaning ascribed to it under the Listing Rules;
“Connected Transaction IBC”	an independent committee of the Board comprising all the independent non-executive Directors who do not have a material interest in the Dongfang Subscription (namely Mr. Chen Guoming, Ms. Su Mei, Mr. Chang Qing, Mr. Wei Bin and Mr. Zhang Shiju) and established pursuant to the requirements of the Listing Rules to advise the Dongfang Independent Shareholders on the Dongfang Subscription (including the grant of the Dongfang Specific Mandate);
“Director(s)”	directors of the Company;
“Dongfang Independent Shareholders”	Shareholders other than (i) Dongfang Investment and parties acting in concert with, and associates of, it; (ii) Chengtong and parties acting in concert with, and close associates of, it; and (iii) any other Shareholders who are involved or interested in the Dongfang Subscription, the Chengtong Subscription, the Whitewash Waiver or the Special Deal (other than solely as Shareholders of the Company);

DEFINITIONS

“Dongfang Investment”	Dongfang Electric International Investment Co., Limited (東方電氣集團國際投資有限公司), a company incorporated in Hong Kong with limited liability and the subscriber of the Dongfang Subscription Shares;
“Dongfang Specific Mandate”	the specific mandate proposed to be granted by the Dongfang Independent Shareholders to the Directors at the EGM for the issue of the Dongfang Subscription Shares to Dongfang Investment;
“Dongfang Subscription”	the subscription of the Dongfang Subscription Shares by Dongfang Investment pursuant to the Dongfang Subscription Agreement;
“Dongfang Subscription Agreement”	the conditional subscription agreement dated 18 January 2023 entered into between the Company and Dongfang Investment in relation to the Dongfang Subscription;
“Dongfang Subscription Price”	the subscription price under the Dongfang Subscription Agreement of HK\$0.2418 per Share;
“Dongfang Subscription Share(s)”	the 4,000,000,000 new Shares to be subscribed by Dongfang Investment and issued by the Company pursuant to the Dongfang Subscription Agreement;
“EGM”	the extraordinary general meeting of the Company to be held at 10/F, United Centre, 95 Queensway, Admiralty, Hong Kong on Monday, 17 April 2023 at 10 a.m. to consider, and if thought fit, to approve the resolutions contained in the notice of the meeting which is set out on pages 92 to 94 of this circular, or any adjournment thereof;
“Estimated Loss Announcement”	the announcement of the Company dated 9 January 2023 pursuant to the Insider Information Provisions in Part XIVA of SFO and Rule 13.09 of the Hong Kong Listing Rules in relation to the unaudited estimated loss of the Company for the year ended 31 December 2022;
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director;
“Group”	the Company and its subsidiaries from time to time;

DEFINITIONS

“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administration Region of the PRC;
“Independent Board Committees”	collectively, the Connected Transaction IBC and the Whitewash Waiver IBC;
“Independent Financial Adviser” or “Gram Capital”	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser appointed by the Company to advise the Independent Board Committees and the Independent Shareholders in relation to the Dongfang Subscription (including the grant of the Dongfang Specific Mandate), the Whitewash Waiver and the Special Deal and to make recommendations as to voting;
“Independent Shareholders”	the Dongfang Independent Shareholders and the Chengtong Independent Shareholders;
“Latest Practicable Date”	Monday, 20 March 2023, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular;
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
“PRC”	the People’s Republic of China, for the purpose of this circular only, excluding Hong Kong, the Macau Special Administration Region and Taiwan;
“Relevant Period”	the period commencing from a date falling six months before the date of the Announcement (i.e. 18 July 2022), up to and including the Latest Practicable Date;
“RMB”	Renminbi yuan, the lawful currency of the PRC;
“Securities and Futures Ordinance” or “SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“SFC”	the Securities and Futures Commission of Hong Kong;

DEFINITIONS

“Share(s)”	ordinary share(s) of nominal value of HK\$0.10 each in the share capital of the Company;
“Shareholder(s)”	holder(s) of Shares;
“Special Deal”	the proposed Chengtong Subscription which constitutes a special deal (as defined in Rule 25 of the Takeovers Code) in relation to the Dongfang Subscription;
“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;
“Takeovers Code”	the Code on Takeovers and Mergers in Hong Kong;
“Whitewash Waiver”	the waiver by the Executive pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code from the obligation on the part of Dongfang Investment to make a mandatory general offer for all the issued Shares and other securities of the Company not already owned or agreed to be acquired by Dongfang Investment and any parties acting in concert with it arising as a result of the Dongfang Subscription;
“Whitewash Waiver IBC”	an independent committee of the Board comprising the non-executive Directors and independent non-executive Directors who have no direct or indirect interest in the Dongfang Subscription, the Whitewash Waiver and the Special Deal (namely Mr. Zhang Mi, a non-executive Director, and all of the independent non-executive Directors, being Mr. Chen Guoming, Ms. Su Mei, Mr. Chang Qing, Mr. Wei Bin and Mr. Zhang Shiju) and established pursuant to the requirements of the Takeovers Code to provide recommendations to the Independent Shareholders on the Dongfang Subscription (including the grant of the Dongfang Specific Mandate), the Whitewash Waiver and the Special Deal; and
“%”	per cent.

* *The English translation of the Chinese name of the relevant entity included in this circular is for identification and reference only, and such translation may not be accurate and such entity may not have an official English translation/version of its Chinese name.*

For the purpose of this circular and for illustrative purpose only, unless otherwise indicated, RMB is converted into HK\$ at the rate of RMB1:HK\$1.14. No representation is made that any amount in RMB has been, can be or could have been converted at the above rate, any other rate or at all.

LETTER FROM THE BOARD



宏华集团
HONGHUA GROUP

Honghua Group Limited **宏華集團有限公司**

(a company incorporated in the Cayman Islands with limited liability)

(Stock code: 196)

Executive Directors:

Mr. Wang Xu (*Chairman*)
Mr. Zhu Hua (*Executive Vice President*)

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, PRC
Post code: 610036

*Principal Place of Business in
Hong Kong:*

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

Registered Office:

Windward 3, Regatta Office Park,
PO Box 1350 Grand Cayman,
KY1-1108 Cayman Islands

23 March 2023

To the Shareholders

Dear Sir/Madam,

**(1) SUBSCRIPTION OF SHARES BY DONGFANG
INVESTMENT AND ISSUE OF SUBSCRIPTION SHARES
UNDER SPECIFIC MANDATE
(2) SUBSCRIPTION OF SHARES BY CHENGTONG AND
ISSUE OF SUBSCRIPTION SHARES UNDER SPECIFIC MANDATE
(3) APPLICATION FOR WHITEWASH WAIVER
(4) SPECIAL DEAL
AND
(5) RE-ELECTION OF A DIRECTOR**

1. INTRODUCTION

Reference is made to the Announcement dated 18 January 2023 in relation to, among other things, the Dongfang Subscription, the Dongfang Specific Mandate, the Whitewash Waiver, the Chengtong Subscription, the Chengtong Specific Mandate and the Special Deal.

LETTER FROM THE BOARD

The purpose of this circular is to provide Shareholders with information reasonably necessary to enable Shareholders to make an informed decision on whether to vote for or against the resolutions to be proposed at the EGM, including:

1. details of the Dongfang Subscription, the Dongfang Specific Mandate, the Whitewash Waiver, the Chengtong Subscription, the Chengtong Specific Mandate and the Special Deal;
 2. the letter from the Connected Transaction IBC to the Dongfang Independent Shareholders regarding the Dongfang Subscription (including the grant of the Dongfang Specific Mandate);
 3. the letter from the Whitewash Waiver IBC to the Independent Shareholders regarding the Dongfang Subscription (including the grant of the Dongfang Specific Mandate), the Whitewash Waiver and the Special Deal;
 4. the letter from the Independent Financial Adviser to the Independent Board Committees and the Independent Shareholders regarding the Dongfang Subscription (including the grant of the Dongfang Specific Mandate), the Whitewash Waiver and the Special Deal; and
 5. the notice of the EGM at which relevant resolutions will be proposed to consider and approve, (i) the Dongfang Subscription; (ii) the issue of the Dongfang Subscription Shares to Dongfang Investment pursuant to the Dongfang Specific Mandate; (iii) the issue of the Chengtong Subscription Shares to Chengtong pursuant to the Chengtong Specific Mandate; (iv) the Whitewash Waiver; (v) the Special Deal; and (vi) re-election of a Director.
- 2. SUBSCRIPTION OF SHARES BY DONGFANG INVESTMENT AND ISSUE OF SUBSCRIPTION SHARES UNDER SPECIFIC MANDATE**

On 18 January 2023, after trading hours, the Company entered into the Dongfang Subscription Agreement with Dongfang Investment.

The principal terms of the Dongfang Subscription Agreement are set out below:

- Date:** 18 January 2023
- Parties:**
- (1) the Company as the issuer
 - (2) Dongfang Investment as the subscriber

LETTER FROM THE BOARD

Dongfang Subscription Shares: 4,000,000,000 Dongfang Subscription Shares, representing (i) approximately 74.68% of the total number of issued Shares as at the Latest Practicable Date; (ii) approximately 42.75% of the total number of issued Shares as increased by the issue of the Dongfang Subscription Shares; and (iii) approximately 41.76% of the total number of issued Shares as increased by the issue of the Dongfang Subscription Shares and the Chengtong Subscription Shares.

The Dongfang Subscription Shares will be issued pursuant to the Dongfang Specific Mandate to be approved at the EGM.

An application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Dongfang Subscription Shares.

The Dongfang Subscription Shares, when issued, will rank *pari passu* with the then existing Shares in issue.

Dongfang Subscription Price: HK\$0.2418 per Share

The Dongfang Subscription Price was determined by the Company and Dongfang Investment after arm's length negotiations with reference to (i) the market price of the Shares; (ii) current market conditions; and (iii) the equity financing needs of the Company in relation to the Dongfang Subscription.

The Dongfang Subscription Price of HK\$0.2418 per Share represents:

- (a) a premium of approximately 5.13% over the closing price of HK\$0.23 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (b) a discount of approximately 1.71% to the closing price of HK\$0.246 per Share as quoted on the Stock Exchange on the date of the Dongfang Subscription Agreement;

LETTER FROM THE BOARD

- (c) a discount of approximately 3.51% to the average closing price of HK\$0.2506 per Share as quoted on the Stock Exchange for the five consecutive trading days immediately prior to the date of the Dongfang Subscription Agreement;
- (d) a discount of approximately 1.63% to the average closing price of HK\$0.2458 per Share as quoted on the Stock Exchange for the ten consecutive trading days immediately prior to the date of the Dongfang Subscription Agreement;
- (e) the equivalent of the average closing price of HK\$0.2418 per Share as quoted on the Stock Exchange for the twenty consecutive trading days immediately prior to the date of the Dongfang Subscription Agreement;
- (f) a premium of approximately 4.89% over the average closing price of HK\$0.2305 per Share as quoted on the Stock Exchange for the thirty consecutive trading days immediately prior to the date of the Dongfang Subscription Agreement;
- (g) a premium of approximately 10.52% over the average closing price of approximately HK\$0.2188 per Share as quoted on the Stock Exchange for the forty-five consecutive trading days immediately prior to the date of the Dongfang Subscription Agreement;
- (h) a premium of approximately 13.26% over the average closing price of HK\$0.2135 per Share as quoted on the Stock Exchange for the sixty consecutive trading days immediately prior to the date of the Dongfang Subscription Agreement;
- (i) a discount of 67.89% to the audited net asset value per Share of approximately RMB0.66 (equivalent to approximately HK\$0.75) as at 31 December 2021, as calculated based on the audited equity attributable to owners of the Company of RMB3,537,636,000 as at 31 December 2021 and 5,355,994,900 Shares in issue as at the Latest Practicable Date; and

LETTER FROM THE BOARD

- (j) a discount of 62.37% to the unaudited net asset value per Share of approximately RMB0.56 (equivalent to approximately HK\$0.64) as at 30 June 2022, as calculated based on the unaudited equity attributable to owners of the Company of RMB3,019,147,000 as at 30 June 2022 and 5,355,994,900 Shares in issue as at the Latest Practicable Date.

Conditions Precedents:

Completion of the Dongfang Subscription is subject to the following conditions precedent:

- (a) the passing of a resolution by the Dongfang Independent Shareholders to approve the Dongfang Subscription and the grant of the Dongfang Specific Mandate to the Board to issue the Dongfang Subscription Shares in accordance with the Listing Rules and the Takeovers Code;
- (b) the passing of a resolution by the Dongfang Independent Shareholders to approve the Whitewash Waiver in accordance with the Takeovers Code;
- (c) the SFC granting the Whitewash Waiver;
- (d) the Listing Committee of the Stock Exchange granting approval for the listing of, and permission to deal in, the Dongfang Subscription Shares (and such approval not being subsequently revoked prior to completion of the Dongfang Subscription); and
- (e) Dongfang Investment or its group companies having obtained in respect of the Dongfang Subscription all applicable approvals, filings, registrations, permits or authorisations of competent authorities of the PRC government in connection with the offshore investment and outbound funds transfer by PRC enterprises.

LETTER FROM THE BOARD

The Company will use its best endeavours, and Dongfang Investment will provide reasonable assistance, to procure the fulfilment of the conditions set out in paragraphs (a), (b) and (d) before 30 June 2023 (or such other date as agreed by both parties in writing). Dongfang Investment will use its best endeavours, and the Company will provide reasonable assistance, to procure the fulfilment of the conditions set out in paragraphs (c) and (e) before the same date.

Dongfang Investment may waive the condition set out in paragraph (e) by way of written notice to the Company at any time to the extent that the transactions thereunder are not illegal if they were to be implemented. The conditions set out in paragraphs (a), (b), (c) and (d) may not be waived by either party.

If the above conditions are not fulfilled or waived by 4pm on 30 June 2023 (or such other date as agreed by both parties in writing), then, unless otherwise agreed by the parties in writing, either party may terminate the Dongfang Subscription Agreement by way of written notice to the other party, in which case all obligations of the parties under the Dongfang Subscription Agreement will terminate, and neither party will have any claim against the other party under the Dongfang Subscription Agreement, except for any antecedent breach prior to such termination.

LETTER FROM THE BOARD

Completion of the Dongfang Subscription: Completion of the Dongfang Subscription will take place within five business days after the fulfilment or waiver of the conditions precedent (or such other date as the Company and Dongfang Investment may agree).

If completion of the Dongfang Subscription does not take place within five business days after the fulfilment or waiver of the conditions precedent (or such other date as the Company and Dongfang Investment may agree) due to any party's breach, the non-breaching party may elect to: (i) proceed with completion of the Dongfang Subscription to the extent possible; (ii) delay completion of the Dongfang Subscription to 30 June 2023 (or such other date as agreed by the parties in writing); or (iii) terminate the Dongfang Subscription Agreement. If the Dongfang Subscription Agreement is terminated under such circumstances, all obligations of the parties under the Dongfang Subscription Agreement will terminate, and neither party will have any claim against the other party under the Dongfang Subscription Agreement, except for any antecedent breach prior to such termination.

The aggregate nominal value of the Dongfang Subscription Shares will be HK\$400,000,000.

As at the Latest Practicable Date, none of the conditions precedent under the Dongfang Subscription Agreement as set out above has been fulfilled or waived.

3. SUBSCRIPTION OF SHARES BY CHENGTONG AND ISSUE OF SUBSCRIPTION SHARES UNDER SPECIFIC MANDATE

On 18 January 2023, after trading hours, the Company entered into the Chengtong Subscription Agreement with Chengtong.

The principal terms of the Chengtong Subscription Agreement are set out below:

Date: 18 January 2023

Parties: (1) the Company as the issuer
(2) Chengtong as the subscriber

LETTER FROM THE BOARD

Chengtong Subscription Shares: 223,000,000 Chengtong Subscription Shares, representing (i) approximately 4.16% of the total number of issued Shares as at the Latest Practicable Date; and (ii) approximately 2.33% of the total number of issued Shares as increased by the issue of the Dongfang Subscription Shares and the issue of the Chengtong Subscription Shares.

The Chengtong Subscription Shares will be issued pursuant to the Chengtong Specific Mandate to be approved at the EGM.

An application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Chengtong Subscription Shares.

The Chengtong Subscription Shares, when issued, will rank *pari passu* with the then existing Shares in issue.

The aggregate of the Chengtong Subscription Shares and the number of the existing Shares held by Galactic Investment Limited shall not exceed 4.99% of the total number of issued Shares immediately after the issue of the Dongfang Subscription Shares and the issue of the Chengtong Subscription Shares on the date of such issues.

LETTER FROM THE BOARD

Chengtong Subscription Price: HK\$0.2418 per Share

The Chengtong Subscription Price was determined by the Company and Chengtong after arm's length negotiations with reference to (i) the market price of the Shares; (ii) current market conditions; and (iii) the equity financing needs of the Company in relation to the Chengtong Subscription.

The Chengtong Subscription Price of HK\$0.2418 per Share represents:

- (a) a premium of approximately 5.13% over the closing price of HK\$0.23 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (b) a discount of approximately 1.71% to the closing price of HK\$0.246 per Share as quoted on the Stock Exchange on the date of the Chengtong Subscription Agreement;
- (c) a discount of approximately 3.51% to the average closing price of HK\$0.2506 per Share as quoted on the Stock Exchange for the five consecutive trading days immediately prior to the date of the Chengtong Subscription Agreement;
- (d) a discount of approximately 1.63% to the average closing price of HK\$0.2458 per Share as quoted on the Stock Exchange for the ten consecutive trading days immediately prior to the date of the Chengtong Subscription Agreement;
- (e) the equivalent of the average closing price of HK\$0.2418 per Share as quoted on the Stock Exchange for the twenty consecutive trading days immediately prior to the date of the Chengtong Subscription Agreement;
- (f) a premium of approximately 4.89% over the average closing price of HK\$0.2305 per Share as quoted on the Stock Exchange for the thirty consecutive trading days immediately prior to the date of the Chengtong Subscription Agreement;

LETTER FROM THE BOARD

- (g) a premium of approximately 10.52% over the average closing price of approximately HK\$0.2188 per Share as quoted on the Stock Exchange for the forty-five consecutive trading days immediately prior to the date of the Chengtong Subscription Agreement;
- (h) a premium of approximately 13.26% over the average closing price of HK\$0.2135 per Share as quoted on the Stock Exchange for the sixty consecutive trading days immediately prior to the date of the Chengtong Subscription Agreement;
- (i) a discount of 67.89% to the audited net asset value per Share of approximately RMB0.66 (equivalent to approximately HK\$0.75 as at 31 December 2021, as calculated based on the audited equity attributable to owners of the Company of RMB3,537,636,000 as at 31 December 2021 and 5,355,994,900 Shares in issue as at the Latest Practicable Date; and
- (j) a discount of 62.37% to the unaudited net asset value per Share of approximately RMB0.56 (equivalent to approximately HK\$0.64 as at 30 June 2022, as calculated based on the unaudited equity attributable to owners of the Company of RMB3,019,147,000 as at 30 June 2022 and 5,355,994,900 Shares in issue as at the Latest Practicable Date.

Conditions Precedents:

Completion of the Chengtong Subscription is subject to the following conditions precedent:

- (a) completion of the Dongfang Subscription having taken place;
- (b) the passing of a resolution by the Chengtong Independent Shareholders to approve the grant of the Chengtong Specific Mandate to the Board to issue the Chengtong Subscription Shares in accordance with the Listing Rules;
- (c) the passing of a resolution by the Chengtong Independent Shareholders to approve the Chengtong Subscription as a special deal under Rule 25 of the Takeovers Code;

LETTER FROM THE BOARD

- (d) consent from the Executive in respect of the Chengtong Subscription as a special deal under Rule 25 of the Takeovers Code;
- (e) the Listing Committee of the Stock Exchange granting approval for the listing of, and permission to deal in, the Chengtong Subscription Shares, and such approval being unconditional or subject only to conditions which are customary or conditions to which Chengtong consented in writing to the Company, and such approval not being subsequently revoked prior to completion of the Chengtong Subscription;
- (f) the representations and warranties given by the Company in the Chengtong Subscription Agreement being and remaining true, accurate and complete in all material respects, and not misleading in any material respect, as of the date of the Chengtong Subscription Agreement and the date of completion of the Chengtong Subscription; and
- (g) the representations and warranties given by Chengtong in the Chengtong Subscription Agreement being and remaining true, accurate and complete in all material respects, and not misleading in any material respect, as of the date of the Chengtong Subscription Agreement and the date of completion of the Chengtong Subscription.

