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China Hongqiao Group Limited
中國宏橋集團有限公司

(Incorporated under the laws of Cayman Islands with limited liability)
(Stock Code: 1378)

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS
SUPPLY OF WATER

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

Reference is made to the announcement of the Company dated 29 June 2015. According to the aforesaid announcement, Zhanhua Huihong, an indirectly wholly-owned subsidiary of the Company, and Jinsha Water Supply entered into the Old Production Water Supply Agreement on 29 June 2015 for a term ending on 31 December 2017, pursuant to which Jinsha Water Supply agreed to supply water to Zhanhua Huihong for production use.

The Board would like to announce that, on 20 November 2017, Zhanhua Huihong and Jinsha Water Supply entered into the Renewed Production Water Supply Agreement for a term of three years commencing on 1 January 2018 and ending on 31 December 2020 (both days inclusive), pursuant to which Jinsha Water Supply will continue to supply water to Zhanhua Huihong for production use. Terms and conditions of the Renewed Production Water Supply Agreement are basically the same as those of the Old Production Water Supply Agreement.

LISTING RULES IMPLICATION

Zhanhua Huihong is an indirectly wholly-owned subsidiary of the Company. Jinsha Water Supply is owned as to 42.00% by Weiqiao Chuangye Group, which is in turn held as to 31.59% by Mr. Zhang Shiping, an executive Director and controlling shareholder of the Company. Therefore, Jinsha Water Supply is deemed as a connected person of the Company under the Listing Rules. Accordingly, the entering into the Renewed Production Water Supply Agreement and the Continuing Connected Transactions constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio in respect of the Continuing Connected Transactions, on an annual basis, is more than 0.1% but less than 5%, the Continuing Connected Transactions are subject to the announcement, reporting and annual review requirements but exempt from the circular (including independent financial advice) and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

A. RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

The material terms of the Renewed Production Water Supply Agreement are set out as follows:

1. Date

20 November 2017

2. Parties

- (i) Zhanhua Huihong, an indirectly wholly-owned subsidiary of the Company; and
- (ii) Jinsha Water Supply

3. Connected person

Jinsha Water Supply

4. Transaction nature

Zhanhua Huihong and Jinsha Water Supply entered into the Old Production Water Supply Agreement on 29 June 2015 for a term ending on 31 December 2017, pursuant to which Jinsha Water Supply agreed to supply water to Zhanhua Huihong for production use. On 20 November 2017, Zhanhua Huihong and Jinsha Water Supply entered into the Renewed Production Water Supply Agreement for a term of three years commencing on 1 January 2018 and ending on 31 December 2020 (both days inclusive), pursuant to which Jinsha Water Supply will continue to supply water to Zhanhua Huihong for production use.

5. Pricing basis and payment terms

The price of the water supplied by Jinsha Water Supply to Zhanhua Huihong shall be approximately RMB1.748 per ton (VAT exclusive) or RMB1.8 per ton (VAT inclusive), which is determined by reference to the prices charged by Jinsha Water Supply to other independent third parties for supply of water on normal commercial terms in its ordinary and usual course of business. Jinsha Water Supply shall provide the evidence of such market prices to Zhanhua Huihong upon the request of Zhanhua Huihong. If the price is otherwise mandatorily regulated by the PRC government, the mandatory governmental price shall be adopted by the Renewed Production Water Supply Agreement.

The Directors confirmed that the pricing basis agreed between Jinsha Water Supply and Zhanhua Huihong for the supply of water is fair and reasonable and negotiated on an arm's length basis and constitutes a normal commercial term.

Jinsha Water Supply would, on the last business day of each calendar month, prepare an account book of the relevant expenses that shall be paid by Zhanhua Huihong for that month. The expenses undue shall not be included in such account book. Zhanhua Huihong shall, within the first twenty (20) business days of the following month, pay the amount due in full.

6. Termination and renewal

Either party to the Renewed Production Water Supply Agreement may terminate it by providing at least thirty (30) days prior written notice to the counterparty. The Renewed Production Water Supply Agreement is renewable for another term of three years (subject to the compliance of relevant requirements under the Listing Rules) unless either party decides not to renew it and gives a thirty (30) days prior written notice to the counterparty accordingly.

