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宏华集团
HONGHUA GROUP

HONGHUA GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 196)

**CONNECTED TRANSACTIONS
SALE AND LEASE OF EQUIPMENT**

SALE AND LEASE OF EQUIPMENT

On 26 June 2017, Sichuan Honghua entered into the Sale and Purchase Agreement with ASIFL and Shenzhen Honghua, whereby ASIFL agrees to purchase the Equipment from Sichuan Honghua. On the same day, Shenzhen Honghua entered into the Finance Lease Agreement with ASIFL pursuant to which ASIFL will lease the Equipment to Shenzhen Honghua.

LISTING RULES IMPLICATIONS

As at the date of this announcement, CASIC indirectly holds 29.99% 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 and its subsidiaries together hold a 46.5% equity interest in ASIFL, thus ASIFL is an associate of CASIC and in turn a connected person of the Company. Therefore, the Transactions constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the relevant applicable percentage ratios set out in the Listing Rules in respect of the Transactions is higher than 0.1% but less than 5%, the Transactions are subject to the reporting and announcement requirements but are exempt from the

shareholders' approval requirement under Chapter 14A of the Listing Rules.

On 26 June 2017, Sichuan Honghua entered into the Sale and Purchase Agreement with ASIFL and Shenzhen Honghua, whereby ASIFL agrees to purchase the Equipment from Sichuan Honghua in accordance with the Sale and Purchase Agreement. On the same day, Shenzhen Honghua entered into the Finance Lease Agreement with ASIFL, pursuant to which ASIFL leases the Equipment to Shenzhen Honghua. The Equipment will eventually be made available (via the Group) on an operating lease basis to a customer of the Group.

PRINCIPAL TERMS AND PARTICULARS OF THE TRANSACTIONS

The principal terms and particulars of the Transactions are as follows:

(1) Sale of the Equipment under the Sale and Purchase Agreement

Date: 26 June 2017

Parties

- (1) Seller: Sichuan Honghua
- (2) Buyer: ASIFL
- (3) Lessee: Shenzhen Honghua

Subject Matter

ASIFL will purchase the Equipment from Sichuan Honghua for the sole purpose of subsequently leasing such Equipment to Shenzhen Honghua in accordance with the terms of the Finance Lease Agreement.

Consideration

The total consideration is RMB33,220,000 (which represents the approximate book value of the Equipment plus a margin of 20% or more), of which RMB8,305,000 was payable by Shenzhen Honghua (see section (2) below) upon the signing of the Sale and Purchase Agreement and RMB24,915,000 was payable by ASIFL upon the making of the payment by Shenzhen Honghua. The consideration for the Equipment was determined after arm's

length negotiations between the Sichuan Honghua, ASIFL and Shenzhen Honghua with reference to the market price of the Equipment.

As the Equipment is sold as inventory of the Group, no separate gain or loss will be recognised as a result of the sale of the Equipment in the consolidated statement of profit or loss of the Company.

(2) Finance Lease under the Finance Lease Agreement

Date: 26 June 2017

Parties

- (1) Lessor: ASIFL
- (2) Lessee: Shenzhen Honghua
- (3) Sichuan Honghua (for certain ancillary agreement(s))

Asset Leased

The Equipment

Lease Term

Commencing on the date on which ASIFL pays Sichuan Honghua the purchase price for the Equipment and ending on the expiry of five years from the commencement date.

Lease Payment

The aggregate value of the consideration of the lease is RMB37,252,527.93, which comprises the initial payment of RMB8,305,000 (by way of payment to Sichuan Honghua as contemplated under the Sale and Purchase Agreement described in section (1) above), an upfront handing fee of RMB475,000 as well as the principal amount of the lease and the lease interests. The principal amount under the lease is RMB24,915,000 and the total estimated amount of lease interests for the entire term of the Finance Lease Agreement is approximately RMB3,557,528. The principal amount and lease interests will be paid by Shenzhen Honghua in 20 instalments on a quarterly basis.

The above lease payment terms were agreed after arm's length negotiations between the parties with reference to the consideration of the Equipment under the Sale and Purchase Agreement and the prevailing market rate for finance leases of assets comparable to the Equipment.

Security for Lease Payments

Shenzhen Honghua agrees to pay ASIFL a deposit of RMB1,661,000 in a lump sum and to maintain such amount of deposit during the lease term as security for its payment obligations under the Finance Lease Agreement. The residue of the above deposit is refundable to Shenzhen Honghua after Shenzhen Honghua has fulfilled all its obligations under the Finance Lease Agreement.

Shenzhen Honghua will also pledge certain accounts receivables to ASIFL as security for its payment obligations under the Finance Lease Agreement.

Disposal

Sichuan Honghua will use its best endeavours to utilise its channels to facilitate the disposal of the Equipment by ASIFL within 6 months upon a request by ASIFL.