The Company will use its best endeavours, and Chengtong will provide reasonable assistance, to procure the fulfilment of the conditions set out in paragraphs (a), (b), (c), (d), (e) and (f) before 30 June 2023 (or such other date as agreed by both parties in writing). Chengtong will use its best endeavours to procure the fulfilment of the condition set out in paragraph (g) before the same date.

Chengtong may waive the condition set out in paragraph (f), and the Company may waive the condition set out in paragraph (g), in each case by way of written notice to the other party at any time. The conditions set out in paragraphs (a) to (e) may not be waived by either party.

LETTER FROM THE BOARD

If the above conditions are not fulfilled or waived by 4pm on 30 June 2023 (or such other date as agreed by both parties in writing), then, unless otherwise agreed by the parties in writing, either party may terminate the Chengtong Subscription Agreement by way of written notice to the other party, in which case all obligations of the parties under the Chengtong Subscription Agreement will terminate, and neither party will have any claim against the other party under the Chengtong Subscription Agreement, except for any antecedent breach prior to such termination.

**Completion of the
Chengtong
Subscription:**

Completion of the Chengtong Subscription will take place within ten business days after the fulfilment or waiver of the conditions precedent (or such other date as the Company and Chengtong may agree).

If completion of the Chengtong Subscription does not take place within ten business days after the fulfilment or waiver of the conditions precedent (or such other date as the Company and Chengtong may agree) due to any party's breach, the non-breaching party may elect to: (i) proceed with completion of the Chengtong Subscription to the extent possible; (ii) delay completion of the Chengtong Subscription to 30 June 2023 (or such other date as agreed by the parties in writing); or (iii) terminate the Chengtong Subscription Agreement. If the Chengtong Subscription Agreement is terminated under such circumstances, all obligations of the parties under the Chengtong Subscription Agreement will terminate, and neither party will have any claim against the other party under the Chengtong Subscription Agreement, except for any antecedent breach prior to such termination.

Lock-up

Chengtong will not offer, pledge, charge, sell or otherwise dispose of by other means any of its Shares within six months after completion of the Chengtong Subscription, with exceptions in respect of: (1) intragroup transfers; (2) creation of security interest for the purpose of bona fide commercial loans; and (3) transfers pursuant to legal requirements.

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Company's undertaking The Company undertakes to Chengtong that, save for the Dongfang Subscription and any grant of share options under any existing share option scheme or any issue of Shares pursuant to the exercise of any share options granted under any existing or past share option schemes, the Company will not, prior to completion of the Chengtong Subscription: (1) issue or agree to issue any Shares, or grant or agree to grant any option or right to acquire or subscribe for any Shares; or (2) change the share capital structure of the Company or the rights attached to the Chengtong Subscription Shares, or take or agree to take any action that may result in any such change.

Nomination The Company is aware that after completion of the Chengtong Subscription, Chengtong intends to nominate a candidate to the Company as a non-executive Director. Subject to (1) fulfilment of the requirements of the Listing Rules, the Stock Exchange, any other applicable laws and the Articles of Association, (2) the appointment being, in the reasonable opinion of the Board, in line with the interest of the Company and the Shareholders and (3) fiduciary duties of the Directors to abide by (collectively, the "**Relevant Prerequisites**"), the Company will consider taking reasonable steps to cause the candidate nominated by Chengtong to be given careful consideration by the Company's nomination committee and/or the Board for appointment as a non-executive Director.

Subject to the condition that the total shareholding of China Chengtong Hong Kong Company Limited and its subsidiaries in the Company is not less than 4.99% and the Relevant Prerequisites, if the non-executive Director nominated by Chengtong resigns, retires, is dismissed or otherwise ceases to be a non-executive Director for any other reasons, the Company will consider taking reasonable steps to cause the candidate nominated by Chengtong to be given consideration by the Company's nomination committee and/or the Board for appointment as a non-executive Director, including but not limited to convening a nomination committee meeting or Board meeting to consider such appointment.

The aggregate nominal value of the Chengtong Subscription Shares will be HK\$22,300,000.

As at the Latest Practicable Date, none of the conditions precedent under the Chengtong Subscription Agreement as set out above has been fulfilled or waived.

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4. FURTHER INFORMATION ABOUT THE DONGFANG SUBSCRIPTION, THE DONGFANG SPECIFIC MANDATE, THE CHENGTONG SUBSCRIPTION AND THE CHENGTONG SPECIFIC MANDATE

Use of proceeds and reasons for the Dongfang Subscription and the Chengtong Subscription

The Dongfang Subscription and the Chengtong Subscription demonstrate Dongfang Investment's and Chengtong's respective confidence in, and commitment to, the Company's long-term development and growth prospect, and will further strengthen the Company's capital base by raising additional funds for the Group.

The gross proceeds and net proceeds (after deducting all relevant costs and expenses) from the issue of the Dongfang Subscription Shares and the Chengtong Subscription Shares are estimated to be approximately HK\$1.021 billion and HK\$1.017 billion, respectively, in aggregate. The net issue price for each of the Dongfang Subscription Shares and Chengtong Subscription Shares will be approximately HK\$0.2407.

The Company intends to apply the net proceeds from the issue of the Dongfang Subscription Shares and the Chengtong Subscription Shares towards repaying the Group's interest-bearing external borrowings (which will fall due within 2023), investment in construction and technical transformation of production line of the Group's offshore segment and supplementing the Group's working capital for general purpose. The investment in construction and technical transformation of production line of the Group's offshore segment will focus on jackets, booster stations, single piles, modular manufacturing of offshore and oil and gas equipment. This will involve technological transformation and improvement of the Group's production line of offshore wind power pile foundation structural parts chiefly through improvement of technical ability (by recruiting talents, introducing new technology and developing equipment), transformation of process engineering and improvement of business expansion capability.

In terms of the expected timeline in utilising such net proceeds, subject to any change in business development or market conditions, the Company intends to apply such net proceeds to (i) repay the Group's interest-bearing borrowings and supplement the Group's working capital for general purpose, in each case, within 6 months after the completion of the Dongfang Subscription and the Chengtong Subscription; and (ii) invest in construction and technical transformation of production line of the Group's offshore segment in 2023 and 2024.

The Company intends to apply the net proceeds from the issue of the Dongfang Subscription Shares as to (i) approximately 57% for repaying the Group's interest-bearing borrowings; (ii) approximately 12% for investment in construction and technical transformation of production line of the Group's offshore segment; and (iii) approximately 31% for supplementing the Group's working capital for general purpose.

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The Company intends to apply the net proceeds from the issue of the Chengtong Subscription Shares as to 100% for supplementing the Group's working capital for general purpose.

The Dongfang Specific Mandate

The Dongfang Subscription Shares to be issued pursuant to the Dongfang Subscription Agreement will be issued under the Dongfang Specific Mandate to be obtained from the Dongfang Independent Shareholders at the EGM.

An application will be made by the Company to the Stock Exchange for the approval of the listing of, and permission to deal in, the Dongfang Subscription Shares.

The Chengtong Specific Mandate

The Chengtong Subscription Shares to be issued pursuant to the Chengtong Subscription Agreement will be issued under the Chengtong Specific Mandate to be obtained from the Chengtong Independent Shareholders at the EGM.

An application will be made by the Company to the Stock Exchange for the approval of the listing of, and permission to deal in, the Chengtong Subscription Shares.

5. INFORMATION ON THE PARTIES

The Company, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange (stock code: 196), is mainly engaged in the research and development, design and manufacturing of oil drilling rigs, offshore engineering and oil exploration and development equipment, manufacturing and general assembly of large-scale equipment and provision of oil drilling engineering services.

Dongfang Investment is a company incorporated in Hong Kong with limited liability, and is a wholly-owned subsidiary of Dongfang Electric Corporation (中國東方電氣集團有限公司). As at the Latest Practicable Date, Dongfang Investment held 1,606,000,000 Shares, representing approximately 29.99% of the total number of issued Shares.

Dongfang Electric Corporation (中國東方電氣集團有限公司) is one of the largest energy equipment manufacturing enterprise groups in the PRC, and is mainly engaged in offshore wind power, electric motor, geothermal power generation and distributed energy application. Dongfang Electric Corporation is controlled by the State-owned Assets Supervision and Administration Committee of the State Council of the PRC.

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Chengtong, a company incorporated in Hong Kong with limited liability, is a wholly-owned subsidiary of CCHG. As at the Latest Practicable Date, Galactic Investment Limited, a wholly-owned subsidiary of China Chengtong Development Group Limited (which in turn is held by CCHG as to approximately 53.14%), held 254,000,000 Shares, representing approximately 4.74% of the total number of issued Shares.

CCHG and its subsidiaries are principally engaged in the business of fund investment, equity management, asset management, financial services and nurturing of emerging industries. CCHG is controlled by the State-owned Assets Supervision and Administration Committee of the State Council of the PRC.

6. SHAREHOLDING STRUCTURE

Set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately after completion of the Dongfang Subscription (assuming there is no change in the total issued share capital of the Company since the Latest Practicable Date and up to completion of the Dongfang Subscription save for the issue of the Dongfang Subscription Shares); and (iii) immediately after completion of the Dongfang Subscription and the Chengtong Subscription (assuming there is no change in the total issued share capital of the Company since the Latest Practicable Date and up to completion of the Chengtong Subscription save for the issue of the Dongfang Subscription Shares and the Chengtong Subscription Shares):

	As at the Latest Practicable Date		Immediately after completion of the Dongfang Subscription (assuming no other change in the Company's issued share capital)		Immediately after completion of the Dongfang Subscription and Chengtong Subscription (assuming no other change in the Company's issued share capital)	
	Number of Shares	%	Number of Shares	%	Number of Shares	%
Dongfang Investment (Note 1)	1,606,000,000	29.99	5,606,000,000	59.92	5,606,000,000	58.52
CCHG group						
– Chengtong (Note 2)	–	–	–	–	223,000,000	2.33
– Galactic Investment Limited (Note 3)	254,000,000	4.74	254,000,000	2.71	254,000,000	2.65
CCHG group	254,000,000	4.74	254,000,000	2.71	477,000,000	4.98
Tricor Equity Trustee Limited (Note 4)	733,545,441	13.70	733,545,441	7.84	733,545,441	7.66

LETTER FROM THE BOARD

	As at the Latest Practicable Date		Immediately after completion of the Dongfang Subscription (assuming no other change in the Company's issued share capital)		Immediately after completion of the Dongfang Subscription and Chengtong Subscription (assuming no other change in the Company's issued share capital)	
	<i>Number of</i>		<i>Number of</i>		<i>Number of</i>	
	<i>Shares</i>	<i>%</i>	<i>Shares</i>	<i>%</i>	<i>Shares</i>	<i>%</i>
Wealth Afflux Limited (Note 4)	318,202,548	5.94	318,202,548	3.40	318,202,548	3.32
Mr. Zhang Mi (Note 5)	3,050,000	0.057	3,050,000	0.033	3,050,000	0.032
Ms. Yi Langlin (Note 6)	2,156,000	0.040	2,156,000	0.023	2,156,000	0.023
Ms. Su Mei (Note 7)	150,000	0.003	150,000	0.002	150,000	0.002
Other Shareholders	<u>2,438,890,911</u>	<u>45.54</u>	<u>2,438,890,911</u>	<u>26.07</u>	<u>2,438,890,911</u>	<u>25.46</u>
Total	<u>5,355,994,900</u>	<u>100.00</u>	<u>9,355,994,900</u>	<u>100.00</u>	<u>9,578,994,900</u>	<u>100.00</u>

- (1) Dongfang Investment is wholly-owned by Dongfang Electric Corporation.
- (2) Chengtong is wholly-owned by CCHG.
- (3) Galactic Investment Limited is wholly-owned by China Chengtong Development Group Limited, which is indirectly held by CCHG as to approximately 53.14%.
- (4) 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 Mr. Zhang Mi (as the settlor), with Tricor Equity Trustee Limited (as the trustee). The beneficiaries under The ZYL Family Trust are Mr. Zhang Mi and his family members. Tricor Equity Trustee Limited is the trustee of The ZYL Family Trust and the 5 other trusts.
- (5) Mr. Zhang Mi is a non-executive Director of the Company and individually owns 3,050,000 Shares and holds 1,190,000 share options. 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.
- (6) Ms. Yi Langlin, spouse of Mr. Zhang Mi, individually owns 2,156,000 Shares and is deemed to be interested in 324,598,548 Shares in which Zhang Mi holds 1,190,000 share options.
- (7) Ms. Su Mei is an independent non-executive Director of the Company.

7. EQUITY FUND RAISING ACTIVITIES IN THE LAST 12 MONTHS

The Company has not undertaken any other equity fund-raising exercise in the 12 months immediately preceding the Latest Practicable Date.

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8. LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, Dongfang Investment held 1,606,000,000 Shares, representing approximately 29.99% of the total number of issued Shares. As Dongfang Investment is a substantial Shareholder of the Company and therefore a connected person of the Company, the Dongfang Subscription constitutes a connected transaction of the Company and is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

9. TAKEOVERS CODE IMPLICATIONS

Application for the Whitewash Waiver

As at the Latest Practicable Date, Dongfang Investment held 1,606,000,000 Shares, representing approximately 29.99% of the total number of issued Shares. Upon completion of the Dongfang Subscription, Dongfang Investment will hold 5,606,000,000 Shares, representing approximately 59.92% of the total number of the issued Shares as increased by the issue of the Dongfang Subscription Shares, and approximately 58.52% of the total number of issued Shares as increased by the issue of the Dongfang Subscription Shares and the Chengtong Subscription Shares (assuming there is no other change in the issued share capital of the Company).

As such, under Rule 26.1 of the Takeovers Code, the Dongfang Subscription will give rise to an obligation on the part of Dongfang Investment to make a mandatory general offer to the Shareholders for all the issued Shares and other securities of the Company not already owned or agreed to be acquired by it or parties acting in concert with it, unless the Whitewash Waiver is obtained from the Executive. An application has been made by Dongfang Investment to the Executive for the granting of the Whitewash Waiver. As obtaining the Whitewash Waiver is one of the conditions precedent to the Dongfang Subscription Agreement and such condition may not be waived by any party, the Dongfang Subscription will not proceed if the Whitewash Waiver is not granted by the Executive, or is not approved by the Dongfang Independent Shareholders. The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, (i) the approval of the Whitewash Waiver by at least 75% of the votes cast by the Dongfang Independent Shareholders at the EGM and (ii) the approval of the Dongfang Subscription Agreement by more than 50% of the votes cast by the Dongfang Independent Shareholders at the EGM.

If the Whitewash Waiver is granted by the Executive and approved by the Dongfang Independent Shareholders at the EGM, the Dongfang Subscription proceeds to completion, the shareholding of Dongfang Investment and parties acting in concert with it will exceed 50% upon the allotment and issue of the Dongfang Subscription Shares. Dongfang Investment and parties acting in concert with it may further increase their shareholdings in the Company (subject to the Company's compliance with the minimum public float requirement under the Listing Rules) without incurring any further obligations under Rule 26 of the Takeovers Code to make a general offer.

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Special Deal

Given that the shareholding of all other Shareholders will be diluted after the Dongfang Subscription and only Chengtong (being in the same group of companies as Galactic Investment Limited, a Shareholder of the Company) is given the opportunity to subscribe for new Shares to counteract or reduce the dilution effect that the Dongfang Subscription would have on the CCHG group's shareholding in the Company, and that Chengtong intends to nominate a candidate for the Company's consideration for appointment as a non-executive Director after completion of the Chengtong Subscription, the Chengtong Subscription constitutes a special deal in relation to the Dongfang Subscription under Rule 25 of the Takeovers Code. The Company has made an application to the Executive for consent to proceed with the Special Deal. Such consent, if granted, is expected to be subject to (i) the opinion of Gram Capital that the terms of the Special Deal are fair and reasonable; and (ii) the approval of the Special Deal by the Chengtong Independent Shareholders by way of poll at the EGM.

Intention of Dongfang Investment regarding the Group

The Board was informed by Dongfang Investment that, upon completion of the Dongfang Subscription, it intends to continue the existing principal business of the Group, and it has no intention: (a) to introduce any major changes to the existing operations of the Group; (b) to re-deploy the fixed assets of the Group; or (c) to discontinue the employment of the employees of the Group other than in the ordinary course of business of the Group.

Loss Estimate for the Year Ended 31 December 2022

Reference is made to the Estimated Loss Announcement dated 9 January 2023. With the publication of the Announcement in relation to the Dongfang Subscription and the application for the Whitewash Waiver, the information that the loss attributable to the Shareholders is expected to be in the range of RMB550.00 million to RMB650.00 million for the year ended 31 December 2022 ("**FY22 Unaudited and Estimated Range of Loss**"), as contained in the Estimated Loss Announcement, constitutes a profit forecast under Rule 10 of the Takeovers Code, and is required to be reported in accordance with Rule 10.3(d) of the Takeovers Code.

As the Estimated Loss Announcement was published before the date of the Announcement, the Company could not have complied with the reporting requirements as set out in Rule 10.3 of the Takeovers Code at the time of publication. As a result, the Estimated Loss Announcement was published on 9 January 2023 without fully complying with the relevant requirements under Rule 10 of the Takeovers Code, including but not limited to the requirement for the profit forecast in the Estimated Loss Announcement to be separately reported on by the Company's auditors or accountants and independent financial adviser.

Reference is also made to the statement in paragraph (a) under the section headed "8. MATERIAL CHANGE" of Appendix III to this circular that the Group's revenue and gross profit for the year ended 31 December 2022 increased substantially as compared to those for the year ended 31 December 2021 (the "**Statement**"), of which the Statement has been made

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based on the Group's unaudited consolidated management accounts as referred to in the estimated loss statement in the Estimated Loss Announcement and the Group's audited annual consolidated financial statements for the year ended 31 December 2021. The Statement constitutes a profit forecast under Rule 10 of the Takeovers Code, and is required to be reported in accordance with Rule 10.3(b) of the Takeovers Code.

Please refer to Appendix II headed "Estimated Loss Announcement and Reports thereon" to this circular for the Estimated Loss Announcement and relevant reports in relation to the above.

10. INDEPENDENT BOARD COMMITTEES AND INDEPENDENT FINANCIAL ADVISER

Pursuant to the Listing Rules, the Connected Transaction IBC (comprising all the independent non-executive Directors who do not have a material interest in the Dongfang Subscription, namely Mr. Chen Guoming, Ms. Su Mei, Mr. Chang Qing, Mr. Wei Bin and Mr. Zhang Shiju) has been formed to advise the Dongfang Independent Shareholders on the Dongfang Subscription (including the grant of the Dongfang Specific Mandate). The letter of advice from the Connected Transaction IBC is set out on page 30 of this circular.

Pursuant to Rule 2.8 of the Takeovers Code, the Whitewash Waiver IBC (comprising the non-executive Directors and independent non-executive Directors who have no direct or indirect interest in the Dongfang Subscription, the Whitewash Waiver and the Special Deal, namely Mr. Zhang Mi, a non-executive Director, and all of the independent non-executive Directors, being Mr. Chen Guoming, Ms. Su Mei, Mr. Chang Qing, Mr. Wei Bin and Mr. Zhang Shiju, and excluding Mr. Yang Yong, a non-executive Director nominated by Dongfang Investment) has also been formed to advise the Independent Shareholders on the Dongfang Subscription (including the grant of the Dongfang Specific Mandate), the Whitewash Waiver and the Special Deal. The letter of advice from the Whitewash Waiver IBC is set out on pages 31 to 32 of this circular.