7. Historical transaction values and the Annual Caps

The historical transaction values, annual caps and purchase volumes for the water supplied by Jinsha Water Supply to Zhanhua Huihong under the Old Production Water Supply Agreement for the six months ended 31 December 2015, the financial year ended 31 December 2016 and the financial year ending 31 December 2017 are as follows:

	For the six months ended 31 December 2015	For the year ended 31 December 2016	For the year ending 31 December 2017
	<i>(RMB)</i>	<i>(RMB)</i>	<i>(RMB)</i>
	(excluding VAT)	(excluding VAT)	(excluding VAT)
Historical transaction values	5,676,000	23,594,000	32,807,000 ¹
Historical annual caps ²	15,000,000	84,000,000	148,000,000
Historical purchase volumes (ton)	3,248,177	13,501,187	18,772,884 ³

Note 1: For the ten months ended 31 October 2017, the aggregate transaction value of supply of water by Jinsha Water Supply to Zhanhua Huihong amounted to approximately RMB27,339,000. The Directors currently estimate that the aggregate transaction value of supply of water for the year 2017 will be approximately RMB32,807,000 (exclusive of VAT), which was calculated by annualising the actual transaction value for the ten months ended 31 October 2017.

Note 2: The difference between the historical annual caps and the historical transaction values for the three years ending 31 December 2017 is mainly due to the fact that Zhanhua Huihong's relevant production capacity did not operate in full load and its partial production capacity was not put into operation on schedule.

Note 3: For the ten months ended 31 October 2017, the aggregate purchase volume of the water supplied by Jinsha Water Supply to Zhanhua Huihong amounted to approximately 15,644,070 ton. The Directors currently estimate that the aggregate purchase volume of water for the year 2017 will be approximately 18,772,884 ton, which was calculated by annualising the actual purchase volume for the ten months ended 31 October 2017.

Set out below are the Annual Caps which are estimated to be payable by Zhanhua Huihong to Jinsha Water Supply and the estimated maximum purchase volumes of water under the Renewed Production Water Supply Agreement for the three financial years ending 31 December 2020:

	Financial years ending 31 December		
	2018 <i>(RMB)</i> (excluding VAT)	2019 <i>(RMB)</i> (excluding VAT)	2020 <i>(RMB)</i> (excluding VAT)
Annual Caps	162,234,000	162,234,000	162,234,000
Estimated maximum purchase volumes (ton)	92,811,000	92,811,000	92,811,000

The Annual Caps for each of the three years ending 31 December 2020 are determined with reference to (i) the estimation of water to be used by the existing production capacity (including, among others, the increased production capacity) of Zhanhua Huihong; and (ii) the price of the water supplied by Jinsha Water Supply to Zhanhua Huihong under the Renewed Production Water Supply Agreement, i.e. approximately RMB1.748 per ton (VAT exclusive).

B. REASONS FOR AND BENEFITS OF ENTERING INTO THE RENEWED PRODUCTION WATER SUPPLY AGREEMENT

In order to enhance the Group's operating efficiency and competitiveness and meet the growing demand of production water of the Group, Zhanhua Huihong, the Company's indirectly wholly-owned subsidiary, and Jinsha Water Supply entered the Renewed Production Water Supply Agreement after considering, among others, the following reasons:

- (i) the close location of Jinsha Water Supply to Zhanhua Huihong makes it convenient and efficient for water supply; and
- (ii) Jinsha Water Supply is able to provide stable water supply with flexible adjustment for the production needs of Zhanhua Huihong, which is favorable to the development of the Group's existing business and the future expansion of the Group's production capacity.

C. IMPLICATIONS UNDER THE LISTING RULES

Zhanhua Huihong is an indirectly wholly-owned subsidiary of the Company. Jinsha Water Supply is owned as to 42.00% by Weiqiao Chuangye Group, which is in turn held as to 31.59% by Mr. Zhang Shiping, an executive Director and controlling shareholder of the Company. Therefore, Jinsha Water Supply is deemed as a connected person of the Company under the Listing Rules. Accordingly, the entering into the Renewed Production Water Supply Agreement and the Continuing Connected Transactions constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio in respect of the Continuing Connected Transactions, on an annual basis, is more than 0.1% but less than 5%, the Continuing Connected Transactions are subject to the announcement, reporting and annual review requirements but exempt from the circular (including independent financial advice) and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Each of Mr. Zhang Shiping, Ms. Zheng Shuliang, Mr. Zhang Bo and Mr. Yang Congsen is interested in the Continuing Connected Transactions and had abstained from voting on the relevant resolution of the Board approving the same.

