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宏华集团
HONGHUA GROUP

HONGHUA GROUP LIMITED

宏華集團有限公司

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

(Stock code: 196)

CONTINUING CONNECTED TRANSACTION- SALES FRAMEWORK AGREEMENT

SALES FRAMEWORK AGREEMENT

On 24 June 2020, the Company and China Aerospace Construction Group Co., Ltd.* (中國航天建設集團有限公司) (“**China Aerospace Construction**”) entered into the Sales Framework Agreement, pursuant to which the Group will sell equipment, parts, components or finished products and other related or similar goods, steel structure processing, construction and related services to China Aerospace Construction and its associates.

LISTING RULES IMPLICATIONS

As at the date of this announcement, CASIC indirectly holds approximately 29.98% of the Shares in the Company through its wholly-owned subsidiary Kehua, and therefore is a substantial Shareholder and connected person of the Company. CASIC directly holds 72.85% equity interest in China Aerospace Construction, thus China Aerospace Construction is an associate of CASIC, and in turn a connected person of the Company. Therefore, the Sales Transactions constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios set out in the Listing Rules exceed 0.1% but are less than 5%, the Sales Framework Agreement and the annual caps of the transactions contemplated thereunder are subject to the reporting, announcement and annual review requirements but are exempt from the Independent Shareholders’ approval requirement under Chapter 14A of the Listing Rules.

INTRODUCTION

On 24 June 2020, the Company and China Aerospace Construction entered into the Sales Framework Agreement, pursuant to which the Group will sell equipment, parts, components or finished products and other related or similar goods, steel structure processing, construction and related services (hereinafter collectively referred to as “**Products and Services**”) to China Aerospace Construction and its associates.

Sales Framework Agreement

Parties:

The Company (as seller and on behalf of its subsidiaries) and China Aerospace Construction (as purchaser, for itself and on behalf of its associates)

Subject matter:

The Group will provide Products and Services to China Aerospace Construction and its associates.

Date:

24 June 2020

Term of agreement:

The term of the Sales Framework Agreement will commence on the date of the agreement and expire on 31 December 2021.

Pricing policy:

The price and terms for the provision of Products and Services by the Group to China Aerospace Construction and its associates shall be determined based on the following principles:

- (i) where there are market prices for the relevant Products and Services, the prices shall be determined with reference to the prevailing market prices at which the same type of Products and Services provided by the Group to an independent third party customer on normal commercial terms (the Group will compare the transactions with those transactions in respect of similar products and services with two independent third party customers at least); and
- (ii) where there are no market prices for the relevant Products and Services which meet the specific business needs of China Aerospace Construction and its associates, the prices shall be determined with reference to the costs, profit margins and market conditions of the Products and Services, and the mark-up rate charged for all transactions is not lower than 8%, provided that the price provided by the Group to China Aerospace Construction and its associates is fair and reasonable, on normal commercial terms and not prejudicial to the interest of the Company's minority Shareholders.

Annual caps and basis of determination:

The respective annual cap under the Sales Framework Agreement for each of the years ended 31 December 2020 and 2021 is RMB30 million and RMB20 million, respectively.

The Group did not provide Products and Services to China Aerospace Construction during the three years ended 31 December 2019. From 1 January 2020 to the date of this announcement, the Group also did not provide Products and Services to China Aerospace Construction.

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

- (i) In order to make full use of the industrial foundations and advantages of both parties, the Group and China Aerospace Construction and its associates plan to conduct business cooperation in the processing and construction of steel structures to enhance the enterprise strengths of both parties;
- (ii) the intentional cooperation projects of China Aerospace Construction and its associates with the Group, the progress of project delivery, and their expected procurement needs in respect of the relevant Products and Services during the term of the Sales Framework Agreement; and
- (iii) the factors such as the Group's expected production costs.

It is estimated that most transactions will be completed by 2020 based on the planned intentional project progress with China Aerospace Construction and their delivery requirements. Therefore, the annual cap for 2021 under the Sales Framework Agreement is lower than that for 2020 by approximately 30%.

REASONS FOR AND BENEFITS OF SALES TRANSACTIONS

The entering of the Sales Framework Agreement between the Company and China Aerospace Construction is in line with the business development needs of the Group and is beneficial for promoting the sales of relevant Products and Services of the Group, as well as achieving full synergic effect between the Group and China Aerospace Construction and its associates under fair and reasonable circumstances.

The Company will retain the flexibility and discretion to select purchasers among China Aerospace Construction and its associates and other independent third parties based on arm's length negotiations after taking into consideration commercial terms and other factors.

The Directors, including the independent non-executive Directors, are of the view that the Sales Transactions are carried out in the ordinary course of business of the Group, on normal commercial terms which are fair and reasonable, and in the interest of the Company and the Shareholders as a whole.

