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宏华集团
HONGHUA GROUP

HONGHUA GROUP LIMITED

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

(Stock code: 196)

DISCLOSEABLE TRANSACTION OPERATING LEASE AGREEMENT

OPERATING LEASE AGREEMENT

On 22 August, 2025, Taiping Petrochemical (as the Lessor) entered into the Operating Lease Agreement with Honghua Electric (as the Lessee), a subsidiary of the Company, pursuant to which Honghua Electric has agreed to lease the Operating Lease Assets from Taiping Petrochemical for a quarterly lease payment of RMB8,996,312 with an initial lease term of 36 months, which will be extended for 24 months pursuant to the Operating Lease Agreement under certain circumstances.

LISTING RULES IMPLICATIONS

As a result of entering into the Operating Lease Agreement, the Group will recognise right-of-use assets in its consolidated statement of financial position. Accordingly, the entry into the Operating Lease Agreement constitutes an acquisition of assets by the Group under the Listing Rules. The unaudited value of such right-of-use assets is estimated to be approximately RMB144,000,000, which is calculated based on the present value of the lease payments payable by the Lessee to the Lessor under the Operating Lease Agreement over the lease term (comprising both the initial lease term of 36 months and the extended lease term of 24 months).

As the highest applicable percentage ratio (as defined in Rule 14.07 of the Listing Rules) in respect of the Operating Lease Agreement based on the unaudited value of the right-of-use assets is higher than 5% but lower than 25%, the transaction contemplated under the Operating Lease Agreement constitutes a discloseable transaction of the Company and is subject to the notification and announcement requirements under Chapter 14 of the Listing Rules.

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Date

22 August, 2025

Parties

Lessor: Taiping Petrochemical Financial Leasing Co., Ltd.* (“**Taiping Petrochemical**”)

Lessee: Sichuan Honghua Electric Co., Ltd (“**Honghua Electric**”)

To the best of the Directors’ knowledge, information and belief after having made all reasonable enquiries, the Lessor and its ultimate beneficial owners are all independent third parties of the Company and its connected persons (as defined in the Listing Rules).

Operating Lease Assets

The Operating Lease Assets comprise 16 6000-horsepower electric fracturing pumps and related controlling systems and ancillary equipment.

Lease term

The initial lease term of the Operating Lease Agreement is 36 months from 25 August, 2025. Upon expiry of the 36-month initial lease term, the Lessee may, in accordance with the terms of the Operating Lease Agreement, elect to not renew the lease, renew the lease on terms to be agreed between the parties or purchase the Operating Lease Assets (or transfer such right to purchase to a third party). The Lessee undertakes that: (1) during the lease term, the Operating Lease Assets shall be used continuously for the Underlying Service Contracts. The Lessee shall pledge its accounts receivable under the Underlying Service Contracts on a first priority basis to the Lessor; (2) within one month prior to the expiration of any Underlying Service Contract, the Lessee shall pledge the accounts receivable under the new Underlying Service Contract (if any) to the Lessor. From September 1, 2025 until the expiry of the lease term of the Operating Lease Agreement, the estimated amount of the total lease payment payable to the Lessee under the Underlying Service Contracts shall be no less than 1.5 times the lease payment payable by the Lessee to the Lessor during the same period. The annual settlement amount under the Underlying Service Contracts shall be not less than RMB60,000,000; and (3) based on notarised records, the cumulative operating volume of each fracturing pump skid during the initial lease term does not exceed 40,000 cubic metres of fluid. In the event of any non-compliance with any of the above undertakings, the lease term of the Operating Lease Agreement will be automatically extended for 24 months.

Lease payment

Under the Operating Lease Agreement, the quarterly lease payment is RMB8,996,312, payable by the Lessee to the Lessor on a quarterly basis. The terms of the Operating Lease Agreement (including the pricing terms) were determined upon arm's length negotiation between the Lessee and the Lessor with reference to the prevailing market prices of the same category of operating lease products in the PRC. Generally speaking, the periodic lease payment chargeable under an operating lease agreement is determined with reference to the cost of the leased asset, its expected useful life and scrap value, the expected maintenance and other running costs, and a reasonable rate of return. The lease payments will be settled out of the internal resources of the Lessee.

Pledge of accounts receivable

As security for the performance of the obligations of the Lessee under the Operating Lease Agreement, the Lessee has pledged its accounts receivables under the Underlying Service Contracts on a first priority basis to the Lessor.

