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**HONGHUA GROUP LIMITED**

宏華集團有限公司\*

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

**(Stock Code: 196)**

## **ISSUE OF NEW SHARES UNDER SPECIFIC MANDATES**

### **Issue of new Shares under Specific Mandates**

The Board is pleased to announce that the Company has entered into the CASIC Subscription Agreement with CASIC and the Jianhong Subscription Agreement with Jianhong and Beijing Jianhong on 19 December 2016 (after trading hours).

### **CASIC Subscription**

Pursuant to the CASIC Subscription Agreement, CASIC has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue an aggregate of 1,606,000,000 CASIC Subscription Shares at the Subscription Price of HK\$0.77 per Share, which will be settled by payment in cash of HK\$1,236,620,000.

The 1,606,000,000 CASIC Subscription Shares to be issued pursuant to the CASIC Subscription Agreement represent approximately 49.55% of the total number of issued Shares as at the date of this announcement and approximately 33.13% of the total number of the issued Shares as enlarged by the allotment and issue of the CASIC Subscription Shares or approximately 29.99% of the issued Shares as enlarged by the allotment and issue of the

CASIC Subscription Shares and the Jianhong Subscription Shares.

### **The Jianhong Subscription**

Pursuant to the Jianhong Subscription Agreement, Jianhong has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue an aggregate of 508,000,000 Jianhong Subscription Shares at the Subscription Price of HK\$0.77 per Share, which will be settled by payment in cash of HK\$391,160,000.

The 508,000,000 Jianhong Subscription Shares to be issued pursuant to the Jianhong Subscription Agreement represent approximately 15.67% of the total number of issued Shares as at the date of this announcement and approximately 13.55% of the total number of the issued Shares as enlarged by the allotment and issue of the Jianhong Subscription Shares or approximately 9.49% of the issued Shares as enlarged by the allotment and issue of the Jianhong Subscription Shares and the CASIC Subscription Shares.

### **Net Proceeds**

The net cash proceeds (after deducting all relevant costs and expenses) from the issue of the Subscription Shares under the Subscription Agreements are estimated to be approximately HK\$1.617 billion.

### **The Specific Mandates**

The 2,114,000,000 Subscription Shares in aggregate to be issued pursuant to the Subscription Agreements represent approximately 65.23% of the total number of issued Shares as at the date of this announcement and approximately 39.48% of the total number of the issued Shares as enlarged by the allotment and issue of the Subscription Shares.

The Company will seek the Specific Mandates from the Shareholders at the EGM for the allotment and issue of the CASIC Subscription Shares and the Jianhong Subscription Shares respectively. Applications will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the CASIC Subscription Shares and the Jianhong Subscription Shares.

### **The EGM**

An EGM will be convened by the Company for the Shareholders to consider and, if thought fit, to approve the Specific Mandates. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, none of the Shareholders will be required to abstain from voting on the Subscription Agreements or the transactions contemplated thereunder at the EGM. A circular containing, among other things, (i) further information on the Subscription Agreements; (ii) the Specific Mandates; and (iii) the notice of the EGM and proxy form will be despatched to the Shareholders as soon as practicable. The circular is expected to be despatched to the Shareholders on or around 16 January 2017.

**Since the Subscriptions are subject to the fulfilment of the conditions in this announcement, the Subscriptions may or may not proceed to completion. Shareholders and potential investors are advised to exercise caution when dealing in Shares.**

### **The Subscription Agreements**

The Board is pleased to announce that the Company has entered into the CASIC Subscription Agreement with CASIC and the Jianhong Subscription Agreement with Jianhong and Beijing Jianhong on 19 December 2016 (after trading hours). The major terms are set out below:

#### **1. The CASIC Subscription Agreement**

**Date:** 19 December 2016 (after trading hours)

**Parties:** (1) the Company as the issuer  
(2) CASIC as the subscriber

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, CASIC and its ultimate beneficial owner are Independent Third Parties as at the date of this announcement. The Company further understands that CASIC is independent of and not acting in concert with Jianhong and Beijing Jianhong.

#### **CASIC Subscription Shares:**

Pursuant to the CASIC Subscription Agreement, CASIC has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue at the Subscription Price an aggregate of 1,606,000,000 CASIC Subscription Shares, representing (i) approximately 49.55% of the total number of issued Shares as at the date of this announcement; (ii) approximately 33.13% of the total number of issued Shares as enlarged by the issue of the CASIC Subscription Shares; and (iii) approximately 29.99% of the total number of issued Shares as enlarged by the issue of the CASIC Subscription Shares and Jianhong Subscription Shares. The aggregate nominal value of the CASIC Subscription Shares will be HK\$160,600,000.