Gram Capital has been appointed by the Company as the Independent Financial Adviser with the approval of the Independent Board Committees to advise such committees and the Independent Shareholders in relation to the Dongfang Subscription (including the grant of the Dongfang Specific Mandate), the Whitewash Waiver and the Special Deal and to make recommendations as to voting. The letter of advice from Gram Capital, the Independent Financial Adviser to the Independent Board Committees and the Independent Shareholders is set out on pages 33 to 64 of this circular.

11. RE-ELECTION OF A DIRECTOR

In accordance with Article 112 of the 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

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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 25 November 2022, Mr. Wang Xu has been appointed as the Executive Director, chairman of the Board, member of Remuneration Committee, chairman of Strategic Investment and Risk Control Committee and chairman of Nomination Committee of the Company with effect from 25 November 2022.

Brief biographical details of Mr. Wang are set out below:

Experience

Mr. Wang, 49 aged, joined Dongfang Electric Corporation (“**Dongfang Electric**”) in 1995 and is currently an employee director of Dongfang Electric. Previously, he served as the head of the party-masses work department of Dongfang Electric and the head of the corporate culture department of Dongfang Electric Corporation Limited, the deputy secretary of the party committee and the secretary of the discipline inspection committee of Dongfang Electric Wind Power Co., Ltd. and the manager of the Coil Branch Factory of Dongfang Electric, as well as the secretary of the joint party branch of the production management department and the warehouse management center of DongFang Electric Machinery Corporation Limited, and deputy head of the production management department of DongFang Electric Machinery Corporation Limited. Mr. Wang has extensive experience in production management and enterprise management. Mr. Wang received his Bachelor’s degree in Engineering from Chongqing University in 1995. Mr. Wang is currently the chairman of the board of the following subsidiaries of the Company, Honghua (China) Investment Co., Ltd. (宏華(中國)投資有限公司), Honghua Holdings Limited and Sichuan Honghua Petroleum Equipment Co., Ltd.. Mr. Wang is also currently the secretary of the party committee of Honghua (China) Investment Co., Ltd. (宏華(中國)投資有限公司).

Save as disclosed above, Mr. Wang 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. Wang has entered into an executive director’s service contract with the Company for a term of three years with effect from 25 November 2022, subject to retirement by rotation and re-election in accordance with the Articles of Association. Mr. Wang will receive remuneration in accordance with the remuneration and appraisal management policy for executive directors and senior management of the Company. Under the aforementioned executive director’s service contract, Mr. Wang’s remuneration package comprises three key components, namely (i) the base salary (excluding arrangements for pension payments) which is RMB220,000 per annum; (ii) the variable remuneration (including incentives) which is determined based on his performance and

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key performance indicators set by the Company (which are tied to the operating performance of the Group); and (iii) statutory contributions and fringe benefits in accordance with the Group's policies including transport allowance (which is RMB1,800 per month).

Relationships

Other than the relationship arising from his being the Executive Director, chairman of the Board, member of Remuneration Committee, chairman of Strategic Investment and Risk Control Committee and chairman of Nomination Committee of the Company and saved as disclosed above, Mr. Wang does not have any relationships with any other Directors, 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. Wang does not have any interests in the Shares of the Company within the meaning defined 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. Wang that need to be brought to the attention of the Shareholders.

12. EGM

The EGM of the Company will be held at 10 a.m. on Monday, 17 April 2023 at 10/F, United Centre, 95 Queensway, Admiralty, Hong Kong to consider, and if thought fit, approve, among other matters if applicable, the resolutions contained in the Notice of Extraordinary General Meeting in relation to: (i) the Dongfang Subscription; (ii) the issue of the Dongfang Subscription Shares to Dongfang Investment pursuant to the Dongfang Specific Mandate; (iii) the issue of the Chengtong Subscription Shares to Chengtong pursuant to the Chengtong Specific Mandate; (iv) the Whitewash Waiver; (v) the Special Deal; and (vi) re-election of a Director. The voting in relation to such resolutions will be conducted by way of poll. The notice of the EGM is set out on pages 92 to 94 of this circular.

Pursuant to Rule 2.9 of the Takeovers Code, the Listing Rules and the Articles, the vote of Shareholders at the EGM must be taken by poll. An announcement on the poll results will be published by the Company after the EGM in the manner prescribed under the Listing Rules.

Under Rule 14A.36 of the Listing Rules, any shareholder who has a material interest in a proposed transaction must abstain from voting at the relevant general meeting on the relevant resolution(s).

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Dongfang Investment and parties acting in concert with, and close associates of, it, Chengtong and parties acting in concert with, and close associates of, it, and any other Shareholders who are involved in or interested in the Dongfang Subscription, the Chengtong Subscription, the Whitewash Waiver or the Special Deal (other than solely as Shareholders of the Company) will be required to abstain from voting in respect of the resolution(s) to approve the Dongfang Subscription, the grant of the Dongfang Specific Mandate and the Whitewash Waiver at the EGM.

Chengtong and parties acting in concert with it, Dongfang Investment and parties acting in concert with it, and any other Shareholders who are involved in or interested in the Chengtong Subscription or the Dongfang Subscription (other than solely as Shareholders of the Company) will be required to abstain from voting in respect of the resolution(s) to approve the Chengtong Subscription, the grant of the Chengtong Specific Mandate and the Special Deal at the EGM.

A form of proxy for use at the EGM is 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 share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the EGM (i.e. before 10 a.m. on Saturday, 15 April 2023) or any adjournment thereof. Completion and delivery of the form of proxy will not preclude Shareholders from attending and voting in person at the EGM if they so wish and in such event, the proxy form shall be deemed to be revoked.

The register of members of the Company will be closed from Wednesday, 12 April 2023 to Monday, 17 April 2023, both days inclusive, in order to determine the identity of the Shareholders who are entitled to attend the EGM, during which period no share transfers will be registered. To be eligible to attend the EGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Tuesday, 11 April 2023.

Completion of the Dongfang Subscription and completion of the Chengtong Subscription are subject to the fulfilment of the conditions precedents under the Dongfang Subscription Agreement and the Chengtong Subscription Agreement, respectively, as disclosed in this circular. Accordingly, the Dongfang Subscription and/or the Chengtong Subscription may or may not proceed to completion.

LETTER FROM THE BOARD

13. RECOMMENDATION

The views of the members of the Connected Transaction IBC and the Whitewash Waiver IBC are set out in the letter from the Connected Transaction IBC and letter from the Whitewash Waiver IBC on page 30 and pages 31 to 32 of this circular, respectively. The remaining Directors, namely Mr. Wang Xu, Mr. Zhu Hua and Mr. Yang Yong, have abstained from voting on the Board resolutions approving the Dongfang Subscription Agreement and the Chengtong Subscription Agreement, and the transactions contemplated thereunder.

The Directors are of the view that the proposed re-election of Mr. Wang as the Executive Director, chairman of the Board, member of Remuneration Committee, chairman of Strategic Investment and Risk Control Committee and chairman of Nomination Committee of the Company is in the best interests of the Company, the Group and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the relevant resolution to be proposed at the EGM.

14. ADDITIONAL INFORMATION

Your attention is also drawn to the information set out in the appendices to this circular.

Shareholders and potential investors are advised to exercise caution when dealing in Shares, and are recommended to consult their professional advisers if they are in any doubt about their position and as to actions that they should take.

Yours faithfully,
Honghua Group Limited
Wang Xu
Chairman



宏华集团
HONGHUA GROUP

Honghua Group Limited
宏華集團有限公司

(a company incorporated in the Cayman Islands with limited liability)

(Stock code: 196)

23 March 2023

To the Dongfang Independent Shareholders

Dear Sir/Madam,

**SUBSCRIPTION OF SHARES BY DONGFANG INVESTMENT AND ISSUE OF
SUBSCRIPTION SHARES UNDER SPECIFIC MANDATE**

We refer to this circular of the Company dated 23 March 2023 (the “**Circular**”) of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context requires otherwise.

We have been appointed by the Board as to form the Connected Transaction IBC to consider and advise the Dongfang Independent Shareholders as to whether, in our opinion, the Dongfang Subscription (including the grant of the Dongfang Specific Mandate) are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Gram Capital has been appointed by the Company to advise the Connected Transaction IBC and the Dongfang Independent Shareholders in this regard.

We wish to draw your attention to the letter from the Board as set out on pages 6 to 29 of the Circular and the letter from Gram Capital as set out on pages 33 to 64 of the Circular.

Having considered the information set out in the letter from the Board, the terms of the Dongfang Subscription Agreement and the transactions contemplated thereunder, and the advice of Gram Capital in relation thereto as set out in their letter, we concur with Gram Capital’s views and consider that the Dongfang Subscription (including the grant of the Dongfang Specific Mandate) are fair and reasonable so far as the Company and the Shareholders are concerned, on normal commercial terms or better and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Dongfang Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Dongfang Subscription and the grant of the Dongfang Specific Mandate.

Yours faithfully

Connected Transaction IBC

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

Independent non-executive Directors



宏华集团
HONGHUA GROUP

Honghua Group Limited

宏華集團有限公司

(a company incorporated in the Cayman Islands with limited liability)

(Stock code: 196)

23 March 2023

To the Independent Shareholders of the Company

Dear Sir/Madam,

**(1) SUBSCRIPTION OF SHARES BY DONGFANG
INVESTMENT AND ISSUE OF SUBSCRIPTION SHARES
UNDER SPECIFIC MANDATE
(2) APPLICATION FOR WHITEWASH WAIVER
(3) SPECIAL DEAL**

We refer to this circular of the Company dated 23 March 2023 (the “**Circular**”) of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context requires otherwise.

We have been appointed by the Board as to form the Whitewash Waiver IBC to consider and advise the Independent Shareholders as to whether, in our opinion, the Dongfang Subscription (including the grant of the Dongfang Specific Mandate), the Whitewash Waiver and the Special Deal are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Gram Capital has been appointed by the Company to advise the Whitewash Waiver IBC and the Independent Shareholders in this regard.

We wish to draw your attention to the letter from the Board as set out on pages 6 to 29 of the Circular and the letter from Gram Capital as set out on pages 33 to 64 of the Circular.

Having considered the information set out in the letter from the Board, the terms of the Dongfang Subscription Agreement and the transactions contemplated thereunder, and the terms of the Chengtong Subscription Agreement and the transactions contemplated thereunder, and the advice of Gram Capital in relation thereto as set out in their letter, we concur with Gram Capital’s views and consider that (i) the Dongfang Subscription is on normal commercial terms or better; (ii) the Dongfang Subscription (including the grant of the Dongfang Specific Mandate), the Whitewash Waiver and the Special Deal are fair and reasonable so far as the Company and the Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE WHITEWASH WAIVER IBC

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Dongfang Subscription (including the grant of the Dongfang Specific Mandate), the Whitewash Waiver and the Special Deal.

Yours faithfully

Whitewash Waiver IBC

Mr. Zhang Mi

Non-executive Director

Mr. Chen Guoming Ms. Su Mei Mr. Chang Qing Mr. Wei Bin 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 Committees and the Independent Shareholders in respect of the Dongfang Subscription, the Whitewash Waiver and the Special Deal 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

23 March 2023

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

Dear Sir/Madam,

- (1) SUBSCRIPTION OF SHARES BY DONGFANG INVESTMENT;**
- (2) SUBSCRIPTION OF SHARES BY CHENGTONG;**
- (3) APPLICATION FOR WHITEWASH WAIVER; AND**
- (4) SPECIAL DEAL**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committees and the Independent Shareholders in respect of the Dongfang Subscription, the Whitewash Waiver and the Special Deal, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 23 March 2023 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.

On 18 January 2023, after trading hours, the Company entered into the Dongfang Subscription Agreement with Dongfang Investment. Pursuant to the Dongfang Subscription Agreement, Dongfang Investment has conditionally agreed to subscribe for, and the Company has conditionally agreed to issue, 4,000,000,000 Dongfang Subscription Shares at the Dongfang Subscription Price of HK\$0.2418 per Share, which will be settled by payment in cash of HK\$967,200,000.

LETTER FROM GRAM CAPITAL

On 18 January 2023, after trading hours, the Company entered into the Chengtong Subscription Agreement with Chengtong. Pursuant to the Chengtong Subscription Agreement, Chengtong has conditionally agreed to subscribe for, and the Company has conditionally agreed to issue, 223,000,000 Chengtong Subscription Shares at the Chengtong Subscription Price of HK\$0.2418 per Share, which will be settled by payment in cash of HK\$53,921,400.

With reference to the Board Letter, as Dongfang Investment is a substantial Shareholder and therefore a connected person of the Company, the Dongfang Subscription constitutes a connected transaction of the Company and is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. In addition, under Rule 26.1 of the Takeovers Code, the Dongfang Subscription will give rise to an obligation on the part of Dongfang Investment to make a mandatory general offer to the Shareholders for all the issued Shares and other securities of the Company not already owned or agreed to be acquired by it or parties acting in concert with it, unless the Whitewash Waiver is obtained from the Executive. Dongfang Investment has made an application to the Executive for the Whitewash Waiver in respect of the Dongfang Subscription pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code.

With reference to the Board Letter, given that the shareholding of all other Shareholders will be diluted after the Dongfang Subscription and only Chengtong (being in the same group of companies as Galactic Investment Limited, a Shareholder) is given the opportunity to subscribe for new Shares to counteract or reduce the dilution effect that the Dongfang Subscription would have on the CCHG group's shareholding in the Company, and that Chengtong intends to nominate a candidate for the Company's consideration for appointment as a non-executive Director after completion of the Chengtong Subscription, the Chengtong Subscription constitutes a special deal in relation to the Dongfang Subscription under Rule 25 of the Takeovers Code. The Company has made an application to the Executive for consent to proceed with the Special Deal. Such consent, if granted, is expected to be subject to (i) the opinion of Gram Capital that the terms of the Special Deal are fair and reasonable; and (ii) the approval of the Special Deal by the Chengtong Independent Shareholders at the EGM.

The Connected Transaction IBC comprising of all the independent non-executive Directors who do not have a material interest in the Dongfang Subscription, namely Mr. Chen Guoming, Ms. Su Mei, Mr. Chang Qing, Mr. Wei Bin and Mr. Zhang Shiju, has been formed to advise the Dongfang Independent Shareholders on the Dongfang Subscription.

The Whitewash Waiver IBC comprising of the non-executive Director and independent non-executive Directors who have no direct or indirect interest in the Dongfang Subscription, the Whitewash Waiver and the Special Deal, namely Mr. Zhang Mi, a non-executive Director, and all of the independent non-executive Directors, being Mr. Chen Guoming, Ms. Su Mei, Mr. Chang Qing, Mr. Wei Bin and Mr. Zhang Shiju, but excluding Mr. Yang Yong, a non-executive Director nominated by Dongfang Investment, has also been formed to advise the Independent Shareholders on the Dongfang Subscription, the Whitewash Waiver and the Special Deal.

LETTER FROM GRAM CAPITAL

We, Gram Capital Limited, have been appointed with the approval of the Independent Board Committees as the Independent Financial Adviser to advise the Independent Board Committees and the Independent Shareholders in this respect.

INDEPENDENCE

During the past two years immediately preceding the Latest Practicable Date, Gram Capital was engaged as independent financial adviser in respect of (i) major and continuing connected transactions of the Company as set out in the Company's circular dated 13 May 2021; and (ii) major and continuing connected transactions of the Company as set out in the Company's circular dated 6 October 2022. Notwithstanding the aforesaid past engagements, 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 Committees and the Independent Shareholders.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committees 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, which have been provided to us. Our opinion is based on the Management's representation and confirmation that there is no undisclosed private agreement/arrangement or implied understanding with anyone concerning the Dongfang Subscription, the Whitewash Waiver and the Special Deal. 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 and Rule 2 of the Takeovers Code.

Your attention is drawn to the responsibility statements as set out in the section headed "1. RESPONSIBILITY STATEMENT" of Appendix III to the Circular. 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.

LETTER FROM GRAM CAPITAL

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, Dongfang Investment, Chengtong or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Dongfang Subscription, the Whitewash Waiver and the Special Deal. 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. The Shareholders will be notified of any material changes as soon as possible in accordance with Rule 9.1 of the Takeovers Code. 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 Dongfang Subscription, the Whitewash Waiver and the Special Deal, we have taken into consideration the following principal factors and reasons:

I. Background of and reasons for the Transactions

Information on the Group

With reference to the Board Letter, the Group is mainly engaged in the research and development, design and manufacturing of oil drilling rigs, offshore engineering and oil exploration and development equipment, manufacturing and general assembly of large-scale equipment and provision of oil drilling engineering services.

Financial information

Set out below are the Group's audited consolidated financial information 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"):

	For the year ended 31 December 2021 RMB'000	For the year ended 31 December 2020 RMB'000	Year-on-year change %
Revenue	2,936,604	3,931,492	(25.31)
Gross (loss)/profit	363,004	1,180,365	(69.25)
(Loss)/profit attributable to owners of the Company	(717,191)	49,660	(1,544.20)

LETTER FROM GRAM CAPITAL

	As at 31 December 2021 <i>RMB'000</i>	As at 31 December 2020 <i>RMB'000</i>	Year-on-year change %
Cash and cash equivalents	703,417	952,384	(26.14)
Net current (liabilities)/assets	(1,043,816)	2,601,110	N/A
Equity attributable to owners of the Company	3,537,636	4,269,366	(17.14)

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 influence of the COVID-19 pandemic, 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 change was primarily due to decrease in the Group’s gross profit and increase in net impairment losses on financial assets (including trade and other receivables, loan to an associate and other related party and debt investments) and contract assets.

As illustrated in the above table and as advised by the Management, (i) the equity attributable to owners of the Company decreased substantially from 31 December 2020 to 31 December 2021, mainly due to the loss attributable to owners of the Company for FY2021 as explained above; (ii) the Group’s cash and cash equivalents decreased substantially from 31 December 2020 to 31 December 2021, mainly due to the combined effect of net cash used in operating activities of approximately RMB983 million for FY2021 (mainly due to decrease in revenue for FY2021 and increased cash outflow for production costs incurred by the Group for providing products and services to customers who signed contracts during the fourth quarter of FY2021 before receiving sufficient payment from customers according to contract terms to cover such costs), net cash generated from investing activities of approximately RMB9 million for FY2021, net cash generated from financing activities of approximately RMB731 million for FY2021 (mainly due to increase in borrowings) and exchange losses on cash and cash equivalents of approximately RMB5 million for FY2021; and (iii) the Group recorded net current liabilities as at 31 December 2021 as compared to net current assets as at 31 December 2020, mainly due to decrease of current assets of approximately RMB1 billion (mainly reflecting (a) decrease in cash and cash equivalents as explained above; (b) decrease in contract assets due to decrease in revenue; and (c) decrease in loan to an associate and other related

LETTER FROM GRAM CAPITAL

party due to consolidation of the financials results of an associate by the Group and impairment made on loan to another associate, as partially offset by increased inventories (mainly due to increased raw materials and work in progress in respect of providing products and services to customers who signed contracts during the fourth quarter of FY2021)) and increase in borrowings (current liabilities) of approximately RMB2.9 billion (mainly due to reclassification from borrowings (non-current liabilities) to borrowings (current liabilities) as a result of the Group's failure to meet financial indicators requirements in certain loan contracts) as partially offset by decrease in trade and other payables (current liabilities) of approximately RMB0.3 billion.

Set out below are the Group's unaudited consolidated financial information for the six months ended 30 June 2022 (with comparative figures) 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 <i>RMB'000</i>	For the six months ended 30 June 2021 <i>RMB'000</i>	Year-on-year change %
Revenue	1,509,177	1,551,538	(2.73)
Gross (loss)/profit	(71,172)	318,471	(122.35)
(Loss)/profit attributable to owners of the Company	(523,382)	(72,966)	617.30
	As at	As at	
	30 June 2022	31 December 2021	Change
	<i>RMB'000</i>	<i>RMB'000</i>	%
Cash and cash equivalents	347,194	703,417	(50.64)
Net current liabilities	(1,457,564)	(1,043,816)	39.64
Equity attributable to owners of the Company	3,019,147	3,537,636	(14.66)

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 ("HY2022") as compared to those for the six months ended 30 June 2021 ("HY2021") led to the Group's gross loss for HY2022 (as compared to gross profit for HY2021). Such change from the Group's gross profit to gross loss also led to substantial increase in loss attributable to owners of the Company for HY2022 as compared to that for HY2021.