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 shall include:

1. Before each subsidiary of the Company enters into any transaction according to the Sales Framework Agreement, the relevant sales departments will collect the information (including credit certificate) of purchasers (as the case may be) for selection, arrange the legal department, finance department, technical department, production department, quality department and other relevant departments to conduct contract review, and subject to evaluation, review and approval by the chairman's office at the board of each subsidiary to ensure the relevant terms and pricing are arrived at on a fair and reasonable basis;
2. the legal and securities department and the finance department of the Company will monitor the continuing connected transactions, and the relevant departments shall report to the legal and securities department and the finance department monthly on the implementation of the continuing connected transactions, to ensure that the transactions are to be carried out and have been carried out in accordance with the relevant pricing policies or system and the annual caps for the continuing connected transactions are not exceeded;
3. the internal audit department of the Company will also conduct audit on the continuing connected transactions to ascertain whether such continuing connected transactions are conducted under fair and reasonable terms; and
4. the auditors and audit committee of the Company will also conduct annual review of the continuing connected transactions to confirm whether the continuing connected transactions have been conducted in compliance of the pricing policies or system and whether the relevant annual caps have been exceeded.

LISTING RULES IMPLICATIONS

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As one or more of the applicable percentage ratios set out in the Listing Rules exceed 0.1% but are less than 5%, the Sales Framework Agreement and the annual caps of the transactions contemplated thereunder are subject to the reporting, announcement and annual review requirements but are exempt from the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

Mr. Jin Liliang, Mr. Han Guangrong and Mr. Chen Wenle, nominated by CASIC and its associates and appointed as Directors of the Company, are deemed to be interested in the Sales Transactions and therefore have abstained from voting when considering relevant Board resolution. Save as disclosed above, none of the Directors of the Company has any material interest in the Sales Transactions and thus has to abstain from voting.

GENERAL INFORMATION

The Group is principally engaged in the business of developing, manufacturing and selling drilling rigs, rig parts and components and providing after-sales services.

China Aerospace Construction, a limited liability company incorporated in the PRC, is principally engaged in electrical and mechanical equipment installation engineering, the preliminary planning, consulting and design, geological survey, general contracting, construction, engineering supervision, and municipal engineering. It has integrated capabilities in steel structure engineering design and construction, security and protection system design and construction, environmental protection engineering design and construction, intelligent building design and construction, and technical research and development and development and manufacture of non-standard equipment such as the design of information engineering and pressure pipelines.

CASIC is a company established in the PRC and also the ultimate beneficial owner of 72.85% equity interest in China Aerospace Construction. CASIC is a large state-owned enterprise in China, principally engaged in the research and development and manufacturing of high-tech products, such as aerospace and defence technology, information technology and equipment in the PRC.

DEFINITIONS

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

“China Aerospace Construction”	China Aerospace Construction Group Co., Ltd.* (中國航天建設集團有限公司), a limited liability company incorporated in the PRC;
“associate(s)”	has the same meaning ascribed to it under the Listing Rules;
“Board”	the board of Directors;
“CASIC”	China Aerospace Science and Industry Corporation Limited, a limited liability company incorporated in the PRC, and its ultimate beneficial owner is the State-owned Assets Supervision and Administration Commission of the State Council;
“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 same meaning ascribed to it under the Listing Rules;
“Director(s)”	the director(s) of the Company;
“Group”	the Company and its subsidiaries;
“Hong Kong”	the Hong Kong Special Administration Region of the People’s Republic of China;

“Independent Shareholder(s)”	Shareholder(s) other than CASIC and its associates;
“Kehua”	Kehua Technology Co., Limited, a limited liability company incorporated in Hong Kong and a wholly-owned subsidiary of CASIC;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Main Board”	the stock market operated by the Stock Exchange, excluding GEM;
“PRC”	The People’s Republic of China;
“RMB”	Renminbi, the lawful currency of the PRC;
“Sales Framework Agreement”	the sales framework agreement dated 24 June 2020 entered into between the Company and China Aerospace Construction;
“Sales Transactions”	the transactions contemplated under the Sales Framework Agreement;
“Share(s)”	ordinary share(s) of HK\$0.1 each in the capital of the Company;
“Shareholder(s)”	holder(s) of ordinary share(s) of HK\$0.1 each in the capital of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited; and
“%”	per cent.

By order of the Board
Honghua Group Limited
Jin Liliang
Chairman

PRC, 24 June 2020

As at the date of this announcement, the executive directors of the Company are Mr. Jin Liliang (Chairman), Mr. Zhang Mi and Mr. Ren Jie, the non-executive directors of the Company are Mr. Han Guangrong and Mr. Chen Wenle, and the independent non-executive directors of the Company are Mr. Liu Xiaofeng, Mr. Chen Guoming, Ms. Su Mei, Mr. Poon Chiu Kwok, Mr. Chang Qing and Mr. Wei Bin.

* For identification purpose only