THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about this circular or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, 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.

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) DISCLOSEABLE AND CONNECTED TRANSACTION DISPOSAL OF AN INDIRECT WHOLLY-OWNED SUBSIDIARY AND (2) NOTICE OF EXTRAORDINARY GENERAL MEETING

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

建泉融資有限公司
VBG Capital Limited

A letter from the Independent Board Committee to the Independent Shareholders is set out on page 14 of this circular. A letter from VBG Capital Limited, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders, is set out on pages 15 to 25 of this circular.

A notice convening the EGM of Honghua Group Limited to be held at Berlin Conference Room, 4th Floor, IntercityHotel Shenzhen Futian Huanggang, 28 Fumin Road, Futian District, Shenzhen, Guangdong, China on Tuesday, 30 January 2024 at 10 a.m. is set out on pages 41 to 42 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 Sunday, 28 January 2024 (Hong Kong time)) or any adjournment thereof. Please note that 27 January 2024 and 28 January 2024 are not working days in Hong Kong and Computershare Hong Kong Investor Services Limited's offices will not be open on these days for physical delivery of the proxy form. 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.

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

5 January 2024

CONTENTS

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

"associate(s)"	has the meaning ascribed to it under the Listing Rules;
"Board"	the Board of Directors of the Company;
"Company"	Honghua Group Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange;
"connected person(s)"	has the meaning ascribed to it under the Listing Rules;
"DEC Investment" or "Purchaser"	DEC Investment Management Company Limited, a company incorporated in the PRC with limited liability, and a wholly-owned subsidiary of Dongfang Electric;
"Director(s)"	directors of the Company;
"Disposal"	the sale of the Sale Shares by the Vendor to the Purchaser;
"Dongfang Electric"	Dongfang Electric Corporation, a large state-owned company incorporated in the PRC, is one of the largest energy equipment manufacturing enterprise groups in the world;
"EGM"	the extraordinary general meeting of the Company to be held on 30 January 2024 at 10 a.m. for the purpose of, considering and approving, among other things, the Disposal and the transaction contemplated thereunder;
"Equity Transfer Agreement"	the equity transfer agreement dated 12 December 2023 between the Vendor and the Purchaser in relation to the Disposal;
"Group"	the Company and its subsidiaries; and a "Member of the Group" means any one of the companies;
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC;

"Honghua Holdings" or "Vendor"	Honghua Holdings Limited, a company incorporated in Hong Kong with limited liability, and a wholly-owned subsidiary of the Company;
"Independent Board Committee"	the independent committee of the Board, comprising all the independent non-executive Directors, established to make recommendations to the Independent Shareholders in respect of the Disposal and the transaction contemplated thereunder;
"Independent Financial Adviser" or "VBG Capital"	VBG Capital Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Disposal and the transaction contemplated thereunder;
"Independent Shareholders"	shareholders other than Dongfang Electric and its associates;
"Latest Practicable Date"	3 January 2024, 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;
"Parties"	the Vendor and Purchaser of the Equity Transfer Agreement;
"PRC" or "China"	the People's Republic of China, for the purpose of this circular only, excluding Hong Kong, Macau and Taiwan;
"RMB"	Renminbi, the lawful currency of the PRC;
"Sale Shares"	entire registered capital of the Target Company;
"Share(s)"	shares of the Company;
"Shareholder(s)"	shareholders of the Company;

"Sichuan Honghua"	Sichuan Honghua Petroleum Equipment Co., Ltd., a company incorporated in the PRC with limited liability, and a wholly-owned subsidiary of the Company;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"Target Company"	Honghua Financial Leasing (Shanghai) Co., Ltd.;
"Valuation Reference Date"	31 May 2023;
"Valuer"	Beijing Zhongtianhua Asset Appraisal Co., Ltd.; and
"%"	per cent.

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 Director:
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

5 January 2024

To Shareholders

Dear Sir/Madam,

**(1) DISCLOSEABLE AND CONNECTED TRANSACTION
DISPOSAL OF AN INDIRECT WHOLLY-OWNED SUBSIDIARY
AND
(2) NOTICE OF EXTRAORDINARY GENERAL MEETING**

1. INTRODUCTION

Reference is made to the announcement of the Company dated 12 December 2023 in relation to, among other things, the Disposal.

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 resolution to be proposed at the EGM, including:

1. details of the Disposal;

2. the letter from the Independent Board Committee to the Independent Shareholders regarding the Disposal;

3. the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders regarding the Disposal; and

4. the notice of the EGM at which the relevant resolution will be proposed to consider and approve the Disposal.

2. DISPOSAL

Introduction

On 12 December 2023, the Vendor, a wholly-owned subsidiary of the Company, entered into the Equity Transfer Agreement with the Purchaser in relation to the Disposal, pursuant to which the Vendor agreed to transfer the Sale Shares, representing the entire registered capital of the Target Company, to the Purchaser.

The Equity Transfer Agreement

The principal terms of the Equity Transfer Agreement are summarised as follows:

Date:

12 December 2023

Parties:

(1) the Purchaser: DEC Investment

(2) the Vendor: Honghua Holdings

Subject of Contract:

100% equity interests in the Target Company

Consideration:

The total consideration of the equity transfer was determined to be RMB199,049,669.51 by the Parties after arm's length negotiation with reference to the appraised value of net assets (i.e. RMB199,049,669.51) of the Target Company as of the Valuation Reference Date arrived at by the Valuer using the asset-based approach.

Both the asset-based approach and the income approach have been adopted in the valuation report prepared by the Valuer and after analyzing and comparing the valuation results obtained by the two methods, one of the more appropriate valuation results is used as the valuation conclusion. The Valuer is of the view that the appraisal results of the asset-based approach can reflect the fair value of the Target Company. The Target Company is primarily engaged in financial leasing business which is a rather special business sector. Although income approach could, to a certain extent, reflect the Target Company's prospective value, it cannot factor in the uncertainties, financial policies, the impact of the industry-specific national policies on financial leasing business sector in which the Target Company operates. The result is, to a large extent, subject to the profitability, asset quality, operational performance and operational risks of the Target Company in the future while tax and other policy orientations have a significant impact on financial leasing enterprises. Based on the historical data, it is noted that the performance of the Target Company fluctuated significantly in the past five years, mainly because its financial leasing business was mainly concentrated in the oil and gas industry, and its operating results were greatly affected by the cyclicality of the oil and gas industry. The current turbulent international situation will continue to have an impact on the oil and gas industry domestically and abroad, which will further affect the development of the financial leasing business of the Target Company, resulting in greater uncertainty in its future revenue. Therefore, considering that the business and future revenue of the Target Company are affected by the above externalities, its operating results and the operational risks are subject to greater uncertainty, the income approach is unable to reasonably reflect the value of the Target Company.

The Target Company has kept well-documented financial records and asset management records. Data and source of information in connection with cost of re-acquisition of assets are extensive and the replacement cost and prevailing market value of assets are intrinsically linked to and supersede the present value of income. The asset-based approach is mainly based on the explicit assets and liabilities on the enterprise's financial statements. From the perspective of asset construction, it objectively reflects the market value of all the equity of the enterprise's shareholders. The Valuer is of the view that the valuation result under the asset-based approach can objectively reflect the value of the Target Company, therefore, the valuation result under the asset-based approach was selected by the Valuer as the final valuation conclusion. Information on the valuation report is set out in Appendix I to the Circular.

If, prior to the transfer of powers of administration, the Vendor declares undistributed profits accumulated before the Valuation Reference Date after obtaining consent from the Purchaser, the above consideration of the equity transfer shall be deducted by the same distribution amount.

Payment of Consideration:

The specific arrangements regarding the payment of consideration under the Equity Transfer Agreement are as follows:

(a) First installment: RMB100 million shall be paid by the Purchaser in a lump sum and deposited into a bank account designated by the Vendor or entities of the Vendor's choice within 5 business days of the time that Parties entered into the Equity Transfer Agreement after the Vendor having obtained the approval of the Board of the Company in connection with the Equity Transfer Agreement and the transaction contemplated thereunder.

