
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about this circular or as to the action to be taken, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Honghua Group Limited, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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HONG HUA

Honghua Group Limited

宏華集團有限公司

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

(Stock Code: 196)

CONTINUING CONNECTED TRANSACTIONS

**Independent financial adviser to the Independent Board Committee
and the Independent Shareholders**



A letter from the Board is set out on pages 3 to 9 of this circular.

A letter from the Independent Board Committee, containing its recommendation to the Independent Shareholders, is set out on page 10 of this circular.

A letter from MCL Capital, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 11 to 20 of this circular.

A notice convening an EGM of the Company to be held at its Head Office, 3rd Floor Meeting Room, Circle Office Building, 99 East Road, Information Park, Jinniu District, Chengdu, Sichuan 610036, PRC on Wednesday, 8 October 2008 at 3:00 p.m. is set out on page 27 of this circular. Whether or not you intend to attend such meeting, please complete the enclosed form of proxy in accordance with instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for holding such meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at such meeting or any adjourned meeting should you so wish.

19 September 2008

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DEFINITIONS

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

“Associates”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	Honghua Group Limited, a company incorporated in the Cayman Islands with limited liability, with its shares listed on the Main Board of the Stock Exchange
“Connected Person(s)”	has the meaning ascribed to it under the Listing Rules
“Continuing Connected Transactions”	has the meaning ascribed to it under the Listing Rules
“Continuing Connected Transactions Announcement”	the announcement of the Company dated 31 August 2008 regarding the Continuing Connected Transactions contemplated under the Extra Sales, the Sales Framework Agreement and the Purchases Framework Agreement
“Director(s)”	director(s) of the Company
“EGM”	an extraordinary general meeting of the Company to be held to approve the transactions contemplated under Sales Framework Agreement and the Purchases Framework Agreement
“Extra Sales”	various purchase orders placed by the Nabors Group to Honghua America for purchase of parts and components of drilling rigs and for provision of services for an aggregate sum of US\$4,412,471 since 1 February 2008
“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
“Honghua America”	Honghua America, LLC, formerly known as New Continental Equipment Co., LLC and as New Continental Equipment Co, Ltd., a limited partnership formed in the State of Texas on 11 October 2004, and converted into a limited liability company on 19 December 2006, and a 80% indirectly-owned subsidiary of the Company
“Independent Board Committee”	independent committee of the board of the Company comprising all independent non-executive Directors, Mr. Chen Guoming, Mr. Tai Kwok Leung, Alexander, Mr. Liu Xiaofeng, Mr. Liu Yinchun, Mr. Qi Daqing, Mr. Wang Chunlin and Mr. Wang Li, which will be formed to advise the Independent Shareholders in respect of the transactions contemplated under the Sales Framework Agreement and the Purchases Framework Agreement
“Independent Shareholders”	Shareholders other than Nabors International and its Associates
“Latest Practicable Date”	16 September 2008, being the latest practicable date prior to the printing of this circular for ascertaining information contained herein

DEFINITIONS

“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“MCL Capital” or “Independent Financial Adviser”	MCL Capital Limited, a corporation licensed to carry out business in type 6 regulated activities under the SFO, the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the Continuing Connected Transactions contemplated under the Sales Framework Agreement and the Purchases Framework Agreement
“Nabors Group”	Nabors Industries and its subsidiaries
“Nabors Industries”	Nabors Industries Ltd., an exempted company organized under the laws of Bermuda on 11 December 2001 whose shares are listed on the New York Stock Exchange, with its subsidiaries comprise the Nabors Group
“Nabors International”	Nabors Drilling International II Limited, an exempted company organized under the laws of Bermuda on 12 March 2003
“Parties”	the Company and Nabors Industries to both the Sales Framework Agreement and the Purchases Framework Agreement
“PRC”	the People’s Republic of China, but for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“Prospectus”	prospectus of the Company dated 25 February 2008
“Purchases Framework Agreement”	The purchases framework agreement entered into between the Company and Nabors Industries (for itself and on behalf of its subsidiaries) on 31 August 2008 for the purchase by Nabors Industries and the Nabors Group from the Group of products and after-sales services as defined therein on an ongoing basis
“RMB”	Renminbi, the lawful currency of the PRC
“Sales Framework Agreement”	The sales framework agreement entered into between the Company and Nabors Industries (for itself and on behalf of its subsidiaries) on 31 August 2008 for the sales to Nabors Industries and the Nabors Group by the Group of products and after-sales services as defined therein on an ongoing basis
“Shares”	ordinary share(s) of nominal value of HK\$0.10 each in the issued share capital of the Company
“Shareholder(s)”	Shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“US\$”	United States dollars, the lawful currency of the United States
“Waiver”	waiver obtained from the Stock Exchange on 15 February 2008 in respect of the application by the Company from the Stock Exchange for waiver from strict compliance with the announcement (but not reporting) and Independent Shareholders’ approval requirements under Rule 14A.42(3) of the Listing Rules for the Sales to the Nabors Group and the Purchase from the Nabors Group on 6 February 2008