Available courses of action upon expiry of lease term

Upon expiry of the lease term of the Operating Lease Agreement, (i) provided that the lease payment and other amounts due have been paid and there is no breach or (ii) as otherwise permitted by the Lessor, the Lessee may elect to: (1) not renew the Operating Lease Agreement, in which case the Lessee shall return the Operating Lease Assets to the Lessor; (2) renew the Operating Lease Agreement with the Lessor by entering into a new written agreement on terms to be agreed between the parties on or before the expiry date of the Operating Lease Agreement; or (3) (upon the expiry of the initial lease term) purchase the Operating Lease Assets from the Lessor at a consideration to be agreed between the parties or (upon the expiry of the extended lease term) purchase the Operating Lease Assets from the Lessor at a consideration of RMB9,000,000, or transfer such right to purchase to a third party.

REASONS FOR AND BENEFITS OF ENTERING INTO THE OPERATING LEASE AGREEMENT

The Operating Lease Agreement is entered into by the Lessee during its ordinary and usual course of business. The Company believes that the entering into of the Operating Lease Agreement will help address the anticipated supply gap of equipment and strengthen the Lessee's capability in providing uninterrupted services to meet business needs, and will be conducive to stabilising the supply chain, safeguarding operational continuity and optimising procurement costs.

The Directors are of the view that the terms of the Operating Lease Agreement are fair and reasonable and are in the interests of the shareholders of the Company as a whole.

INFORMATION ABOUT THE GROUP, HONGHUA ELECTRIC AND TAIPING PETROCHEMICAL

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

Honghua Electric is a company incorporated in the PRC with limited liability. It is a subsidiary of the Company in which the Company indirectly holds approximately 84% equity interest. Honghua Electric is principally engaged in the high-end equipment manufacturing and engineering technology services for oil and gas drilling and extraction. Dedicated to promoting the application of digital technologies in the drilling and completion sector, the company provides integrated electric control solutions for drilling rigs, fully electric pressurised integrated solutions and comprehensive power supply and distribution solutions for oil and gas fields.

Taiping Petrochemical is a company incorporated in the PRC with limited liability, jointly owned by Sinopec Group (which is ultimately controlled by State-owned Assets Supervision and Administration Commission of the State Council) and China Taiping Insurance Group Co., Ltd, (which is ultimately controlled by the Ministry of Finance of the People's Republic of China) each contributing 50% of the capital, with an insurance and petrochemical background, and principally engaged in leasing services.

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As the highest applicable percentage ratio (as defined in Rule 14.07 of the Listing Rules) in respect of the Operating Lease Agreement based on the unaudited value of the right-of-use assets is higher than 5% but lower than 25%, the transactions contemplated under the Operating Lease Agreement constitutes a disclosable transaction of the Company and is subject to the notification and announcement requirements under Chapter 14 of the Listing Rules.

DEFINITIONS

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

“Board”	the board of directors of the Company
“Company”	Honghua Group Limited, a company incorporated in the Cayman Islands with limited liability and listed on the Stock Exchange (Stock Code: 196)
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries from time to time
“independent third party(ies)”	third parties independent of the Company and its connected persons (as defined under the Listing Rules)
“Lessee” or “Honghua Electric”	四川宏華電氣有限責任公司 (Sichuan Honghua Electric Co., Ltd.*), a company incorporated in the PRC with limited liability and a subsidiary of the Company
“Lessor” or “Taiping Petrochemical”	太平石化金融租賃有限責任公司 (Taiping Petrochemical Financial Leasing Co., Ltd.*), a company incorporated in the PRC with limited liability
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Operating Lease Agreement”	the operating lease agreement entered into between Taiping Petrochemical and Honghua Electric on 22 August, 2025
“Operating Lease Assets”	16 6000-horsepower electric fracturing pumps and related controlling systems and ancillary equipment
“PRC” or “China”	the People’s Republic of China, which, for the purpose of this announcement, excludes the Hong Kong Special Administrative Region of the PRC, the Macau Special Administrative Region of the PRC and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“Underlying Service Contracts”

the service contracts entered or to be entered into between the Lessee (as service provider) and consolidated subsidiaries and branch companies of China Petroleum & Chemical Corporation (as service recipients)

By order of the Board
Honghua Group Limited
Wang Xu
Chairman

PRC, 22 August, 2025

As at the date of this announcement, the executive directors of the Company are Mr. Wang Xu (Chairman), Mr. Zhu Hua and Mr. Yang Qiang; the non-executive director of the Company is Mr. Yang Yangzhuang; and the independent non-executive directors of the Company are Mr. Zhang Shiju, Ms. Li Yuedong and Mr. Wang Junren.

** For identification purposes only.*