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宏华集团
HONGHUA GROUP

HONGHUA GROUP LIMITED

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

(Stock code: 196)

CONTINUING CONNECTED TRANSACTIONS AND MAJOR TRANSACTIONS

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



Gram Capital Limited
嘉林資本有限公司

PURCHASE FRAMEWORK AGREEMENT

On 10 December 2024, the Company entered into the Purchase Framework Agreement with Dongfang Electric Corporation, pursuant to which the Group will purchase products and services from Dongfang Electric Corporation.

SALES FRAMEWORK AGREEMENT

On 10 December 2024, the Company entered into the Sales Framework Agreement with Dongfang Electric Corporation, pursuant to which the Group will sell products and services to Dongfang Electric Corporation.

LEASE FRAMEWORK AGREEMENT

On 10 December 2024, the Company entered into the Lease Framework Agreement with Honghua Leasing, pursuant to which the Group will purchase direct financial leasing services and operating leasing services from Honghua Leasing.

FINANCIAL SERVICES FRAMEWORK AGREEMENT

On 10 December 2024, the Company entered into the Financial Services Framework Agreement with Dongfang Electric Finance, pursuant to which Dongfang Electric Finance will provide the Group with deposit services, loan advancement services and settlement services.

IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, as Dongfang Electric Corporation directly and indirectly holds approximately 58.52% of the issued share capital of the Company, it is a controlling shareholder within the meaning of the Listing Rules and is therefore a connected person of the Company. DFEC is a subsidiary of Dongfang Electric Corporation and holds 95% of the shares of Dongfang Electric Finance. Dongfang Electric Corporation holds the remaining 5% of the shares of Dongfang Electric Finance. Therefore, Dongfang Electric Finance is an associate of Dongfang Electric Corporation and a connected person of the Company.

In addition, as at the date of this announcement, Honghua Leasing is a wholly-owned subsidiary of Dongfang Electric Corporation and, as such, an associate of Dongfang Electric Corporation, thereby also constituting a connected person of the Company. Accordingly, the entering into Purchase Framework Agreement, Sales Framework Agreement, Lease Framework Agreement and Financial Services Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

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

As one or more of the applicable percentage ratios related to the transactions under the Lease Framework Agreement exceed 25%, such transactions also constitute a major transaction of the Company under Chapter 14 of the Listing Rules. Therefore, the transactions contemplated thereunder are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

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

In respect of the Unsecured Loan Advancement Services under the Financial Services Framework Agreement, the transactions constitute financial assistance provided to the Group by a connected person on normal commercial terms or better, and will not be secured by the Group's assets, so Unsecured Loan Services will be fully exempted from all reporting, announcement, annual review and Independent Shareholders' approval requirements under Rule 14A.90 of the Listing Rules.

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

In respect of the Settlement Services under the Financial Services Framework Agreement, one or more of the applicable percentage ratios of the transactions are higher than 0.1% but less than 5%. The transactions relating to the Settlement Services under the Financial Services Framework Agreement are subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules but are exempted from the Independent Shareholders' approval requirement.

APPROVAL FROM THE INDEPENDENT SHAREHOLDERS

The Company will seek approval from the Independent Shareholders in respect of the Dongfang Electric Framework Agreements (including the Dongfang Electric Continuing Connected Transactions and the proposed annual caps contemplated thereunder) at the EGM. A circular containing, among others, details on the Dongfang Electric Framework Agreements, a letter of recommendation from the Independent Board Committee to the Independent Shareholders, and a letter of advice from Gram Capital to the Independent Board Committee and the Independent Shareholders will be despatched to Shareholders within 15 business days after publication of this announcement.

Dongfang Electric Corporation and its associates (holding 5,290,494,251 Shares or approximately 58.52% of the Shares in the Company as at the date of this announcement) who are involved in, or interested in the Dongfang Electric Framework Agreements will abstain from voting in the relevant resolutions at the EGM.

1. PURCHASE FRAMEWORK AGREEMENT

On 10 December 2024, the Company entered into the Purchase Framework Agreement with Dongfang Electric Corporation, pursuant to which the Group will purchase products and services from Dongfang Electric Corporation, the details of which are as follows.

Principal Terms

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

Date:	10 December 2024
Parties:	1) The Company (as the purchaser and on behalf of its subsidiaries); and 2) Dongfang Electric Corporation (as the seller, for itself and on behalf of its associates)
Term:	From 1 January 2025 to 31 December 2027
Subject matter:	The Group shall purchase products (including but not limited to materials such as steel and paint, equipment, accessories, auxillary materials and other related products) and services (including but not limited to processing services, technical services, inspection and testing services, transportation services, logistics services and other related services) from Dongfang Electric Corporation and its associates.

Pricing Principles

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

Furthermore, prices payable by the Group to Dongfang Electric Corporation and its associates for the products and services shall be determined as follows:

- (a) where there are market prices for the relevant products and services, the prices shall be determined with reference to the prevailing market prices, which is:
 - (i) the price offered by Dongfang Electric Corporation and its associates to an Independent Third Party customer in respect of the supply or provision of the same or similar products or services on normal commercial terms in the ordinary course of business. The prices of any given products or services shall be based on the prevailing market prices for the same or comparable products or services obtained by the Group from Independent Third-Party suppliers in the ordinary course of business and on normal commercial terms. The Group will solicit quotations from at least two Independent Third-Party suppliers to ensure that the purchase price paid to Dongfang Electric Group under comparable conditions does not exceed the price offered by such Independent Third Parties; or
 - (ii) the price obtained by the Group by way of open tender or negotiated tender, provided that Independent Third Parties shall participate in the open tender or negotiated tender and the forms of the open tender or negotiated tender shall comply with the requirements of applicable laws; and
- (b) where there are no market prices for the relevant products and services which meet the specific business needs of the Group, the prices shall be the cost plus an appropriate service fee. The appropriate service fee shall be determined by the parties to the transactions after arm's length negotiations with reference to the normal commercial terms. The products and services to be acquired by the Group from Dongfang Electric Corporation vary in terms of category, complexity, and technical specifications. Accordingly, the service fee for these products and services will vary. Notwithstanding, the service fee shall generally not exceed 15% of the cost, taking into account the markup charged by Dongfang Electric Corporation and its associates to Independent Third Parties for similar products and services. To make sure that the arbitrary percentage charged by Dongfang Electric Corporation for any given product or service is fair and reasonable, the Group will seek and compare quotes for similar products or services from at least two Independent Third-Party suppliers in the market before making a purchase from Dongfang Electric Corporation. If the Group obtains more favourable prices for similar products or services from Independent Third-Party suppliers, the Group will negotiate with Dongfang Electric Corporation for reasonable price for such products or services, and has the full discretion not to procure from Dongfang Electric Corporation. For the purpose of maximising the Group's interests, the Company will proceed with purchases from Dongfang Electric Corporation only when it is satisfied that the acquisition price of the products or services ensures a reasonable profit margin upon resale to third parties and is no less favourable than the acquisition price offered by Independent Third-Party suppliers.

The Group will obtain the prevailing market prices through various channels (if applicable), including (i) recent comparable transactions involving Independent Third-Party suppliers; and (ii) communication with Independent Third-Party suppliers on the prices of similar products and services by means of phone calls and e-mails.