After the payment of the first installment has been made by the Purchaser, the Vendor shall make reasonable best effort to obtain shareholders' approval as soon as practicable. The Parties agree to terminate the Equity Transfer Agreement and have the Vendor or other entities of the Vendor's choice refund the amount received with accrued interest calculated based on the base rate for one-year time deposit quoted by banks and the number of days for which the Vendor possess the fund within 5 business days after the termination, if, for whatever reasons other than objective ones agreed by the Parties, the transaction under the Equity Transfer Agreement cannot obtain the Vendor's internal and shareholders' approval or the Vendor cannot submit the transaction under the Equity Transfer Agreement to a general meeting for consideration within 3 months after the payment of the first installment has been made by the Purchaser;

(b) Second installment: RMB50 million shall be paid by the Purchaser in a lump sum and deposited into a bank account designated by the Vendor or entities of the Vendor's choice within 5 business days of the time that the Vendor has completed the transfer of powers of administration as agreed after obtaining all necessary internal and shareholder's approval on the Equity Transfer Agreement and the transaction contemplated thereunder.

After the payment of the second installment has been made by the Purchaser, the Vendor shall make reasonable best effort to obtain financial regulatory approval and apply for subsequent change of business registration as soon as practicable. The Parties agree to terminate the Equity Transfer Agreement and have the Vendor or other entities of the Vendor's choice refund the amount received with accrued interest calculated based on the base rate for one-year time deposit quoted by banks and the number of days for which the Vendor possess the fund within 5 business days after the termination, if, for whatever reasons other than objective ones agreed by the Parties, the Vendor cannot obtain approval from the supreme financial regulatory authority having jurisdiction over the transaction under the Equity Transfer Agreement or file for change of business registration or the Vendor cannot submit the transaction under the Equity Transfer Agreement to the supreme financial regulatory authority for approval within 3 months of the time that the payment of the second installment has been made by the Purchaser.

The Parties agree that the payment terms of the above first two installments are subject to a letter of undertaking from the Vendor to the Purchaser stating that if circumstances arise where the Vendor is required to return the amount received to the Purchaser, the Vendor shall return the amount not to exceed RMB199,049,669.51 within the timeframe appointed by the Purchaser. The specific amount to be returned by the Vendor shall be equivalent to the amount to be paid by the Purchaser as part of the consideration under the Equity Transfer Agreement; and

(c) Third installment: the remaining amount of the consideration, after deduction of amount owning to taxes pursuant to relevant tax laws, shall be paid by the Purchaser in a lump sum and deposited into a bank account designated by the Vendor or entities of the Vendor's choice within 7 business days after the completion of changes in business registration in connection with the Disposal.

Conditions Precedent:

The Disposal is subject to the following conditions precedent:

(a) The Target Company has obtained the necessary approval(s) relating to the Disposal from the relevant PRC regulatory authorities;

(b) Representations and warranties made by the Vendor shall be true and accurate in all material respects as at the date of signing of the Equity Transfer Agreement, the date transferring the powers of administration and immediately prior to the closing, and the Vendor shall have, in all material respects, fulfilled all its obligations that shall be performed prior to closing under the Equity Transfer Agreement; and

(c) The Equity Transfer Agreement and the Disposal contemplated thereunder have been approved by the Independent Shareholders of the Company at a general meeting.

As at the Latest Practicable Date, none of the above conditions precedent has been fulfilled or waived.

Closing of the Equity Transfer:

The Parties agreed to complete the closing of the equity transfer of the Target Company within six months after the Equity Transfer Agreement has come into force, that is, to complete the approvals required for the Disposal and the industrial and commercial registration of changes to transfer equity interests in the Target Company to the Purchaser. In case of insurmountable difficulties or force majeure, the Parties may agree on another time to handle the above-said matters, and in this case, the closing date under the Equity Transfer Agreement shall be separately negotiated and determined by the Parties.

Information about the Target Company

The Target Company was incorporated in the PRC in November 2013. Its principal business includes financial leasing (direct lease, sale and leaseback), operating lease, factoring, consulting services, etc. According to the unaudited financial statement of the Target Company, as of 30 June 2023, the total assets and net assets of the Target Company were RMB225.9904 million and RMB194.3034 million, respectively.

The following table sets forth the audited financial information for the two financial years ended 31 December 2021 and 2022 and the unaudited financial information for the six months ended 30 June 2023 of the Target Company:

	For the year ended 31 December		**For the six months ended**
	2021	**2022**	**30 June 2023**
	(Audited)	*(Audited)*	*(Unaudited)*
	RMB'000	*RMB'000*	*RMB'000*
Results			
Turnover	16,557.13	12,023.42	4,080.45
Net profit/(loss) before tax	7,311.66	7,075.51	5,099.65
Net profit/(loss) after tax	4,852.34	6,458.58	4,473.29

Use of Proceeds

Subject to the final audit, the Vendor is expected to recognize a gain of approximately RMB14.20 million from the Disposal, which was calculated as follows:

Total consideration of the Disposal (approximately RMB199.05 million) – unaudited net book value of the Target Company as at 30 June 2023 (approximately RMB194.30 million) + recognition of unrealized gain related to the transactions between the Group and the Target Company at the consolidation level as realized gain due to the subsequent deconsolidation of the Target Company (approximately RMB12.84 million) – estimated expenses and tax to be incurred in connected with the Disposal (approximately RMB3.39 million).

The actual gain or loss on the Disposal to be recorded by the Group is subject to the net assets of the Target Company and incidental transaction costs to be determined upon completion of the Disposal.

The proceeds from the Disposal (i.e. RMB199,049,669.51) will be used by the Group to supplement its general working capital and repay financial institution loans.

The allocation of the proceeds will be based on the Group's production and operational funding needs, as well as the monthly capital income and expenditure plan, and it is expected that the total proceeds will be utilised by 31 December 2024.

Upon completion of the Disposal, the Group will cease to have any interest in the Target Company and the Target Company will cease to be accounted for as a subsidiary of the Group.

Reasons for and Benefits of the Disposal

The Group can liquidate the assets of the Target Company through the Disposal and increase its cash flow by approximately RMB200 million, which will accelerate its capital turnover and better support its transformation, upgrading and development. At the same time, the equity transfer can also inject liquidity for the Group as soon as possible, improve the asset structure, reduce financial expenses and improve the quality of financial statements.

The Disposal will help the Group to focus on its principal business and closely follow its future needs for sustainable operation and development and the direction of its key industries.

In addition, the development of the financial leasing industry in which the Target Company is involved is driven by a capitalization-based operation with a high leverage ratio. However, as the current investment capacity of the Vendor is limited, it is difficult for the Target Company to further expand its business scale.

Having considered the above factors, the Board is of the view that the Equity Transfer Agreement was entered into on normal commercial terms, which are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

The Board has resolved to approve the resolution on the Equity Transfer Agreement and the transaction contemplated thereunder. Except for Mr. Wang Xu, Mr. Zhu Hua and Mr. Yang Yong, who were nominated by Dongfang Electric and therefore deemed to be interested in the Disposal, no other Directors have abstained from voting on the relevant resolution approving the transaction contemplated under the Equity Transfer Agreement.

Implication under the Listing Rules

As the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Disposal are more than 5% but less than 25%, the Disposal constitutes a discloseable transaction of the Company and is therefore subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, Dongfang Electric indirectly holds approximately 58.52% of the total issued share capital of the Company through its wholly-owned subsidiaries, and is therefore a controlling Shareholder and a connected person of the Company. Dongfang Electric holds 100% interests in DEC Investment, thus DEC Investment is an associate of Dongfang Electric and in turn a connected person of the Company under Chapter 14A of the Listing Rules. Therefore, the Disposal 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.

General Information about the Parties Involved in the Disposal

The Group

The Group principally engages in research, design, manufacture, setting and sale of land rigs and related parts and components, design and manufacture of the offshore drilling module. Meanwhile it also provides clients with technical support services and drilling engineering services.