As illustrated in the above table and as advised by the Management, (i) the equity attributable to owners of the Company as at 30 June 2022 further decreased by approximately 14.66% as compared to that as at 31 December 2021, mainly due to the loss attributable to owners of the Company for HY2022 as explained above; (ii) the Group's cash and cash equivalents as at 30 June 2022 further decreased by approximately 50.64% as compared to that

LETTER FROM GRAM CAPITAL

as at 31 December 2021, mainly due to the combined effect of net cash used in operating activities of approximately RMB447 million for HY2022 (mainly due to increased cash outflow for production costs incurred by the Group for providing products and services to customers who signed contracts before receiving sufficient payment from customers according to contract terms to cover such costs), net cash generated from investing activities of approximately RMB41 million for HY2022, net cash generated from financing activities of approximately RMB43 million for HY2022 and exchange gains of RMB6 million for HY2022; and (iii) the Group's net current liabilities as at 30 June 2022 increased by approximately 39.64% as compared to that as at 31 December 2021, mainly due to decrease in cash and cash equivalents as explained above.

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.

Your attention is also drawn to the section headed “8. MATERIAL CHANGE” under Appendix III to the Circular (the “**Material Change Disclosure**”). With reference to the Material Change Disclosure, the Group's revenue and gross profit for the year ended 31 December 2022 (“**FY2022**”) increased substantially as compared to those for FY2021.

Nevertheless, with reference to the Estimated Loss Announcement, the Group is expected to record loss attributable to the Shareholders ranging from approximately RMB550 million to RMB650 million for FY2022, as compared to loss attributable to the Shareholders of RMB717.19 million for FY2021. The expected loss for FY2022 was primarily due to the backdrops that (i) under the influence of the Russia-Ukraine conflict, for the sake of prudence, an impairment provision was made for creditor's rights; (ii) the oil and gas services segment was affected by the prudent capital expenditure of customers and the settlement of price reductions by customers, thus an impairment provision being made for the assets with impairment risk.

With reference to the Material Change Disclosure, the Group's cash and cash equivalents and net current liabilities as at 31 December 2022 decreased substantially as compared to that as at 31 December 2021.

Having considered the Group's financial information above, in particular, (i) loss attributable to owners of the Company for FY2021 and FY2022; and (ii) the Group's net current liabilities as at 31 December 2021, 30 June 2022 and 31 December 2022, we consider that it is necessary for the Group to seek opportunities to improve such financial positions.

LETTER FROM GRAM CAPITAL

Business prospect

As extracted from the section headed “FINANCIAL AND TRADING PROSPECTS OF THE GROUP” under Appendix I to the Circular: “From a global perspective, the international energy market still faces slow and gradual recovery in 2023. Given the impact of various factors such as the reduction in production and price stabilisation by OPEC+, obstruction of Russian oil exports, the crude oil market prices will likely remain balanced. Oil prices may still be highly volatile and demonstrate an upward trend in the short term, but the risk remains relatively high in the next two years with a high level of uncertainties and the situation may persist. From a domestic perspective, in line with the national energy security strategy which strives to enhance the stability and security of energy supply chain, promote the increase in domestic oil and gas reserves and production capacity, maintain a steady increase in shale gas production and increase the scale of shale oil development, all of which will bring new development opportunities to the Group’s drilling and mining equipment and service businesses. The domestic pandemic prevention and control has entered a new stage, thereby creating a more favourable condition for the Group’s market expansion.”

The Group’s revenue generated from the PRC accounted for approximately 74% of its total revenue for FY2021 and 63% of its total revenue for HY2022.

With reference to 《“十四五”現代能源體系規劃》 (“14th Five-Year” Modern Energy System Planning*) published by National Development and Reform Commission on 29 January 2022, during “13th Five-Year” (i.e. 2016 to 2020), domestic crude oil production steadily rebounded, natural gas production grew rapidly, with an average annual increase of more than 10 billion cubic meters, and the total mileage of oil and gas pipelines reached 175,000 kilometers. Moreover, during “14th Five-Year” (i.e. 2021 to 2025), the PRC government will increase domestic oil and gas exploration and development, adhere to the simultaneous development of oil and gas, and pay equal attention to land and sea, strengthen the basic geological survey and exploration of oil and gas in key basins and sea areas, and consolidate the foundation of resource continuity.

According to the statistics published by National Energy Administration of the PRC, the cumulative installed offshore wind power of the PRC increased from 1.63 million kilowatts in 2016 to 26.39 million kilowatts in 2021, representing a compound annual growth rate of approximately 74.52%. According to 《“十四五”可再生能源發展規劃》 (“14th Five-Year” Renewable Energy Development Plan*) published by National Development and Reform Commission on 1 June 2022, the PRC government will promote construction of offshore wind power bases in an orderly manner, including carrying out the formulation and revision of provincial offshore wind power planning, carrying out environmental assessment simultaneously, optimizing the layout of offshore wind power, encouraging local governments to issue support policies, and the promotion of the large-scale development of offshore wind power.

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The above PRC national policies are supportive to and encouraging the growth and development of PRC oil and gas industry and offshore wind power industry. Hence, the Group's customers in such industries may demand more products and services of the Group. Therefore, the above PRC national policies are also favourable to the Group's businesses.

Information on Dongfang Investment

According to the Board Letter, Dongfang Investment is a company incorporated in Hong Kong with limited liability, and is a wholly-owned subsidiary of Dongfang Electric Corporation (中國東方電氣集團有限公司). Dongfang Electric Corporation (中國東方電氣集團有限公司) is one of the largest energy equipment manufacturing enterprise groups in the PRC, and is mainly engaged in offshore wind power, electric motor, geothermal power generation and distributed energy application. Dongfang Electric Corporation is controlled by the State-owned Assets Supervision and Administration Committee of the State Council of the PRC. As at the Latest Practicable Date, Dongfang Investment held 1,606,000,000 Shares, representing approximately 29.99% of the total number of issued Shares.

Information on Chengtong

According to the Board Letter, Chengtong, a company incorporated in Hong Kong with limited liability, is a wholly-owned subsidiary of CCHG. CCHG and its subsidiaries are principally engaged in the business of fund investment, equity management, asset management, financial services and nurturing of emerging industries. CCHG is controlled by the State-owned Assets Supervision and Administration Committee of the State Council of the PRC. As at the Latest Practicable Date, Galactic Investment Limited, a wholly-owned subsidiary of China Chengtong Development Group Limited (which in turn is held by CCHG as to approximately 53.14%), held 254,000,000 Shares, representing approximately 4.74% of the total number of issued Shares.

Reasons for the Dongfang Subscription and the Chengtong Subscription (the Special Deal)

With reference to the Board Letter, the Dongfang Subscription and the Chengtong Subscription demonstrate Dongfang Investment's and Chengtong's respective confidence in, and commitment to, the Company's long-term development and growth prospect, and will further strengthen the Company's capital base by raising additional funds for the Group.

Financing alternatives

Upon our enquiry, the Management advised us that they considered other forms of fund raising methods for the Group, such as other equity financing (e.g. share placement, rights issue or open offer) and debt financing (e.g. bank borrowings or issuance of debt), before conducting the Dongfang Subscription and the Chengtong Subscription.

LETTER FROM GRAM CAPITAL

In respect of the debt financing, the Management considered that it would incur additional finance costs and increase the gearing level of the Group and may be subject to lengthy due diligence and negotiations with lenders.

In respect of the other equity financing, the Management considered that (i) rights issue or open offer may (a) incur additional costs, including underwriting commission and other professional fees; and (b) take a relatively longer timeframe when compared to the subscription of new Shares; (ii) given the Group's continuous loss for FY2021 and HY2022, the results of rights issue or open offer may be uncertain if there is no underwriter; and (iii) as compared to placing of new Shares to independent third parties, the Dongfang Subscription and the Chengtong Subscription demonstrate Dongfang Investment's and Chengtong's respective confidence in, and commitment to, the Company's long-term development and growth prospect.

Based on the above factors, we concur with the Management that the Dongfang Subscription and the Chengtong Subscription are appropriate fund raising methods currently available to the Group.

Use of proceeds

With reference to the Board Letter, the gross proceeds and net proceeds (after deducting all relevant costs and expenses) from the issue of the Dongfang Subscription Shares and the Chengtong Subscription Shares are estimated to be approximately HK\$1.021 billion and HK\$1.017 billion, respectively, in aggregate. The Company intends to apply the net proceeds from the issue of the Dongfang Subscription Shares and the Chengtong Subscription Shares towards (i) repaying the Group's interest-bearing external borrowings (which will fall due within 2023) from independent third party banks, within 6 months after the completion of the Dongfang Subscription and the Chengtong Subscription; (ii) investment in construction and technical transformation of production line of the Group's offshore segment in 2023 and 2024; and (iii) supplementing the Group's working capital for general purpose, within 6 months after the completion of the Dongfang Subscription and the Chengtong Subscription (expected timeline in utilizing such net proceeds is subject to any change in business development or market conditions). The investment in construction and technical transformation of production line of the Group's offshore segment will focus on jackets, booster stations, single piles, modular manufacturing of offshore and oil and gas equipment. This will involve technological transformation and improvement of the Group's production line of offshore wind power pile foundation structural parts chiefly through improvement of technical ability (by recruiting talents, introducing new technology and developing equipment), transformation of process engineering and improvement of business expansion capability.

LETTER FROM GRAM CAPITAL

Upon our enquiry, the Management advised us that the Company intends to apply the net proceeds from the issue of the Dongfang Subscription Shares as to (i) approximately 57% for repaying the Group's interest-bearing borrowings (the **"Proceeds for Debt Repayment"**); (ii) approximately 12% for investment in construction and technical transformation of production line of the Group's offshore segment (the **"Proceeds for Investment"**); and (iii) approximately 31% for supplementing the Group's working capital for general purpose.

The Management also advised us that the Company intends to apply the net proceeds from the issue of the Chengtong Subscription Shares as to 100% for supplementing the Group's working capital for general purpose (together with the above-mentioned approximately 31% net proceeds from Dongfang Subscription for the same purpose, the **"Proceeds for Working Capital"**).

We noted (i) from the 2021 Annual Report that the Group's net cash used in operating activities was approximately RMB983 million for FY2021; and (ii) from the 2022 Interim Report that the Group's net cash flows used in operating activities was approximately RMB447 million for HY2022 and the Group's cash and cash equivalent was RMB347 million as at 30 June 2022.

According to the section headed "INDEBTEDNESS STATEMENT" under Appendix I to the Circular, the total indebtedness of the Group amounted to RMB4,836,422,600 as at 31 December 2022. As advised by the Management, approximately RMB3.99 billion of the aforesaid indebtedness will fall due within 2023 (the **"Indebtedness Due 2023"**). Upon our enquiry, the Management advised us that the Group intends to (i) repay part of the Indebtedness Due 2023 with the Proceeds for Debt Repayment (i.e. approximately RMB487 million), the Group's internal resources (including cash on hands and/or cash generated from operating/investing activities) and possible new loan(s) to be obtained from bank(s), bank consortium(s) and financial institution(s); and (ii) extend the borrowing terms of part of the Indebtedness Due 2023 with lenders. Based on the information provided by the Company, the indebtedness to be repaid with the Proceeds for Debt Repayment bears effective interest rates from 3.7% to approximately 6.3% per annum. The Group's liabilities and finance costs will be reduced after repaying part of the Indebtedness Due 2023 with the Proceeds for Debt Repayment.

In respect of the Proceeds for Investment, we obtained the relevant investment plan from the Company which demonstrated the areas of investment and intended investment schedule as disclosed above. Based on the investment plan, such investment will improve the Group's production capacity and extend the Group's products line. With reference to the section headed "FINANCIAL AND TRADING PROSPECTS OF THE GROUP" under Appendix I to the Circular and as confirmed by the Management, it is one of the Group's development strategies to strengthen the synergy with Dongfang Electric Corporation and improve the market share of wind power business. The investment to be made with the Proceeds for Investment is in-line with the Group's development strategies.

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In addition, as mentioned under the sub-section headed “Information on the Group – Business prospect” above, there are certain PRC national policies which are favourable to the Group’s businesses. The investment to be made with the Proceeds for Investment will facilitate the Group to capture business opportunities arising therefrom.

In respect of the Proceeds for Working Capital, the Company provided us information on the areas that requires working capital, such as production costs, distribution expenses and administrative expenses. With reference to the section headed “MATERIAL CHANGE” under Appendix III to the Circular, the Group’s revenue for FY2022 increased substantially as compared to those for FY2021. As advised by the Management, usually, there is shortfall between prepayment received from customers and the production costs to be incurred by the Group for providing products and services to customers. Accordingly, the Group is required to utilize its working capital to cover this shortfall in the course of providing products and services to customers. Increased business volume will lead to increased demand for working capital. Additional working capital can support the Group to undertake additional orders from customers (if any) and increase business volume accordingly. As aforementioned, the Group’s net cash used in operating activities was approximately RMB983 million for FY2021 and approximately RMB447 million for HY2022 and the Group’s cash and cash equivalents were approximately RMB347 million as at 30 June 2022. Having considered the above, we are of the view that (i) it is necessary for the Group to apply the Proceeds for Working Capital to supplement the Group’s working capital for general purpose; and (ii) the Proceeds for Working Capital can facilitate the Group to undertake additional orders from customers (if any) and increase business volume accordingly.

Given the above and (i) the equity attributable to owners of the Company and the Group’s cash and cash equivalent decreased substantially from 31 December 2020 to 31 December 2022; (ii) the Group recorded net current liabilities as at 31 December 2021, 30 June 2022 and 31 December 2022; and (iii) the loss attributable to owners of the Company for FY2021 and FY2022 as referred to in the Estimated Loss Announcement, we are of the view that the aforesaid proposed use of proceeds from the issue of the Dongfang Subscription Shares and the Chengtong Subscription Shares can improve the Group’s financial positions and support the Group’s business operation and development.

Having considered (i) reasons for the Dongfang Subscription and the Chengtong Subscription as mentioned above; (ii) the Dongfang Subscription and the Chengtong Subscription are appropriate fund raising methods currently available to the Group; and (iii) the proposed use of proceeds can improve the Group’s financial positions and support the Group’s business operation and development, we are of the view that although the Dongfang Subscription and the Chengtong Subscription are not conducted in the ordinary and usual course of business of the Group, they are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

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II. Principal terms of the Dongfang Subscription and the Chengtong Subscription

Set out below is a summary of the principal terms of the Dongfang Subscription under the Dongfang Subscription Agreement and the Chengtong Subscription under the Chengtong Subscription Agreement, details of which are set out in the sections headed “2. SUBSCRIPTION OF SHARES BY DONGFANG INVESTMENT AND ISSUE OF SUBSCRIPTION SHARES UNDER SPECIFIC MANDATE” and “3. SUBSCRIPTION OF SHARES BY CHENGTONG AND ISSUE OF SUBSCRIPTION SHARES UNDER SPECIFIC MANDATE” of the Board Letter.

	Dongfang Subscription Agreement	Chengtong Subscription Agreement
Agreement date:	18 January 2023	18 January 2023
Parties:	(1) the Company as the issuer (2) Dongfang Investment as the subscriber	(1) the Company as the issuer (2) Chengtong as the subscriber
Subscription Shares:	4,000,000,000 Dongfang Subscription Shares, representing (i) approximately 74.68% of the total number of issued Shares as at the Latest Practicable Date; (ii) approximately 42.75% of the total number of issued Shares as increased by the issue of the Dongfang Subscription Shares; and (iii) approximately 41.76% of the total number of issued Shares as increased by the issue of the Dongfang Subscription Shares and the Chengtong Subscription Shares.	223,000,000 Chengtong Subscription Shares, representing (i) approximately 4.16% of the total number of issued Shares as at the Latest Practicable Date; and (ii) approximately 2.33% of the total number of issued Shares as increased by the issue of the Dongfang Subscription Shares and the issue of the Chengtong Subscription Shares.
Subscription price:	HK\$0.2418 per Share	HK\$0.2418 per Share
Conditions precedent:	Completion of the Dongfang Subscription is subject to the conditions precedent as set out under the section headed “2. SUBSCRIPTION OF SHARES BY DONGFANG INVESTMENT AND ISSUE OF SUBSCRIPTION SHARES UNDER SPECIFIC MANDATE” of the Board Letter.	Completion of the Chengtong Subscription is subject to the conditions precedent as set out under the section headed “3. SUBSCRIPTION OF SHARES BY CHENGTONG AND ISSUE OF SUBSCRIPTION SHARES UNDER SPECIFIC MANDATE” of the Board Letter.
Other terms	Completion of the Dongfang Subscription will take place within five business days after the fulfilment or waiver of the conditions precedent (or such other date as the Company and Dongfang Investment may agree).	Completion of the Chengtong Subscription will take place within ten business days after the fulfilment or waiver of the conditions precedent (or such other date as the Company and Chengtong may agree).

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Dongfang Subscription Agreement

Chengtong Subscription Agreement

The Company undertakes to Chengtong that, save for the Dongfang Subscription and any grant of share options under any existing share option scheme or any issue of Shares pursuant to the exercise of any share options granted under any existing or past share option schemes, the Company will not, prior to completion of the Chengtong Subscription: (1) issue or agree to issue any Shares, or grant or agree to grant any option or right to acquire or subscribe for any Shares; or (2) change the share capital structure of the Company or the rights attached to the Chengtong Subscription Shares, or take or agree to take any action that may result in any such change.

Chengtong will not offer, pledge, charge, sell or otherwise dispose of by other means any of its Shares within six months after completion of the Chengtong Subscription, with exceptions in respect of: (1) intragroup transfers; (2) creation of security interest for the purpose of bona fide commercial loans; and (3) transfers pursuant to legal requirements.

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Dongfang Subscription Agreement

Chengtong Subscription Agreement

The Company is aware that after completion of the Chengtong Subscription, Chengtong intends to nominate a candidate to the Company as a non-executive Director. Subject to (1) fulfilment of the requirements of the Listing Rules, the Stock Exchange, any other applicable laws and the Articles of Association, (2) the appointment being, in the reasonable opinion of the Board, in line with the interest of the Company and the Shareholders and (3) fiduciary duties of the Directors to abide by (i.e. the Relevant Prerequisites), the Company will consider taking reasonable steps to cause the candidate nominated by Chengtong to be given careful consideration by the Company's nomination committee and/or the Board for appointment as a non-executive Director.

Subject to the condition that the total shareholding of China Chengtong Hong Kong Company Limited and its subsidiaries in the Company is not less than 4.99% and the Relevant Prerequisites, if the non-executive Director nominated by Chengtong resigns, retires, is dismissed or otherwise ceases to be a non-executive Director for any other reasons, the Company will consider taking reasonable steps to cause the candidate nominated by Chengtong to be given consideration by the Company's nomination committee and/or the Board for appointment as a non-executive Director, including but not limited to convening a nomination committee meeting or Board meeting to consider such appointment.