Set out below is a brief description of the bidding process:

(i) The procurement department shall issue a bidding notification based on our procurement plan and invite a minimum of three qualified suppliers to submit bids and at least two of those suppliers shall be Independent Third Parties; (ii) following the deadline for quotation submissions, the procurement department shall establish a review panel consisting of employees from various departments, which will oversee the opening of bids, determine the successful bidder, and publish or otherwise announce the results of the bidding process; (iii) the procurement department and the selected supplier shall enter into the purchase contract.

All suppliers invited to bid shall be qualified suppliers who have successfully completed the supplier review process and have been formally registered in our procurement system. Bids will be reviewed and evaluated based on factors including compliance with bid requirements, service quality and delivery timelines, bid price, and the bidder's reputation, past performance, and overall strength.

The participation of Dongfang Electric Corporation and/or its associates in the bidding process shall not in any way affect the Group's bidding procedures. Dongfang Electric Corporation and its associates shall be treated in the same way as Independent Third Parties. The price and terms of the tenders awarded by the Group to Dongfang Electric Corporation and its associates are subject to the above systematic tendering procedures maintained by the Group, which apply to tenders submitted by both connected persons and independent third parties to ensure that the price and terms of the tender awarded by the Group to Dongfang Electric Corporation and its associates are no more favourable than those awarded to Independent Third Parties.

Historical Amounts

For the period from 26 October to 31 December 2022, for the year ended 31 December 2023 and the nine months ended 30 September 2024, the aggregate amounts of products and services purchased by the Group from Dongfang Electric Corporation were RMB101,836,000, RMB209,622,000 and RMB310,842,500, respectively.

Proposed Annual Caps and Basis of Determination

The respective annual caps under the Purchase Framework Agreement for each of the three years ending 31 December 2027 are RMB1,000 million, RMB1,300 million, and RMB1,600 million, respectively.

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

- (i) the historical transactions between the Group and Dongfang Electric Corporation and its associates;
- (ii) the business plan of the Group, especially in the marine sector, and the expected procurement demand for the products based on its expected production capacity planning of offshore products and offshore modules;
- (iii) the Group's orders in hand and intended collaborative projects, the progress of the projects and the expected procurement requirements for the relevant products and services. The Group expects to commence projects such as the drilling rigs and wind power projects during the term of the Purchase Framework Agreement, which are expected to give rise to a significant demand of the Group for materials such as steel if the Group was engaged to provide engineering and technical services in relation to such projects.

The previous annual caps' low utilisation rates were mainly resulting from the fact that certain key intended collaborative projects, such as those in relation to the coal-fired power plant, casing head and preventer, etc., were not implemented when the caps were set. In particular, the Company initially anticipated: (i) a coal-fired power plant project, valued at approximately RMB500 million, which would require the Group to purchase related products from Dongfang Electric Corporation and resell them to an Independent Third Party customer after further processing or the provision of ancillary services. However, this project did not proceed due to the customer's financial difficulties; and (ii) a wind power project, estimated to be valued at approximately RMB200 million, which would require the Company to purchase raw materials, such as steel, from Dongfang Electric Corporation. This project was also not executed due to the Company's failure to secure the contract with the customer. Consequently, the Company did not engage in any business transactions with Dongfang Electric Corporation in relation to these projects. The aforementioned projects are not expected to proceed during the period from 2025 to 2027.

Notwithstanding that the historical amounts are on the lower side, the proposed annual caps of the Purchase Framework Agreement from 2025 to 2027 are determined based on the Group's expected demand in contemplation of its internal development plans during the said period.

The Company focuses on high-end oil and gas equipment, actively expands both international and domestic markets, promotes the steady improvement of the offshore equipment business, promotes the long-term development of the collaborative industries, and steadily expands the equipment + services + related diversified industries, striving to achieve continuous growth and sustainable development of the business.

The purchase quota under the Purchase Framework Agreement is primarily determined based on the estimated demand derived from the business planning of the offshore engineering segment. Currently, the offshore engineering business of the Company is primarily engaged in offshore wind power pile foundation business. The offshore wind power in China has experienced rapid growth, making it the largest offshore wind power market in the world. As the process of offshore wind power parity accelerates, provincial plannings are expected to further expand its capacity, and the offshore wind power market will continue to maintain a strong growth momentum.

As of the third quarter of 2024, the cumulative installed capacity of the offshore wind power is 39.1GW, and there is still a significant gap of approximately 21GW in combination with the “14th Five-Year Plan” for each province. Looking forward to the “15th Five-Year Plan”, the planned installed capacity of all provinces in China during the “14th Five-Year Plan” period and in the future are expected to reach approximately 100GW-150GW, with an average annual new installation of about 10GW-18GW.

According to industry policies, market conditions, the jacket market share and the current and potential orders of the Company, the Company will increase investment in equipment to further enhance production capacity. It is expected that the investment scale and output value of the offshore wind power segment will achieve steady growth in the next three years and maintain the leading position in this segment.

Furthermore, in order to promote the development of the offshore industry, the Group will make full use of its existing production resources and technical capabilities to further develop related industries such as offshore engineering modules and offshore oil and gas equipment on the basis of stabilising the foundation of the offshore wind power pile foundation market. According to the above-mentioned business development plan, the volume of business in the marine segment will continue to increase, and the procurement demand for corresponding raw materials and other materials will gradually increase.

In light of the above, the Board is of the view that such proposed annual caps can afford the Group flexibility to capture potential opportunities from customers.

Reasons for and Benefits of the Transactions

The purchase of the products and services by the Group from Dongfang Electric Corporation and its associates is based on consideration of the competitive edges of Dongfang Electric Corporation and its associates such as qualifications, experience, centralised procurement, payment terms and transportation capabilities, all of which are conducive to meeting the Group's needs for product quality and delivery time. The purchase of products, equipment and services from Dongfang Electric Corporation and its associates will enable optimal allocation and integration of resources. The Group and the business divisions of Dongfang Electric Corporation can complement each other in terms of resources. Centralised procurement through Dongfang Electric Corporation can reduce costs and improve efficiency, facilitate the formation of a more stable and powerful supply chain network, and ensure the stable supply of key resources to support its activities. Therefore, the entering into of the Purchase Framework Agreement is conducive to broadening the customer base and sales channels of the Group, expanding the sales market share of the Group and increasing the sales revenue of the Group. The Group and Dongfang Electric Corporation and its associates have a well-established cooperation foundation and smooth communication, which is conducive to the implementation and furtherance of the transactions. In addition, through business cooperation in multiple projects, the Company and Dongfang Electric Corporation can make full use of the industrial foundation and advantages of both parties, and further enhance the strength of both enterprises.

The Company will retain the flexibility and discretion to select product and service suppliers from Dongfang Electric Corporation and its associates and/or other Independent Third Parties based on arm's length negotiations after taking into consideration commercial terms and other factors.

Accordingly, the Directors (including independent non-executive Directors) are of the view that the Purchase Framework Agreement (including the transactions contemplated thereunder and the proposed annual caps) is entered into in the ordinary course of business of the Group, on normal commercial terms which are fair and reasonable, and is in the interest of the Company and the Shareholders as a whole.

Implications under the Listing Rules

As at the date of this announcement, as Dongfang Electric Corporation directly and indirectly holds approximately 58.52% of the issued share capital of the Company, it is a controlling shareholder within the meaning of the Listing Rules and is therefore a connected person of the Company. Accordingly, the entering into Purchase Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios related to the transactions under the Purchase Framework Agreement exceed 5%, the transactions are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

2. SALES FRAMEWORK AGREEMENT

On 10 December 2024, the Company entered into the Sales Framework Agreement with Dongfang Electric Corporation, pursuant to which the Group will sell products and services to Dongfang Electric Corporation, the details of which are as follows.