LETTER FROM THE BOARD



HONG HUA

Honghua Group Limited

宏華集團有限公司

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

(Stock Code: 196)

Executive Directors:

Mr. Zhang Mi (*Chairman*)
Mr. Ren Jie
Mr. Liu Zhi

Registered Office:

Clifton House, 75 Fort Street, PO Box 1350,
Grand Cayman
KY 1-1108

Non-executive Directors

Mr. He Sean Xing
Mr. Xiang Qingsheng
Mr. Siegfried Meissner

Head Office:

99 East Road, Information Park
Jinniu District, Chengdu
Sichuan 610036
PRC

Independent non-executive Directors:

Mr. Qi Daqing
Mr. Liu Xiaofeng
Mr. Chen Guoming
Mr. Liu Yinchun
Mr. Wang Li
Mr. Tai Kwok Leung, Alexander
Mr. Wang Chunlin

Principal Place of Business in Hong Kong:

Room 908, Hutchison House
Central
Hong Kong

19 September 2008

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

Reference is made to the Prospectus and the Continuing Connected Transactions Announcement as regards the new Continuing Connected Transactions between the Group and the Nabors Group in relation to the Sales Framework Agreement and the Purchases Framework Agreement and their respective annual caps.

The purpose of this circular is to provide you with (i) the particulars of the Sales Framework Agreement and the Purchases Framework Agreement and their respective annual caps; (ii) the letter of recommendation from the Independent Board Committee; (iii) the letter of advice from MCL Capital to the Independent Board Committee and the Independent Shareholders; (iv) the EGM notice and (v) other information required by the Listing Rules.

LETTER FROM THE BOARD

BACKGROUND

Previous Continuing Connected Transactions

Reference is made to the Prospectus as regards Continuing Connected Transactions between the Group and the Nabors Group in relation to the (1) sales of rigs, mud pumps, mud pump sets, parts and components and provision of after-sales services of the Nabors Group (hereinafter “**Sales to the Nabors Group**”) and (2) purchase of a top drive drilling system from the Nabors Group (hereinafter “**Purchases from the Nabors Group**”). In respect of the Sales to the Nabors Group, the total income anticipated to be received by the Group from the Nabors Group in 2008 will amount to approximately US\$908,300 (which is approximately equivalent to RMB6,578,200). In respect of the Purchases from the Nabors Group, the Group entered into a purchase contract dated 8 January 2008 with the Nabors Group in respect of the purchase of a top drive drilling system from the Nabors Group. The purchase price of the top drive drilling system under the purchase contract is approximately US\$1,739,700 (which is approximately equivalent to RMB12,599,600).

The Group had applied for a waiver from the Stock Exchange from strict compliance with the announcement (but not reporting) and independent shareholders’ approval requirements under Rule 14A.42(3) of the Listing Rules for the Sales to the Nabors Group and the Purchases from the Nabors Group on 6 February 2008 and had obtained from the Stock Exchange the Waiver on 15 February 2008. The cap under the Waiver is US\$908,300 (approximately equivalent to RMB6,578,200). The Group did not apply for waivers in respect of any future sales and after-sales services transactions and future purchase transactions at the time of listing.

