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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 – PURCHASE FRAMEWORK AGREEMENT**

### **PURCHASE FRAMEWORK AGREEMENT**

On 22 January 2020, Sichuan Honghua, a wholly-owned subsidiary of the Company, entered into a purchase framework agreement with Shanghai Offshore, pursuant to which Shanghai Offshore will provide Sichuan Honghua with drilling and exploiting equipment, automation systems, vessels, other ancillary equipment and related services (including but not limited to installation, commissioning and maintenance services); large-scale steel structure processing, construction, installation and commissioning services.

### **LISTING RULES IMPLICATIONS**

Shanghai Offshore is owned as to 51% equity interest by Jiangsu Hongjieding. Mr. Zhang Mi, an executive director of the Company, through his sole proprietorship, holds 53.85% of equity interests in Jiangsu Hongjieding as of the date of this announcement. Accordingly, Shanghai Offshore is a connected person of the Company, and the transactions between Sichuan Honghua and Shanghai Offshore constitute the connected transaction of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios calculated under Rule 14A.81 of the Listing Rules, on an aggregated basis, exceed 0.1% but less than 5%, the transactions are only subject to the reporting and announcement requirements but are exempt from the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

### **INTRODUCTION**

As approved by the Board of Directors of the Company, Sichuan Honghua entered into a purchase framework agreement (“Purchase Framework Agreement”) with Shanghai Offshore, pursuant to which Shanghai Offshore will provide Sichuan Honghua with drilling and exploiting equipment, automation systems, vessels, other ancillary equipment and related services (including but not limited to installation, commissioning and maintenance services); large-scale steel structure processing, construction, installation and commissioning services (hereinafter collectively referred to as the “Products and Services”).

## **PURCHASE FRAMEWORK AGREEMENT**

### **Date:**

22 January 2020

### **Parties:**

- (1) Sichuan Honghua (on behalf of itself and its Associates)
- (2) Shanghai Offshore (on behalf of itself and its Associates)

### **Subject Matter and Terms of Agreement**

Pursuant to the Purchase Framework Agreement, Shanghai Offshore will provide the Products and Services to Sichuan Honghua.

The term of the Purchase Framework Agreement commences at the date of the agreement and expires on 31 December 2020.

### **Pricing Policy**

The relevant terms for the provision of the Products and Services by Shanghai Offshore to Sichuan Honghua, will be determined based on the nature of each transaction. The details of pricing will be determined by taking into account comprehensive factors such as the quality, payment terms and transportation conditions of the Products and Services provided by Shanghai Offshore upon request, after the arm's length negotiation with reference to the prevailing market prices (including the quotation for similar products and services offered by independent third parties), and on normal commercial terms and terms no less favourable than terms of the transactions with independent third parties.

### **Information for Historical Transactions:**

The following table sets out the relevant historical amount of the purchase made by Sichuan Honghua and its Associates from Shanghai Offshore and its Associates as of 31 December 2019:

*Unit: RMB10,000*

	<b>For the year ended 31 December 2017</b>	<b>For the year ended 31 December 2018</b>	<b>For the year ended 31 December 2019</b>
Products and Services	443.3	211.2	820.1

### **Annual Cap for 2020 and Basis of Determination:**

The annual cap under the Purchase Framework Agreement for the year ended 31 December 2020 is RMB100 million. The annual cap under the Purchase Framework Agreement was determined based on historical transaction amount between Sichuan Honghua (“and its Associates”) and Shanghai Offshore (“and its Associates”) and the expected procurement needs of Sichuan Honghua.

## **REASONS FOR AND BENEFITS OF THE TRANSACTION**

The principal businesses of Sichuan Honghua and its Associates include research, design, manufacturing, service and sales of oil drilling and exploiting equipment, general contracting of petrochemical engineering, general contracting of construction engineering and contracting of steel structure engineering.

The principal businesses of Shanghai Offshore and its Associates include research, development and design of offshore oil and gas drilling and exploiting equipment, vessels, offshore platform equipment, traditional offshore equipment and the overall construction of large-scale wind power steel structures.