Principal Terms

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

Date: 10 December 2024

Parties: 1) The Company (as the seller and on behalf of its subsidiaries); and
2) Dongfang Electric Corporation (as the purchaser, for itself and on behalf of its associates)

Term: From 1 January 2025 to 31 December 2027

Subject matter: The Group will sell products (including but not limited to structural parts such as weldments products for containers and steel structure products, semi-finished products, accessories, equipment, parts and components and others) and provide services (including but not limited to processing services, technical services, inspection and testing services, engineering services and other related services) to Dongfang Electric Corporation and its associates.

Pricing Principles

The relevant terms for the provision of the products and services by the Group to Dongfang Electric Corporation and its associates will be determined based on the nature of each transaction. The details of pricing will be determined on an arm's length basis after taking into account a combination of factors such as the quality of the products and services provided by the Group as requested by the Dongfang Electric Group and its associates, payment terms and transportation conditions, with reference to the prevailing market prices (including the quotation for similar products and services offered by Independent Third Parties), and on normal commercial terms and terms no less favourable than terms of the transactions between the Group and Independent Third Parties.

Furthermore, prices payable by Dongfang Electric Corporation and its associates to the Group for the products and services shall be determined as follows:

- (a) where there are market prices for the relevant products and services, the prices shall be determined with reference to the prevailing market prices, which is:
 - (i) the price offered by the Group to an Independent Third Party customer in respect of the supply or provision of the same or similar products or services on normal commercial terms in the ordinary course of business. The prices of any given products or services shall be determined by reference to the selling prices of the same or similar products or services offered by the Group (and/or its subsidiaries) to Independent Third-Party customers in the ordinary course of business and on normal commercial terms. The Group will compare the price offered to the relevant purchaser with the prices of the same or similar products or services, with comparable specifications (including, but not limited to, quantity, credit terms, and delivery methods), as provided to at least two Independent Third-Party customers, to ensure that the price offered to the relevant purchaser is not more favorable than the price offered to the Group's Independent Third-Party customers; or
 - (ii) the price obtained by Dongfang Electric Corporation and its associates by way of open tender or negotiated tender, provided that Independent Third Parties shall participate in the open tender or negotiated tender and the procedures of the open tender or negotiated tender shall comply with the requirements of applicable laws; and

(b) where there are no market prices for the relevant products and services which meet the specific business needs of Dongfang Electric Corporation and its associates, the prices shall be the cost plus an appropriate service fee. The appropriate service fee shall be determined by the parties to the transactions after arm's length negotiations with reference to the normal commercial terms. The service fee percentage shall generally not be less than 5%, and in no event shall it be lower than the percentage offered to the Independent Third Parties under equivalent conditions. The products or services provided by the Company vary in category, complexity, and technical requirements, and as such, the service fee percentage and profit margin may vary accordingly. For the avoidance of doubt, the 5% markup is the minimum markup to be applied by the Group for sales to Dongfang Electric Corporation, serving as the baseline to ensure profitability. This is distinct from the maximum 15% markup applied to purchases from Dongfang Electric Corporation. The profit margin for sales to Dongfang Electric Corporation will be determined based on the prices of similar products or services in the industry, taking into account factors such as product or services category, quantity, delivery and payment terms. However, the profit margin for products or services offered to Dongfang Electric Corporation shall not be less favorable than that for similar products or services provided to Independent Third-Party customers of the Group. For the purpose of maximizing the Group's return from the sales to Dongfang Electric Corporation under the Sales Framework Agreement and as a profit enhancement measure, the Group will not set a maximum service fee percentage on such products and/or services to be sold to Dongfang Electric Corporation.

The Group will obtain the prevailing market prices through various channels (if applicable), including (i) recent comparable transactions involving Independent Third-Party customers; and (ii) communication with Independent Third-Party suppliers on the prices of similar products and services by means of phone calls and e-mails.

Historical Amounts

For the period from 26 October to 31 December 2022, during the year ended 31 December 2023 and the nine months ended 30 September 2024, the aggregate amount of products and services provided by the Group to Dongfang Electric Corporation and its associates were RMB87,974,000, RMB302,717,000 and RMB111,054,800, respectively.

Proposed Annual Caps and Basis of Determination

The respective annual caps under the Sales Framework Agreement for each of the three years ending 31 December 2027 are RMB400 million, RMB550 million and RMB550 million, respectively.

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

- (i) the historical transactions between the Group and Dongfang Electric Corporation and its associates;
- (ii) the orders on hand and intentioned collaborative projects of the Group; and
- (iii) the expected demand of Dongfang Electric Corporation which is estimated based on the negotiations between the Group and Dongfang Electric Corporation and the expected demand of Dongfang Electric Corporation in accordance with its internal development plans and the market conditions during the period.

The lower historical transaction volume is primarily attributable to the change of procurement demand of Dongfang Electric Corporation. Additionally, it is also attributable to the Company's decision not to proceed with a major wind power project that was expected at the time the Company set the existing annual caps. Valued at RMB300 million, the project was not pursued after the Company's research and validation review revealed that, the investment in the relevant production lines would be substantial, and the profit margin would be extremely thin. While the Company acknowledges the significant discrepancy between historical transaction amounts and the proposed annual caps, it believes that the proposed caps, which take into account the Group's current orders on hand (including signed sales orders for exciters, control cabinets, and related accessories, as well as steel structure projects), intended collaborative projects (such as wind power projects and drilling rig sales), and the expected demand from Dongfang Electric Corporation, will provide greater flexibility to the Group and enable it to capitalize on potential business opportunities arising from Dongfang Electric Corporation.

Reasons for and Benefits of the Transactions

Due to the production needs of the projects and business development, Dongfang Electric Corporation and its associates need to purchase a large number of products and services including materials, equipment and parts and components related to the projects. The Group currently possesses relevant products and technical services, which can meet the needs of the projects of Dongfang Electric Corporation and its associates. The entering into of the Sales Framework Agreement is conducive to selling relevant products and technical services to Dongfang Electric Corporation and its associates, thus increasing the Group's revenue. In addition, the entering into of the Sales Framework Agreement is in line with the business development needs of the Group, both the Group and Dongfang Electric Corporation and its associates will benefit from the synergy in a fair and reasonable manner and realise the complementarity of resources and a win-win situation for both parties.

The Company will retain the flexibility and discretion to select product and service purchasers among Dongfang Electric Corporation and its associates and/or other Independent Third Parties based on arm's length negotiations after taking into consideration commercial terms and other factors.

Accordingly, the Directors (including independent non-executive Directors) are of the view that the Sales Framework Agreement (including the transactions contemplated thereunder and the proposed annual caps) is entered into in the ordinary course of business of the Group, on normal commercial terms which are fair and reasonable, and is in the interest of the Company and the Shareholders as a whole.

Implications under the Listing Rules

As disclosed above, Dongfang Electric Corporation is a connected person of the Company. Accordingly, the Sales Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios related to the transactions under the Sales Framework Agreement exceed 5%, the transactions are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

3. LEASE FRAMEWORK AGREEMENT

On 10 December 2024, the Company entered into the Lease Framework Agreement with Honghua Leasing, pursuant to which the Group will purchase direct financial leasing services and operating leasing services from Honghua Leasing, the details of which are as follows.