Dongfang Electric

Dongfang Electric is a company incorporated in the PRC with limited liability. It is one of the largest enterprises engaging in power generation equipment manufacturing in the world. Its main products include wind turbines, solar power generation equipment, hydropower units, nuclear power units, thermal power units (gas turbine power generation, high-efficient clean coal power), control systems, environmental protection equipment, industrialized chemical equipment, hydrogen energy and fuel cells, energy storage equipment, new materials, etc.

DEC Investment

DEC Investment is a wholly-owned subsidiary of Dongfang Electric which was incorporated in the PRC. DEC Investment is a specialized platform for Dongfang Electric's investment and capital operation.

Honghua Holdings

Honghua Holdings, a wholly-owned subsidiary of the Company and incorporated in Hong Kong, is an investment holding company.

3. INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

Pursuant to the Listing Rules, the Independent Board Committee (comprising all the independent non-executive Directors who do not have a material interest in the Disposal, namely Mr. Chen Guoming, Ms. Su Mei, Mr. Chang Qing, Mr. Wei Bin and Mr. Zhang Shiju) has been formed to advise the Independent Shareholders on the Disposal. The letter of advice from the Independent Board Committee is set out on page 14 of this circular.

VBG Capital has been appointed by the Company as the Independent Financial Adviser with the approval of the Board to advise the Independent Board Committee and the Independent Shareholders in relation to the Disposal and to make recommendations as to voting. The letter of advice from VBG Capital to the Independent Board Committee and the Independent Shareholders is set out on pages 15 to 25 of this circular.

4. EGM

The EGM of the Company will be held at Berlin Conference Room, 4th Floor, IntercityHotel Shenzhen Futian Huanggang, 28 Fumin Road, Futian District, Shenzhen, Guangdong, China on Tuesday, 30 January 2024 at 10 a.m. to consider, and if thought fit, approve the Disposal. The voting in relation to the resolution on the Disposal will be conducted by way of poll. The notice of the EGM is set out on pages 41 to 42 of this circular.

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 branch 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 Sunday, 28 January 2024) or any adjournment thereof. Please note that 27 January 2024 and 28 January 2024 are not working days in Hong Kong and Computershare Hong Kong Investor Services Limited's offices will not be open on these days for physical delivery of the proxy form. 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 Thursday, 25 January 2024 to Tuesday, 30 January 2024, 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, Wan Chai, Hong Kong not later than 4:30 p.m. on Wednesday, 24 January 2024.

Under Rule 14A.36 of the Listing Rules, any shareholder who has a material interest in the Disposal must abstain from voting at the relevant general meeting on the relevant resolution. Dongfang Electric and its associates, who hold 5,290,494,251 issued Shares or approximately 58.52% of the total issued share capital of the Company as at the Latest Practicable Date, are involved in or interested in the Disposal and will abstain from voting in respect of the relevant resolution at the EGM.

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

5. RECOMMENDATION

The views of the members of the Independent Board Committee are set out in the letter from the Independent Board Committee on page 14 of this circular. The remaining Directors, namely Mr. Wang Xu, Mr. Zhu Hua and Mr. Yang Yong, have abstained from voting on the Board resolution approving the Equity Transfer Agreement and the Disposal contemplated thereunder.

The Board (including the Independent Board Committee after taking into account the advice of VBG Capital) is of the view that although the Equity Transfer Agreement and the Disposal contemplated thereunder are not conducted in the ordinary and usual course of business of the Group, the terms and conditions of the Disposal are on normal commercial terms and the terms of the Equity Transfer Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Board (including the Independent Board Committee after taking into account the advice of VBG Capital) recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Equity Transfer Agreement and the Disposal contemplated thereunder.

6. ADDITIONAL INFORMATION

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

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)

5 January 2024

To the Independent Shareholders

Dear Sir/Madam,

DISPOSAL

We refer to this circular of the Company dated 5 January 2024 (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 to form the Independent Board Committee to consider and advise the Independent Shareholders as to whether, in our opinion, the Disposal is fair and reasonable and in the interests of the Company and the Shareholders as a whole. VBG Capital has been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

We wish to draw your attention to the letter from the Board as set out on pages 4 to 13 of the Circular and the letter from VBG Capital as set out on pages 15 to 25 of the Circular.

Having considered the information set out in the letter from the Board, the terms of the Equity Transfer Agreement and the transaction contemplated thereunder, and the advice of VBG Capital in relation thereto as set out in their letter, we concur with VBG Capital's views and consider that the Disposal is 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 Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Disposal.

Yours faithfully
Independent Board Committee
Mr. Chen Guoming Ms. Su Mei Mr. Chang Qing Mr. Wei Bin Mr. Zhang Shiju
Independent non-executive Directors

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

建泉融資有限公司
VBG Capital Limited

21/F., Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

5 January 2024

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

Dear Sirs,

DISCLOSEABLE AND CONNECTED TRANSACTION
DISPOSAL OF AN INDIRECT WHOLLY-OWNED SUBSIDIARY

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to make recommendation to the Independent Board Committee and the Independent Shareholders in respect of the Equity Transfer Agreement, details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular dated 5 January 2024 issued by the Company to the Shareholders (the "**Circular**"), of which this letter of advice forms part. Capitalized terms used in this letter of advice shall have the same meanings as ascribed to them under the section headed "Definitions" in the Circular unless the context requires otherwise.

On 12 December 2023, the Vendor, a wholly-owned subsidiary of the Company, and the Purchaser entered into the Equity Transfer Agreement, pursuant to which the Vendor agreed to sell, and the Purchaser agreed to purchase the Sale Shares, representing the entire registered capital of the Target Company, at the cash consideration of RMB199,049,669.51 (the "**Consideration**"). Upon completion of the Disposal, the Group will cease to have any interest in the Target Company.

According to the Letter from the Board, the Disposal constitutes a discloseable and connected transaction for the Company under Chapters 14 and 14A of the Listing Rules, and is subject to the reporting, announcement and Independent Shareholders' approval requirements.

The Independent Board Committee comprising Mr. Chen Guoming, Ms. Su Mei, Mr. Chang Qing, Mr. Wei Bin and Mr. Zhang Shiju (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Equity Transfer Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Disposal is in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the resolution to approve the Equity Transfer Agreement and the Disposal at the EGM. We, VBG Capital Limited, have been appointed as the Independent Financial Adviser to make recommendation to the Independent Board Committee and the Independent Shareholders in this regard.

BASIS OF OUR OPINION

In formulating our opinion with regard to the Equity Transfer Agreement, we have relied on the information and facts supplied, opinions expressed and representations made to us by the management of the Group (including but not limited to those contained or referred to in the Circular). We have assumed that the information and facts supplied, opinions expressed and representations made to us by the management of the Group were true, accurate and complete at the time they were made and continue to be true, accurate and complete in all material aspects until the date of the EGM. We have also assumed that all statements of belief, opinions, expectation and intention made by the management of the Group 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 Group, its management and/or advisers, which have been provided to us.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, that the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in the Circular or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent investigation into the business and affairs or future prospects of the Group, Dongfang Electric, the Purchaser, the Target Company or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Disposal. Our opinion is necessarily based on the market, financial, economic and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update, revise or reaffirm this opinion to take into account events occurring after the Latest Practicable Date. Nothing contained in this letter of advice should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

We have not conducted any independent evaluation or appraisal of the Target Company, and we have not been furnished with any such evaluation or appraisal save for the valuation report of the net assets of the Target Company (the "**Valuation Report**") prepared by an independent Valuer. Since we are not experts in the valuation of assets, land and properties, we have relied solely upon the Valuation Report for the appraised value of the net assets of the Target Company as at the Valuation Reference Date (the "**Valuation**").

Where information in this letter of advice has been extracted from published or otherwise publicly available sources, we have ensured that such information has been correctly and fairly extracted, reproduced or presented from the relevant sources while we did not conduct any independent investigation into the accuracy and completeness of such information.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any business relationship with the Company within the past two years. Save for the normal fees payable to us in connection with this appointment, no arrangement exists whereby we shall receive any fees or benefits from the Company and its subsidiaries or the Directors, chief executive or substantial shareholders (as defined in the Listing Rules) of the Company or any of their associates. We consider ourselves independent to form our opinion in respect of the Equity Transfer Agreement.