(The "Nomination Provision")

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As illustrated above, both of the Dongfang Subscription Price and the Chengtong Subscription Price are HK\$0.2418 (the “**Subscription Price**”), which represents:

- (i) a premium of approximately 5.13% over the closing price of HK\$0.230 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a discount of approximately 1.71% to the closing price of HK\$0.246 per Share as quoted on the Stock Exchange on 18 January 2023, being the date of the Dongfang Subscription Agreement and the Chengtong Subscription Agreement (the “**Agreement Date**”); (the “**Agreement Date Discount**”);
- (iii) a discount of approximately 3.51% to the average closing price of HK\$0.2506 per Share as quoted on the Stock Exchange for the five consecutive trading days immediately prior to the Agreement Date (the “**5-day Discount**”);
- (iv) a discount of approximately 1.63% to the average closing price of HK\$0.2458 per Share as quoted on the Stock Exchange for the ten consecutive trading days immediately prior to the Agreement Date (the “**10-day Discount**”);
- (v) the equivalent of the average closing price of HK\$0.2418 per Share as quoted on the Stock Exchange for the 20 consecutive trading days immediately prior to the Agreement Date (the “**20-day Average Price**”);
- (vi) a premium of approximately 4.89% over the average closing price of HK\$0.2305 per Share as quoted on the Stock Exchange for the 30 consecutive trading days immediately prior to the Agreement Date (the “**30-day Premium**”);
- (vii) a premium of approximately 10.52% over the average closing price of approximately HK\$0.2188 per Share as quoted on the Stock Exchange for the 45 consecutive trading days immediately prior to the Agreement Date (the “**45-day Premium**”);
- (viii) a premium of approximately 13.26% over the average closing price of HK\$0.2135 per Share as quoted on the Stock Exchange for the 60 consecutive trading days immediately prior to the Agreement Date (the “**60-day Premium**”); and
- (ix) a discount of 62.37% to the unaudited net asset value per Share (the “**NAV per Share**”) of approximately RMB0.56 (equivalent to approximately HK\$0.64) as at 30 June 2022 (the “**NAV Discount**”), as calculated based on the unaudited equity attributable to owners of the Company of RMB3,019,147,000 as at 30 June 2022 and 5,355,994,900 Shares in issue as at the Latest Practicable Date.

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Analysis on the Subscription Price

In order to assess the fairness and reasonableness of the Subscription Price, we conducted the following analysis:

(a) Pricing basis

With reference to the Board Letter, the Subscription Price was determined with reference to, amongst others, the market price of the Shares. The Management advised us that short-term Share prices may be easily affected by any trade of Shares as the trading liquidity of the Shares was thin. Should the Subscription Price be determined based on the Share closing prices on the Agreement Date or a few days prior to the Agreement Date, it could be affected by short-term Share prices volatility. The 20-day Average Price or the average price for longer periods could provide broader and objective reference. The Subscription Price represents the result of negotiations between the Company and Dongfang Investment/Chengtong and is equivalent to the 20-day Average Price.

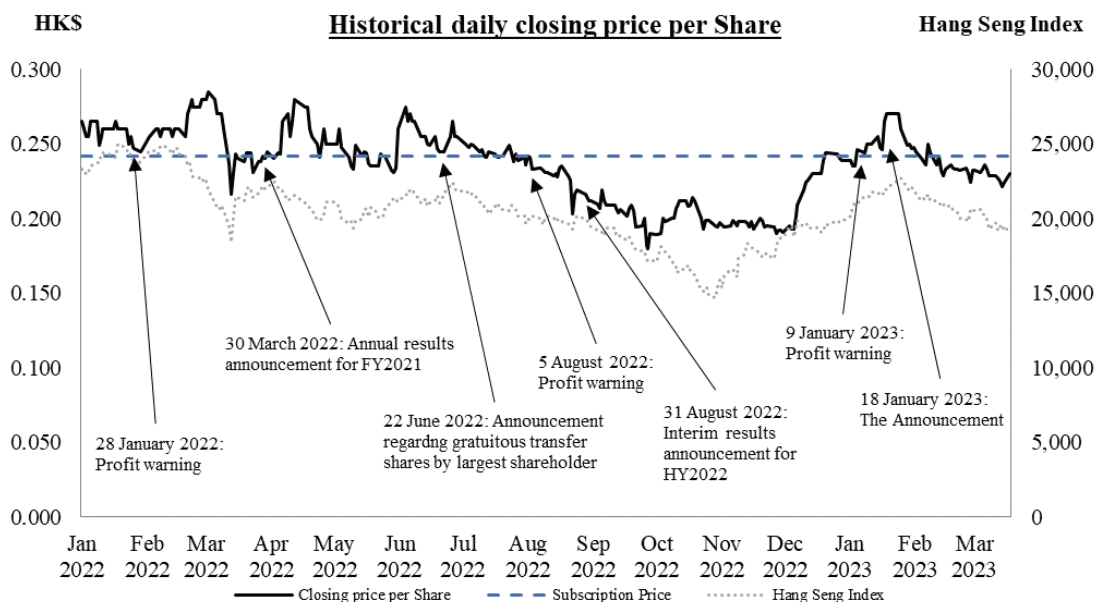
In this regard, we reviewed trading liquidity of the Shares for the period from 3 January 2022 up to and including the Agreement Date. The daily number of the Shares traded during the aforesaid period ranged from nil to 11.58 million (represented approximately 0.22% of the total number of issued Shares and approximately 0.47% of the total number of Shares held by public as at the Agreement Date), with an average of approximately 1.78 million (represented approximately 0.03% of the total number of issued Shares and approximately 0.07% of the total number of Shares held by public as at the Agreement Date). The trading liquidity of the Shares for the period from 3 January 2022 up to and including the Agreement Date was thin.

In light of the above, we concur with the Management's view on the pricing basis as set out above and we consider that it is fair and reasonable to determine the Subscription Price on the basis above.

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(b) Share price performance

Set out below is a chart showing the movement of the closing prices of the Shares during the period from 3 January 2022 to the Latest Practicable Date, being approximately one year up to and including the Latest Practicable Date (the “Share Review Period”), which we consider to be a sufficient time period for share prices review to illustrate general trend and level of movement of share prices. The comparison of closing prices of the Shares and Subscription Price is illustrated as follows:



Source: the Stock Exchange's website

During the Share Review Period, the highest and lowest closing prices of the Shares as quoted on the Stock Exchange were HK\$0.285 per Share recorded on 4 March 2022 and HK\$0.180 recorded on 29 September 2022, with an average closing price of approximately HK\$0.235 per Share. The Subscription Price falls within the closing price range of and is slightly higher than the average closing price of the Shares during the Share Review Period.

As depicted from the above chart, the closing prices of the Shares fluctuated between HK\$0.216 and HK\$0.285 from 3 January 2022 to 6 June 2022. Subsequently, the closing prices of the Shares formed a general sliding trend and reached HK\$0.180 on 29 September 2022. The closing prices of the Shares recovered thereafter and formed a general uprising trend up to 20 January 2023. Thereafter, the closing prices of the Shares formed a general decreasing trend. As illustrated by the chart above, the movement trend of closing prices of the Shares did not deviate much from the movement trend of the Hang Seng Index during the Share Review Period.

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As confirmed by the Management, save for the possible market reactions on the announcements as set out in the above chart made by the Company during the Share Review Period, the Management did not identify any specific reasons for the aforesaid movements of the closing prices of the Shares during the Share Review Period.

(c) Comparable Transactions

We also identified transactions regarding subscription of new shares under specific mandate for cash (excluding transactions involving restructuring) which were announced by Hong Kong listed companies from 4 July 2022 up to the Latest Practicable Date, being a period covering (i) approximately six months prior to and including the Agreement Date; and (ii) the period from the Agreement Date to the Latest Practicable Date. As the Dongfang Subscription Shares and Chengtong Subscription Shares will be issued under specific mandate for cash and the above review period allows sufficient comparables within a recent time frame up to and including the Latest Practicable Date, we consider the aforesaid selection criteria to be reasonable. We found 16 transactions which met the said criteria (the “**Comparable Transactions**”), and they are exhaustive. Shareholders should note that the businesses, operations and prospects of the Company are not the same as the subject companies of the Comparable Transactions. Accordingly, the discount/premium analysis set out below is for reference only.

Company name (stock code)	Date of announcement	Principal business	Market capitalisation as at the date of announcement	Premium/(Discount)	Premium/(Discount)	Fundraising size (gross proceeds)	Increase in issued shares by the subscription
				of subscription price over/to average closing price	of subscription price per share for the five consecutive trading days immediately prior to the date of agreement		
			<i>Approximate HK\$ million</i>	<i>Approximate%</i>	<i>Approximate%</i>	<i>Approximate (if applicable) HK\$ million</i>	<i>Approximate%</i>
China Ruyi Holdings Limited (136)	14 July 2022	Content production and online streaming business	20,109	(2.04)	(10.11)	390	1.74
Northeast Electric Development Co., Ltd. (42)	27 July 2022	Research, development, design, manufacture and distribution of power transmission and transformation equipment	319	313.57	330.48	104	10.30

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Company name (stock code)	Date of announcement	Principal business	Market capitalisation as at the date of announcement	Premium/(Discount) of subscription price over/to closing price per Share on the date of agreement	Premium/(Discount) of subscription price over/to average closing price per share for the five consecutive trading days immediately prior to the date of agreement	Fundraising size (gross proceeds)	Increase in issued shares by the subscription
			<i>Approximate HK\$ million</i>	<i>Approximate%</i>	<i>Approximate%</i>	<i>Approximate (if applicable) HK\$ million</i>	<i>Approximate%</i>
Standard Development Group Limited (1867)	23 August 2022	Provision of construction and engineering related services and interior design services and trading of consumables and petroleum	306	(14.81)	(16.67)	35	11.16
Suoxinda Holdings Limited (3680)	1 September 2022	Provision of data solutions, sales of hardware and software and related services	355	(19.62)	(6.03)	39	9.23
BOE Varitronix Limited (710)	1 September 2022	Design, manufacture and sales of liquid crystal display and related products	13,504	(7.20)	(11.85)	300	2.68
Cornerstone Technologies Holdings Limited (8391)	2 September 2022	Commercial printing and financial printing services	1,212	5.08	(2.82)	12	2.72
Link-Asia International MedTech Group Limited (1143)	13 September 2022	Provision of electronic manufacturing services, marketing and distribution of communications products, securities and other assets investment businesses and real estate advisory services and real estate purchase services.	208	78.37	79.75	96	42.86
Beijing Gas Blue Sky Holdings Limited (6828)	26 September 2022	Trading and distribution of natural gas	2,160	(23.81)	(30.80)	500	48.13

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Company name (stock code)	Date of announcement	Principal business	Market capitalisation as at the date of announcement	Premium/(Discount) of subscription price over/to closing price per Share on the date of agreement	Premium/(Discount) of subscription price over/to average closing price per share for the five consecutive trading days immediately prior to the date of agreement	Fundraising size (gross proceeds)	Increase in issued shares by the subscription
			<i>Approximate HK\$ million</i>	<i>Approximate%</i>	<i>Approximate%</i>	<i>Approximate (if applicable) HK\$ million</i>	<i>Approximate%</i>
HG Semiconductor Limited (6908)	29 September 2022	Design, development, manufacturing, subcontracting service and sales of semiconductor products	1,663	(22.28)	(23.47)	180	10.47
China Titans Energy Technology Group Co., Limited (2188)	18 October 2022	Manufacture and sales of electric products	296	3.03	6.25	193	61.29
Cornerstone Technologies Holdings Limited (8391)	7 December 2022	Commercial printing and financial printing services	1,212	(55.83)	(36.93)	40	4.80
China Ecotourism Group Limited (1371)	8 December 2022	Provision of technology and operation service for lottery systems, terminal equipment and gaming products, and sales of lottery terminals and related equipment, research and development, processing, production and sales of natural and health food	133	(28.57)	(3.85)	35	28.33
In Technical Productions Holdings Limited (8446)	12 December 2022	Provision of visual display solutions services	6,144	(16.94)	(10.84)	100	1.64
COFCO Joycome Foods Limited (1610)	11 January 2023	Pork business and international trading business	10,106	(1.71)	(2.79)	1,564	17.43
New Concepts Holdings Limited (2221)	19 January 2023	Foundation works and civil engineering construction	602	(13.64)	(11.01)	52	10.00

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Company name (stock code)	Date of announcement	Principal business	Market capitalisation as at the date of announcement	Premium/(Discount) of subscription price over/to average closing price per Share on the date of agreement	Premium/(Discount) of subscription price per share for the five consecutive trading days immediately prior to the date of agreement	Fundraising size (gross proceeds)	Increase in issued shares by the subscription
			<i>Approximate HK\$ million</i>	<i>Approximate%</i>	<i>Approximate%</i>	<i>Approximate (if applicable) HK\$ million</i>	<i>Approximate%</i>
Easy Repay Finance & Investment Limited (8079)	8 February 2023	Wholesale and retail of groceries; and money lending business	75	15.61	15.47	17	19.88
Maximum (excluding outlier)				78.37	79.75		
Minimum (excluding outlier)				(55.83)	(36.93)		
Average (excluding outlier)				(6.96)	(4.34)		
The Company				(1.71)	(3.51)		

Source: the Stock Exchange's website

The subscription prices of the Comparable Transactions (excluding the transaction of Northeast Electric Development Co., Ltd. (stock code: 42) which is considered to be an outlier as its subscription price represented exceptional premiums) ranged from (i) a discount of approximately 55.83% to a premium of approximately 78.37% to/over the respective closing prices of the shares on the date of agreement in relation to the respective subscription of new shares (the “**Agreement Date Discount/Premium Market Range**”), with an average discount of approximately 6.96%; and (ii) a discount of approximately 36.93% to a premium of approximately 79.75% to/over the respective average closing prices of the shares for the five consecutive trading days immediately prior to the date of agreement in relation to the respective subscription of new shares (the “**5-day Discount/Premium Market Range**”), with an average discount of approximately 4.34%.

Save for the discount/premium analysis above, we also set out the business and market capitalisation of the subject companies of the Comparable Transactions, fund-raising size and increase in issued shares of the Comparable Transactions, for further reference.

The Agreement Date Discount of 1.71% is within the Agreement Date Discount/Premium Market Range and lower than the average. The 5-day Discount is also within the 5-day Discount/Premium Market Range and lower than the average.

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(d) *Trading multiples analysis and NAV Discount*

We noted that the trading multiples analysis of price to earnings ratio (“**PER**”), price to book ratio (“**PBR**”) and dividend yield of comparable companies is a commonly adopted analysis. For this reason, to further assess the fairness and reasonableness of the Subscription Price, we also searched for Hong Kong listed companies which are principally engaged in similar line of business as the Company, being oil and gas exploration and exploitation equipment and services, with market capitalization of approximately HK\$2 billion or below (as the market capitalization of the Company was approximately HK\$1.2 billion, Hong Kong listed companies with market capitalization far different from the Company may affect comparability) (the “**Comparable Companies**”), for comparison. We found 6 companies which meet our selection criteria and they are exhaustive. As the Company recorded loss attributable to owners of the Company for FY2021 and did not distribute any dividend for FY2021, PER analysis and dividend yield analysis are impracticable. Set out below are the PBRs, historical discounts to the net asset value per share as represented by historical share closing prices (on the Agreement Date and the Latest Practicable Date) of the Comparable Companies:

Company name (stock code)	Principal business	Market capitalisation as at the Latest Practicable Date	Discount of closing price to the net asset value per share on the Agreement Date	PBR on the Agreement Date	Discount of closing price to the net asset value per share on the Latest Practicable Date	PBR on the Latest Practicable Date
		<i>Approximate HK\$ million</i>	<i>Approximate%</i>	<i>Approximate times</i>	<i>Approximate%</i>	<i>Approximate times</i>
CMIC Ocean En-Tech Holding Co., Ltd. (206)	Provision of capital equipment and packages, oilfield expendables and suppliers and management and engineering services	710	(32.03)	0.68	(40.81)	0.59
SPT Energy Group Inc. (1251)	Provision of integrated oilfields services including trading and manufacturing of oilfield services related products	463	(66.64)	0.33	(67.17)	0.33
Hilong Holding Limited (1623)	Provision of oilfield equipment and services, line pipe technology and services, oilfield services and offshore engineering services	397	(86.84)	0.13	(90.08)	0.10

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Company name (stock code)	Principal business	Market capitalisation as at the Latest Practicable Date	Discount of closing price to the net asset value per share on the Agreement Date	PBR on the Agreement Date	Discount of closing price to the net asset value per share on the Latest Practicable Date	PBR on the Latest Practicable Date
		<i>Approximate HK\$ million</i>	<i>Approximate%</i>	<i>Approximate times</i>	<i>Approximate%</i>	<i>Approximate times</i>
Petro-king Oilfield Services Limited (2178)	Drilling, well completion, production enhancement and trading of oilfield related products and manufacturing business in relation to oilfield related products and others	117	(46.47)	0.54	(52.10)	0.48
Jutal Offshore Oil Services Limited (3303)	Fabrication of facilities and provision of integrated services for oil and gas, new energy and refining and chemical industries	832	(46.08)	0.54	(56.97)	0.43
Anton Oilfield Services Group (3337)	Provision of inspection services, oilfield management services, oilfield technical services and drilling rig services	1,188	(67.81)	0.32	(62.75)	0.37
Minimum			(32.03)	0.13	(40.81)	0.10
Maximum			(86.84)	0.68	(90.08)	0.59
Average			(57.64)	0.42	(61.65)	0.38
The Company (based on the Subscription Price)		1,232	(62.37)	0.38	(62.37)	0.38

Notes:

1. The net asset value per share of the Comparable Companies on the Agreement Date/Latest Practicable Date was calculated based on their respective then latest published equity attributable to owners of the company.
2. The PBRs of the Comparable Companies were calculated based on their closing prices as quoted on the Stock Exchange (on the Agreement Date and the Latest Practicable Date) and net asset value per share.

Source: the Stock Exchange's website

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We noticed from the above table that (i) the PBRs of the Comparable Companies as at the Agreement Date ranged from approximately 0.13 times to 0.68 times, with an average of approximately 0.42 times; and (ii) the PBRs of the Comparable Companies as at the Latest Practicable Date ranged from approximately 0.10 times to 0.59 times, with an average of approximately 0.38 times

Based on the NAV Discount of 62.37%, the implied PBR of the Subscription Price is approximately 0.38 times, which (i) is within the above PBRs ranges of the Comparable Companies as at the Agreement Date and the Latest Practicable Date; (ii) is close to the average PBR of the Comparable Companies as at the Agreement Date; and (iii) equals to the average PBR of the Comparable Companies as at the Latest Practicable Date.

We noticed the NAV Discount is approximately 62.37%. In this regard, we considered (i) the historical discounts to the NAV per Share as represented by historical closing prices of the Shares; and (ii) historical discounts to the net asset value per share as represented by historical share closing prices (on the Agreement Date and the Latest Practicable Date) of the Comparable Companies as set out under the table above.

From 31 August 2022 (being the date of publication of the Company's interim results announcement for HY2022) to the Latest Practicable Date, the closing prices of the Shares represented discounts of 57.98% to 71.99% to the NAV per Share as at 30 June 2022 (the "**Historical NAV Discounts Range**").

As at the Latest Practicable Date, the closing prices of the Comparable Companies' shares represented discounts of approximately 40.81% to 90.08% to the Comparable Companies' net asset value per share (based on their respective latest published equity attributable to owners of the company and number of issued shares) (the "**LPD Comparable NAV Discounts Range**").

As at the Agreement Date, the closing prices of the Comparable Companies' shares represented discounts of approximately 32.03% to 86.84% to the Comparable Companies' net asset value per share (based on their respective then latest published equity attributable to owners of the company and number of issued shares) (the "**Agreement Date Comparable NAV Discounts Range**").

The Historical NAV Discounts Range indicated that the Shares were traded at discounts to NAV per Share from 31 August 2022 (being the date of publication of the Company's interim results announcement for HY2022) to the Latest Practicable Date. The Agreement Date Comparable NAV Discounts Range and the LPD Comparable NAV Discounts Range indicated that it is common for the Comparable Companies' shares to be traded at discounts to their respective net asset value per share on the Agreement Date and the Latest Practicable Date. Possible reasons for the above circumstances are: (i) the Group and the Comparable Companies are asset-heavy with substantial property, plant and equipment as they are required for providing oil and gas exploration and exploitation equipment and services; and (ii) the book value of such non-current assets does not equal to the market prices of such assets (i.e. the prices at which a buyer is willing to pay for such assets). Accordingly, the market price of share of the Company and the Comparable Companies may not reflect their net asset value per share.