Principal Terms

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

Date:	10 December 2024
Parties:	1) The Company (as the Lessee and on behalf of its subsidiaries); and 2) Honghua Leasing (as the Lessor, for itself and on behalf of its subsidiaries)
Term:	From 1 January 2025 to 31 December 2027
Subject matter:	The Group shall purchase drilling and energy equipment leasing services from Members of Honghua Leasing, including but not limited to direct financial leasing services and operating leasing services, and shall pay rent to the Members of Honghua Leasing for the provision of the aforementioned leasing services.

Pricing Principles

In terms of the direct finance leasing services, the lease consideration is made up of the purchase price of the leased equipment, the lease interest and handling fee (if any) agreed by both parties. The lease consideration will be determined after arm's length negotiations between the Group and the Members of Honghua Leasing with reference to the market price of finance leased assets of the same type.

- The Members of Honghua Leasing will purchase the leased properties from suppliers according to the instructions and selection of the Group, and then lease the properties to the Group for an agreed term and receive lease payment on a periodic basis. The principal amount is the purchase price of the leased properties from the suppliers which is negotiated by the Group with the suppliers on normal commercial terms and by reference to the market price of such properties.

In terms of the operating leasing services, the lease consideration is made up of the corresponding rent and handling fee (if any) payable during the lease term. The lease consideration will be determined after arm's length negotiations between the Group and the Members of Honghua Leasing with reference to the market price of operating leased assets of the same type.

- Members of Honghua Leasing will purchase the leased properties and own the assets and then lease the same back to the Group for an agreed term and receive an agreed amount of rent on a periodic basis.

Operating leases do not result in the transfer of ownership, whereas direct financial leases do. Under a direct financial lease, ownership of the leased assets is transferred to the lessee at the end of the lease term, for a nominal consideration, typically RMB1 or RMB100, payable by the lessee. This nominal consideration is symbolic, as the cost of acquiring the leased assets has already been effectively covered by the rent paid over the lease term.

In determining whether the purchase price of the leased equipment procured by Dongfang Electric Corporation under direct finance leasing services is fair and reasonable and in the interests of the Company, the Group will consult with at least two Independent Third-Parties suppliers via email, fax, or telephone to obtain quotations and historical rental prices for similar types of leased equipment. The price will be determined by reference to local comparable market prices, either derived from these consultations or assessed by professional appraisal agencies. If no comparable market price is available, the price will be negotiated based on factors such as equipment depreciation, management fees, relevant taxes (including value-added tax and surcharges), and reasonable profits.

In financial leasing, handling fees generally refer to service fees charged by the lessor for providing consulting services to the lessee. These services typically cover industry-specific advice, project-related guidance, and tax-related consulting. This fee structure is common in the leasing industry and is usually determined through negotiation, based on prevailing industry standards. In connection with the execution of any individual written agreement under the Lease Framework Agreement, the lessor may charge the lessee a one-time, non-refundable handling fee. The terms of fee shall be no less favorable to the lessee than those offered by Independent Third Party for similar services. The rate of the handling fee shall, among other factors, reflect the rates charged by other major financial institutions for financial leases involving similar assets or, if applicable, refer to the rates published by the PBOC from time to time. The specific terms and rate of the handling fee shall be clearly stated in the individual written contracts.

Honghua Leasing was previously a subsidiary of the Company and is familiar with the equipment typically leased by the Group, the Company expects that Honghua Leasing will not be required to provide consulting services related to industry, projects, or taxation for the Company's routine financial leasing activities that would result in the incurrence of handling fees. In addition, Honghua Leasing is currently a subsidiary of Dongfang Electric Corporation, serving as a primary financial leasing platform and providing strong support for the business development of Dongfang Electric Corporation's subsidiaries, including the Company. As such, following negotiations between the Company and Honghua Leasing, both parties anticipate that it is unlikely any handling fees will be charged to the Group by Members of Honghua Leasing in the event the Group leases assets from them. Should handling fees be incurred, the rates will be determined with reference to, among other factors set forth in the following paragraph, the rates charged by major financial institutions for the financial leasing of similar asset types, and will be specified in the relevant written agreements. Accordingly, the Company believes that any handling fee under the Lease Framework Agreement, if incurred for unforeseen reasons, would be immaterial.

In determining the lease interest paid to the Members of Honghua Leasing, the Company will consider, among other things: (i) market conditions and the benchmark interest rate for term loans announced by the PBOC from time to time; (ii) terms and conditions no less favourable to the Group than those offered by similarly qualified lessors; and (iii) the incremental borrowing rate of the lessee, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

In determining the handling fee paid to the Members of Honghua Leasing, the Company will consider, among other things: (i) the applicable rates for related services as announced by the PBOC from time to time; and (ii) terms and conditions no less favourable to the Group than those obtained from similarly qualified lessors.

Historical Amounts

References are made to the announcement of the Company dated 12 December 2023 and its circular dated 5 January 2024, in relation to the disposal of the entire interest in Honghua Leasing by Honghua Holdings to DEC Investment. The disposal was completed on 24 April 2024. Since then, the Group no longer has any interest in Honghua Leasing. For the two years ended 31 December 2023, Honghua Leasing was a member of the Group. The provision of leasing services by Honghua Leasing to other members of the Group was an intra-group transaction of the Group, and did not constitute connected transactions of the Group. After 24 April 2024, the provision of leasing services by Honghua Leasing to the Group constitutes connected transactions of the Group.

The amount of financial leasing services and operating leasing services provided by Honghua Leasing to other members of the Group for the two years ended 31 December 2023 and the amount of financial leasing services and operating leasing services provided by Honghua Leasing to the Group for the nine months ended 30 September 2024 are set out below.

	For the year ended 31 December 2022 (RMB0'000)	For the year ended 31 December 2023 (RMB0'000)	For the nine months ended 30 September 2024 (RMB0'000)
Direct financial leasing services	0	0	0
Operating leasing services	0	0	0

Note: The amounts of the direct financial leasing services represent the right-of-use assets under the International Financial Reporting Standard (“IFRS”) 16 (Leases), while the amounts of the operating financial leasing services represent the annualised amounts of repayment. For operating leasing services, since the lease term of the assets to be leased under the Lease Framework Agreement is 12 months or less, the Company will not recognize right-of-use assets and lease liabilities for such short-term leases in accordance with IFRS 16 (Leases).

Proposed Annual Caps and Basis of Determination

The Company adopted, among others, the IFRS 16 (Leases) in its consolidated statement of financial position in connection with leases and finance leases with effect from the beginning of its accounting period on 1 January 2019.

Pursuant to the IFRS 16 (Leases), the Company recognises right-of-use assets at the commencement date of the lease (i.e., the date when the underlying asset is available for use by the Group). The Company will recognise the leased asset of the relevant lease which represents the right of the Company to use the leased asset (except for short-term leases and low-value leases), subject to the specific lease terms and conditions as set out in each lease agreement. For direct financial leasing services, the Company will recognize the right-of-use asset in respect of the right to use the leased assets from the inception date of the lease, whereas for operating lease services, the Company will not recognize the right-of-use asset and lease liability for such short-term leases in accordance with IFRS 16 (Leases), as the duration of the lease term of the assets to be leased by the Group will be for a period of 12 months or less.