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

1. Background of and reasons for the Disposal

Business overview of the Group

The Group principally engages in research, design, manufacture, setting and sale of land rigs and related parts and components, design and manufacture of offshore drilling module. Meanwhile it also provides clients with technical support services and drilling engineering services.

As advised by the management of the Company, 2022 was a year of significance to the Group. In June 2022, Dongfang Electric became the Company's largest shareholder after completion of a gratuitous transfer of Shares by the then largest Shareholder. In the face of the uncertainties such as the domestic epidemic and power restrictions, the Company quickly adjusted its business strategy after such change of ownership by strengthening its marketing development, steadily promoting its internal reform, and actively pursuing all-round cooperation with Dongfang Electric. Leveraging on the industrial advantages of Dongfang Electric, the Group has further defined its future development strategy to develop a layout of "equipment + services + related diversified businesses". With regard to its principal activity of oil and gas equipment, the Group focuses on promoting electrification, automation, information and digitization of equipment to expand the market share of its core component products, and promote carbon mitigation and emission reduction in the oil and gas equipment. The Group has also continued to improve its service segment, such as drilling services, fracturing and pumping services and further enlarge the size of after-sales components and services by capitalizing on the benefits of integrated equipment and services. According to the management of the Company, as a result of the successful adjustment of business strategy after the change of ownership just mentioned, the Group's operating results improved significantly during the second half of 2022 with new orders of approximately RMB3,500 million and revenue of approximately RMB3,000 million, jumping by approximately 1.75 times and 2 times, respectively, as compared to those of the first half of 2022.

In the first half of 2023, with the recovery of the international market, the Group received steadily increasing new orders for drilling rigs. The drilling rigs of the domestic and overseas drilling engineering service business of the Group all operated normally, and the wind power business continued to win the bids. As extracted from the interim report of the Company for the six months ended 30 June 2023, the Group achieved a substantial increase in the number of orders in the first half of 2023, leading to a significant jump in the Group's turnover by approximately 65.3% to approximately RMB2,494 million in the first half of 2023, as compared to approximately RMB1,509 million in the corresponding period of 2022.

Going forward, the Group will actively research the exploitation and application of wind, solar, hydrogen and heat storage in oil and gas fields, and integrated solutions of generation, grid, load and storage to promote green and low-carbon oil and gas exploitation. Moreover, the Group will enhance its turnkey engineering business capability to seize new development opportunities in offshore wind power, and further increase the market size of its offshore wind power pile foundations business.

Information on the Target Company

As extracted from the Letter from the Board, the Target Company was incorporated in the PRC in November 2013. Its principal business includes finance lease (direct lease, sale and leaseback), operating lease, factoring, consulting services, etc.

Set out below is the key audited financial information of the Target Company for the two years ended 31 December 2022:

	For the year ended 31 December 2022	**For the year ended 31 December 2021**
	RMB'000	*RMB'000*
Revenue	12,023.42	16,557.13
Net profit after tax	6,458.58	4,852.34

As at 30 June 2023, the unaudited net asset value of the Target Company was approximately RMB194,303,400.

Reasons for the Disposal

As advised by the management of the Company, the Group can liquidate the assets of the Target Company through the Disposal and increase its cash flow by approximately RMB200 million, which will accelerate its capital turnover and better support its transformation, upgrading and development. At the same time, the Disposal can inject liquidity to the Group, improve its asset structure, reduce its finance expenses and improve the quality of its financial statements.

The Disposal will help the Group to focus on its principal business and closely follow its future needs for sustainable operation and development and the direction of its key industries.

As further represented by the management of the Company, the development of the financial leasing industry in which the Target Company is involved is driven by a capitalization-based operation with a high leverage ratio. However, as the current investment capacity of the Group is limited, it is difficult for the Target Company to further expand its business scale.

In addition, we understand that the financial leasing business of the Target Company involves the provision of financial leasing services to members of the Group from time to time. As confirmed by the management of the Company, the Target Company will continue to provide such financial leasing services to the Group upon completion of the Disposal in order to meet the financing needs of the Group and allow the Group to utilize the leased equipment during the lease period.

In view of that (i) the Disposal can inject liquidity to the Group, improve its asset structure, reduce its finance expenses and improve the quality of its financial statements; and (ii) the Disposal can create a win-win situation to both the Group and the Target Company given their respective future development need and enable the Group to focus its resources on its principal business, we concur with the Directors that the Disposal is in the interests of the Company and the Shareholders as a whole.

2. Principal terms of the Equity Transfer Agreement

On 12 December 2023, the Vendor, a wholly-owned subsidiary of the Company, and the Purchaser entered into the Equity Transfer Agreement, pursuant to which the Vendor agreed to sell, and the Purchaser agreed to purchase the Sale Shares, representing the entire registered capital of the Target Company, at the cash Consideration of RMB199,049,669.51.

The Consideration

As extracted from the Letter from the Board, the Consideration was determined after arm's length negotiation with reference to the Valuation as at the Valuation Reference Date as set forth in the Valuation Report.

In relation to the above, we noted from the Valuation Report that the Valuation was approximately RMB199,049,700 as at the Valuation Reference Date. As such, the Consideration is approximately the same as the Valuation.

The Valuation

We have reviewed the Valuation, sent out an information request list and held a telephone interview to discuss with the Valuer regarding the methodology adopted for and the basis and assumptions used in arriving at the Valuation. In the course of our discussion with the Valuer, we understand that there are three commonly adopted valuation methods for asset valuation, namely market approach, income approach and asset-based approach. Market approach is a valuation method which determines the prices of assets by comparing such assets with comparable assets transacted in the market, whereby the value of those comparable assets transactions may be adjusted individually based on specific factors. According to the Valuer, there is limited availability of comparable transactions for non-listed companies. Among listed companies, there are few transactions that match the Valuation in terms of business direction, asset size, and scale of operations. As such, they consider the market approach to be inappropriate in the case of the Valuation.

Income approach is a valuation method which discounts the expected future revenue of the net assets into present value with specific discount rates for the purpose of determining their value. As the Valuer are of the view that the Target Company has a predictable ability to continue operations and profitability in the future period, the income approach is considered applicable.

Lastly, asset-based approach is a valuation method which reasonably determines the value of assets and liabilities based on their respective value on the financial statements as at the valuation reference date. Both the asset-based approach and the income approach have been adopted in the Valuation Report. After analyzing and comparing the valuation results obtained by the two methods, one of the more appropriate valuation results is used as the valuation conclusion. The Valuer consider that the appraisal results of the asset-based approach can reflect the fair value of the Target Company. The Target Company is primarily engaged in the financial leasing business which is a rather special business sector. Although the income approach could, to a certain extent, reflect the Target Company's prospective value, it cannot factor in the uncertainties, financial policies, the impact of the industry-specific national policies on financial leasing industry in which the Target Company operates. The result is, to a large extent, subject to the profitability, asset quality, operational performance and operational risks of the Target Company in the future while tax and other policy orientations have a significant impact on the financial leasing enterprises. Based on the historical data, it is noted that the performance of the Target Company fluctuated significantly in the past five years, mainly because its financial leasing business was concentrated on the oil and gas industry, and its operating results were greatly affected by the cyclicality of the oil and gas industry. It is expected that the current turbulent international situation will continue to have an impact on the oil and gas industry domestically and abroad, which will further affect the development of the financial leasing business of the Target Company, resulting in greater uncertainty in its future revenue. Therefore, considering that the business and future revenue of the Target Company are affected by the above externalities, its operating results and the operational risks are subject to greater uncertainty, the income approach is unable to reasonably reflect the value of the Target Company.

On the other hand, the Target Company has kept well-documented financial records and asset management records. Data and source of information in connection with cost of re-acquisition of assets are extensive and the replacement cost and prevailing market value of assets are intrinsically linked to and supersede the present value of income. The asset-based approach is mainly based on the explicit assets and liabilities on the enterprise's financial statements. From the perspective of asset construction, it objectively reflects the market value of all the equity of the enterprise's shareholders. The Valuer are of the opinion that the valuation result under the asset-based approach can objectively reflect the value of the Target Company. Hence, the valuation result under the asset-based approach was selected by the Valuer as the valuation conclusion.