In view of the fact that Shanghai Offshore has sophisticated construction capabilities, heavy-load open docks and hoisting and ro-ro shipping capabilities, it can accomplish the construction of large-scale steel structures and overall shipping, which is conducive to reducing transportation costs and shortening lead time.

Sichuan Honghua's purchase of the Products and Services from Shanghai Offshore is based on a comprehensive consideration of the qualifications, experience and transportation capabilities of Shanghai Offshore and its Associates, which facilitates to satisfy Sichuan Honghua's requirement on quality and lead time of the project.

Sichuan Honghua will retain the flexibility and discretion to select Shanghai Offshore and other independent third parties based on fair negotiations and consideration of commercial terms and other factors.

The Directors, including the independent non-executive Directors, are of the view that the transactions under the Purchase Framework Agreement are carried out in the ordinary course of business of the Group and are on normal commercial terms and thus fair and reasonable and in the interest of the Company and the Shareholders as a whole.

## **INTERNAL CONTROL**

Prior to the entering into of the transactions by Sichuan Honghua and Shanghai Offshore under the Purchase Framework Agreement, the business department of Sichuan Honghua shall submit an application and the procurement department of Sichuan Honghua shall organize and select suppliers, which is subject to consideration and approval by the Chairman's Office of Sichuan Honghua so as to ensure the fairness and reasonableness of relevant terms and pricing. The finance department and the legal and securities department of the Company will monitor the continuing connected transactions to ensure that the transactions are conducted in accordance with the relevant pricing policies or system and the annual cap for the continuing connected transactions are not exceeded. The internal audit department of the Company will also conduct audit on the continuing connected transactions and relevant internal control procedures. 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 cap have been exceeded.

## **IMPLICATION OF THE LISTING RULES**

Shanghai Offshore is owned as to 51% equity interest by Jiangsu Hongjieding. Mr. Zhang Mi, an executive director of the Company, through his sole proprietorship, holds 53.85% of equity interests in Jiangsu Hongjieding as of the date of this announcement. Accordingly, Shanghai Offshore is a connected person of the Company, and the transactions between Sichuan Honghua and Shanghai Offshore constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios calculated under Rule 14A.81 of the Listing Rules, on an aggregated basis, exceed 0.1% but less than 5%, the transactions are only subject to the reporting and announcement requirements but are exempt from the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

Mr. Zhang Mi, an executive director of the Company, is deemed to be interested in the transaction and therefore has abstained from voting at the relevant board meeting for resolution of the board in respect of approval of the transactions.

## **GENERAL INFORMATION**

Sichuan Honghua, a company incorporated in the PRC, is principally engaged in the research, design, manufacturing and service of drilling and exploiting equipment, the general contracting of petrochemical engineering, the general contracting of construction engineering and the contracting of steel structure engineering.

Shanghai Offshore, a company incorporated in the PRC, is principally engaged in offshore oil and gas engineering, and the research and development, design, manufacturing, sales and maintenance of the vessels.

## **DEFINITIONS**

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

“associate”	has the same meaning ascribed to it under the Listing Rules;
“Board”	Board;
“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 of Hong Kong Limited;
“connected person”	has the same meaning ascribed to it under the Listing Rules;
“Directors”	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 Shareholders”	Shareholders other than Zhang Mi and his associates;

“Jiangsu Hongjieding”	Jiangsu Hongjieding Energy Technology Co., Ltd. (江蘇宏隼鼎能源科技有限公司), a limited liability company incorporated in the PRC;
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited;
“PRC”	The People’s Republic of China;
“RMB”	Renminbi, the lawful currency of the PRC;
“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\$0.10 each in the capital of the Company;
“Shanghai Offshore”	Shanghai Honghua Offshore Oil & Gas Equipment Co., Ltd. (上海宏華海洋油氣裝備有限公司), a limited liability company incorporated in the PRC;
“Sichuan Honghua”	Sichuan Honghua Petroleum Equipment Co., Ltd. (四川宏華石油設備有限公司), a company incorporated in the PRC with limited liability, and a wholly-owned subsidiary of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;

By order of the Board  
**Honghua Group Limited**  
**Jin Liliang**  
*Chairman*

PRC, 22 January 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.*