Pursuant to the Listing Rules, direct financial leasing services are deemed as acquisition of assets by the Group. The Company expects that the annual caps under the Lease Framework Agreement for each of the three years ending 31 December 2027 are as below:

	For the year ending 31 December 2025 (RMB0'000)	For the year ending 31 December 2026 (RMB0'000)	For the year ending 31 December 2027 (RMB0'000)
Direct financial leasing services	15,000	15,000	15,000
Operating leasing services	35,000	35,000	35,000

Note: The amounts of the annual caps of the direct financial leasing services represent the right-of-use assets under the IFRS 16 (Leases), while the amounts of the annual caps of the operating financial leasing services represent the annualised amounts of repayment. For operating leasing services, since the lease term of the assets to be leased under the Lease Framework Agreement is 12 months or less, the Company will not recognize right-of-use assets and lease liabilities for such short-term leases in accordance with IFRS 16 (Leases).

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

- (i) The intended collaborative projects of the Group with the Members of Honghua Leasing during the term of the Lease Framework Agreement. After Honghua Leasing became a connected person of the Company, the Company intends to strengthen business cooperation in the operating leasing and financial leasing businesses to optimise the financing structure and reduce the capital investment. Collaborative projects include leasing projects in respect of oil drilling and new energy equipment such as electric fracturing pump equipment, gas generators and their supporting control systems and the large components required;
- (ii) The prevailing market conditions (including interest rate levels) and the possibility of future adjustments by the PBOC on lending interest rates; and
- (iii) the Group's expected demand for leasing services based on its current business strategies.

Reasons for and Benefits of the Transactions

The entering into of the Lease Framework Agreement meets the business needs of the Group. The leasing of relevant equipment by the Group from Dongfang Electric Corporation and its associates is based upon consideration of the competitive edges of Dongfang Electric Corporation and its associates such as qualifications, experience, advantages in terms of equipment, payment terms and transportation capabilities, all of which are conducive to meeting the Group's needs for the use of its products. After leasing equipment such as electric fracturing pumps and gas generators from Dongfang Electric Corporation and its associates, the Group will use such equipment to provide construction and operation services to third-party customers, for leasing or for its own use to increase the revenue from the related businesses. Therefore, the entering into of the Leasing Framework Agreement is conducive to broadening the customer base and service channels of the Group, expanding the market share of the Group and increasing the sales revenue of the Group. The Group and Dongfang Electric Corporation and its associates have a well-established cooperation foundation and smooth communication, which is conducive to the implementation and furtherance of transactions. In addition, through business cooperation in multiple projects, the Company and Dongfang Electric Corporation can make full use of the industrial foundation and advantages of both parties, and further enhance the strength of both parties.

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

Accordingly, the Directors (including independent non-executive Directors) are of the view that the Lease Framework Agreement (including the transactions contemplated thereunder and the proposed annual caps) is entered into in the ordinary course of business of the Group, on normal commercial terms which are fair and reasonable, and is in the interest of the Company and the Shareholders as a whole.

Implications under the Listing Rules

As at the date of this announcement, as Dongfang Electric Corporation directly and indirectly holds approximately 58.52% of the issued share capital of the Company, it is a controlling shareholder within the meaning of the Listing Rules and is therefore a connected person of the Company. Honghua Leasing is a wholly-owned subsidiary of Dongfang Electric Corporation, so Honghua Leasing is an associate of Dongfang Electric Corporation and therefore a connected person of the Company. Accordingly, the entering into the Lease Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios related to the transactions under the Lease Framework Agreement exceed 25%, such transactions also constitute a major transaction of the Company under Chapter 14 of the Listing Rules. Therefore, the transactions are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

4. FINANCIAL SERVICES FRAMEWORK AGREEMENT

On 10 December 2024, the Company entered into the Financial Services Framework Agreement with Dongfang Electric Finance, pursuant to which Dongfang Electric Finance will provide the Group with deposit services, loan advancement services and settlement services, the details of which are as follows.

Principal Terms

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

Date:	10 December 2024
Parties:	1) the Company (as the service purchaser and on behalf of its subsidiaries); and 2) Dongfang Electric Finance (as the service supplier)
Term:	From 1 January 2025 to 31 December 2027
Subject matter:	Dongfang Electric Finance will provide the Group with financial services including: 1) deposit services (the “Deposit Services”); 2) loan advancement services (the “Loan Advancement Services”); and 3) settlement services (the “Settlement Services”) (collectively known as the “Financial Services”)

Pricing Principles

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

- (i) in respect of the Deposit Services: the deposit interest rate applicable to the Group’s deposits at Dongfang Electric Finance shall not be lower than the interest rate offered by major state-owned commercial banks in the PRC for comparable deposits for the same periods, and shall be determined on normal commercial terms;
- (ii) in respect of the Loan Advancement Services: the interest rates for the loans granted by Dongfang Electric Finance to the Group shall be in accordance with the relevant regulations of the PBOC and the relevant lending interest rate policies and regulations of Dongfang Electric Finance. At the time of entering into each loan contract, both parties shall negotiate with each other based on the then market conditions, and the interest rate shall generally not exceed the interest rate of comparable loans obtained by the Group from major commercial banks in the PRC during the same period; and

(iii) in respect of the Settlement Services: the cumulative settlement fees to be charged by Dongfang Electric Finance for the provision of the Settlement Services for the Group during the agreement period shall not exceed RMB10 million per year.

Historical Amounts

During the period from 26 October 2022 to 31 December 2022, Dongfang Electric Finance did not provide any financial services to the Group. For the year ended 31 December 2023, the Group did not place any deposit with Dongfang Electric Finance. For the nine months ended 30 September 2024, the maximum daily balance of deposits placed by the Group with Dongfang Electric Finance (including accrued interest) amounted to RMB211,469,981.39. From 2022 to 2023, the Group's financial operations involved multi-currency transactions, including RMB and USD. However, Dongfang Electric Finance was limited to offering RMB deposit services, which were insufficient to satisfy the needs of Honghua Group. Therefore, Honghua Group sought loan support from commercial banks. These banks, in turn, required Honghua Group to maintain a corresponding deposit balance in their accounts for internal risk management purposes. Consequently, the volume of deposits held by Honghua Group with Dongfang Electric Finance during the 2022-2023 period was relatively low.

For the year ended 31 December 2023, Dongfang Electric Finance provided loans totaling RMB1,418 million to the Group, of which, the maximum daily balance of secured loans is nil, and the maximum daily balance of unsecured loans is RMB978 million. For the nine months from 1 January 2024 to 30 September 2024, Dongfang Electric Finance provided the Group loans totaling RMB279.5 million, of which, the maximum daily balance of secured loans is nil, and the maximum daily balance of unsecured loans is RMB1,435 million.

Proposed Annual Caps and Basis of Determination

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

	For the year ending 31 December 2025 (RMB0'000)	For the year ending 31 December 2026 (RMB0'000)	For the year ending 31 December 2027 (RMB0'000)
Deposit Services:			
Maximum daily balance of deposits to be placed by the Group with Dongfang Electric Finance (including accrued interest)	200,000	200,000	200,000

	For the year ending 31 December 2025 (RMB0'000)	For the year ending 31 December 2026 (RMB0'000)	For the year ending 31 December 2027 (RMB0'000)
Secured Loan Advancement Services:			
Maximum daily balance of secured loan (including accrued interest) to be advanced by Dongfang Electric Finance to the Group	50,000	50,000	50,000
Unsecured Loan Advancement Services:			
Maximum daily balance of unsecured loan (including accrued interest) to be advanced by Dongfang Electric Finance to the Group	200,000	230,000	250,000
Settlement Services	1,000	1,000	1,000

Note: In respect of Secured Loan Advancement Services, the principal amount of the loan and the amount of secured assets shall not exceed RMB500 million for each of the three years ending 31 December 2027.