In view of the shortcomings of the market approach as explained by the Valuer and the higher uncertainties of the income approach versus under the asset-based approach, well-documented financial records and asset management records regarding the Target Company are available, we concur with the Valuer that the adoption of the asset-based approach for the Valuation is suitable.

Furthermore, based on our review of the Valuation and our enquiry with the Valuer, to prepare the Valuation under the asset-based approach, the Valuer, after assessing the nature of the key assets of the Target Company, have carried out a series of valuation measures, including but not limited to: verifying the actual existence of bank deposits by sending enquiry letters to the bank, performing trial balancing with bank statements and bank balance reconciliations, validating the general ledger, the subsidiary ledger and financial statements, checking the contracts, agreements and other important information of large-amount bills receivable, obtaining the appraisal declaration form, reviewing original certificates, such as sales invoices and contracts, and the investment agreements, resolutions from shareholders' meetings, articles of association and relevant accounting records in relation to long-term investment equity.

As regards the assumptions adopted for the Valuation, we have studied the valuation reports using asset-based approach published by other listed issuers on the Stock Exchange web-site (www.hkex.com.hk) and noted that the assumptions adopted for the Valuation are largely common in the market.

For our due diligence purpose, we have also reviewed and enquired into (i) the terms of engagement of the Valuer with the Company; (ii) the Valuer's qualification and experience in relation to the preparation of the Valuation Report; and (iii) the steps and due diligence measures taken by the Valuer for conducting the Valuation. From the engagement letter and other relevant information (such as company brochure) provided by the Valuer and based on our interview with them, we are satisfied with the terms of engagement of the Valuer as well as their qualification and experience for preparation of the Valuation Report. The Valuer have further confirmed that they are independent to the Group, Dongfang Electric and their respective associates.

After our review of the Valuation, enquiry and discussion with the Valuer regarding the basis and assumptions of the Valuation, we have not found any material facts which may lead us to doubt the fairness and reasonableness of the principal basis and assumptions adopted for or the information used in the Valuation. Nevertheless, Shareholders should note that valuation of assets usually involves assumptions and thus the Valuation may or may not reflect the value of the net assets of the Target Company accurately.

Trading multiples analysis

We have further endeavoured to apply the trading multiples analysis to assess the fairness and reasonableness of the Consideration:

The trading multiples analysis, comprising the price to earnings ratio ("**PER**") and the price to book ratio ("**PBR**"), is a commonly used analysis for pricing. To perform such analysis, we have searched for companies listed on the Stock Exchange which are engaged in similar line of business as the Target Company, i.e. the finance lease and factoring business, and derive a majority (i.e. over 80%) of their revenue from such principal business (the "**Criteria**").

To the best of our knowledge and endeavour, we found six companies which meet the Criteria (the "**Comparable Companies**") and we consider the list to be fair and representative and exhaustive. It should be noted that the business operations and prospects of the Target Company are not exactly the same as the Comparable Companies and we have not conducted any in-depth investigation into the business operations and prospects of the Comparable Companies. Set out below are our relevant findings:

Company name (Stock code)	**Principal business**	**PER** *(times)* *(Note 1)*	**PBR** *(times)* *(Note 2)*
GOME Finance Technology Co., Ltd. (628)	Provision of financing services, including pawn loans services, finance leasing services, commercial factoring services and financial consultancy services in the PRC.	N/A *(Note3)*	0.42
Yue Da International Holdings Ltd. (629)	Principally engaged in factoring related business.	4.96	0.34

Company name (Stock code)	**Principal business**	**PER** *(times)* *(Note 1)*	**PBR** *(times)* *(Note 2)*
Zhongguancun Science-Tech Leasing Co., Ltd. (1601)	Provision of efficient financing leasing solutions and diversified consulting services for technology and new economy companies.	1.19	0.12
Haitong Unitrust International Financial Leasing Co., Ltd. (1905)	Mainly engaged in financial leasing business.	2.77	0.22
Far East Horizon Limited (3360)	Provision of financial services, including direct finance leasing, sale-leaseback, factoring, entrusted loans.	3.66	0.43
Metropolis Capital Holdings Limited (8621)	Provision of automotive finance leasing services.	N/A *(Note 3)*	0.17
	Maximum	4.96	0.43
	Minimum	1.19	0.12
	Average	3.15	0.28
The Target Company	**Finance lease (direct lease, sale and leaseback), operating lease, factoring, consulting services, etc.**	30.82 *(Note 4)*	1.02 *(Note 5)*

Source: the web-site of the Stock Exchange (www.hkex.com.hk)

Notes:

(1) The PER is calculated based on the respective closing price of the shares of the Comparable Companies on the Stock Exchange as at 12 December 2023 (being the date of the Equity Transfer Agreement) and their respective net profit for the latest financial year as extracted from their published financial information.

(2) The PBR is calculated based on the respective closing price of the shares of the Comparable Companies on the Stock Exchange as at 12 December 2023 (being the date of the Equity Transfer Agreement) and their respective net asset value as extracted from their latest published financial information.

(3) These Comparable Companies were loss making during their latest financial year.

(4) The implied PER for the Disposal is calculated based on the Consideration and the net profit of the Target Company for the year ended 31 December 2022.

(5) The implied PBR for the Disposal is calculated based on the Consideration and the net asset value of the Target Company as at 30 June 2023.

As depicted in the above table, out of the six Comparable Companies, two of them were loss making during their latest full financial year. The implied PER for the Disposal of approximately 30.82 times is higher than the PERs of the remaining four Comparable Companies. As for PBR, given that the PBR range of the Comparable Companies is between approximately 0.12 times and 0.43 times, the implied PBR for the Disposal of approximately 1.02 times is also higher than the market PBR range.

Taking into account that (i) the Consideration is approximately the same as the Valuation which was fairly and reasonably estimated; (ii) both the implied PER and implied PBR for the Disposal are higher their respective market ranges; and (iii) as concluded in the section headed "Reasons for the Disposal" of this letter of advice, the Disposal is the interests of the Company and the Shareholders as a whole, we are of the opinion that the Consideration is on normal commercial terms and is fair and reasonable so far as the Independent Shareholders are concerned.

The possible Consideration adjustment

Pursuant to the Equity Transfer Agreement, the Consideration shall be subject to adjustment if, prior to the transfer of power of administration, the Vendor distributes profits accumulated before the Valuation Reference Date after obtaining consent from the Purchaser, the Consideration shall be deducted by the same distribution amount.

Upon our enquiry with the management of the Company, we understand that as at the date of the Equity Transfer Agreement, the net asset value of the Target Company had been substantially determined. Due to this reason, the inclusion of the aforesaid adjustment clause is just a form of good gesture of the Vendor. In addition, judging from that (i) the said profit distribution, if really carries out, requires prior consent from the Purchaser; and (ii) the Consideration shall be deducted by the same distribution amount, we consider that such possible Consideration adjustment is on normal commercial terms and is fair and reasonable so far as the Independent Shareholders are concerned.

3. Possible financial effects of the Disposal

As confirmed by the management of the Company, upon completion of the Disposal, the Group will cease to have any interest in the Target Company. In other words, the Target Company will cease to be an indirect wholly-owned subsidiary of the Company, and the financial results of the Target Company will no longer be consolidated into the consolidated financial statements of the Company.

As stated in the section headed "Use of proceeds" in the Letter from the Board, subject to final audit, the Group is expected to realize a gain of approximately RMB14.2 million from the Disposal, calculated by: (i) the Consideration of approximately RMB199.05 million minus (ii) the unaudited net book value of the Target Company as at 30 June 2023 of approximately RMB194.30 million plus (iii) recognition of unrealized gain related to the transactions between the Group and the Target Company at the consolidation level as realized gain due to the subsequent deconsolidation of the Target Company of approximately RMB12.84 million minus (iv) the estimated expenses and tax to be incurred in connection with the Disposal of approximately RMB3.39 million.

As further confirmed by the management of the Company, it is expected that the Disposal would improve the asset structure of the Group.