The CASIC Subscription Shares will be issued pursuant to the Specific Mandate to be approved at the EGM. An application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and

permission to deal in, the CASIC Subscription Shares. The CASIC Subscription Shares, when allotted and issued, will rank *pari passu* with the then existing Shares in issue.

**CASIC Subscription Price:** The Subscription Price of HK\$0.77 per CASIC Subscription Share represents:

(i) an approximately 20.62 % discount to the closing price of HK\$0.97 per Share as quoted on the Stock Exchange on the date of this announcement, being the date of the CASIC Subscription Agreement;

(ii) an approximately 7.67% discount to the average closing price of HK\$0.83 per Share as quoted on the Stock Exchange for the last five consecutive trading days prior to the date of this announcement;

(iii) an approximately 5.98% discount to the average closing price of HK\$0.82 per Share as quoted on the Stock Exchange for the last ten consecutive trading days prior to the date of this announcement; and

(iv) an approximately 50.64% discount to the unaudited net asset value per Share of approximately HK\$1.56 on 30 June 2016 (based on the consolidated net asset value of the Group of HK\$5,061,051,000 on 30 June 2016 and 3,241,056,900 issued Shares on the date of this announcement ).

The Subscription Price was determined by the Company and CASIC after arm's length negotiations with reference to (i) the current market price of the Shares and current market condition; and (ii) the financing requirements of the Company in relation to the Subscriptions.

**Conditions:**

The CASIC Subscription Agreement is subject to the following conditions being fulfilled or waived:

(a) the passing of a resolution by the Company at the EGM to approve the granting of the Specific Mandate to the Board to allot CASIC Subscription Shares;

(b) CASIC not being obliged to make a mandatory offer under Rule 26 of the Takeovers Code as a result of its subscription of the CASIC Subscription Shares;

(c) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the CASIC Subscription Shares (and such approval not subsequently revoked prior to completion);

(d) the Company maintaining the listing and trading of the Shares on the Stock Exchange at or prior to completion, other than any trading halt of not more than seven business days (excluding any trading halt as a result of the transactions contemplated under the this agreement or in other circumstances as agreed by CASIC);

(e) the parties to this agreement having complied with all applicable laws and regulations (including the Listing Rules and the Takeovers Code) in relation to the subscription, and the Group having obtained all important approvals, consents and waivers and filings (if applicable) mandatorily required for the transactions under this agreement in accordance with all applicable laws and regulations;

(f) CASIC or its group enterprises having obtained all applicable approvals, filings, registrations, licences or authorisations of competent authorities of the PRC government in connection with the offshore investment and outbound funds transfer; and

(g) CASIC having completed, to its satisfaction, due diligence on the Company, and any outstanding issues found in the due diligence being settled.

The Company will use all reasonable endeavours, and CASIC will provide reasonable assistance, to procure the fulfilment of the conditions set out in paragraphs (a), (c) and (d). CASIC will use all reasonable endeavours, and the Company will provide reasonable assistance, to procure the fulfilment of the conditions set out in paragraphs (e), (f) and (g).

CASIC may waive any of the conditions set out in paragraphs (d), (f) and (g) by way of written notice at any time. Each party may waive the obligation of the other party under the condition set out in paragraph (e).

The Company understands that an application for a formal ruling by the SFC has been made on behalf of CASIC in

relation to the condition set out in paragraph (b) above. If, in relation to this, CASIC subsequently decides to seek a whitewash waiver from the obligation to make a mandatory general offer, an announcement will be made.

If the above conditions are not fulfilled or waived by 31 March 2017 (or such other date as agreed by both parties in writing), either party may terminate the CASIC Subscription Agreement by way of written notice to the other party.

The completion of the CASIC Subscription Agreement is not conditional on the completion of the Jianhong Subscription Agreement.

**Directors of the Company:** Pursuant to the CASIC Subscription Agreement, the Company agrees that CASIC will have the right to nominate a total of three Directors (including the chairman of the Board) after completion, to the extent that this does not contravene the requirements of the Listing Rules and the Stock Exchange, and subject to the Directors' reasonable belief that it is in the interests of the Company and its Shareholders as a whole. If the appointment of the new chairman of the Board is passed (subject to the aforementioned conditions), the existing chairman of the Board of the Company will be re-designated as vice-chairman of the Board after the appointment of the new chairman of the Board has become effective.

