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HUAZHONG HOLDINGS COMPANY LIMITED

華眾控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 6830)

FINANCIAL ASSISTANCE CONSTITUTING DISCLOSEABLE AND CONNECTED TRANSACTIONS

FINANCIAL ASSISTANCE

During the year ended 31 December 2012 and the seven months ended 31 July 2013, the Group had provided financial assistance to Mr. Zhou, Ningbo Huayou Properties, Ningbo Huayue and Changchun Huayou Properties in the form of (i) Advances of RMB30.87 million; (ii) Advances of RMB18.90 million ; (iii) Advances of RMB11.75 million and the Deposit Pledge; and (iv) Advances of RMB5.88 million, respectively. All the aforesaid financial assistance was provided with the internal resources of the Group and no part of the proceeds from the Listing had been applied for the provisions of the financial assistance. Although the financial assistance was provided by the Group not in the ordinary and usual course of its business as defined in the Listing Rules, the Company is of the view that the financial assistance was provided on normal commercial terms.

LISTING RULES IMPLICATIONS

As at the date of this announcement, (i) Mr. Zhou was the chairman of the Board, an executive Director and a controlling shareholder of the Company; (ii) Ningbo Huayou Properties was an associate of Mr. Zhou, being owned as to 82% by Mr. Zhou; (iii) Ningbo Huayue was an associate of Mr. Zhou, being wholly-owned by Mr. Zhou's cousin; and (iv) Changchun Huayou Properties was an associate of Mr. Zhou, being owned as to 80% by Mr. Zhou. Mr. Zhou, Ningbo Huayou Properties, Ningbo Huayue and Changchun Huayou Properties are therefore connected persons of the Company under Chapter 14A of the Listing Rules. Accordingly, the provisions of the Advances and the Deposit Pledge to/for the benefit of Mr. Zhou, Ningbo Huayou Properties, Ningbo Huayue and Changchun Huayou Properties constitute provisions of financial assistance and connected transactions under the Listing Rules.

Since all of the applicable percentage ratios in respect of each of the provisions of the Advances to Mr. Zhou, Ningbo Huayou Properties, Ningbo Huayue and Changchun Huayou Properties, are less than 5%, each of the provisions of the Advances is subject to the reporting and announcement requirements but exempt from the independent shareholders' approval requirement under Rule 14A.66(2) of the Listing Rules.

Given that certain applicable percentage ratio in respect of the Deposit Pledge is more than 5% but less than 25%, the Deposit Pledge constitutes discloseable and connected transaction under Chapter 14 and Chapter 14A of the Listing Rules and is subject to the reporting, announcement and independent shareholders' approval requirements. However, as at the date of this announcement, the Deposit Pledge has already been released, the Directors will not put forward a resolution at a general meeting of the Company to ratify the entering into and the provision of the Deposit Pledge.

The Company's failure to comply with the reporting and announcement requirements (in respect of the provisions of the financial assistance) and the independent shareholders' approval requirement (in respect of the Deposit Pledge) constitutes a breach of the relevant rules of the Listing Rules. As of the date of this announcement, the Group has ceased to provide any further financial assistance to Mr. Zhou, Ningbo Huayou Properties, Ningbo Huayue and Changchun Huayou Properties. In respect of the Advances, each of Mr. Zhou, Ningbo Huayou Properties, Ningbo Huayue and Changchun Huayou Properties has partially repaid the corresponding Advances to the Group and has promised to fully repay the remaining balance of the Advances to the Group by the end of November 2013. In respect of the Deposit Pledge, it has already been released on 31 August 2013. In order to ensure proper compliance with the Listing Rules in the future, the Company is taking several remedial measures.

FINANCIAL ASSISTANCE PROVIDED TO MR. ZHOU

During the second half of the year ended 31 December 2012 and the six months ended 30 June 2013, the Group had made Advances of approximately RMB30.87 million to Mr. Zhou primarily for Mr. Zhou to settle a loan borrowed from an Independent Third Party (the "Lender"). As at the date of this announcement, Mr. Zhou has partially repaid the aforesaid Advances to the Group, and the outstanding amount due from Mr. Zhou was approximately RMB29.43 million, all of which are unsecured, interest-free and repayable on demand.

FINANCIAL ASSISTANCE PROVIDED TO NINGBO HUAYOU PROPERTIES

During the year ended 31 December 2012, the Group had also made Advances of approximately RMB18.90 million to Ningbo Huayou Properties. As at the date of this announcement, Ningbo Huayou Properties has partially repaid the aforesaid Advances to the Group, and the outstanding amount due from Ningbo Huayou Properties was approximately RMB8.05 million, all of which are unsecured, interest-free and repayable on demand.