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The Historical NAV Discounts Range, the Agreement Date Comparable NAV Discounts Range and the LPD Comparable NAV Discounts Range also indicated that the market price of share of the Company and the Comparable Companies may not reflect their net asset value per share.

Having considered the above and that the NAV Discount of approximately 62.37% is within the Historical NAV Discounts Range, the Agreement Date Comparable NAV Discounts Range and the LPD Comparable NAV Discounts Range, which indicated that the NAV Discount is comparable to the Comparable Companies, we are of the view that the NAV Discount is fair and reasonable.

(e) Conclusion on Subscription Price

Having considered the factors set out below (the “**Subscription Price Assessment Factors**”):

- (a) the Subscription Price falls within the closing price range and is slightly higher than the average closing price of the Shares during the Share Review Period (i.e. Dongfang Investment and Chengtong are not subscribing new Shares for a price outside the closing price range of the Shares during the Share Review Period);
- (b) the Agreement Date Discount of approximately 1.71%, the 5-day Discount of approximately 3.51% and the 10-day Discount of approximately 1.63% indicated that the Subscription Price did not represent substantial discount to the closing prices of the Shares during the period close to the Agreement Date;
- (c) taking into account (i) the loss attributable to owners of the Company for FY2021 and FY2022; and (ii) the Group’s net current liabilities as at 31 December 2021 and 30 June 2022, it is justifiable to determine a subscription price with certain discounts to the closing prices of the Shares prior to and including the Agreement Date;
- (d) despite the discounts mentioned in (b) above, the Subscription Price equals to the 20-day Average Price and represented the 30-day Premium of approximately 4.89%, the 45-day Premium of approximately 10.52% and the 60-day Premium of approximately 13.26%;
- (e) the implied PBR of the Subscription Price (i) is within the PBRs ranges of the Comparable Companies as at the Agreement Date and the Latest Practicable Date; (ii) is close to the average PBR of the Comparable Companies as at the Agreement Date; and (iii) equals to the average PBR of the Comparable Companies as at the Latest Practicable Date;
- (f) the NAV Discount is fair and reasonable as explained under the section headed “(d) NAV Discount” above; and

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- (g) the Agreement Date Discount is within the Agreement Date Discount/Premium Market Range and lower than the average; and the 5-day Discount is also within the 5-day Discount/Premium Market Range and lower than the average, thus indicating that the Subscription Price is in-line with the market practices as demonstrated by the Comparable Transactions,

we are of the view that the Subscription Price is fair and reasonable.

Other terms of the Chengtong Subscription Agreement

As aforementioned, there is Nomination Provision regarding nomination of non-executive Director by Chengtong under the Chengtong Subscription Agreement.

Given that (i) the Company will consider taking reasonable steps to cause the candidate nominated by Chengtong to be given careful consideration by the Company's nomination committee and/or the Board for appointment as a non-executive Director, but not obligated to appoint such candidate; and (ii) the aforesaid consideration is subject to the Relevant Prerequisites, we do not doubt the fairness and reasonableness of the aforesaid nomination understating.

Potential dilution effect of the Dongfang Subscription and the Chengtong Subscription on the shareholding interest of the public Shareholders

With reference to the shareholding table in the section headed "6. SHAREHOLDING STRUCTURE" of the Board Letter, the shareholding interests of the other public Shareholders would be diluted by (i) approximately 19.47 percentage points immediately after completion of the Dongfang Subscription; and (ii) approximately 20.08 percentage points immediately after completion of the Dongfang Subscription and the Chengtong Subscription.

As set out in the section headed "Reasons for the Dongfang Subscription and the Chengtong Subscription (the Special Deal)" above:

- (i) The net proceeds from the issue of the Dongfang Subscription Shares and the Chengtong Subscription Shares are estimated to be approximately HK\$1.017 billion, in aggregate, which will strengthen the Group's capital base.
- (ii) The Group's liabilities and finance costs will be reduced after repaying part of the Indebtedness Due 2023 with the Proceeds for Debt Repayment.
- (iii) The investment to be made with the Proceeds for Investment is in-line with the Group's development strategies and will facilitate the Group to capture business opportunities arising from certain PRC national policies which are favourable to the Group's businesses.

LETTER FROM GRAM CAPITAL

- (iv) It is necessary for the Group to apply the Proceeds for Working Capital to supplement the Group's working capital for general purpose; and the Proceeds for Working Capital can facilitate the Group to undertake additional orders from customers (if any) and increase business volume accordingly.
- (v) The aforesaid proposed use of proceeds from the issue of the Dongfang Subscription Shares and the Chengtong Subscription Shares can improve the Group's financial positions and support the Group's business operation and development.

Taking into account the aforementioned benefits of the Dongfang Subscription and the Chengtong Subscription (details of which are set out under the section headed "Reasons for the Dongfang Subscription and the Chengtong Subscription (the Special Deal)" above), we are of the view that the aforesaid dilution is acceptable.

RECOMMENDATION ON THE DONGFANG SUBSCRIPTION

Having taken into consideration of the factors and reasons as stated above, in particular that:

- (a) the Dongfang Subscription is an appropriate fund raising method currently available to the Group as explained under the sub-section headed "Reasons for the Dongfang Subscription and the Chengtong Subscription (the Special Deal) – Financing alternatives" above;
- (b) the benefits of the Dongfang Subscription (details of which are set out under the section headed "Reasons for the Dongfang Subscription and the Chengtong Subscription (the Special Deal)" above);
- (c) the proposed use of proceeds (based on the number of Dongfang Subscription Shares) from the Dongfang Subscription can improve the Group's financial positions and support the Group's business operation and development;
- (d) the Subscription Price Assessment Factors; and
- (e) the dilution effect of the Dongfang Subscription (caused by the number of Dongfang Subscription Shares) on the shareholding interests of the other public Shareholders is acceptable given the benefits of the Dongfang Subscription (details of which are set out under the section headed "Reasons for the Dongfang Subscription and the Chengtong Subscription (the Special Deal)" above),

we are of the opinion that (i) the terms of the Dongfang Subscription are on normal commercial terms and are fair and reasonable; and (ii) although Dongfang Subscription is not conducted in the ordinary and usual course of business of the Group, it is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committees to advise the Dongfang Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Dongfang Subscription, and we recommend the Dongfang Independent Shareholders to vote in favour of the resolutions in this regard.

LETTER FROM GRAM CAPITAL

III. Whitewash Waiver

With reference to the Board Letter, as at the Latest Practicable Date, Dongfang Investment held 1,606,000,000 Shares, representing approximately 29.99% of the total number of issued Shares. Upon completion of the Dongfang Subscription, Dongfang Investment will hold 5,606,000,000 Shares, representing approximately 59.92% of the total number of the issued Shares as increased by the issue of the Dongfang Subscription Shares, and approximately 58.52% of the total number of issued Shares as increased by the issue of the Dongfang Subscription Shares and the Chengtong Subscription Shares (assuming there is no other change in the issued share capital of the Company). As such, under Rule 26.1 of the Takeovers Code, the Dongfang Subscription will give rise to an obligation on the part of Dongfang Investment to make a mandatory general offer to the Shareholders for all the issued Shares and other securities of the Company not already owned or agreed to be acquired by it or parties acting in concert with it, unless the Whitewash Waiver is obtained from the Executive. An application has been made by Dongfang Investment to the Executive for the granting of the Whitewash Waiver. As obtaining the Whitewash Waiver is one of the conditions precedent to the Dongfang Subscription Agreement and such condition may not be waived by any party, the Dongfang Subscription will not proceed if the Whitewash Waiver is not granted by the Executive, or is not approved by the Dongfang Independent Shareholders. The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, (i) the approval of the Whitewash Waiver by at least 75% of the votes cast by the Dongfang Independent Shareholders at the EGM and (ii) the approval of the Dongfang Subscription Agreement by more than 50% of the votes cast by the Dongfang Independent Shareholders at the EGM.

In view of (i) the aforesaid reasons for and benefits of the Dongfang Subscription; (ii) that the Dongfang Subscription is in the interests of the Company and the Shareholders as a whole; and (iii) that the terms of the Dongfang Subscription are fair and reasonable, we are of the opinion that the approval of the Whitewash Waiver is in the interests of the Company and the Shareholders as a whole and is fair and reasonable for the purpose of proceeding with the Dongfang Subscription.

RECOMMENDATION ON THE WHITEWASH WAIVER

Having taken into consideration (i) the reasons for and benefits of the Dongfang Subscription; and (ii) that completion of the Dongfang Subscription is conditional on, among other things, the grant of the Whitewash Waiver, we consider that the Whitewash Waiver is fair and reasonable and is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Whitewash Waiver IBC to advise the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the EGM to approve the Whitewash Waiver.

LETTER FROM GRAM CAPITAL

IV. Special Deal

With reference to the Board Letter, given that the shareholding of all other Shareholders will be diluted after the Dongfang Subscription and only Chengtong (being in the same group of companies as Galactic Investment Limited, a shareholder of the Company) is given the opportunity to subscribe for new Shares to counteract or reduce the dilution effect that the Dongfang Subscription would have on the CCHG group's shareholding in the Company, and that Chengtong intends to nominate a candidate for the Company's consideration for appointment as a non-executive Director after completion of the Chengtong Subscription, the Chengtong Subscription constitutes a special deal in relation to the Dongfang Subscription under Rule 25 of the Takeovers Code. The Company has made an application to the Executive for consent to proceed with the Special Deal. Such consent, if granted, is expected to be subject to (i) the opinion of Gram Capital that the terms of the Special Deal are fair and reasonable; and (ii) the approval of the Special Deal by the Chengtong Independent Shareholders at the EGM.

Reasons and benefits of the Special Deal

As aforementioned, the Chengtong Subscription demonstrates Chengtong's confidence in, and commitment to, the Company's long-term development and growth prospect, and will further strengthen the Company's capital base by raising additional funds for the Group.

Upon our enquiry, the Management advised us that:

- (i) CCHG (through Galactic Investment Limited) is the second largest corporate Shareholder which has strong background as (a) it is controlled by the State-owned Assets Supervision and Administration Committee of the State Council of the PRC; and (b) it also enjoys a strategic position as one of the first batch pilot companies for State-owned asset operation with a view to improve efficiency of allocation and operation of State-owned capital;
- (ii) the Group has ongoing business relationship with subsidiaries of CCHG (being the holding company of Chengtong) in the Group's ordinary and usual course of business (i.e. sale of equipment and/or equipment leasing arrangements between the Group or its associated companies on one hand, and subsidiaries of CCHG on the other hand); and
- (iii) the Company understood that CCHG would have financial capability to provide equity financing to the Company.

Accordingly, in addition to seeking Dongfang Investment's support (through the Dongfang Subscription) on the Group's funding needs, the Company also approached Chengtong for the Chengtong Subscription to raise additional funds for the Group and strengthen its business relationship with CCHG.

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As aforementioned, the Company intends to apply the net proceeds from the issue of the Chengtong Subscription Shares (the “**Chengtong Proceeds**”) as to 100% for supplementing the Group’s working capital for general purpose. As explained under the section headed “Reasons for the Dongfang Subscription and the Chengtong Subscription (the Special Deal)” above, it is necessary for the Group to apply the Proceeds for Working Capital (including the Chengtong Proceeds) to supplement the Group’s working capital for general purpose.

As advised by the Management and based on the latest internal estimated costs and expenses provided, the Group’s estimated working capital requirement (mainly includes production costs, distribution expenses, administrative expenses, finance cost and research and development expenses) for the next 12 months will be more than RMB2 billion, which exceeds the Proceeds for Working Capital (including the Chengtong Proceeds). The Group intends to finance the aforesaid working capital requirement mainly with the Proceeds for Working Capital (including the Chengtong Proceeds), cash inflow from daily operation and bank borrowings. Should the Chengtong Subscription not being proceeded with, the Group may (i) have to incur further amount of/maintain certain amount of bank borrowings to finance its working capital requirement (which will incur interest expenses); and/or (ii) restricted from undertaking further orders from customers to reduce its working capital requirement (as explained under the sub-section headed “Reasons for the Dongfang Subscription and the Chengtong Subscription (the Special Deal) – Use of proceeds” above, usually, there is shortfall between prepayment received from customers and the production costs to be incurred by the Group for providing products and services to customers. Accordingly, the Group is required to utilize its working capital to cover this shortfall in the course of providing products and services to customers).

Although approximately 31% of the net proceeds from the issue of the Dongfang Subscription Shares will be applied for supplementing the Group’s working capital for general purpose, the Management advised that raising additional fund from the Chengtong Subscription and applying the Chengtong Proceeds for supplementing the Group’s working capital for general purpose can (i) facilitate the Group to undertake additional orders from customers (if any) and increase business volume accordingly; and (ii) prevent the Group from incurring further amount of/maintain certain amount of bank borrowings to finance its working capital requirement (which will incur interest expenses).

Given the above, we consider that despite the potential dilution effect of the Chengtong Subscription on the shareholding interest of the public Shareholders as mentioned under the sub-section headed “Potential dilution effect of the Dongfang Subscription and the Chengtong Subscription on the shareholding interest of the public Shareholders” above, the Special Deal is in the interests of the Company and the Shareholders (including the Independent Shareholders) as a whole.

LETTER FROM GRAM CAPITAL

Principal terms of the Special Deal

Principal terms of the Special Deal and our analysis are set out under the section headed “II. PRINCIPAL TERMS OF THE DONGFANG SUBSCRIPTION AND THE CHENGTONG SUBSCRIPTION” above.

Having considered:

- (a) that although the number of Chengtong Subscription Shares will lead to potential dilution effect on the shareholding interest of the public Shareholders, the number of Chengtong Subscription Shares also formed the base of the Chengtong Proceeds which can benefit the Group as explained above;
- (b) the Subscription Price Assessment Factors; and
- (c) that in respect of the Nomination Provision, (i) the Company will consider taking reasonable steps to cause the candidate nominated by Chengtong to be given careful consideration by the Company’s nomination committee and/or the Board for appointment as a non-executive Director, but is not obligated to appoint such candidate; and (ii) the aforesaid consideration is subject to the Relevant Prerequisites, we do not doubt the fairness and reasonableness of the Nomination Provision,

we consider the terms of the Special Deal to be fair and reasonable.

RECOMMENDATION ON THE SPECIAL DEAL

Having taken into consideration of the above, we are of the opinion that (i) the terms of the Special Deal are on normal commercial terms and are fair and reasonable; and (ii) the Special Deal is in the interests of the Company and the Shareholders (including the Independent Shareholders) as a whole. Accordingly, we recommend the Whitewash Waiver IBC to advise the Chengtong Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Special Deal.

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.

* *For identification purpose only*

FINANCIAL INFORMATION OF THE GROUP FOR EACH OF THE THREE YEARS ENDED 31 DECEMBER 2019, 2020 AND 2021

Financial information of the Group for each of the three years ended 31 December 2019, 2020 and 2021, and the six months ended 30 June 2022 are disclosed in the following documents which have been published on the website of the Stock Exchange (www.hkexnews.hk) and the Company (<http://www.hh-g ltd.com>) and can be accessed at the website addresses below:

- (i) pages 95 to 237 of the annual report of the Group for the year ended 31 December 2019 (<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0427/2020042701966.pdf>);
- (ii) pages 95 to 225 of the annual report of the Group for the year ended 31 December 2020 (<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0419/2021041900478.pdf>);
- (iii) pages 98 to 229 of the annual report of the Group for the year ended 31 December 2021 (<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0427/2022042701237.pdf>);
and
- (iv) page 28 to 68 of the interim report of the Group for the six months ended 30 June 2022 (<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0927/2022092700505.pdf>).

Summary of financial information of the Group

The following is a summary of the audited consolidated financial statements of the Group for each of the years ended 31 December 2019, 2020 and 2021, and the unaudited consolidated financial statements of the Group for the six months ended 30 June 2021 and 30 June 2022, as extracted from the relevant annual reports and interim reports of the Company:

	For the six months ended		For the year ended 31 December		
	30 June 2022 (unaudited) RMB'000	30 June 2021 (unaudited) RMB'000	2021 (audited) RMB'000	2020 (audited) RMB'000	2019 (audited) RMB'000
Revenue	1,509,177	1,551,538	2,936,604	3,931,492	4,425,686
(Loss)/profit before income tax	(563,538)	(71,674)	(745,344)	86,090	166,265
Income tax credit/(expense)	14,856	5,268	11,343	(25,950)	(33,776)
(Loss)/profit for the year/half year	(548,682)	(66,406)	(734,001)	60,140	132,489

The auditor of the Company for each of the years ended 31 December 2019, 2020 and 2021 was PricewaterhouseCoopers. The unaudited consolidated financial statements of the Group for the six months ended 30 June 2021 were reviewed and issued by PricewaterhouseCoopers, and the unaudited consolidated financial statements of the Group for the six months ended 30 June 2022 were prepared by the Company and reviewed by the audit committee of the Company. Save as disclosed in the annual report of the Group for the year ended 31 December 2021, the audit/review opinions of PricewaterhouseCoopers in respect of these periods were not qualified and there was no modified opinions or emphasis of matter or material uncertainty related to going concern contained in the auditor's report of PricewaterhouseCoopers in respect of these periods.

FINANCIAL AND TRADING PROSPECTS OF THE GROUP

From a global perspective, the international energy market still faces slow and gradual recovery in 2023. Given the impact of various factors such as the reduction in production and price stabilisation by OPEC+, obstruction of Russian oil exports, the crude oil market prices will likely remain balanced. Oil prices may still be highly volatile and demonstrate an upward trend in the short term, but the risk remains relatively high in the next two years with a high level of uncertainties and the situation may persist. From a domestic perspective, in line with the national energy security strategy which strives to enhance the stability and security of energy supply chain, promote the increase in domestic oil and gas reserves and production capacity, maintain a steady increase in shale gas production and increase the scale of shale oil development, all of which will bring new development opportunities to the Group's drilling and mining equipment and service businesses. The domestic pandemic prevention and control has entered a new stage, thereby creating a more favourable condition for the Group's market expansion.

In terms of business expansion, the Group will build on its existing strengths in the oil and gas industry, seize the opportunity presented by the upward trend of oil and gas industry; step up efforts to expand its business in the global drilling and mining market, optimise its international marketing system, business portfolio and structure, and expand the proportion of its international operations; promote the sales of complete equipment for fracturing which is driven by the provision of services by leveraging on its advantages in fracturing service and pumping service in the premise of electric fracturing equipment industry; strengthen the market promotion and marketing technologies of new products, further increase the market share of novel products with competitive advantages such as "one-key linkage" automated machines and five-cylinder pumps; strengthen the synergy with Dongfang Electric Corporation, improve the market share of wind power business and actively expand into new areas such as new energy equipment manufacturing, wind, solar, hydrogen and heat storage in oil and gas fields and integrated solutions of generation, grid, load and storage.

In terms of internal management, the Group will intensify its comprehensive reforms and enhance the effectiveness of its corporate management. Firstly, the Group will optimise its organisational structure and control system, strengthen the boards of directors of its subsidiaries, carry out dedicated work to enhance quality and efficiency, establish a comprehensive and efficient supply chain system, improve governance effectiveness and management efficiency; secondly, the Group will optimise its industrial planning and structure, push ahead the discontinuation of inefficient production capacity, promote market footprint optimisation, carry out industrial specialisation and integration, continue to optimise its capital structure, promote the optimal allocation of resources to its core businesses, and elevate its value creation capability; thirdly, the Group will reinforce its technology innovation mechanism and system, advance its technology innovation management system, optimise its external coordination mechanism, and build a new platform for technology innovation to bolster its technology innovation capability; fourthly, the Group will deepen the market-oriented operation mechanism, further extend the achievements from the “three system reforms”, build a contractual system, strengthen the assessment of the operational performance of each affiliated enterprise, deepen the reform of the labour employment system, deepen the reform of the income distribution system, and take the necessary steps in respect of talent recruitment and training works. The Company will also continue to enhance its requirements in labour, occupational health and environmental protection to ensure sustainable growth.