The Directors (including the independent non-executive Directors) consider that the Continuing Connected Transactions are in the ordinary and usual course of business of the Group and the terms of the Renewed Production Water Supply Agreement (including the Annual Caps) have been negotiated on an arm's length basis, and are on normal commercial terms and are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

D. INTERNAL CONTROL PROCEDURES

The Company has adopted the following internal control measures to ensure that the Continuing Connected Transactions are in accordance with the pricing policies and the terms of the Renewed Production Water Supply Agreement, and in compliance with the Listing Rules:

- (i) the finance department of the Company shall obtain and monitor all the quotations and/or pricing records as reference price of the Continuing Connected Transactions to ensure the purchase price of the water supplied by Jinsha Water Supply to Zhanhua Huihong is no less favourable to the Group than the price at which such water is offered by independent third parties to the Group;
- (ii) the finance department of the Company shall monitor and ensure that the Continuing Connected Transactions are conducted in accordance with the terms of the Renewed Production Water Supply Agreement and the Annual Caps are not exceeded;
- (iii) the Board will continue to periodically review the Company's internal control systems and their effectiveness; and
- (iv) the independent non-executive Directors shall, and the Company shall engage its external auditors to, conduct annual review of the Continuing Connected Transactions and the Annual Caps in accordance with the requirements of the Listing Rules.

E. GENERAL INFORMATION

The Group is principally engaged in the manufacture and sale of aluminum products.

Zhanhua Huihong is principally engaged in the investment, construction and management of alumina and aluminium plate projects.

Jinsha Water Supply is principally engaged in the supply of production water, the production water treatment, the investment and construction of water supply projects, the installation and maintenance of water pipes as well as the sale of water supply fittings and instruments.

F. DEFINITIONS

In this announcement, the following expressions shall have the following respective meanings:

“Annual Caps”	the annual caps for the Continuing Connected Transactions contemplated under the Renewed Production Water Supply Agreement for a term of three years commencing on 1 January 2018 and ending on 31 December 2020 (both days inclusive)
“Board”	the board of Directors (including the independent non-executive Directors)
“Company”	中國宏橋集團有限公司 (China Hongqiao Group Limited)
“Continuing Connected Transactions”	the continuing connected transactions contemplated under the Renewed Production Water Supply Agreement
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Jinsha Water Supply”	沾化金沙供水有限公司 (Zhanhua Jinsha Water Supply Co., Ltd.), a limited liability company established under the laws of the PRC on 6 December 2013 and owned as to 42.00% by Weiqiao Chuangye Group
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Old Production Water Supply Agreement”	the production water supply agreement dated 29 June 2015 and entered into between Zhanhua Huihong and Jinsha Water Supply for a term ending on 31 December 2017
“PRC”	the People’s Republic of China
“Renewed Production Water Supply Agreement”	the production water supply agreement dated 20 November 2017 and entered into between Zhanhua Huihong and Jinsha Water Supply for a term of three years commencing on 1 January 2018 and ending on 31 December 2020 (both days inclusive)
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	registered holder(s) of the shares of the Company

“VAT”	value added tax at the rate of 3%
“Weiqiao Chuangye Group”	山東魏橋創業集團有限公司 (Shandong Weiqiao Chuangye Group Company Limited), a limited liability company established under the laws of the PRC on 14 April 1998 which is held as to 31.59% by Mr. Zhang Shiping, an executive director and controlling shareholder of the Company
“Zhanhua Huihong”	濱州市沾化區匯宏新材料有限公司 (Binzhou City Zhanhua District Huihong Aluminum Profiles Co., Ltd.), a limited liability company established under the laws of the PRC on 13 August 2013 and an indirectly wholly-owned subsidiary of the Company
“%”	per cent

By order of the Board
China Hongqiao Group Limited
Zhang Shiping
Chairman

Shandong, the PRC
20 November 2017

As at the date of this announcement, the Board comprises eight directors, namely Mr. Zhang Shiping, Ms. Zheng Shuliang and Mr. Zhang Bo as executive directors, Mr. Yang Congsen and Mr. Zhang Jinglei as non-executive directors, and Mr. Chen Yinghai, Mr. Xing Jian and Mr. Han Benwen as independent non-executive directors.