FINANCIAL ASSISTANCE PROVIDED TO NINGBO HUAYUE

During the six months ended 30 June 2013, the Group had also made Advances of approximately RMB11.75 million to Ningbo Huayue. As at the date of this announcement, Ningbo Huayue has partially repaid the aforesaid Advances to the Group, and the outstanding amount due from Ningbo Huayue was approximately RMB11.57 million, all of which are unsecured, interest-free and repayable on demand.

DEPOSIT PLEDGE PROVIDED FOR THE BENEFIT OF NINGBO HUAYUE

On 14 June 2013, Ningbo Huazhong Plastic, a wholly-owned subsidiary of the Company, signed the Deposit Pledge in favour of a PRC bank as requested by the bank, pursuant to which Ningbo Huazhong Plastic agreed to pledge its bank deposit of RMB55.6 million in favour of the bank as a security for full repayment of the Loan granted by the bank to Ningbo Huayue on the same day.

FINANCIAL ASSISTANCE PROVIDED TO CHANGCHUN HUAYOU PROPERTIES

During the seven months ended 31 July 2013, the Group had also made Advances of approximately RMB5.88 million to Changchun Huayou Properties. As at the date of this announcement, the outstanding amount due from Changchun Huayou Properties was approximately RMB5.88 million, all of which are unsecured, interest-free and repayable on demand.

REASONS FOR THE PROVISIONS OF THE FINANCIAL ASSISTANCE

(i) Mr. Zhou

Mr. Zhou is the chairman of the Board, an executive Director and a controlling shareholder of the Company. In order to facilitate the completion of the corporate reorganisation of the Group for the purpose of the Listing, Mr. Zhou personally procured a loan from the Lender in December 2011 and provided his borrowed funds to the Group for it to settle the considerations for the transfer of the entire equity interest in Ningbo Huazhong Plastic to Huayou Investment, with an agreement to absolutely, irrevocably and unconditionally waive all his rights in connection with the return of such funds. As the Lender demanded Mr. Zhou to repay the loan and to alleviate Mr. Zhou's short-term cash flow needs, the Group therefore made advances, to Mr. Zhou, primarily for him to repay the aforesaid loan.

(ii) Ningbo Huayou Properties

Ningbo Huayou Properties is a company incorporated in the PRC with limited liability and is owned as to 82% by Mr. Zhou. It is principally engaged in the development, sale and purchase of real property. The Group has leased certain properties from Ningbo Huayou Properties and its subsidiaries from time to time on terms more favourable to the Group than those available from Independent Third Parties or even at nil consideration. The Group has thus made Advances to Ningbo Huayou Properties to satisfy its cash flow requirements from time to time.

(iii) Ningbo Huayue

Ningbo Huayue is a company incorporated in the PRC with limited liability and is wholly-owned by Ms. Lai Danfen, a cousin of Mr. Zhou. It is engaged in the manufacturing and sale of automotive ornaments. Ningbo Huayue had provided consultancy and support services in relation to expansion of the Group's business to members of the Group free of charge before the Listing. The Group has thus made Advances to Ningbo Huayue and provided the Deposit Pledge for the benefit of Ningbo Huayue to satisfy its cash flow requirements from time to time.

(iv) Changchun Huayou Properties

Changchun Huayou Properties is a company incorporated in the PRC with limited liability and is owned as to 80% by Mr. Zhou. It is engaged in the real estate development. Ningbo Huayue had provided advices in relation to establishment of production plants to members of the Group free of charge before the Listing. The Group has thus made advances to Changchun Huayou Properties to satisfy its cash flow requirements from time to time.

The provisions of the Advances and the Deposit Pledge were approved by Ms. Zhang Meilan, the manager of the finance department of the Group. No meeting was held nor had any written resolutions been adopted by the Board in respect of the provisions of the Advances and the Deposit Pledge until 30 August 2013 when the Board held a meeting to approve and ratify the provisions of the Advances. Mr. Zhou and Ms. Lai Cairong, the mother of Mr. Zhou, being executive directors and connected persons of the Company, are regarded as having a material interest in the provisions of the Advances and the Deposit Pledge, and had thus abstained from voting on the relevant resolutions.

Although the financial assistance was provided by the Group not in the ordinary and usual course of its business (as defined in the Listing Rules), the Company is of the view that the financial assistance was provided on normal commercial terms on the grounds that:

- (i) Mr. Zhou has valuable contributions to the Group as the chairman of the Board, an executive Director, the chief executive officer and a controlling shareholder of the Company;
- (ii) the Group leased certain properties from Ningbo Huayou Properties and/or its subsidiaries on terms more favourable to the Group than those available from Independent Third Parties or even at nil consideration;
- (iii) Ningbo Huayue had provided consultancy and support services in relation to expansion of the Group's business to members of the Group free of charge before the Listing; and
- (iv) Changchun Huayou Properties had provided advices in relation to establishment of production plants to members of the Group free of charge before the Listing.