In addition, since 1 February 2008, the Nabors Group has placed various purchase orders to Honghua America for purchase of parts and components of drilling rigs and for provision of services for an aggregate sum of US\$4,412,471, the Extra Sales. The Extra Sales shall be subject to the requirements of reporting and announcement under Rule 14A.34 of the Listing Rules.

The Company hence made the disclosure in respect of the continuing connected transactions under the Extra Sales in the Continuing Connected Transactions Announcement.

New Continuing Connected Transactions

In order to expand the business activities with the Nabors Group, the Group and the Nabors Group entered into the Sales Framework Agreement and the Purchases Framework Agreement respectively. The annual caps under the Sales Framework Agreement of the Products and the Services (as defined therein) shall not exceed US\$200 million, US\$250 million and US\$300 million for each of the three years ending 31 December 2010 respectively. The annual caps have been determined by reference to the sale price of the related transactions for the three years ended 31 December 2007 and such other relevant factors (including but not limited to exchange rate fluctuation, increase of cost of raw material and inflation) which may have influence on the sale price. The Parties also acknowledge that demand of Nabors Industries fluctuates materially based upon a variety of factors, including without limitation oil and gas prices, demand from its customers, and the portfolio of Nabors Industries’ equipment available for projects at any particular time.

The annual caps under the Purchases Framework Agreement of the Products and the Services (as defined therein) shall not exceed US\$20 million, US\$40 million and US\$40 million for each of the three years ending 31 December 2010 respectively. The annual caps have been determined by reference to the value of the transactions for the three years ended 31 December 2007 and the management’s view of the Group on the market conditions for the increase in demand for and the unit price of all kinds of drilling rigs and workover rigs and their parts and components, having taken into account of the increase of cost of raw material and the inflation in the forthcoming three years.

LETTER FROM THE BOARD

The historical amount of the sales to, and purchase from, the Nabors Group and its Associates and as compared with the proposed annual caps under each of the Sales Framework Agreement and the Purchases Framework Agreement are as follows:-

Sales to the Nabors Group

	2005	2006	2007
Historical sales figures (in US\$)	11,404,000 (approximately equivalent to RMB89,608,000)	191,533,000 (approximately equivalent to RMB1,493,950,000)	68,710,000 (approximately equivalent to RMB520,674,000)
Proposed annual cap (in US\$)	200,000,000	250,000,000	300,000,000

Purchases from the Nabors Group

	2005	2006	2007
Historical purchases figures (in US\$)	—	12,602,000 (approximately equivalent to RMB98,405,000)	19,000 (approximately equivalent to RMB142,000)
Proposed annual cap (in US\$)	20,000,000	40,000,000	40,000,000

Trend of the historical sales and purchases figures

In 2005, the Group started receiving orders placed by the Nabors Group and only 2 sets of drilling rigs and various parts were delivered and hence the sales amount was rather low. The Group then executed the aforesaid purchase orders from the Nabors Group and made deliveries of the goods through 2006 to 2007 for the purchase orders received. The number of drilling rigs delivered during 2005, 2006 and 2007 were 2, 45 and 15 respectively plus certain parts and components.

For the purchases from the Nabors Group, the amounts and the material to be purchased were mainly depended on the requirements designated by the Nabors Group. The purchases amounts vary in the same manner as the sales amounts.

Reason of the significant increase in the proposed annual caps under each of the Sales Framework Agreement and the Purchases Framework Agreement

The increase in the sales and purchases amount is mainly due to (a) the increase in the exchange rate of Renminbi leading to the increase of prices originated in US dollars, (b) the increase of costs of the raw materials and labour and (c) the change in the specification.

The proposed annual caps set by the Company under each of the Sales Framework Agreement and the Purchases Framework Agreement for each of the three years ending 31 December 2008, 2009 and 2010 are made by reference to the anticipated orders that would be placed by the Nabors Group; the historical figures in 2006 and the adjustments in relation to the exchange rates and increase of costs as aforesaid. Due to the different specification of drilling rigs, the variation of costs and the exchange rate, the historical sales and purchase figures cannot be adopted in their entirety to the proposed annual caps and the Company takes the view that the historical sales and purchase figures are for reference only.

The Company confirms that the Extra Sales is included in the proposed annual caps under the Sales Framework Agreement.