**Completion:** The CASIC Subscription Agreement will be completed within five business day(s) upon the satisfaction or waiver of the conditions or such other date as the Company and CASIC may agree.

**Indemnity:** The Company will indemnify CASIC in full for all losses arising from or attributable to a material breach by the Company of its guarantees, representations and undertakings under the CASIC Subscription Agreement, and will indemnify CASIC for all reasonable expenses (including reasonable consulting fees and expenses) incurred by CASIC for the investigation, preparation or defence of any pending or threatened third party claims or any legal procedures initiated by third parties. This indemnity is not applicable to any losses caused by or resulting from any wilful misconduct, material fault or dishonesty on the part of CASIC.

The Company will also provide a specific indemnity to CASIC for losses arising from certain legal proceedings and liabilities involving the Group prior to completion which the parties have confirmed in writing. The amount of compensation will be determined on a pro-rata basis by reference to the number of the CASIC Subscription Shares over the total number of issued Shares upon completion of the CASIC Subscription Agreement.

**Limitations on the liabilities of the Company:**

All liabilities and obligations of the Company under this agreement and in connection with the subscription and all claims (including claims for indemnity) (“Relevant Claims”) made by CASIC against the Company under this agreement and in connection with the subscription will be subject to the following limitations:

(a) the maximum aggregate liability of the Company in respect of all Relevant Claims will not exceed the total consideration for the CASIC Subscription Shares;

(b) the time limit for CASIC to bring Relevant Claims against the Company is 36 months from the date of completion. The Company will not be liable for Relevant Claims made by CASIC beyond that time limit;

(c) the Company will not be liable, save for the special indemnity as agreed between the parties, if CASIC is aware of any events or circumstances prior to completion which have caused or may cause the Relevant Claims, or if such events or circumstances have been publicly or fairly disclosed to CASIC by the Company;

(d) the de minimis for Relevant Claims is HK\$1,000,000 for a single claim or HK\$10,000,000 for an aggregate of claims. The Company will compensate CASIC in full for Relevant Claims exceeding such de minimis;

(e) the Company will not be liable for any Relevant Claims arising in connection with any amendment in laws or regulations or changes in the interpretation of any laws which occur after the date of signing of this agreement;

(f) the Company will not be liable for any Relevant Claims more than once;

(g) the Company will not be liable for any indirect, special, consequential or punitive losses; and

(h) if CASIC is able to claim from any insurance policy in respect of any event which has led to a Relevant Claim, the actual amount claimed under such insurance policy will be deducted from such Relevant Claim, provided that CASIC will use its reasonable endeavours to make a claim.

**Termination of agreement:** The CASIC Subscription Agreement may be terminated if:

(a) the conditions are not satisfied by 31 March 2017 (or such other date as agreed by both parties);

(b) one of the parties is unable to proceed to completion when the conditions have been satisfied, the other party may elect to terminate the agreement;

(c) both parties agree to terminate this agreement in writing;

(d) there has been a material breach of this agreement by one of the parties, in which case the non-defaulting party may terminate this agreement by way of written notice to the defaulting party;

(e) in the reasonable opinion of CASIC, there has been any material adverse change in respect of the Company between signing and completion of this agreement which has rendered the Company unable to carry on its normal business, in which case CASIC may terminate this agreement by written notice to the Company; and

(f) the guarantees, representations and undertakings made by the Company under this agreement have become materially untrue, inaccurate or misleading at the signing of this agreement or at completion.

**Lock up:** The Company has reached a preliminary understanding with the CASIC that it will procure the senior management of the Company to undertake that they will not sell or otherwise dispose of more than 20% of their individual holdings of the Shares within three years of the completion of the CASIC Subscription Agreement.



The Directors believe that the CASIC Subscription Agreement was entered into between the Company and CASIC after arm's length negotiations and the terms (including but not limited to the Subscription Price) are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

## **2. The Jianhong Subscription Agreement**

**Date:** 19 December 2016 (after trading hours)

**Parties:**

- (1) the Company as the issuer
- (2) Jianhong as the subscriber
- (3) Beijing Jianhong as Jianhong's guarantor

To the best knowledge, information and belief of the Directors having made all reasonable enquiries, Jianhong, Beijing Jianhong and their ultimate beneficial owners are Independent Third Parties as at the date of this announcement. The Company further understands that each of Jianhong and Beijing Jianhong is independent of and not acting in concert with CASIC and Ally Giant.