Moreover, the Disposal would increase the Group's cash flow, and the Group intends to use the net proceeds from the Disposal as the Group's general working capital and repayment of loans from financial institution(s). The allocation of the net proceeds will be based on the Group's production and operational funding needs, as well as the monthly capital income and expenditure plan, and it is expected that the total net proceeds will be utilized by 31 December 2024.

It should be noted that the aforementioned analyses are for illustrative purpose only and do not purport to represent how the financial position of the Group will be upon completion of the Disposal.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Equity Transfer Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Disposal is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Equity Transfer Agreement and the Disposal, and we recommend the Independent Shareholders to vote in favour of the resolution in this regard.

Yours faithfully,
For and on behalf of
VBG Capital Limited
Doris Sing
Managing Director

Ms. Doris Sing is a licensed person and responsible officer of VBG Capital Limited registered with the Securities and Futures Commission to carry on Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance and has over 18 years of experience in corporate finance industry.

Note:

1. *The information contained herein is extracted from the valuation report known as Zhong Tian Hua Zi Ping Bao Zi [2023] No. 10754 prepared by Beijing Zhongtianhua Asset Appraisal Co., Ltd. This extract does not contain all information and content as contained in the said valuation report.*

2. *The opinion and analysis as contained below are directly extracted from the opinion and analysis as expressed by the valuer in the valuation report.*

1. Valuer: Beijing Zhongtianhua Asset Appraisal Co., Ltd. (the "**Valuer**")

2. Number of Valuation Report: Zhong Tian Hua Zi Ping Bao Zi [2023] No. 10754

3. Date of Valuation Report: 22 November 2023

4. Valuation Reference Date: 31 May 2023

5. Value Type:

   5.1 According to the valuation purpose and specific valuation target, the market value type is adopted in this valuation.

   5.2 The market value is the estimated value of the valuation target on the Valuation Reference Date on which the transactions are conducted on arm's length by the voluntary purchaser and the voluntary vendor who act sensibly without being subject to any undue influence.

   5.3 The type of market value is selected because the valuation purpose, valuation target, and other basic elements of asset valuation meet the requirements of market value definition.

6. Appraisal Target and Scope of Valuation:

   6.1 According to the valuation purpose, the appraisal target is the entire equity value in Honghua Financial Leasing (Shanghai) Co., Ltd.

   6.2 According to the valuation purpose and the above appraisal target, the scope of this valuation is the entire assets and liabilities of Honghua Financial Leasing (Shanghai) Co., Ltd. as at the Valuation Reference Date.

   6.3 The audited carrying amount of the total assets, total liabilities, and net assets as at the Valuation Reference Date were RMB204.1157 million, RMB11.2527 million, and RMB192.8630 million, respectively.

6.4 The type and composition of the carrying amount of the assets of Honghua Financial Leasing (Shanghai) Co., Ltd. included in the scope of valuation are as follows:

Unit: RMB0'000

Item	Carrying amount
Current assets	**19,463.25**
Monetary funds	13,560.17
Bills receivables	65.84
Trade receivables	2,184.09
Other receivables	834.41
Other current assets	2,818.74
Non-current assets	**948.32**
Long-term equity investments	10.00
Other equity instrument investments	935.00
Fixed assets	0.49
Intangible assets	2.67
Deferred income tax assets	0.16
Total assets	**20,411.57**
Current liabilities	796.30
Non-current liabilities	328.97
Total liabilities	**1,125.27**
Net assets (Owners' equity)	**19,286.30**

6.5 The carrying amount of assets and liabilities as at the Valuation Reference Date in this asset valuation report have been audited by Baker Tilly International Certified Public Accountants (Special General Partnership), which has issued the standard unqualified audit report (Tian Zhi Ye Zi [2023] No. 41303). The assessment is performed on an audited basis.

6.6 The major assets or asset portfolios of Honghua Financial Leasing (Shanghai) Co., Ltd. are as follows:

(1) Monetary funds

Monetary funds are mainly bank deposits of the enterprise, with a carrying amount of RMB135.6017 million as of the Valuation Reference Date.

(2) Trade receivables

Trade receivables are mainly finance lease receivables of Sichuan Honghua Petroleum Equipment Co., Ltd. in 2022. As of the Valuation Reference Date, the carrying amount of trade receivables was RMB21.8472 million, the provision for bad debts was RMB6,300, and the net carrying amount was RMB21.8409 million.

(3) Other current assets

Other current assets are mainly shares of Jianyang Sichuan Rural Commercial Bank Co., Ltd. held by Honghua Financial Leasing (Shanghai) Co., Ltd. The cost of shares of Jianyang Sichuan Rural Commercial Bank Co., Ltd. was RMB14.2412 million and the carrying amount was RMB27.3999 million.

(4) Other equity instrument investments

Other equity instrument investment is the 8.33% equity interest in Honghua Financial Leasing (Shenzhen) Co., Ltd. held by Honghua Financial Leasing (Shanghai) Co., Ltd. As at the Valuation Reference Date, the carrying amount of other equity instrument investments was RMB9.3500 million.

(5) Physical assets

The carrying amount of physical assets is RMB4,900, which is mainly office equipment assets, mainly including computers and printers located in the offices.

(6) Trade payables

The carrying amount of trade payable was RMB630,000, which is mainly payables for purchase of equipment under the finance lease.

7. Valuation Result:

Considering the applicable premise of the valuation method and satisfying the valuation purpose, the valuation result under the asset-based approach was selected as the final valuation conclusion, i.e. the shareholders' entire equity value in Honghua Financial Leasing (Shanghai) Co., Ltd. was RMB199.0497 million.

8. Selection of Valuation Methodology:

8.1 The appraisal of an enterprise's value shall analyse the applicability of the basic asset valuation methodology and select one or more basic asset valuation methodology appropriately based on various conditions, including the purpose of valuation, valuation subject, type of values and the collection of data.

8.2 In accordance with the requirements of the China Asset Valuation Standards, three basic valuation methodology may be adopted to appraise the value of an enterprise, namely the income approach, market approach and asset-based approach.

8.3 The income approach in appraising an enterprise's value refers to a valuation method that determines the value of the valuation subject through capitalisation or discounting of expected income. The market approach in appraising an enterprise's value refers to a valuation method that compares the valuation subject with a comparable listed company or comparable transaction case to determine the value of the valuation subject. The asset-based approach in appraising an enterprise's value refers to a valuation method that uses the balance sheet of the appraised entity as at the Valuation Reference Date as the basis for determining the value of the valuation subject by reasonably appraising the value of various assets and liabilities in the enterprise's on-balance sheet and off-balance sheet.

8.4 Based on our understanding of the enterprise's nature, asset scale, historical operations, predictability of future earnings and sufficiency of valuation information obtained for the appraised entity, as well as the research and analysis of the relevant industries and markets on which the appraised entity is based, we are of the view that the company has a predictable ability to continue operations and profitability in the future period, and was qualified for adopting the income approach in its valuation.

8.5 Since the availability of complete financial information and asset management information of the appraised entity, as well as broad sources of data and information about the asset reacquisition cost, the asset-based approach may be adopted for this valuation.

8.6 Since the equity exchange market in China for non-listed companies is not fully developed, there are few comparable cases for similar transactions; and there are few listed companies of such type who can match with the appraised entity in respect of a number of factors such as business direction, asset size and scale of operations, etc. The extent of the correction is too large when the general case is selected for correction, which distorts the value orientation of the reference case for this engagement and fails to satisfy the conditions for valuation under the market approach, and therefore the market approach is not qualified for this appraisal.

8.7 Through the above analysis, this valuation was conducted by adopting the income approach and asset-based approach, respectively; on the basis of a comparison of the valuation conclusions arrived at through the two methods, the reasons for the differences were analysed and the appraised value was finally determined.

9. Valuation Methods for Various Assets and Liabilities under the Asset-based Approach as Follows:

9.1 Valuation of current assets

(1) Monetary capital: the valuers shall verify the actual existence of bank deposits by sending enquiry letters to the bank, and at the same time, and perform trial balancing with bank statements and bank balance reconciliations. After proper verification, the verified and audited book value of monetary capital denominated in RMB shall be adopted as the appraised value. For foreign currency, the appraised value shall be determined by multiplying the book value on the Valuation Reference Date by the exchange rate.