In terms of development direction, the Group will focus on promoting digital transformation and low-carbon transformation. In respect of digital transformation, the focus will be on promoting the electrification, automation, informatisation and digitalisation of key components, the productisation of data and software services and the intelligentisation of equipment. In terms of low-carbon transformation, the Group will actively promote the low-carbon transformation of oil and gas equipment, achieve clean and low-carbon targets in oilfield blocks mining through equipment electrification and grid cleanliness to achieve industrial greening; provide global oilfield customers with integrated energy solutions to meet the strategic needs of oil companies for new energy and low-carbon transformation, and continue to step up efforts to establish the Group as a leading global high-end oil and gas equipment manufacturer.

INDEBTEDNESS STATEMENT

At the close of business on 31 December 2022, being the latest practicable date for the purpose of this statement of indebtedness prior to the publication of this circular, the total indebtedness of the Group amounted to RMB4,836,422,600, details of which are set out below:

	<i>RMB'000</i>
Secured bank loans	1,327,328.5
Unsecured bank loans	<u>3,509,094.1</u>
Total	<u><u>4,836,422.6</u></u>

As at the close of business on 31 December 2022, except as disclosed above, and apart from intra-group liabilities and normal trade payables, and otherwise mentioned above in this Appendix I, 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, finance leases, hire purchase commitments, guarantees or other material contingent liabilities.

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

FINANCIAL EFFECTS OF THE TRANSACTIONS

Had the issue of Dongfang Subscription Shares under the Dongfang Subscription and the issue of Chengtong Subscription Shares under the Chengtong Subscription completed, the total assets of the Group would have further increased by approximately HK\$1.017 billion as a result of the receipt of the net proceeds from the Dongfang Subscription and the Chengtong Subscription.

The Directors are of the view that the Dongfang Subscription, the Chengtong Subscription and the transactions contemplated thereunder are not expected to have any material adverse impact on the financial position of the Group as (1) the Dongfang Subscription and the Chengtong Subscription are appropriate fund raising methods currently available to the Group; and (2) the proposed use of proceeds from the issue of the Dongfang Subscription Shares and the Chengtong Subscription Shares can improve the Group's financial position and support the Group's business development.

WORKING CAPITAL

Having taken into account the financial resources available to the Group, including internally generated funds and the available bank facilities, the Directors are of the opinion that the Group will have sufficient working capital for its present requirements for at least the next 12 months from the date of this circular.

1. ESTIMATED LOSS ANNOUNCEMENT AND BASIS OF PREPARATION**Estimated Loss Announcement**

The following is the full text of the Estimated Loss Announcement, which is repeated in full in this circular pursuant to Rule 10.4 of the Takeovers Code.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, 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 announcement.



宏华集团
HONGHUA GROUP

Honghua Group Limited

宏華集團有限公司

(a company incorporated in the Cayman Islands with limited liability)

(Stock code: 196)

PROFIT WARNING

This announcement is made by the Company pursuant to Rule 13.09 of the Listing Rules and Inside Information Provisions under Part XIVA of the SFO.

The Board would like to inform the shareholders of the Company and potential investors that based on the unaudited consolidated management accounts of the Group for the year ended 31 December 2022 and the information currently available to the Company, the Group is expected to record loss attributable to the shareholders of the Company ranging from approximately RMB550.00 million to RMB650.00 million for the year ended 31 December 2022, as compared to loss attributable to the shareholders of RMB717.19 million for the year ended 31 December 2021.

Shareholders of the Company and potential investors are advised to exercise caution when dealing in the shares of the Company.

This announcement is made by Honghua Group Limited (the “**Company**”) pursuant to Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and Inside Information Provisions under Part XIVA of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) (the “**SFO**”).

The board of directors of the Company (the “Board”) would like to inform the shareholders of the Company and potential investors that based on the unaudited consolidated management accounts of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2022 and the information currently available to the Company, the Group is expected to record loss attributable to the shareholders of the Company ranging from approximately RMB550.00 million to RMB650.00 million for the year ended 31 December 2022, as compared to loss attributable to the shareholders of RMB717.19 million for the year ended 31 December 2021.

The expected loss for the year ended 31 December 2022 is primarily due to the backdrops that (1) under the influence of the Russia-Ukraine conflict, for the sake of prudence, an impairment provision was made for creditor’s rights; (2) the oil and gas services segment was affected by the prudent capital expenditure of customers and the settlement of price reductions by customers, thus an impairment provision being made for the assets with impairment risk.

The Company is in the process of finalising the annual results of the Group for the year ended 31 December 2022. The information contained in this announcement is only based on a preliminary assessment by the Board of the unaudited consolidated management accounts of the Group for the year ended 31 December 2022 and the information currently available to the Company, and is not based on any figures or information that have been audited or reviewed by the Company’s auditors. Details of the Group’s annual results for the year ended 31 December 2022 will be disclosed as and when the annual results of the Group the year ended 31 December 2022 are announced.

Shareholders of the Company and potential investors are advised to exercise caution when dealing in the shares of the Company.

By order of the Board
Honghua Group Limited
Wang Xu
Chairman

PRC, 9 January 2023

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

Basis of Preparation

The unaudited consolidated management account of the Group for the year ended 31 December 2022 as set out in the Loss Estimated Announcement was prepared on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in the published annual report of the Company for the year ended 31 December 2021.

2. REPORT FROM DELOITTE TOUCHE TOHMATSU

The following is the text of a letter received from Deloitte Touche Tohmatsu, the auditor of the Company, for the purpose of incorporation in this circular.

23 March 2023

The Board of Directors
Honghua Group Limited
99 East Road, Information Park,
Jinniu District
Chengdu, Sichuan, The People's Republic of China

Dear Sirs,

Honghua Group Limited (“the Company”) and its subsidiaries (collectively referred to as the “Group”)

Loss Estimate for the Year Ended 31 December 2022 (the “Loss Estimate”)

We refer to the estimated loss statement, which is set forth in section headed “Estimated Loss Announcement and Basis of Preparation”, on pages 70-71 of Appendix II to the circular in connection with the subscriptions of shares by Dongfang Electric International Investment Co., Limited and China Chengtong Investment Company Limited, and applications for a special deal and whitewash waiver (the “Circular”), which contains an estimate of the unaudited consolidated net loss of the Group attributable to shareholders of the Company for the year ended 31 December 2022, as extracted below:

“The board of directors of the Company (the “Board”) would like to inform the shareholders of the Company and potential investors that based on the unaudited consolidated management accounts of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2022 and the information currently available to the Company, the Group is expected to record loss attributable to the shareholders of the Company ranging from approximately RMB550.00 million to RMB650.00 million for the year ended 31 December 2022, as compared to loss attributable to the shareholders of RMB717.19 million for the year ended 31 December 2021.”

We also refer to the following statement under the section headed “8. MATERIAL CHANGE” of Appendix III to the Circular that the Group’s revenue and gross profit for the year ended 31 December 2022 increased substantially as compared to those for the year ended 31 December 2021 (the “Statement”), of which the Statement has been made based on the Group’s unaudited consolidated management accounts as referred above and the audited annual consolidated financial statements of the Group for the year ended 31 December 2021.

The Loss Estimate was prepared by the directors of the Company and constitutes a profit forecast under Rule 10 of the Code on Takeovers and Mergers issued by The Securities and Futures Commission.

Directors' Responsibilities

The Loss Estimate has been prepared by the directors of the Company based on the unaudited consolidated management accounts of the Group for the year ended 31 December 2022.

The Company's directors are solely responsible for the Loss Estimate.

Our Independence and Quality Management

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Management (HKSQM) 1 "Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements" issued by the HKICPA, which requires the firm to design, implement and operate a system of quality management including policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion on the accounting policies and calculations of the Loss Estimate based on our procedures.

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 500 "Reporting on Profit Forecasts, Statements of Sufficiency of Working Capital and Statements of Indebtedness" and with reference to Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the HKICPA. Those standards require that we plan and perform our work to obtain reasonable assurance as to whether, so far as the accounting policies and calculations are concerned, the Company's directors have properly compiled the Loss Estimate in accordance with the bases adopted by the directors and as to whether the Loss Estimate is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

Opinion

In our opinion, so far as the accounting policies and calculations are concerned, the Loss Estimate has been properly compiled in accordance with the bases adopted by the directors as set out in Appendix II of the Circular and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in audited annual consolidated financial statements of the Group for the year ended 31 December 2021.

Yours faithfully,

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

3. REPORT FROM GRAM CAPITAL LIMITED

The following is the text of a letter received from Gram Capital Limited, the Independent Financial Adviser, for the purpose of incorporation in this circular.

23 March 2023

The Board of Directors

Honghua Group Limited

5/F, Manulife Place

348 Kwun Tong Road

Kowloon

Hong Kong

Dear Sir/Madam,

Reference is made to the circular dated 23 March 2023 (the “**Circular**”) issued by the Company. Capitalised terms used in this letter shall have the same respective meanings as defined in the Circular unless the context otherwise required.

We refer to (a) the FY22 Unaudited and Estimated Range of Loss; and (b) the following statement under the section headed “8. MATERIAL CHANGE” of Appendix III to the Circular (together with the FY22 Unaudited and Estimated Range of Loss, the “**Statements**”): “The Group’s revenue and gross profit for the year ended 31 December 2022 (“**FY2022**”) increased substantially as compared to those for the year ended 31 December 2021 (“**FY2021**”).”

The Statements constitute profit forecast under Rule 10 of the Takeovers Code and must be reported on by the financial adviser and the auditors or consultant accountants. This report is issued in compliance with the requirements under Rule 10.4 and Note 1(c) to Rules 10.1 and 10.2 of the Takeovers Code.

The Directors prepared the Statements based on the Group’s unaudited consolidated management accounts for FY2022 (the “**2022 Management Account**”). The 2022 Management Account was prepared on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in audited annual consolidated financial statements of the Group for FY2021.

We have reviewed the Statements and their underlying bases as set out above (no assumption was involved in making of the Statements as they relate to a period already ended) which were provided by you and you as the Directors are solely responsible for. We also discussed the above with you and the senior management of the Company.

In respect of the accounting policies and calculations concerned, upon which the Statements have been made, we have considered the report as contained in Appendix II to the Circular addressed to the Board from Deloitte Touche Tohmatsu, being the auditor of the Company (the “**Auditor**”). The Auditor is of the opinion that the Statements have been properly compiled in accordance with the bases adopted by the Directors as set out in Appendix II of the Circular and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in audited annual consolidated financial statements of the Group for the year ended 31 December 2021.

Having considered the above, we are of the opinion that the Statements have been made with due care and consideration.

We hereby give and have not withdrawn our consent to the issue of the Circular with the inclusion therein of this report.

Yours faithfully,
For and on behalf of
Gram Capital Limited

Graham Lam
Managing Director

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 facts the omission of which would make any statement herein or this circular misleading.

This circular includes particulars given in compliance with the Takeovers Code for the purpose of giving information with regard to the Group. The Directors jointly and severally accept full responsibility for the accuracy of the information (other than information relating to Dongfang Investment and parties acting in concert with it) contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed (other than those expressed by directors of Dongfang Investment in their capacity as such) in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

The sole director of Dongfang Investment accepts full responsibility for the accuracy of the information relating to Dongfang Investment and parties acting in concert with it contained in this circular and confirm, having made all reasonable enquiries, that to the best of his knowledge, opinions expressed by the sole director of Dongfang Investment in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

2. MARKET PRICES

The table below shows the closing prices of the Shares quoted on the Stock Exchange on (i) the last day on which trading took place in each of the calendar months during the Relevant Period; (ii) the last trading day of the Shares before the entry into of the Dongfang Subscription Agreement; and (iii) the Latest Practicable Date.

Date	Closing price per Share HK\$
2022	
29 July 2022	0.239
31 August 2022	0.215
30 September 2022	0.190
31 October 2022	0.195
30 November 2022	0.192
30 December 2022	0.239

Date	Closing price per Share HK\$
2023	
17 January 2023, being the last trading day of the Shares before the entry into the Dongfang Subscription Agreement	0.248
31 January 2023	0.25
28 February 2023	0.23
20 March 2023, being the Latest Practicable Date	0.23

The highest and lowest closing prices of the Shares as quoted on the Stock Exchange during the Relevant Period were HK\$0.27 on 20 and 26 January 2023 and HK\$0.18 on 29 September 2022, respectively.

3. SHARE CAPITAL OF THE GROUP

The authorised share capital of the Company as at the Latest Practicable Date is HK\$1,000,000,000 divided into 10,000,000,000 Shares of HK\$0.10 each. The registered and issued share capital of the Company (i) as at the Latest Practicable Date; (ii) immediately after completion of the Dongfang Subscription (assuming there is no change in the share capital of the Company since the Latest Practicable Date up to completion of the Dongfang Subscription other than the issue of the Dongfang Subscription Shares); and (iii) immediately after completion of the Dongfang Subscription and the Chengtong Subscription (assuming there is no change in the share capital of the Company since the Latest Practicable Date up to completion of the Chengtong Subscription other than the issue of the Dongfang Subscription Shares and the Chengtong Subscription Shares) are set out below:

	As at the Latest Practicable Date		Enlarged share capital of the Company immediately after completion of the Dongfang Subscription		Enlarged share capital of the Company immediately after completion of the Dongfang Subscription and the Chengtong Subscription	
	Registered capital	Issued and fully paid or credited as fully paid	Registered capital	Issued and fully paid or credited as fully paid	Registered capital	Issued and fully paid or credited as fully paid
HK\$	1,000,000,000	535,599,490	1,000,000,000	935,599,490	1,000,000,000	957,899,490

The Company had not issued any Shares since 31 December 2022 (being the end of the last financial year of the Company) and up to the Latest Practicable Date.

As at the Latest Practicable Date, the Company has the following outstanding share options under its share option schemes:

- (a) 3,200,000 outstanding share options with an exercise price of HK\$2.024;
- (b) 13,983,808 outstanding share options with an exercise price of HK\$1.96; and
- (c) 32,771,000 outstanding share options with an exercise price of HK\$0.44..

Save as disclosed above, the Company has no outstanding warrants, options or securities convertible into shares of the Company as at the Latest Practicable Date.

4. DISCLOSURE OF INTERESTS

(a) Interests in the Company

(i) *Director, Supervisor and Chief Executive's interests and short positions in Shares, underlying Shares and debentures of the Company and its associated corporations*

As at the Latest Practicable Date: (a) save as disclosed below, none of the Directors, Supervisors, Chief Executive and their respective associates had interests or short positions in the shares, underlying shares and/or debentures (as the case may be) of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of SFO (including interests or short positions which were taken or deemed to have under such provisions of the SFO), or (ii) were required to be recorded in the register maintained by the Company pursuant to Section 352 of the SFO or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of the Listed Issuers in Appendix 10 of the Listing Rules and the Takeovers Code:

(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, Mr. Wang Xu is an employee director of Dongfang Electric Corporation which had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Save as disclosed above, 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.

(ii) Substantial Shareholders' interests and short positions in Shares or underlying Shares

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 recorded that the following shareholders had an interest of 5% or more in the issued share capital of the Company.

Name	Long/Short Position	Personal Interest (Share Interest)	Corporate Interest	Corporate Discretionary Trust	Total	% of the Issued Share Capital of the Company
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⁾	13.70%
Yi Langlin	Long	2,156,000	–	–	324,598,548 ⁽³⁾	6.06%
		322,442,548 (family interest)				

Name	Long/Short Position	Personal Interest (Share Interest)	Corporate Interest	Corporate Interest and Settlor of a Discretionary Trust	Total	% of the Issued Share Capital of the Company
Dongfang Electric International Investment Co., Ltd.	Long	5,606,000,000 ⁽⁴⁾	-	-	5,606,000,000 ⁽⁴⁾	104.67% ⁽⁴⁾
Dongfang Electric Corporation	Long	-	5,606,000,000 ⁽⁴⁾	-	5,606,000,000 ⁽⁴⁾	104.67% ⁽⁴⁾
China Chengtong Hong Kong Company Limited	Long	-	477,000,000 ⁽⁵⁾	-	477,000,000 ⁽⁵⁾	8.90% ⁽⁵⁾
China Chengtong Holdings Group Limited	Long	-	477,000,000 ⁽⁵⁾	-	477,000,000 ⁽⁵⁾	8.90% ⁽⁵⁾

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). The disclosed interest comprises 1,606,000,000 Shares in issue and 4,000,000,000 Shares that will be issued upon completion of the Dongfang Subscription.
- (5) Each of China Chengtong Hong Kong Company Limited and China Chengtong Investment Company Limited is wholly-owned by China Chengtong Holdings Group Limited (中國誠通控股集團有限公司). Galactic Investment Limited is wholly owned by China Chengtong Development Group Limited, which in turn is indirectly held by China Chengtong Holdings Group Limited (中國誠通控股集團有限公司) as to approximately 53.14%. The disclosed interest comprises 254,000,000 Shares in issue held by Galactic Investment Limited and 223,000,000 Shares that will be issued to China Chengtong Investment Company Limited upon completion of the Chengtong Subscription.

Save as disclosed above, as at the Latest Practicable Date, the Company had not been notified by any person (other than the Director or chief executive of the Company) who had interests or short position in the Shares and underlying Shares of the Company which fell to be disclosed to the Company under Part XV of the SFO or which are required to be and are recorded in the register required to be kept under Section 336 of the SFO.

5. FURTHER INFORMATION CONCERNING DIRECTORS**(a) Directors' service contracts**

As at the Latest Practicable Date:

- (i) none of the Directors had entered, or was proposing to enter, into any service contract with any member of the Group (excluding contracts expiring or determinable by such member of the Group within one year without payment of compensation (other than statutory compensation));
- (ii) save for the service contract of Mr. Wang Xu with the Company with effect from 25 November 2022, none of the Directors had any service contracts with the Company or any of its subsidiaries or associated companies in force which (including both continuous and fixed term contracts) had been entered into or amended during the Relevant Period. In respect of the service contract of Mr. Wang Xu with the Company with effect from 25 November 2022, (1) the expiry date of the contract is 24 November 2025; (2) the amount of fixed remuneration payable under the contract and the relevant remuneration policies (excluding arrangements for pension payments) is RMB220,000 per annum; and (3) the amount of variable remuneration payable under the contract (including incentives) and the relevant remuneration policies is determined based on his performance and key performance indicators set by the Company (which are tied to the operating performance of the Group);
- (iii) none of the Directors had any service contracts with the Company or any of its subsidiaries or associated companies which are continuous contracts with a notice period of 12 months or more; and
- (iv) none of the Directors had any service contracts with the Company or any of its subsidiaries or associated companies which are fixed term contracts with more than 12 months to run irrespective of the notice period.

(b) Directors' interest in competing business

As at the Latest Practicable Date, none of the Directors or their respective close associate is or was interested in any business apart from the Group's business, that competes or is likely to compete, either directly or indirectly, with the Group's business.

(c) Directors' interest in assets

None of the Directors had any direct or indirect interest in any assets which had been acquired or disposed of or leased to any member of the Group or proposed to be so acquired, disposed of or leased since 31 December 2021, being the date to which the latest published audited accounts of the Company were made up, and up to the Latest Practicable Date.

(d) Directors' interest in contracts

As at the Latest Practicable Date, there is no contract or arrangement subsisting in which any of the Directors is materially interested and which is significant in relation to the business of the Group.