In determining the proposed annual caps of the Settlement Services under the Financial Services Framework Agreement, the Company estimates that the annual caps based on the Company's expectation on domestic sales and the costs of opening and discounting domestic letters of guarantee with Dongfang Electric Finance in the future.

In determining the proposed annual caps of the Deposit Services and the Loan Advancement Services under the Financial Services Framework Agreement, the Company has considered the following factors: (i) the cash and cash equivalents of the Group of RMB601 million and RMB811.27 million as at 31 December 2022 and 31 December 2023, respectively; and (ii) the cash and cash equivalents of the Group of RMB971.83 million as at 30 September 2024.

In determining the proposed annual caps of the Loan Advancement Services to be provided by Dongfang Electric Finance to the Group under the Financial Services Framework Agreement, the Company has taken into account the following additional factors:

- (i) according to the Group's business plan and budget, the Group expects to have relatively large capital needs in several drilling rig projects and offshore projects and marine engineering projects;
- (ii) Dongfang Electric Finance has sufficient capital sources, relatively low capital costs and relatively stable credit policy, and can provide the Group with stable financing support; and

- (iii) in comparison, the credit policy of Independent Third-Party financial institutions, which are affected by various factors such as regulatory policies, the credit scale of the head office, capital costs and other factors, is relatively uncertain.

In particular, the annual caps of each of the Deposit Services and Secured Loan Advancement Services were determined based on the following key factors:

Deposit Services

Since 2024, Dongfang Electric Corporation and Dongfang Electric Finance have continued to provide loan support to Honghua Group. At the same time, the interest rates of deposits offered by Dongfang Electric Finance Company are comparable to, or more favorable than, those of third-party commercial banks. As a result, the Group intends to increase its deposits with Dongfang Finance in the future. The annual caps of the Deposit Services were determined based on the following key factors:

- (1) Current and Historical Cash Balances: The average balance of the Group's monetary funds is approximately RMB900 million, with the highest balance in the past three years reaching RMB approximately 1.8 billion. Given Dongfang Electric Finance's ongoing support for the Group, it is planned to deposit RMB800 million to RMB1 billion with Dongfang Electric Finance at an interest rate no less favourable than those offered by other financial institutions;
- (2) Future Business Growth: The Group is currently experiencing a positive development trend, supported by a sufficient volume of orders. It is anticipated that future sales revenues will steadily increase, which will in turn raise the overall deposit amount;
- (3) As at the date of this announcement, Honghua Group has an outstanding syndicated loan of RMB1.03 billion. Given the size of the loan being substantial, the Group intends to seek financial support from Dongfang Electric Finance to refinance the loan. The fund from Dongfang Electric Finance will first reach the Group's account with Dongfang Electric Finance immediately after withdrawal from Dongfang Electric Finance and before the repayment of the syndicated loan; and
- (4) Strategic Financial Cooperation: To further strengthen the comprehensive financial cooperation with the Group, Dongfang Electric Finance offers more competitive, efficient and convenient financial services, such as deposits and loans, compared to external financial institutions. As long as the deposit conditions provided by Dongfang Electric Finance are not less favorable than those of other financial institutions, the Group intends to gradually centralize its deposits in its account maintained with Dongfang Electric Finance.

Honghua Offshore Oil & Gas Equipment (Jiangsu) Co., Ltd. and Sichuan Honghua Electric Co., Ltd., subsidiaries of the Group, are expected to gradually expand their business operations and market presence in areas such as offshore drilling rigs starting next year. Currently, these subsidiaries are in the development stage and have relatively weak credit profiles. As a result, they are anticipated to require partial collateral to secure loans from financial institutions. For internal risk management purposes, the Company has determined that the maximum allowable collateral-backed loan for these subsidiaries will be RMB500 million, which shall not exceed 15% of the Group's net assets.

Given that the terms offered by Dongfang Electric Finance are no less favorable than those available from Independent Third-Party financial institutions and considering that the Group retains full discretion in selecting its financial lenders for these secured loans, the Company considers the annual caps on the Secured Loan Advancement Services to be fair and reasonable.

In view of the aforesaid backdrop, the Group needs continuous and stable financing support from Dongfang Electric Finance. However, Dongfang Electric Finance, as a lender, usually conduct a thorough assessment on its borrowers on an annual basis based on its borrowers' financial and operating conditions in the previous year, to determine the ratings of the borrowers, and in turn to determine the amount of credit facilities to be granted to the borrowers in accordance with their respective rating. The Group, as a borrower, needs to put forward relevant requirements for each business line based on its own business expansion, expected sales growth, the relevant policies of the Group and the balance of the financial business with Dongfang Electric Finance.

As such, as per the credit approval requirements of Dongfang Electric Finance, asset security must be provided by the Group for certain proportion of the loans and credit facilities granted as credit enhancement measures, and the proportion of secured loans and credit facilities will be determined by reference to the Group's annual ratings and other specific conditions.

Reasons for and Benefits of the Transactions

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

(i) To increase interest income and save finance costs

Subject to compliance with the relevant laws, regulations and regulatory requirements, Dongfang Electric Finance will provide the Deposit Services to the Group on normal commercial terms or more favourable terms, which will help increase the interest income of the Group. With the deposit arrangements with Dongfang Electric Finance, the Group could handle the settlement activities through its internal accounts at Dongfang Electric Finance with reduced charges, which can reduce the financial handling fees of the Group.

(ii) To raise the efficiency of fund utilisation

The Deposit Services of Dongfang Electric Finance will strengthen the Company's centralised management of the funds of its subsidiaries and shorten the time for capital transfers, which is beneficial for the Group to enhance fund management and control and to reduce the time for funds in transit, thereby accelerating cash flows.

(iii) To enhance the management and control of the Group's funds

Dongfang Electric Finance has a cutting-edge information system, through which the Group can access the latest information on its collection and payment of funds as well as the status of fund balance, thereby reducing and avoiding operational risks.

(iv) To meet the needs for working funds

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

In addition, in respect of the Settlement Services, as Dongfang Electric Finance is familiar with the business and transaction pattern of the Group, the Settlement Services provided by Dongfang Electric Finance tend to provide a more efficient settlement platform than those provided by commercial banks. The Settlement Services enable the Group to achieve same-day low-rate settlement at low costs. This also helps to reduce the transaction costs of the Group, such as handling fees for fund transfers and other administrative and management fees.

Accordingly, the Directors (including independent non-executive Directors) are of the view that the terms of the Financial Services Framework Agreement (including the Deposit Services, Lending Services and Settlement Services contemplated thereunder and the proposed annual caps) are on normal commercial terms which are fair and reasonable and entered into in the ordinary and usual course of business of the Group, which are in the interests of the Company and Shareholders as a whole.