(2) Bills receivable

Firstly, the valuers shall verify the general ledger, the subsidiary ledger, financial statements and the breakdown of inspection valuation. Secondly, the stocktaking and bills shall be supervised to verify the related content in the registration book of the bills receivable, and check the contracts, agreements and other important information of large-amount bills receivable. The valuers then shall look into the acceptance of the bills after the Valuation Reference Date, and verify that the economic activities involved in the bills are true and the amounts are accurate, and recognise the appraised value based on the verified and audited book value.

(3) Accounts receivable and other receivables

The valuers shall obtain an appraisal declaration form, and check it with the general ledger and subsidiary ledger by verifying the account books, reviewing original certificates, such as relevant sales invoices and contracts, and collecting relevant supporting materials. The expected credit loss rate is determined through a combination of individual identification and ageing analysis, so as to determine the appraised value of accounts receivable by comprehensively analysing the assessed risk of loss on recoverable amount and future recoverable amount of accounts receivable.

The appraised value of accounts receivable and other receivables is determined on the sum of accounts receivable and other receivables less the amounts taking into account of the assessed risk of loss.

(4) Other current assets

Other current assets included in the scope of this valuation are the shares of Jianyang Rural Commercial Bank Co., Ltd. held by Honghua Financial Leasing (Shanghai) Co., Ltd. and the input tax to be deducted.

Honghua Financial Leasing (Shanghai) Co., Ltd. acquired 1.06% shares of Jianyang Rural Commercial Bank Co., Ltd. in May 2017, holding 8,063,409 shares. The book value as at the Valuation Reference Date was accounted for by Honghua Financial Leasing (Shanghai) Co., Ltd. based on the valuation report (Chuan Hua Heng Zi Ping Bao [2023] No. 15 (2022) No. 020104) issued by Sichuan Tian Jian Hua Heng Assets Appraisal Co., Ltd. with 31 December 2022 as the Valuation Reference Date. The valuers reviewed the reasonableness and fairness of the valuation report together with accurate accounting records, and used the verified and audited book value as the valuation value of other current assets.

For the input tax to be deducted, the valuers confirmed its accuracy by verifying the basis and the percentage for various tax provision, and used the verified and audited book value as the appraised value of other current assets.

9.2 Valuation of long-term equity investments

For long-term equity investments, the valuers first verified the reasons for the formation, book value and actual conditions of long-term investments, and determined the authenticity and completeness of long-term equity investments by reviewing investment agreements, resolutions from shareholders' meetings, articles of association and relevant accounting records.

For long-term equity investments in which the investee has control, the valuation was made to assess shareholders' entire equity value therein to determine the appraised value by multiplying the appraised value of the shareholders' entire equity in the investee as at the Valuation Reference Date by the percentage of shareholdings in the investee.

9.3 Other equity investment instruments

The valuers shall obtain the appraisal declaration form of other equity instruments investment to verify the conformity with the sum of the general ledger and the subsidiary ledger, and confirm the shareholding structure, proportion and timing of other equity instrument investment according to the relevant contracts and documents, understand the status of shareholders' interests, and obtain relevant information such as the articles of association, business licences and financial statements of the investee as of Valuation Reference Date. After the Valuation Reference Date, on 4 July 2023, Honghua Financial Leasing (Shanghai) Co., Ltd. transferred 8.33% equity interests held in Honghua Financial Leasing (Shenzhen) Co., Ltd. The appraised value of other equity instrument investments was based on the net consideration of the equity transfer price after deducting income tax, stamp duty and other expenses.

9.4 Valuation of machinery and equipment

This valuation mainly adopted the market approach.

The electronic equipment included in the scope of this valuation has been purchased for a long time and has exceeded its economic useful life, and there is no longer any equipment of this model available in the market, therefore, only its second-hand recycling value has been taken into account in the valuation.

9.5 Valuation of other intangible assets

Other intangible assets are the company's specific office software. The valuers understood the main functions and characteristics of the above intangible assets, verified the purchase contracts, invoices, payment receipts and other information of the intangible assets, and were not aware of ownership disputes. The appraised value of the specific software in normal use was determined on the basis of the actually amortised balance.

9.6 Deferred income tax assets

For deferred income tax assets, the valuers shall examine the bookkeeping records such as the payment amount, the time of occurrence, and the content of the business to confirm the authenticity and completeness of the deferred income tax assets. The appraised value shall be recognised based on the verified and audited book value after verification.

9.7 Valuation of liabilities

Current liabilities include accounts payable, contract liabilities, salaries payable, tax payable, other payables and other current liabilities; long-term liabilities include deferred income tax liabilities, etc. For liabilities, the valuers shall verify the book value based on the breakdown of various items and relevant financial information provided by the enterprise, and determined the appraised value based on the liabilities actually assumed by the enterprise.

10. Valuation Assumptions:

10.1 General assumptions

1. Transaction assumption

It is assumed that all the valuation targets are in the process of transaction, and the valuation professionals will conduct the valuation with reference to a simulated market based on the transaction conditions of the appraised assets.

2. Open market assumption

Assets can be freely traded in a fully competitive market, the price of which depends on the judgement of independent buyers and sellers on the value of the assets under the supply of a certain market.

3. Going concern assumption

It is assumed that the operating entity will continue to operate as a going concern based on the current status, usage, method of use and management level as at the Valuation Reference Date, and there will be no unforeseeable factors that will cause it to be unable to continue as a going concern.

10.2 Special assumptions

1. There are no material changes in the existing relevant laws, regulations and policies and the macroeconomic situation of the PRC, and there are no material changes in the political, economic and social environment of the regions where the parties to the transaction are located.

2. It is assumed that the operator of the company is responsible and the management of the company is capable of performing their duties.

3. Unless otherwise stated, it is assumed that the company is in full compliance with all relevant laws and regulations.

4. It is assumed that the accounting policies to be adopted by the company in the future are basically consistent with the accounting policies adopted in the preparation of this report in material aspects.

5. It is assumed that the cash inflow and cash outflow of the appraised entity after the Valuation Reference Date are evenly distributed.

6. It is assumed that the business scope and mode of the company are consistent with the current direction on the basis of the existing management mode and management level.

7. In the future operating period, Honghua Financial Leasing (Shanghai) Co., Ltd. will maintain its current interest rate and cost strategy in terms of yield rate and financing cost, and its lending rate and financing cost will remain in the trend of recent years without significant changes or fluctuations on the current basis.

8. There will be no material changes in interest rates, exchange rates, tax bases and tax rates, and policy-based levies.

9. There are no other force majeure factors and unforeseeable factors that have a significant adverse impact on the enterprise.

11. Valuation Conclusion:

11.1 Valuation results:

The carrying amount of the total assets of Honghua Financial Leasing (Shanghai) Co., Ltd. was RMB204.1157 million, the carrying amount of the total liabilities was RMB11.2527 million, and the carrying amount of the net assets was RMB192.8630 million. The appraised value of the total assets was RMB210.3024 million, representing an appreciation of RMB6.1867 million or 3.03%. The appraised value of the total liabilities was RMB11.2527 million, with no appraised appreciation or depreciation. The appraised value of the net assets was RMB199.0497 million, representing an appreciation of RMB6.1867 million or 3.21%. The following table sets out the details of the result of the valuation:

Summary of Asset Valuation Results

Unit: RMB0'000

	Item	Carrying amount A	Appraised value B	Appreciation C = B-A	Appreciation rate D = C/A×100%
1	**Current assets**	**19,463.25**	**19,463.71**	**0.46**	**0.002%**
2	Monetary funds	13,560.17	13,560.63	0.46	0.003%
3	Bills receivables	65.84	65.84		
4	Trade receivables	2,184.09	2,184.09		
5	Other receivables	834.41	834.41		
6	Other current assets	2,818.74	2,818.74		
7	**Non-current assets**	**948.32**	**1,566.53**	**618.21**	**65.19%**
8	Long-term equity investments	10.00	294.27	284.27	2,842.70%
9	Other equity instrument investments	935.00	1,268.90	333.90	35.71%
10	Fixed assets	0.49	0.53	0.04	8.16%
11	Intangible assets	2.67	2.67		
12	Deferred income tax assets	0.16	0.16		
13	**Total assets**	**20,411.57**	**21,030.24**	**618.67**	**3.03%**
14	Current liabilities	796.30	796.30		
15	Non-current liabilities	328.97	328.97		
16	**Total liabilities**	**1,125.27**	**1,125.27**		
17	**Net assets (Owners' equity)**	**19,286.30**	**19,904.97**	**618.67**	**3.21%**

11.2 Determination of conclusion

After analysis, it is considered that the valuation result of RMB199.0497 million under the asset-based approach can more fairly reflect the value of Honghua Financial Leasing (Shanghai) Co., Ltd. for the purpose of this valuation, mainly due to the following reasons:

In this valuation, the Valuer is of the view that Honghua Financial Leasing (Shanghai) Co., Ltd. is primarily engaged in financial leasing business which is a rather special business sector. Although income approach could, to a certain extent, reflect the company's prospective value, it cannot factor in the uncertainties, financial policies, the impact of the industry-specific national policies on financial leasing business sector in which the company operates. The result is, to a large extent, subject to the profitability, asset quality, operational performance and operational risks of the company in the future while tax and other policy orientations have a significant impact on financial leasing enterprises. The appraised entity has kept well-documented financial records and asset management records. Data and source of information in connection with cost of re-acquisition of assets are extensive and the replacement cost and prevailing market value of assets are intrinsically linked to and supersede the present value of income. By analysing the value implications and assessment processes of these two methods, the valuation result under the asset-based approach was selected as the final valuation conclusion.

11.3 Changes in valuation conclusion compared with carrying amount and reasons

The main reasons for the increase or decrease in the appraised value of each asset compared with the carrying amount are as follows:

(a) Non-current assets increased by RMB6.1821 million or 65.19%, mainly due to the appreciation of long-term equity investments of RMB2.8427 million and the appreciation of other equity instrument investments of RMB3.3390 million.

(b) The appreciation of long-term equity investment was mainly due to the profit of the invested subsidiaries, resulting in the appreciation of valuation.

(c) The appreciation of other equity instrument investments was mainly due to the equity transfer of the invested company on 4 July 2023 after the Valuation Reference Date. The appraised value of the equity transfer was determined based on the net price of the equity transfer price after deducting relevant income tax, stamp duty and other expenses. The equity transfer price was higher than the investment cost, resulting in the valuation appreciation of other equity instrument investments.

In conclusion, the valuers considered the asset and net asset appreciation of Honghua Financial Leasing (Shanghai) Co., Ltd. increased to be normal after analysis.

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.

2. DISCLOSURE OF INTERESTS

(a) Interests in the Company

(i) Director 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: save as disclosed below, none of the Directors and Chief Executive's and their respective associates had interests or short positions in 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 Securities and Futures Ordinance) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (including interests or short positions which were taken or deemed to have under such provisions of the Securities and Futures Ordinance), or (ii) were required to be recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance 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 to 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
Su Mei	Long	Personal interest	150,000(1)	0.002%

Note:

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

(B) Share option of the Company

Name	Long/Short Position	Number of Options Held – Personal Interest
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 Securities and Futures Ordinance.

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 Securities and Futures Ordinance.

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

The register of substantial Shareholders maintained by the Company pursuant to Section 336 of Part XV of the Securities and Futures Ordinance 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 Interest and Settlor of a Discretionary Trust	Total	% of the Issued Share Capital of the Company
Tricor Equity Trustee Limited	Long	–	–	660,145,019[(1)]	660,145,019[(1)]	7.30%
Dongfang Electric International Investment Co., Ltd.	Long	5,290,494,251[(2)]	–	–	5,290,494,251[(2)]	58.52%
Dongfang Electric Corporation	Long	–	5,290,494,251[(2)]	–	5,290,494,251[(2)]	58.52%

Notes:

(1) Tricor Equity Trustee Limited, as the trustee of 5 Family Trusts, holds 660,145,019 Shares in total.

(2) Dongfang Electric International Investment Co., Ltd. is wholly owned by Dongfang Electric Corporation and holds 5,290,494,251 Shares.

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 Securities and Futures Ordinance or which are required to be and are recorded in the register required to be kept under Section 336 of the Securities and Futures Ordinance.

3. FURTHER INFORMATION CONCERNING DIRECTORS

(a) Directors' service contracts

As at the Latest Practicable Date, 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)).

(b) Directors' interest in competing business

As at the Latest Practicable Date, none of the Directors or their respective close associates 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 by or leased to any member of the Group or were proposed to be acquired, disposed of by or leased to any member of the Group since 31 December 2022, 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.

4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2022, being the date to which the latest published audited consolidated financial statements of the Group were made up.

5. EXPERTS AND CONSENTS

The following is the qualification of each 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
Beijing Zhongtianhua Asset Appraisal Co., Ltd.	Independent Valuer
VBG Capital Limited	Corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance

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 2022 (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.

6. 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, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, 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) As at the Latest Practicable Date, the Board was composed of two executive Directors, who are Mr. Wang Xu (Chairman) and Mr. Zhu Hua, one non-executive Director, who is 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.

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

7. DOCUMENTS ON DISPLAY

The copies of the following documents are published on the website of the Stock Exchange (www.hkexnews.com) and the website of the Company (http://www.hh-gltd.com) within 14 days from the date of this circular:

(a) Equity Transfer Agreement;

(b) the letter from the Board, the text of which is set out on pages 4 to 13 of this circular;

(c) the letter from the Independent Board Committee, the text of which is set out on page 14 of this circular;

(d) the letter from VBG Capital Limited, the text of which is set out on pages 15 to 25 of this circular;

(e) the written consents referred to in the paragraph headed "Experts and Consents" in this appendix; and

(f) this circular.

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 Berlin Conference Room, 4th Floor, IntercityHotel Shenzhen Futian Huanggang, 28 Fumin Road, Futian District, Shenzhen, Guangdong, China on Tuesday, 30 January 2024 at 10 a.m. for the following purposes and to consider and, if thought fit, pass with or without amendments, the following resolution. Unless otherwise indicated, capitalised terms used in this notice shall have the same meanings as those defined in the circular of the Company dated 5 January 2024:

ORDINARY RESOLUTION

"**THAT** the Equity Transfer Agreement dated 12 December 2023 entered into between Honghua Holdings Limited, a wholly-owned subsidiary of the Company, and DEC Investment Management Company Limited, and the transaction contemplated thereunder be and are hereby approved, confirmed and ratified."

On behalf of the Board
Honghua Group Limited
Wang Xu
Chairman

PRC, 5 January 2024

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 (the "**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. A member of the Company who is entitled to attend and vote at the above meeting is entitled to appoint a proxy to attend and vote on his or her behalf. A proxy need not be a member 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 such power of attorney or authority, must be deposited 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 not less than 48 hours before the time appointed for the holding of the meeting (i.e. before 10 a.m. on Sunday, 28 January 2024 (Hong Kong time)) or the adjourned meeting (as the case may be). Please note that 27 January 2024 and 28 January

2024 are not working days in Hong Kong and Computershare Hong Kong Investor Services Limited's offices will not be open on these days for physical delivery of the proxy form. Delivery of the form of proxy shall not preclude a member of the Company from attending and voting in person at the meeting and in such event, the instrument appointing a proxy shall be deemed to be revoked.

4. For determining the entitlement to attend and vote at the above meeting, the register of members of the Company will be closed from Thursday, 25 January 2024 to Tuesday, 30 January 2024, both dates inclusive, during which period no share transfers 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 Wednesday, 24 January 2024.

5. References to time and dates in this notice are to Hong Kong time and dates.

As at the date of this notice, the executive directors of the Company are Mr. Wang Xu (Chairman) and Mr. Zhu Hua, the non-executive director of the Company is 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.