The Company confirmed that all the financial assistance was provided with the internal resources of the Group and no part of the proceeds from the Listing had been applied for the provisions of the financial assistance.

FINANCIAL IMPLICATIONS ON THE COMPANY

The profit before tax and the cash and cash equivalents of the Group for and as at the year ended 31 December 2012 were approximately RMB14.74 million and RMB133.26 million, respectively. The profit before tax and the cash and cash equivalents of the Group for and as at the six months ended 30 June 2013 were approximately RMB28.20 million and RMB91.48 million, respectively. The Company is of the view that the provisions of the financial assistance did not have any material adverse effects on the profits and the cash flow of the Group.

IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, (i) Mr. Zhou was the chairman of the Board, an executive Director and a controlling shareholder of the Company; (ii) Ningbo Huayou Properties was an associate of Mr. Zhou, being owned as to 82% by Mr. Zhou; (iii) Ningbo Huayue was an associate of Mr. Zhou, being wholly-owned by Mr. Zhou's cousin; and (iv) Changchun Huayou Properties was an associate of Mr. Zhou, being owned as to 80% by Mr. Zhou. Mr. Zhou, Ningbo Huayou Properties, Ningbo Huayue and Changchun Huayou Properties are therefore connected persons of the Company under Chapter 14A of the Listing Rules. Accordingly, the provisions of the Advances and the Deposit Pledge to/for the benefit of Mr. Zhou, Ningbo Huayou Properties, Ningbo Huayue and Changchun Huayou Properties constitute provisions of financial assistance and connected transactions under the Listing Rules.

Since all of the applicable percentage ratios in respect of each of the provisions of the Advances to Mr. Zhou, Ningbo Huayou Properties, Ningbo Huayue and Changchun Huayou Properties, are less than 5%, each of the provisions of the Advances is subject to the reporting and announcement requirements but exempt from the independent shareholders' approval requirement under Rule 14A.66(2) of the Listing Rules.

Given that certain applicable percentage ratio in respect of the Deposit Pledge is more than 5% but less than 25%, the Deposit Pledge constitutes discloseable and connected transaction under Chapter 14 and Chapter 14A of the Listing Rules and is subject to the reporting, announcement and independent shareholders' approval requirements. However, as at the date of this announcement, the Deposit Pledge has already been released, the Directors will not put forward a resolution at a general meeting of the Company to ratify the entering into and the provision of the Deposit Pledge.

The Company's failure to comply with the reporting and announcement requirements (in respect of the provisions of the financial assistance) and the independent shareholders' approval requirement (in respect of the Deposit Pledge) constitutes a breach of the relevant rules of the Listing Rules.

The Directors overlooked the above requirements under the Listing Rules and were under a mistaken belief that the disclosure of the provisions of the financial assistance to Mr. Zhou and Ningbo Huayou Properties in the financial statements contained in the annual reports of the Company was sufficient for compliance with the Listing Rules. Due to an oversight and inadvertent misunderstanding of the Listing Rules by some of the management of the Group involved in the provisions of the financial assistance to Ningbo Huayue and Changchun Huayou Properties, such financial assistance were not reported to the Company until during the course of preparation of the interim report for the six months ended 30 June 2013.

This announcement is made a few months after discovering the breaches because some of the connected transactions disclosed herein were entered into a year ago and as a result, extensive investigations with various parties involved in the connected transactions had to be made by the management of the Company (including reviewing all relevant documents and discussions with the relevant parties to ascertain all the facts in respect of the connected transactions) to determine whether there is a breach of the Listing Rules and if there is, the exact nature and extent of such breach.

REMEDIAL MEASURES TAKEN/BEING TAKEN

As of the date of this announcement, the Group has ceased to provide any further financial assistance to Mr. Zhou, Ningbo Huayou Properties, Ningbo Huayue and Changchun Huayou Properties, and each of Mr. Zhou, Ningbo Huayou Properties, Ningbo Huayue and Changchun Huayou Properties has informed the Company that it would seek financing from other sources in the future.

In respect of the Advances, each of Mr. Zhou, Ningbo Huayou Properties, Ningbo Huayue and Changchun Huayou Properties has partially repaid the corresponding Advances to the Group and has promised to fully repay the remaining balances of the Advances in the amounts of RMB29.43 million, RMB8.05 million, RMB11.57 million and RMB5.88 million, respectively, to the Group by the end of November 2013. In respect of the Deposit Pledge, it has already been released on 31 August 2013.