**Jianhong Subscription Shares:**

Pursuant to the Jianhong Subscription Agreement, Jianhong has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue at the Subscription Price an aggregate of 508,000,000 Jianhong Subscription Shares, representing (i) approximately 15.67% of the total number of issued Shares as at the date of this announcement; (ii) approximately 13.55% of the total number of issued Shares as enlarged by the issue of the Jianhong Subscription Shares; and (iii) approximately 9.49% of the total number of issued Shares as enlarged by the issue of the CASIC Subscription Shares and Jianhong Subscription Shares. The aggregate nominal value of the Jianhong Subscription Shares will be HK\$50,800,000.

The Jianhong Subscription Shares will be issued pursuant to the Specific Mandate to be approved at the EGM. An application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Jianhong Subscription Shares. The Jianhong Subscription Shares, when allotted and issued, will rank *pari passu* with the then existing Shares in issue.

**Jianhong Subscription Price:**

The Subscription Price of HK\$0.77 per Jianhong Subscription Share represents:

(i) an approximately 20.62% discount to the closing price of HK\$ 0.97 per Share as quoted on the Stock Exchange on the date of this announcement, being the date of the Jianhong Subscription Agreement;

(ii) an approximately 7.67% discount to the average closing price of HK\$0.83 per Share as quoted on the Stock Exchange for the last five consecutive trading days prior to the date of this announcement;

(iii) an approximately 5.98% discount to the average closing price of HK\$0.82 per Share as quoted on the Stock Exchange for the last ten consecutive trading days prior to the date of this announcement; and

(iv) an approximately 50.64% discount to the unaudited net asset value per Share of approximately HK\$1.56 on 30 June 2016 (based on the consolidated net asset value of the Group of HK\$5,061,051,000 on 30 June 2016 and 3,241,056,900 issued Shares on the date of this announcement )

The Subscription Price was determined by the Company and Jianhong after arm's length negotiations with reference to (i) the current market price of the Shares and current market condition; and (ii) the financing requirements of the Company in relation to the subscription.

**Conditions:**

The Jianhong Subscription Agreement is subject to the following conditions being fulfilled or waived:

(a) the passing of a resolution by the Company at the EGM to approve the granting of the Specific Mandate to the Board to allot the relevant Shares pursuant to the Jianhong Subscription Agreement; and

(b) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Jianhong Subscription Shares (and such approval not subsequently revoked prior to completion).

If the above conditions are not fulfilled by 31 March 2017 (or such other date as agreed by both parties in writing), either party may terminate the Jianhong Subscription Agreement by way of written notice to the other party unless otherwise agreed in writing by the parties to the Jianhong Subscription Agreement.

The completion of the Jianhong Subscription Agreement is not conditional on the completion of the CASIC Subscription Agreement.

**Jianhong lock-up undertaking:**

Jianhong undertakes that it will not sell or otherwise dispose of the Shares held by it within six months after completion.

**Completion:**

The Jianhong Subscription Agreement will be completed within five business day(s) upon the conditions being fulfilled or waived or such other date as the Company and Jianhong may agree.

**Limitations on the liabilities of the Company:**

All liabilities and obligations of the Company under this agreement and in connection with the subscription and all claims (“Relevant Claims”) made by Jianhong against the Company under this agreement and in connection with the subscription will be subject to the following limitations:

(a) the maximum aggregate liability of the Company in respect of all Relevant Claims will not exceed 50% of the total consideration for the Jianhong Subscription Shares;

(b) the time limit for Jianhong to bring Relevant Claims against the Company is 6 months from the date of completion. The Company will not be liable for Relevant Claims made by Jianhong beyond that time limit;

(c) the Company will not be liable if Jianhong is aware of any events or circumstances prior to completion which have caused or may cause Relevant Claims, or if such events or circumstances have been publicly or fairly disclosed to Jianhong by the Company;

(d) the de minimis is HK\$10,000,000 in respect of a single claim. The Company will compensate Jianhong in full for Relevant Claims exceeding such de minimis;

(e) the Company will not be liable for such Relevant Claims arising in connection with any amendment in laws or regulations or changes in the interpretation of any laws which occur after the date of signing of this agreement;

(f) the Company will not be liable for any Relevant Claims more than once;

(g) the Company will not be liable for any indirect, special, consequential or punitive losses; and

(h) if Jianhong is able to claim from any insurance policy in respect of any event which causes a Relevant Claim, the actual amount claimed under such insurance policy will be deducted from such Relevant Claim, provided that Jianhong will use its reasonable endeavours to make a claim.