Implications under the Listing Rules

As at the date of this announcement, Dongfang Electric Corporation holds 5,290,494,251 shares (representing 58.52% of the total issued share capital of the Company) of the Company through its wholly-owned subsidiary Dongfang Investment, and therefore is a controlling shareholder and connected person of the Company. DFEC holds 95% of the shares of Dongfang Electric Finance, and Dongfang Electric Corporation holds 5% of the shares of Dongfang Electric Finance, thus Dongfang Electric Finance is an associate of Dongfang Electric Corporation and in turn a connected person of the Company. Therefore, the transactions under the Financial Services Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

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

In respect of the Unsecured Loan Advancement Services under the Financial Services Framework Agreement, the transactions constitute financial assistance provided to the Group by a connected person on normal commercial terms or better, and will not be secured by the Group's assets, so Unsecured Loan Services will be fully exempted from all reporting, announcement, annual review and Independent Shareholders' approval requirements under Rule 14A.90 of the Listing Rules.

In respect of the Secured Loan Advancement Services under the Financial Services Framework Agreement, as one or more of the applicable percentage ratios of the transactions are higher than 25%, such transactions also constitute a major transaction of the Company under Chapter 14 of the Listing Rules. Therefore, the transactions relating to the Secured Loan Advancement Services under the Financial Services Framework Agreement are subject to the reporting, announcement, annual review and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. If the principal amount of the secured loan or the amount of secured assets increases to the effect that the transactions in respect of the Secured Loan Advancement Service fall under a higher classification, the Company will re-calculate the percentage ratios and re-comply with the provisions of Chapter 14A of the Listing Rules, if applicable.

In respect of the Settlement Services under the Financial Services Framework Agreement, one or more of the applicable percentage ratios of the transactions are higher than 0.1% but less than 5%. The transactions relating to the Settlement Services under the Financial Services Framework Agreement are subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules but are exempted from the Independent Shareholders' approval requirement.

5. INTERNAL CONTROL

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

Such arrangements include:

- (i) before the respective subsidiary of the Company enters into any transaction with Dongfang Electric Corporation according to the Dongfang Electric Framework Agreements, the relevant department will collect the information (including credit certificate) of the counterparty (as the case may be) for selection, arrange review of the contracts by the legal and risk control department, finance department, technical department, production department, quality department and other relevant departments (as the case may be) and evaluation, review and approval by the management of the respective subsidiary to ensure the fairness and reasonableness of the relevant terms and pricing;
- (ii) the transactions contemplated under the Dongfang Electric Framework Agreements shall be conducted on a non-exclusive basis, and the Group has the flexibility to enter into arrangements with Independent Third Parties;
- (iii) the pricing mechanism is transparent and the implementation of such pricing mechanism in the Dongfang Electric Continuing Connected Transactions is subject to strict scrutiny by the finance department, technical department and/or the relevant business departments of the Company (as the case may be). This will ensure that the Dongfang Electric Continuing Connected Transactions are conducted in accordance with the relevant pricing policies and the quotations obtained meet the relevant requirements;
- (iv) with regard to the Purchase Framework Agreement, the Group will keep and continue to update a centralised list of eligible suppliers who are shortlisted based on their procurement qualifications, capability to procure products with specific technical requirements and the Group's past experience in dealing with the respective suppliers. Prior to the entering into of the transactions by the purchaser and the seller under the Purchase Framework Agreement, the business department of the purchaser shall submit an application and the procurement department of the purchaser shall organise the selection of suppliers from the list, which shall also be subject to consideration and approval by the management of the purchaser(s) so as to ensure the fairness and reasonableness of the relevant terms and pricing;

- (v) with regard to the Sales Framework Agreement, the Group strictly follows the internal sales policy to perform relevant pricing and approval procedures. For each type of sales contract, the relevant procedures set forth the functional departments that are required to participate in the contract review and due diligence, as well as detailed review standards. Depending on the consideration of the contracts, the Group will implement a tiered structure of execution authority in the contract signing phase;
- (vi) with respect to the Lease Framework Agreement, the finance department is responsible for collecting and monitoring information under the Lease Framework Agreement. Before entering into individual lease contracts under the Lease Framework Agreement, the finance department will compare the major terms and financing costs associated with such arrangements with the major terms and financing costs charged by at least two independent third parties that provide finance leases of similar size and nature. The Group intends to obtain relevant quotations from independent third parties, which must at least be comparable to Honghua Leasing in terms of operating scale and financial status and pick the best option after comprehensive evaluation. The finance department and other relevant operating departments of the Group are jointly responsible for reviewing the transaction terms of the individual agreements governed by the Lease Framework Agreement, especially the fairness and reasonableness of the pricing terms therein. The finance department of the Company has established a monitoring system to keep track of the amount of new direct leases and operating leases to strictly control the balance to ensure that it will not exceed the relevant proposed annual caps;
- (vii) with regard to the transactions in relation to the Deposit Services under the Financial Services Framework Agreement, the personnel in the finance department of the Group is responsible for comparing the interest rates offered by at least two major state-owned commercial banks in the PRC, so as to confirm that the interest rates offered by Dongfang Electric Finance are not less favourable than such interest rates in respect of the Group;
- (viii) with regard to the transactions in relation to the Loan Advancement Services under the Financial Services Framework Agreement, the personnel in the finance department of the Group is responsible for comparing the lending rates offered by Dongfang Electric Finance against the lending rates offered by at least two major commercial banks in the PRC, so as to confirm that the lending rates offered by Dongfang Electric Finance are not higher than the rates applicable to the same type of loan services provided by major commercial banks in the PRC to the Group, and loan agreements shall be determined on normal commercial terms. Each of the loans of the Group at Dongfang Electric Finance will be submitted to the management of the Group for review and approval in accordance with the relevant policies;

- (ix) in order to ensure that Dongfang Electric Continuing Connected Transaction will be or have been conducted in accordance with the relevant pricing policies or mechanisms and do not exceed the annual caps of the relevant continuing connected transactions, the relevant departments of the Company will monitor Dongfang Electric Continuing Connected Transactions, including (a) the Board office, in conjunction with the finance department, will regularly monitor the transaction amounts of Dongfang Electric Continuing Connected Transactions on a monthly basis; (b) the business department will review and conduct internal audits on a monthly basis to track, monitor and evaluate the transaction amount of Dongfang Electric Continuing Connected Transactions; (c) the Board office, in collaboration with the sales, purchasing and other business management departments and the audit department will monitor the pricing standards, execution and implementation of Dongfang Electric Continuing Connected Transactions and conduct random checks from time to time to ensure compliance with the pricing policies;
- (x) the independent non-executive Directors shall annually review the transactions contemplated under the Dongfang Electric Framework Agreements, and confirm in the Company's annual report that Dongfang Electric Continuing Connected Transactions have been (a) conducted in the ordinary and usual course of business of the Group; (b) on normal commercial terms or more favourable terms; and (c) conducted in accordance with the Dongfang Electric Framework Agreements, and the terms of the Dongfang Electric Framework Agreements are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and
- (xi) the Company's auditor shall be engaged to annually report on the transactions contemplated under the Dongfang Electric Framework Agreements and provide a letter to the Board that nothing has come to their attention that causes them to believe that Dongfang Electric Continuing Connected Transactions (a) have not been approved by the Board; (b) were not, in material respects, consistent with the pricing policies adopted for the Dongfang Electric Continuing Connected Transactions; (c) were not entered into, in material respects, in accordance with the Dongfang Electric Framework Agreements; and (d) exceeded the proposed annual caps of the Dongfang Electric Continuing Connected Transactions.

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

6. INFORMATION ON PARTIES

The Group is principally engaged in 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 Corporation is one of the largest energy equipment manufacturing enterprise groups in the PRC, mainly engaged in offshore wind power, electric motors, geothermal power generation and distributed energy applications. Dongfang Electric Corporation is controlled by the State-owned Assets Supervision and Administration Commission of the State Council of the PRC.