6. ADDITIONAL DISCLOSURES UNDER THE TAKEOVERS CODE

As at the Latest Practicable Date:

- (a) there was no agreement, arrangement or understanding (including any compensation arrangement) between Dongfang Investment or any parties acting in concert with it and any of the Directors, recent Directors, Shareholders and recent Shareholders having any connection with or dependence upon the Dongfang Subscription and/or the Whitewash Waiver;
- (b) save as disclosed in the paragraph headed "Shareholding Structure" in the letter from the Board in this circular and in the paragraph headed "Disclosure of Interests" in this appendix, Dongfang Investment and parties acting in concert with it do not hold, own, have control or direction over any other voting rights, rights over Shares, any outstanding options, warrants, or any securities that are convertible into Shares or any derivatives in respect of the securities of the Company, or hold any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company;
- (c) save for the entering into of the Dongfang Subscription Agreement, none of Dongfang Investment and their directors or any parties acting in concert with Dongfang Investment had acquired or entered into any agreement or arrangement to acquire any voting rights in the Company during the Relevant Period but subsequent to negotiations, discussion or the reaching of understandings or agreement with the Directors in relation to the Dongfang Subscription Agreement (including the grant of the Specific Mandate and the approval of Dongfang Subscription Agreement) and the Whitewash Waiver;
- (d) none of Dongfang Investment or parties acting in concert with it has received any irrevocable commitment to vote for or against the resolution(s) to be proposed at the EGM to approve the Dongfang Subscription (including the grant of the Specific Mandate and the approval of Dongfang Subscription Agreement) and/or the Whitewash Waiver;
- (e) there was no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code (whether by way of option, indemnity or otherwise) that had been entered into in relation to the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company between Dongfang Investment and/or parties

acting in concert with it on the one hand and any person on the other hand and which might be material to the Dongfang Subscription (including the grant of the Specific Mandate and the approval of the Dongfang Subscription Agreement) and/or the Whitewash Waiver;

- (f) save for the Dongfang Subscription Agreement, there was no agreement or arrangement to which the Dongfang Investment or any parties acting in concert with it is a party which relates to circumstances in which it may or may not invoke or seek a pre-condition or a condition to the Dongfang Subscription (including the grant of the Specific Mandate and the approval of Dongfang Subscription Agreement) and/or the Whitewash Waiver;
- (g) there was no agreement, arrangement or understanding (including any compensation arrangement) between Dongfang Investment or parties acting in concert with it and any of the Directors, recent Directors, Shareholders and recent Shareholders having any connection with or dependence upon the Dongfang Subscription (including the grant of the Specific Mandate and the approval of the Dongfang Subscription Agreement) and/or the Whitewash Waiver;
- (h) none of Dongfang Investment or parties acting in concert with it had borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company;
- (i) apart from the consideration payable to the Company for the Dongfang Subscription pursuant to the Dongfang Subscription Agreement, there was no other consideration, compensation or benefit in whatever form that has been or will be paid by the Dongfang Investment or parties acting in concert with it to the Company in connection with the Dongfang Subscription (including the grant of the Specific Mandate and the approval of the Dongfang Subscription Agreement) and/or the Whitewash Waiver;
- (j) save for (1) the Dongfang Subscription, (2) the Chengtong Subscription which constitutes a special deal in relation to the Dongfang Subscription and (3) the sale of equipment and/or equipment leasing arrangements between the Group or its associated companies on one hand, and subsidiaries of CCHG on the other hand, which are carried out in the ordinary and usual course of business of the Group on terms that are available to the public generally and/or determined pursuant to market standards, there was no understanding, arrangement, agreement or special deal (as defined under Rule 25 of the Takeovers Code) between (1) any Shareholder on one hand and (2) (a) Dongfang Investment and parties acting in concert with it or (b) the Company, its subsidiaries or associated companies, on the other hand;

- (k) the Company did not have any interest in the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of Dongfang Investment and had not dealt for value in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of Dongfang Investment during the Relevant Period;
- (l) none of the Directors had any interest in the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of Dongfang Investment and none of them had dealt for value in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of Dongfang Investment during the Relevant Period;
- (m) save as disclosed in the paragraph headed “Shareholding Structure” in the letter from the Board in this circular and in the paragraph headed “Disclosure of Interests” in this appendix, no Director was interested in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company and none of the Directors had dealt for value in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company during the Relevant Period;
- (n) none of the subsidiaries of the Company, the pension fund of the Company or of its subsidiaries, a person who is presumed to be acting in concert with the Company by virtue of class (5) of the definition of “acting in concert” under the Takeovers Code or who is an associate of the Company by virtue of class (2) of the definition of “associate” under the Takeovers Code (but excluding exempt principal traders and exempt fund managers) owned or controlled any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company, or had dealt for value in any such securities of the Company during the Relevant Period;
- (o) there was no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code between any person and the Company or any person who is presumed to be acting in concert with the Company by virtue of classes (1), (2), (3) and (5) of the definition of “acting in concert” under the Takeovers Code or who is an associate of the Company by virtue of classes (2), (3) and (4) of the definition of “associate” under the Takeovers Code, and no such person had owned, controlled or dealt for value in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company during the Relevant Period;
- (p) no fund managed on a discretionary basis by any fund manager (other than exempt fund managers) connected with the Company had any interest in the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company and no such persons had dealt for value in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company during the Relevant Period;
- (q) save as disclosed in the paragraph headed “Disclosure of Interests” in this appendix, none of the Directors was interested in any Shares, or any convertible securities, warrants, options or derivatives in respect of the Shares. Each of the relevant Directors, namely Mr. Zhang Mi and Ms. Su Mei intend, in respect of their

respective own beneficial shareholdings in the Company, to vote in favour of the resolutions to be proposed at the EGM to approve the Dongfang Subscription, the Chengtong Subscription, the Whitewash Waiver and the Special Deal;

- (r) none of the Company or the Directors had borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company; and
- (s) there are no benefits to be given to any Directors as compensation for loss of office or otherwise in connection with the Dongfang Subscription (including the grant of the Dongfang Specific Mandate and the approval of Dongfang Subscription Agreement) and/or the Whitewash Waiver;
- (t) there was no agreement or arrangement between any Directors and any other person which is conditional on or dependent upon the outcome of the Dongfang Subscription and/or the Whitewash Waiver or otherwise connected therewith; and
- (u) neither Dongfang Investment nor any party acting in concert with it had intention to transfer, charge or pledge the Dongfang Subscription Shares to any other persons upon completion of the Dongfang Subscription.

7. LITIGATION

As at the Latest Practicable Date, none of the members of the Group was engaged in any litigation or claim of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against the members of the Group.

8. MATERIAL CHANGE

Save as disclosed below, the Directors confirm that there was no material change in the financial or trading position or outlook of the Group subsequent to 31 December 2021, being the date to which the latest published audited consolidated financial statements of the Group were made up, up to and including the Latest Practicable Date:

- (a) the Group's revenue and gross profit for the year ended 31 December 2022 ("FY2022") increased substantially as compared to those for the year ended 31 December 2021 ("FY2021");
- (b) the Group's distribution expenses and net finance expenses for FY2022 increased substantially as compared to those for FY2021;
- (c) the Group's net impairment losses on financial assets for FY2022 decreased substantially as compared to that for FY2021;
- (d) the Group recorded net other gains for FY2022 as compared to net other losses for FY2021;

- (e) the Group recorded income tax expense for FY2022 as compared to income tax credit for FY2021;
- (f) the loss attributable to owners of the Company for FY2022 decreased substantially as compared to that for FY2021, mainly due to the aggregated effect of factors (a) to (e) above;
- (g) the Group's trade and other receivables, contract assets, contract liabilities and trade and other payables as at 31 December 2022 increased substantially as compared to those as at 31 December 2021;
- (h) the Group's cash and cash equivalents as at 31 December 2022 decreased substantially as compared to that as at 31 December 2021; and
- (i) the Group's net current liabilities as at 31 December 2022 decreased substantially as compared to that as at 31 December 2021, mainly due to reclassification of substantial amount of borrowings from current liabilities to non-current liabilities.

The above disclosure is based on the Group's unaudited consolidated management accounts for FY2022 and the Group's audited consolidated financial statements for FY2021.

9. MATERIAL CONTRACTS

The following contracts, not being contracts entered into in ordinary course of business carried on or intended to be carried on by the Group, have been entered into by the members of the Group within the two years immediately preceding the date of the Announcement and up to the Latest Practicable Date, and which are or may be material:

- (a) the Dongfang Subscription Agreement;
- (b) the Chengtong Subscription Agreement;
- (c) the purchase framework agreement dated 30 September 2022 entered into between the Company and Dongfang Electric Co., Ltd. (東方電氣股份有限公司), pursuant to which the Group agreed to purchase certain products (including but not limited to materials and equipment, 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 Dongfang Electric Co., Ltd. (東方電氣股份有限公司), its subsidiaries and its associates, subject to caps for the period from 26 October 2022 to 31 December 2022, the calendar year ending 31 December 2023, the calendar year ending 31 December 2024 of RMB550 million, RMB1,000 million, and RMB1,000 million, respectively;
- (d) the sales framework agreement dated 30 September 2022 entered into between the Company and Dongfang Electric Co., Ltd. (東方電氣股份有限公司), pursuant to which the Group agreed to sell products (including but not limited to structural parts such as weldments products for containers, steel structure products, semi-finished

products, accessories, equipment 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 Dongfang Electric Co., Ltd. (東方電氣股份有限公司), its subsidiaries and its associates, subject to caps for the period from 26 October 2022 to 31 December 2022, the calendar year ending 31 December 2023, the calendar year ending 31 December 2024 of RMB500 million, RMB800 million and RMB800 million, respectively;

- (e) the financial lease framework agreement dated 30 September 2022 entered into between the Company and Dongfang Electric Co., Ltd. (東方電氣股份有限公司), pursuant to which the Group agreed to provide Dongfang Electric Co., Ltd. (東方電氣股份有限公司), its subsidiaries and its associates with finance leasing services, including but not limited to sale and leaseback services and direct leasing services, and collect rental income from Dongfang Electric Co., Ltd. (東方電氣股份有限公司), its subsidiaries and its associates for the provision of such finance leasing services, subject to caps for the period from 26 October 2022 to 31 December 2022, the calendar year ending 31 December 2023, the calendar year ending 31 December 2024 of RMB50 million, RMB150 million and RMB150 million, respectively;
- (f) the financial services framework agreement dated 30 September 2022 entered into between the Company and Dongfang Electric Finance Co., Ltd., pursuant to which Dongfang Electric Finance Co., Ltd. agreed to provide the Group with financial services including deposit services, lending services and settlement services, subject to caps (for each of deposit services (daily maximum balance of deposits) and lending services) for the period from 26 October 2022 to 31 December 2022, the calendar year ending 31 December 2023, the calendar year ending 31 December 2024 of RMB1,200 million, RMB1,800 million and RMB1,800 million, respectively; and
- (g) the financial cooperation agreement for the provision of financial services dated 12 May 2021 entered into between the Company and Aerospace Science and Industry Financial Corporation, pursuant to which Aerospace Science and Industry Financial Corporation agreed to provide the Group with financial services including deposit services, lending and other comprehensive credit facilities services, and free settlement services, subject to caps for (i) the deposit services (daily maximum balance of deposits) for the calendar year ended 31 December 2021, the calendar year ended 31 December 2022, the calendar year ended 31 December 2023, and for the 5-month period from 1 January 2024 to 31 May 2024 of RMB1,500 million, RMB1,500 million, RMB1,500 million and RMB1,500 million, respectively; and (ii) the lending and other comprehensive credit facilities services for the calendar year ended 31 December 2021, the calendar year ended 31 December 2022, the

calendar year ending 31 December 2023, and for the 5-month period from 1 January 2024 to 31 May 2024 of RMB650 million, RMB650 million, RMB650 million and RMB650 million, respectively.

10. EXPERTS AND CONSENTS

The following is the qualification of the expert or professional adviser (collectively, the “**Experts**”) who has given, or agreed to the inclusion of, its opinion or advice contained in this circular:

Name	Qualification
Deloitte Touche Tohmatsu Gram Capital Limited	Certified Public Accountants Corporation licensed to carry out Type 6 (Advising on Corporate Finance) regulated activities under the SFO

Each of the Experts had given and had not withdrawn its written consent to the issue of this circular with the inclusion herein of its reports, letter, or statements as the case may be, and references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, each of the Experts:

- (a) did not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and
- (b) did not have, nor had had, any direct or indirect interest in any assets which have since 31 December 2021 (being the latest published audited consolidated accounts of the Group were made up) been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group.

11. CORPORATE INFORMATION

- (a) The registered office of the Company is at Windward 3, Regatta Office Park, PO Box 1350, Grand Cayman KY1-1108, Cayman Islands.
- (b) 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.

- (c) Ms. Lee Mei Yi (a fellow member of both the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators) of Tricor Services Limited has been engaged by the Company as its joint company secretary. Her primary contact person at the Company is Mr. He Bin, another joint company secretary of the Company.
- (d) The Hong Kong branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong.
- (e) The auditor of the Company, Deloitte Touche Tohmatsu, as Certified Public Accountants, is located at 35/F, One Pacific Place, 88 Queensway, Hong Kong.
- (f) The registered office of Gram Capital, is at Room 1209, 12/F. Nan Fung Tower, 173 Des Voeux Road Central, Hong Kong.
- (g) As at the Latest Practicable Date, the Board was composed of two executive Directors, who are Mr. Wang Xu (Chairman) and Mr. Zhu Hua, two non-executive Directors, who are Mr. Zhang Mi and Mr. Yang Yong, and five independent non-executive Directors, who are Mr. Chen Guoming, Ms. Su Mei, Mr. Chang Qing, Mr. Wei Bin and Mr. Zhang Shiju. The correspondence address of each of the Directors is 99 East Road, Information Park, Jinniu District, Chengdu, Sichuan, PRC.
- (h) The registered office of Dongfang Investment is 13/F, Gloucester Tower, The Landmark, 15 Queen’s Road Central, Central, Hong Kong.
- (i) As at the Latest Practicable Date, the sole director of Dongfang Investment was Luo Zhigang, and the board of directors of Dongfang Electric Corporation was composed of eight directors, who are Mr. Yu PeiGen, Mr. Song ZhiYuan, Mr. Huang YongDa, Mr. Su XinGang, Mr. Zhang Cheng, Mr. Zhang BaoLin, Mr. Gao MingXiang and Mr. Wang Xu.
- (j) The registered office of Chengtong is Suite 5506-07, 55/F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.
- (k) As at the Latest Practicable Date, the board of directors of Chengtong was composed of two directors, who are Mr. Gu Honglin and Mr. Xing Huayu.
- (l) The legal adviser to the Company as to Hong Kong laws in respect of the Dongfang Subscription, the Chengtong Subscription and the transactions thereunder is Slaughter and May, at 47/F, Jardine House, One Connaught Place, Central, Hong Kong.

- (m) In the event of any inconsistency, the English text of this Circular shall prevail over the Chinese text.

12. DOCUMENTS ON DISPLAY

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

- (a) the Articles of Association;
- (b) the annual reports of the Company for the financial years ended 31 December 2020 and 2021;
- (c) the interim report of the Company for the six months ended 30 June 2022;
- (d) the letter from the Board, the text of which is set out on pages 6 to 29 of this circular;
- (e) the letter from the Connected Transaction IBC, the text of which is set out on page 30 of this circular;
- (f) the letter from the Whitewash Waiver IBC, the text of which is set out on pages 31 to 32 of this circular;
- (g) the letter from Gram Capital Limited, the text of which is set out on pages 33 to 64 of this circular;
- (h) the written consents referred to in the paragraph headed “EXPERTS AND CONSENTS” in this appendix;
- (i) the profit forecast reports, the text of which is set out on pages 70 to 71 of this circular;
- (j) the articles of association of Dongfang Investment;
- (k) the executive director’s service contract of Mr. Wang Xu with the Company for a term of three years with effect from 25 November 2022;
- (l) a copy of each contract set out in the paragraph headed “Material Contracts” in this appendix; and
- (m) this circular.

NOTICE OF EXTRAORDINARY GENERAL MEETING



宏华集团
HONGHUA GROUP

Honghua Group Limited

宏華集團有限公司

(a company incorporated in the Cayman Islands with limited liability)

(Stock code: 196)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**Extraordinary General Meeting**”) of Honghua Group Limited (the “**Company**”) will be held at 10/F, United Centre, 95 Queensway, Admiralty, Hong Kong on Monday, 17 April 2023 at 10 a.m. for the following purposes and to consider and, if thought fit, pass with or without amendments, the following resolutions. Unless otherwise indicated, capitalised terms used in this notice shall have the same meanings as those defined in the circular of the Company dated 23 March 2023:

ORDINARY RESOLUTIONS

1. THE DONGFANG SUBSCRIPTION AND THE GRANT OF THE DONGFANG SPECIFIC MANDATE

“**THAT**

- (a) the Dongfang Subscription Agreement dated 18 January 2023 entered into between the Company as issuer and Dongfang Investment as subscriber, pursuant to which the Company has conditionally agreed to allot and issue, and Dongfang Investment has conditionally agreed to subscribe for, a total of 4,000,000,000 Dongfang Subscription Shares at the Dongfang Subscription Price of HK\$0.2418 per Dongfang Subscription Share for a total subscription price of HK\$967,200,000 and all the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) the Board be and is hereby granted with the Dongfang Specific Mandate to allot and issue the Dongfang Subscription Shares in accordance with the terms and conditions of the Dongfang Subscription Agreement; and

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (c) any Director be and is hereby authorised to do such acts and things, to sign and execute all such further documents (in case of execution of documents under seal, to do so by any two Directors or any Director together with the secretary of the Company) and to take such steps as he/she may consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Dongfang Subscription Agreement or any transactions contemplated thereunder and all other matters incidental thereto or in connection therewith, and to agree to and make such variations, amendments or waivers of any of the matters relating thereto or in connection therewith.”

2. THE GRANT OF THE CHENGTONG SPECIFIC MANDATE

“**THAT** the Board be and is hereby granted with the Chengtong Specific Mandate to allot and issue the Chengtong Subscription Shares in accordance with the terms and conditions of the Chengtong Subscription Agreement.”

3. SPECIAL DEAL

“**THAT** conditional upon the Executive granting consent, the Chengtong Subscription, which constitutes a special deal under Rule 25 of the Takeovers Code, be and is hereby approved, confirmed and ratified.”

4. RE-ELECTION OF A DIRECTOR

“**THAT** Mr. Wang Xu be and is hereby re-elected as executive Director, and the Board be and is hereby authorised to fix the remuneration of Mr. Wang Xu.”

SPECIAL RESOLUTION

5. THE WHITEWASH WAIVER

“**THAT**

- (a) subject to and conditional upon:
- (i) the passing of ordinary resolution numbered (1); and
 - (ii) the granting of the Whitewash Waiver by the Executive and fulfilment of any conditions that may be imposed thereon,

the waiver from the obligation on the part of Dongfang Investment to make a general offer for all the issued Shares and other securities of the Company which may otherwise arise as a result of the completion of the Dongfang Subscription pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code be and is hereby approved; and

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (b) any Director be and is hereby authorised to do such acts and things, to sign and execute all such further documents (in case of execution of documents under seal, to do so by any two Directors or any Director together with the secretary of the Company) and to take such steps as he/she may consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Whitewash Waiver or any transactions contemplated thereunder and all other matters incidental thereto or in connection therewith, and to agree to and make such variations, amendments or waivers of any of the matters relating thereto or in connection therewith.”

By order of the Board
Honghua Group Limited
Wang Xu
Chairman

PRC, 23 March 2023

Notes:

- (1) All resolutions at the meeting will be taken by poll (except where the chairman decides to allow a resolution relating to a procedural or administrative matter to be voted on by a show of hands) pursuant to the Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“**Listing Rules**”). The results of the poll will be published on the websites of The Stock Exchange of Hong Kong Limited and the Company in accordance with the Listing Rules.
- (2) Any shareholder of the Company entitled to attend and vote at the above meeting is entitled to appoint a proxy to attend and vote instead of him. A proxy need not be a shareholder of the Company. If more than one proxy is appointed, the number of shares in respect of which each such proxy so appointed must be specified in the relevant form of proxy.
- (3) In order to be valid, the form of proxy 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, must be deposited at the Company’s share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong not less than 48 hours before the time appointed for the holding of the meeting (i.e. before 10 a.m. on Saturday, 15 April 2023) or any adjournment thereof. Delivery of the form of proxy shall not preclude a shareholder 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.
- (4) For determining the entitlement to attend and vote at the above meeting, the register of members of the Company will be closed from Wednesday, 12 April 2023 to Monday, 17 April 2023, both dates inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the Extraordinary General Meeting, unregistered holders of shares of the Company shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company’s share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 11 April 2023.
- (5) References to times 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. Wang Xu (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.