Beijing Jianhong does not have any right to claim against the Company under this agreement.

**Beijing Jianhong guarantee** Beijing Jianhong will guarantee the performance of Jianhong's obligations under this agreement, and the Company may claim from Beijing Jianhong in case Jianhong is in breach of any of its obligations.

**Termination of agreement:** The Jianhong Subscription Agreement may be terminated if:

(a) the conditions are not satisfied by 31 March 2017 (or such other date as agreed by both parties);

(b) one of the parties is unable to proceed to completion when the conditions have been satisfied, the other party may elect to terminate this agreement;

(c) both parties agree to terminate this agreement in writing; and

(d) there has been a material breach of this agreement by one of the parties, in which case the non-defaulting party may terminate this agreement by written notice to the defaulting party.

The Directors believe that the Jianhong Subscription Agreement was entered into between the Company, Jianhong and Beijing Jianhong after arm's length negotiations and the terms (including but not limited to the Subscription Price) are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

### **Beijing Jianhong**

The Company has made an upfront payment of RMB500,000 to Beijing Jianhong for its services in relation to introducing an investor to the Company.

In addition, Beijing Jianhong will receive the opportunity to subscribe for Shares which constitute between 5% and 10% of the enlarged share capital of the Company after the subscription or, alternatively, a further fee to be paid by the Company to Beijing Jianhong calculated at 1.5% of the consideration payable for the subscription by the investor that Beijing Jianhong introduces to the Company. Since Beijing Jianhong has proposed to invest into the Company through Jianhong, a fund of which it is the general partner, it will not be entitled to the 1.5% pro rata fee if the subscription by Jianhong is completed or does not proceed to completion due to Jianhong's default.

The commission was arrived at after arm's length negotiations between the Company and Beijing Jianhong.

### **Use of proceeds and reasons for the Subscriptions**

The Company intends to use 50% of the net proceeds from the Subscriptions for repayment of its debts which are becoming due and payable and the rest of such proceeds for its general working capital. The Directors believe that the Subscriptions will strengthen the Group's cash position, provide the Company with an opportunity to widen its shareholder base and will not result in additional interest expenses.

### **EGM**

The EGM will be convened and held for the purpose of considering, and, if thought fit, approving the Specific Mandates. At the EGM, voting will be conducted by way of a poll. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, none of the Shareholders will be required to abstain from voting on the Subscription Agreements or the transactions contemplated thereunder at the EGM. A circular containing, among other things, (i) further information on the Subscription Agreements; (ii) the Specific Mandates; and (iii) the notice of the EGM and proxy form will be despatched to the Shareholders as soon as practicable. The circular is expected to be despatched to the Shareholders on or around 16 January 2016.

## The shareholding structure of the Company

|   | As the date of this announcement |            | Immediately after the allotment and issuance of the Subscription Shares (assuming no other issue of Shares) |            |
|---|----------------------------------|------------|---|------------|
|   | Number of Shares                 | %          | Number of Shares  | %          |
| Subscribers:  |                                  |            |   |            |
| - CASIC   | —                                | —          | 1,606,000,000   | 29.99      |
| - Jianhong  | —                                | —          | 508,000,000   | 9.49       |
| Ally Giant Limited and Concert Group<br><i>(Note 1)</i> | 1,510,258,620                    | 46.60      | 1,510,258,620   | 28.20      |
| Public (excluding Jianhong)                             | 1,730,798,280                    | 53.40      | 1,730,798,280   | 32.32      |
| Total   | <u>3,241,056,900</u>             | <u>100</u> | <u>5,355,056,900</u>  | <u>100</u> |

*Note 1: "Concert Group" is defined in the prospectus of the Company dated 25 February 2008.*

## Fundraising activities in the past 12 months

The Company has not conducted any equity fund raising activities in the twelve months preceding the date of this announcement.

## Information on the parties

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

CASIC is a large Chinese state-owned enterprise mainly 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.

Jianhong, a limited partnership controlled by Beijing Jianhong, is mainly engaged in

offshore mergers and acquisitions and fund management related businesses.

Beijing Jianhong is an asset management firm committed to providing comprehensive solutions in connection with mergers and acquisitions and corporate development to listed companies and corporate groups.