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

Honghua Leasing, a company incorporated in the PRC, is a wholly-owned subsidiary of Dongfang Electric Corporation. Honghua Leasing's principal business includes finance lease (direct lease, sale and leaseback), operating lease, factoring, consulting services, etc.

7. INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Dongfang Electric Framework Agreements (including the Dongfang Electric Continuing Connected Transactions and the proposed annual caps in relation thereto) was approved by the Directors, except for Mr. Wang Xu, Mr. Zhu Hua, Mr. Yang Qiang, Mr. Yang Yangzhuang and Mr. Liu Xinggui, who are directors nominated by Dongfang Electric Corporation and its associates, are deemed to have interests in the continuing connected transactions and have therefore abstained from voting. None of the other Directors is regarded as having a material interest in the Dongfang Electric Continuing Connected Transactions, and hence none of the other Directors has abstained from voting on the Board resolutions to approve the Dongfang Electric Framework Agreements (including the Dongfang Electric Continuing Connected Transactions and the proposed annual caps in relation thereto).

The Independent Board Committee comprising all the independent non-executive Directors (namely Mr. Zhang Shiju, Ms. Li Yuedong and Mr. Wang Junren) has been established to advise the Independent Shareholders in respect of the Dongfang Electric Framework Agreements, Dongfang Electric Continuing Connected Transactions and the proposed annual caps thereof. Gram Capital has been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

8. APPROVAL FROM THE INDEPENDENT SHAREHOLDERS

The Company will seek approval from the Independent Shareholders in respect of the Dongfang Electric Framework Agreements (including the Dongfang Electric Continuing Connected Transactions and the proposed annual caps contemplated thereunder) at the EGM. A circular containing, among others, details on the Dongfang Electric Framework Agreements, a letter of recommendation from the Independent Board Committee to the Independent Shareholders, and a letter of advice from Gram Capital to the Independent Board Committee and the Independent Shareholders will be despatched to Shareholders within 15 business days after publication of this announcement.

Dongfang Electric Corporation and its associates (holding 5,290,494,251 Shares or approximately 58.52% of the Shares in the Company as at the date of this announcement) who are involved in, or interested in the Dongfang Electric Framework Agreements will abstain from voting in the relevant resolutions at the EGM.

9. DEFINITIONS

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

“associate(s)”	has the meaning ascribed to it under the Listing Rules;
“Board”	the board of directors or a duly authorised committee of the board of directors of the Company;
“Company”	Honghua Group Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Stock Exchange;
“connected person(s)”	has the meaning ascribed to it under the Listing Rules;
“continuing connected transaction(s)”	has the meaning ascribed to it under the Listing Rules;
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules;
“DFEC”	Dongfang Electric Co., Ltd. (東方電氣股份有限公司), a joint stock limited company incorporated in the PRC with limited liability whose H shares are listed on the Main Board of the Stock Exchange (stock code: 1072) and its A shares are listed on the Shanghai Stock Exchange (stock code: 600785) and is a subsidiary of Dongfang Electric Corporation;
“Director(s)”	director(s) of the Company;

“Dongfang Electric Corporation”	Dongfang Electric Corporation (中國東方電氣集團有限公司), a state-owned company incorporated in the PRC, which is one of the largest energy equipment manufacturing enterprise groups in the PRC, and also the controlling shareholder of the Company;
“Dongfang Electric Continuing Connected Transaction(s)”	the transactions contemplated under the Dongfang Electric Framework Agreements (excluding the transactions in relation to Settlement Services and Unsecured Loan Advancement Services);
“Dongfang Electric Framework Agreements”	the Purchase Framework Agreement, the Sales Framework Agreement, the Lease Framework Agreement and the Financial Services Framework Agreement;
“Dongfang Electric Finance”	Dongfang Electric Finance Co., Ltd., a non-bank financial institution incorporated under the laws of the PRC with limited liability and also a subsidiary of Dongfang Electric Corporation;
“DEC Investment”	DEC Investment Management Company Limited, a company incorporated in the PRC with limited liability, and a wholly-owned subsidiary of Dongfang Electric;
“Dongfang International Investment”	Dongfang Electric International Investment Co., Ltd., a company incorporated in Hong Kong, which is a wholly-owned subsidiary of Dongfang Electric Corporation;
“EGM”	the extraordinary general meeting of the Company to be held to consider and, if appropriate, to approve the Dongfang Electric Framework Agreements (including the Dongfang Electric Continuing Connected Transactions and the proposed annual caps in relation thereto) or any adjournment thereof;
“Financial Services Framework Agreement”	the financial services framework agreement dated 10 December 2024 entered into between the Company and Dongfang Electric Finance;
“Group”	the Company and its subsidiaries (as defined under the Listing Rules);
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;

“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“Honghua Holdings”	Honghua Holdings Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company;
“Honghua Leasing”	Honghua Financial Leasing (Shanghai) Co., Ltd., a company incorporated in the PRC with limited liability, and a wholly-owned subsidiary of Dongfang Electric Corporation;
“Independent Board Committee”	the independent committee of the Board, comprising all the independent non-executive Directors, established to make recommendations to the Independent Shareholders in respect of the Purchase Framework Agreement, the Sales Framework Agreement, the Lease Framework Agreement, the Deposit Services and Secured Loan Advancement Services under the Financial Services Framework Agreement and the respective proposed annual caps of the transactions contemplated thereunder;
“Independent Financial Adviser” or “Gram Capital”	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity as defined under the SFO, being the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the transactions contemplated under the Purchase Framework Agreement, the Sales Framework Agreement, the Lease Framework Agreement, the Deposit Services and the Secured Loan Advancement Services under the Financial Services Framework Agreement and the respective proposed annual caps;
“Independent Shareholder(s)”	shareholder(s) other than Dongfang Electric Corporation and its associates;
“Independent Third Party(ies)”	person(s) or company(ies) which is/are not connected (as defined under the Listing Rules) with the Company;
“Lease Framework Agreement”	the lease framework agreement dated 10 December 2024 entered into between the Company and Honghua Leasing;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;

“Members of Honghua Leasing”	Honghua Leasing and its subsidiaries;
“PBOC”	the People’s Bank of China;
“PRC”	the People’s Republic of China;
“Purchase Framework Agreement”	the purchase framework agreement dated 10 December 2024 entered into between the Company and Dongfang Electric Corporation;
“RMB”	Renminbi, the lawful currency of the PRC;
“Sales Framework Agreement”	the sales framework agreement dated 10 December 2024 entered into between the Company and Dongfang Electric Corporation;
“Share(s)”	the ordinary share(s) of HK\$0.10 each in the share capital of the Company;
“Shareholder(s)”	holder(s) of ordinary share(s) of HK\$0.10 each in the share capital of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules;
“%”	per cent.

On behalf of the Board
Honghua Group Limited
Wang Xu
Chairman

PRC, 10 December 2024

As at the date of this announcement, the executive directors of the Company are Mr. Wang Xu (Chairman), Mr. Zhu Hua and Mr. Yang Qiang; the non-executive directors of the Company are Mr. Yang Yangzhuang and Mr. Liu Xinggui; and the independent non-executive directors of the Company are Mr. Zhang Shiju, Ms. Li Yuedong and Mr. Wang Junren.