In order to ensure proper compliance with the Listing Rules in the future, the Company is taking the following remedial measures:

- (i) the audit committee of the Company consisting of three independent non-executive Directors will be entrusted with the responsibility to review and modify the internal control system and update the internal handbook with reference to the Listing Rules;
- (ii) Mr. Lian Wei Chung, the chief financial officer and a joint company secretary of the Company, is in the course of modifying the existing procedures in monitoring connected transactions and discloseable transactions of the Group under Chapters 14 and 14A of the Listing Rules and will periodically provide the management of the Company with a list of the connected persons of the Company and their corresponding relationships with the Group and will request such connected persons to notify him and the audit committee of the Company immediately in respect of any proposed transactions to be entered into by the Group with any of such connected persons;

- (iii) the Board is reviewing and will continue to periodically review the Company’s internal control and financial reporting systems and their effectiveness;
- (iv) the Company will seek legal advice and/or other professional advice from time to time as and when it is necessary to ensure disclosure in future annual reports will be in compliance with the relevant requirements of the Listing Rules; and
- (v) the Company will arrange for Mr. Zhou and other members of the Board to undergo trainings in relation to compliance with the Listing Rules, director’s duties and corporate governance matters and will continue to provide trainings to its Directors and senior management to improve the standard of corporate governance and operating management of the Company.

GENERAL INFORMATION

The Group is principally engaged in the manufacturing and sales of automobile internal and external structure and decorative parts, moulds and tooling, casings and liquid tanks of air conditioners and heaters and other non-automobile products.

DEFINITIONS

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

“Advance(s)”	the advance(s) made by the Group to Mr. Zhou, Ningbo Huayou Properties, Ningbo Huayue and Changchun Huayou Properties, respectively, which constitute(s) provision(s) of financial assistance by the Group under the Listing Rules
“Board”	the board of Directors
“Changchun Huayou Properties”	長春華友置業有限公司(Changchun Huayou Properties Co., Ltd.*), a company incorporated in the PRC with limited liability and is owned as to 80% by Mr. Zhou and 20% by Ningbo Huayou Properties
“Company”	Huazhong Holdings Co. Ltd., a company incorporated in the Cayman Islands with limited liability whose securities are listed on the main board of the Stock Exchange
“connected person”	has the meaning ascribed to it under the Listing Rules
“Deposit Pledge”	a deposit pledge agreement dated 14 June 2013 entered into between Ningbo Huazhong Plastic and a PRC bank pursuant to which Ningbo Huazhong Plastic as pledgor agreed to pledge its bank deposits of RMB55,600,000 in favour of the bank

“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Huayou Investment”	Huayou Investment (Hong Kong) Limited (華友投資(香港)有限公司), a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company
“Independent Third Party”	any person(s) or company(ies) and their respective ultimate beneficial owner(s), to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, are third parties independent of the Company and its connected persons
“Listing”	the listing of the Shares on the Stock Exchange on 12 January 2012
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
“Loan”	a three-month term loan in the principal amount of RMB50 million made available by a PRC bank to Ningbo Huayue on 14 June 2013
“Mr. Zhou”	Mr. Zhou Minfeng (周敏峰), the chairman of the Board, an executive Director, the chief executive officer and a controlling shareholder of the Company
“Ningbo Huayou Properties”	寧波華友置業有限公司 (Ningbo Huayou Properties Co., Ltd.*), a company incorporated in the PRC with limited liability and owned as to 82% by Mr. Zhou
“Ningbo Huayue”	寧波華越汽車飾件有限公司 (Ningbo Huayue Automobile Trimming Co., Ltd.*), a company incorporated in the PRC with limited liability and wholly-owned by Ms. Lai Danfen (賴丹芬), a cousin of Mr. Zhou
“Ningbo Huazhong Plastic”	寧波華眾塑料製品有限公司 (Ningbo Huazhong Plastic Products Co., Ltd.*), a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of the Company
“PRC”	the People’s Republic of China, but for the purpose of this announcement only, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan

“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	ordinary share(s) with a nominal value of HK\$0.10 each in the capital of our Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent

By order of the Board
Huazhong Holdings Company Limited
Zhou Minfeng
Chairman

Hong Kong, 2 September 2013

As at the date of this announcement, the executive directors of the Company are Mr. Zhou Minfeng and Mr. Chang Jingzhou; the non-executive directors are Ms. Lai Cairong, Mr. Wang Yuming and Ms. Kuang Min; and the independent non-executive directors are Mr. Yu Shuli, Mr. Tian Yushi and Mr. Xu Jiali.

** For identification only*