## Definitions

|                                |  |
|--------------------------------|--|
| “Beijing Jianhong”             | Beijing Jianhong Capital Management Co., Ltd* (北京建宏富鑫投資管理有限公司), a company incorporated in the PRC;   |
| “Board”                        | the board of Directors of the Company;   |
| “CASIC”                        | China Aerospace Science and Industry Corporation* (中國航天科工集團公司), a company incorporated in the PRC, the investor of the CASIC Subscription Shares;  |
| “CASIC Subscription Agreement” | the conditional subscription agreement dated 19 December 2016 entered into between the Company and CASIC in relation to the issue and subscription of the CASIC Subscription Shares;     |
| “CASIC Subscription Share(s)”  | the 1,606,000,000 new Shares to be subscribed by CASIC and issued by the Company at the Subscription Price pursuant to the CASIC Subscription Agreement;                                 |
| “Company”                      | Honghua Group Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange of Hong Kong Limited; |
| “Director(s)”                  | directors of the Company;  |
| “EGM”                          | an extraordinary general meeting to be convened by the Company to consider and approve the Specific Mandates;  |
| “Group”                        | the Company and its subsidiaries;  |
| “HK\$”                         | Hong Kong dollars, the lawful currency of  |

|                                   |  |
|-----------------------------------|--|
|                                   | Hong Kong;   |
| “Hong Kong”                       | the Hong Kong Special Administration Region of the PRC;  |
| “Independent Third Party(ies)”    | persons independent of the Company and its connected persons (as defined in the Listing Rules) and not acting in concert with any of the connected persons of the Company or any of their respective associates; |
| “Jianhong”                        | Jianhong Capital Fund I L.P., a limited partnership established in the Cayman Islands, the investor of Jianhong Subscription Shares;   |
| “Jianhong Subscription Agreement” | the conditional subscription agreement dated 19 December 2016 entered into between the Company and Jianhong in relation to the issue and subscription of Jianhong Subscription Shares;                           |
| “Jianhong Subscription Share(s)”  | the 508,000,000 new Shares to be subscribed by Jianhong and issued by the Company at the Subscription Price pursuant to the Jianhong Subscription Agreement;   |
| “Listing Rules”                   | the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited;  |
| “PRC”                             | the People’s Republic of China, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administration Region and Taiwan;  |
| “RMB”                             | Renminbi, the lawful currency of the PRC;  |
| “SFC”                             | the Securities and Futures Commission of Hong Kong;  |
| “Share(s)”                        | ordinary share(s) of nominal value of HK\$0.10 each in the share capital of the Company;   |
| “Shareholder(s)”                  | holder(s) of Shares of the Company;  |
| “Specific Mandates”               | the specific mandates for the allotment and  |



issue of the CASIC Subscription Shares to CASIC and the Jianhong Subscription Shares to Jianhong to be sought from the Shareholders at the EGM;

|                           |  |
|---------------------------|--|
| “Stock Exchange”          | The Stock Exchange of Hong Kong Limited;   |
| “Subscriber(s)”           | CASIC and Jianhong;  |
| “Subscriptions”           | the subscription of the Subscription Shares by CASIC and Jianhong pursuant to the Subscription Agreements; |
| “Subscription Agreements” | the CASIC Subscription Agreement and the Jianhong Subscription Agreement;                                  |
| “Subscription Price”      | HK\$0.77 per Subscription Share;   |
| “Subscription Share(s)”   | CASIC Subscription Shares and Jianhong Subscription Shares;  |
| “Takeovers Code”          | the Code on Takeovers and Mergers; and   |
| “%”                       | per cent.  |

By order of the Board of  
**HONGHUA GROUP LIMITED**  
**Zhang Mi**  
*Chairman*

People’s Republic of China, 19 December 2016

On the date of this announcement, the Board of Directors of the Company comprises:

|                                      |  |
|--------------------------------------|--|
| Executive Directors:                 | Zhang Mi, Ren Jie and Liu Zhi                                      |
| Non-executive Director:              | Siegfried Meissner (Popin Su as his alternate)                     |
| Independent Non-executive Directors: | Liu Xiaofeng, Qi Daqing, Chen Guoming, Shi Xingquan and Guo Yanjun |

The Directors of the Company are jointly and severally responsible for the accuracy of the information contained in this announcement and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this announcement have been arrived at after due and careful consideration and there are no other facts not contained in this announcement, the omission of which would make any statement in this announcement misleading.

*\* For identification purposes only*