Option to Purchase

Upon the expiry of the lease term, Shenzhen Honghua is entitled to purchase the Equipment at the price of RMB100 from ASIFL, on the condition that Shenzhen Honghua has fulfilled all its obligations under the Finance Lease agreement without any breach.

REASONS FOR AND BENEFITS OF THE TRANSACTIONS

The sale of the Equipment will generate immediate sales income for the Group in the current financial period. The Finance Lease Agreement will allow the Group to introduce capital from ASIFL through the platform of Shenzhen Honghua. The Transactions also represent an effort of the Group to establish a new financing channel with ASIFL and raise capital at relatively low cost.

IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, CASIC indirectly holds 29.99% 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 and its subsidiaries together hold a 46.5% equity interest in ASIFL, consequently, ASIFL is an associate of CASIC and in turn a connected person of the Company. Therefore, the Transactions constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the relevant applicable percentage ratios set out in the Listing Rules in respect of the Transactions is higher than 0.1% but less than 5%, the Transactions are subject to the reporting and announcement requirements but are exempt from the shareholders' approval requirement under Chapter 14A of the Listing Rules.

CONFIRMATION FROM THE BOARD

The Board confirms that Mr. Chen Yajun, Mr. Han Guangrong and Mr. Chen Wenle have abstained from voting in the Board meeting in respect of the resolutions to approve the Transactions due to them having a material interest in the Transactions (as a result of their relationship with CASIC). Save as disclosed above, none of the Directors have any material interest in the Transactions.

The Directors (excluding the Directors who have abstained from voting as described above, but including the independent non-executive Directors) are of the view that the terms of the Transactions are fair and reasonable, are on normal commercial terms and in the ordinary and usual course of business of the Group, and the Transactions are in the interests of the Company and the Shareholders as a whole.

INFORMATION ABOUT THE PARTIES

Information on the Group

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

Information on Sichuan Honghua

Sichuan Honghua is an indirect wholly owned subsidiary of the Company, and focuses on the research and development, design, manufacturing and general assembly of oil drilling equipment and oil exploration equipment.

Information on Shenzhen Honghua

Shenzhen Honghua is a subsidiary of the Company under the definition of the Listing Rules as the Company indirectly holds 60% of its issued shares (the other 40% of which is held by third parties independent of the Company and its connected persons), but is not consolidated in the accounts of the Company. The main business of Shenzhen Honghua is finance leasing, asset leasing, purchase of assets for leasing and related consultancy service.

Information on ASIFL

ASIFL is company incorporated in the People's Republic of China and its principal business includes finance leasing, disposal of assets under finance lease and related consultancy service.

DEFINITIONS

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

“ASIFL”	Aerospace Science & Industry Financial Leasing Co., Ltd.(航天科工金融租賃有限公司), a company incorporated in the People's Republic of China, in which CASIC and its subsidiaries hold a 46.5% equity interest;
“associate”	has the same meaning ascribed to it under the Listing Rules;
“Board”	the board of Directors;
“CASIC”	China Aerospace Science and Industry Corporation* (中國航天科工集團公司), a company incorporated in the PRC;
“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;
“Equipment”	six sets of top drive drilling systems, as identified in the Sale and Purchase Agreement;
“Finance Lease Agreement”	the agreement dated 26 June 2017 entered into between ASIFL and Shenzhen Honghua pursuant to which ASIFL agrees to provide finance lease to Shenzhen Honghua for a term of 5 years, and their related ancillary agreements (certain of which Sichuan Honghua is also a party);
“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;
“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 of Hong Kong Limited;
“PRC”	the People’s Republic of China;
“RMB”	Renminbi, the lawful currency of the PRC;
“Sale and Purchase Agreement”	the agreement dated 26 June 2017 entered into by Sichuan Honghua, ASIFL and Shenzhen Honghua pursuant to which Sichuan Honghua agrees to sell to ASIFL, and ASIFL agrees to buy the Equipment;
“Shareholders”	holder(s) of ordinary share(s) of nominal value of HK\$0.10 each in the share capital of the Company;
“Shenzhen Honghua”	Honghua Financial Leasing (Shenzhen) Co., Ltd (宏華融資租賃（深圳）有限公司), a limited liability company incorporated in the PRC and in which the Company directly and indirectly holds a 60% equity interest;
“Sichuan Honghua”	Sichuan Honghua Petroleum Equipment Co., Ltd (四川宏華石油設備有限公司), formerly known as Chuangyou Guanghan Honghua Co., Ltd., a limited liability company established in the PRC on December 1997, and an indirect wholly-owned subsidiary of the Company;

“Transactions” the transactions contemplated under the Sale and Purchase Agreement and the Finance Lease Agreement;

“%” per cent.

**For identification only*

By order of the Board
Honghua Group Limited
Chen Yajun
Chairman

PRC, 26 June 2017

As at the date of this announcement, the executive directors of the Company are Mr. Chen Yajun (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. Qi Daqing, Mr. Chen Guoming, Ms. Su Mei, Mr. POON Chiu Kwok and Mr. Chang Qing.