LETTER FROM THE BOARD

DETAILS OF THE NEW CONTINUING CONNECTED TRANSACTIONS

The new Continuing Connected Transactions comprise transactions carried out by the Group with the Nabors Group pursuant to the following agreements:-

- (1) the Sales Framework Agreement; and
- (2) the Purchases Framework Agreement.

(1) SALES FRAMEWORK AGREEMENT

Date:	31 August 2008
Parties:	(1) the Company (for itself and on behalf of its subsidiaries); and (2) Nabors Industries (for itself and on behalf of its subsidiaries). Nabors Industries, through various operating subsidiaries, conducts oil, gas and geothermal land drilling operations in the United States, Canada, Central and South America, the Middle East, the Far East and Africa, and provides various ancillary products and services.
Subject:	Sale by the Group to the Nabors Group of certain types of drilling rigs and workover rigs from 450HP to 3,000HP and their parts and components, and similar products to be developed in line with the future market needs, and provision by the Group to the Nabors Group of the after-sales services.
Condition Precedent:	The Sales Framework Agreement shall take effect upon obtaining the approval of the Independent Shareholders in compliance with the Listing Rules.
Term:	Commencing from 31 August 2008 or the date when the condition precedent is satisfied, whichever is the later, to 31 December 2010 or when the Nabors Group and its Associates ceased to be Connected Persons of the Company, whichever is the earlier.
Price:	To be determined from time to time pursuant to the terms set out therein by the Parties after arm's length negotiations and on normal commercial terms that are fair and reasonable and in the interest of the Company and its Shareholders as a whole.
Payment terms:	Details of the payment terms shall be defined in each of the separate contracts to be entered by the Group and the Nabors Group on terms mutually agreed in accordance with the terms and conditions of the Sales Framework Agreement.
Annual Caps:	The annual caps under the Sales Framework Agreement of the Products and the Services (as defined therein) shall not exceed US\$200 million, US\$250 million and US\$300 million for each of the three years ending 31 December 2010 respectively. The annual caps have been determined by reference to the sale price of the related transactions for the three years ended 31 December 2007 and any other relevant factors (including but not limited to exchange rate fluctuation, increase of cost of raw material and inflation) which may have influence on the sale price. The Parties also acknowledge that demand of Nabors Industries fluctuates materially based upon a variety of factors, including without limitation oil and gas prices, demand from its customers, and the portfolio of Nabors Industries' equipment available for projects at any particular time.

LETTER FROM THE BOARD

(2) PURCHASES FRAMEWORK AGREEMENT

Date:	31 August 2008
Parties:	(1) the Company (for itself and on behalf of its subsidiaries); and (2) Nabors Industries (for itself and on behalf of its subsidiaries). Nabors Industries, through various operating subsidiaries, conducts oil, gas and geothermal land drilling operations in the United States, Canada, Central and South America, the Middle East, the Far East and Africa, and provides various ancillary products and services.
Subject:	Purchases by the Group from the Nabors Group rig parts and components which mainly consist of top drives and provision by the Nabors Group to the Group of the after-sales services.
Condition Precedent:	The Purchases Framework Agreement shall take effect upon obtaining the approval of the Independent Shareholders of the Company in compliance with the Listing Rules.
Term:	Commencing from 31 August 2008 or the date when the condition precedent is satisfied, whichever is the later, to 31 December 2010 or when the Nabors Group and its Associates ceased to be Connected Persons of the Company, whichever is the earlier.
Price:	To be determined from time to time pursuant to the terms set out therein by the Parties after arm's length negotiations and on normal commercial terms that are fair and reasonable and in the interest of the Company and its Shareholders as a whole.
Payment terms:	Details of the payment terms shall be defined in each of the separate contracts to be entered by the Group and the Nabors Group on terms mutually agreed in accordance with the terms and conditions of the Purchases Framework Agreement.
Annual Caps:	The annual caps under the Purchases Framework Agreement of the Products and the Services (as defined therein) from the Nabors Group shall not exceed US\$20 million, US\$40 million and US\$40 million for each of the three years ending 31 December 2010 respectively. The annual caps have been determined by reference to the value of the transactions for the three years ended 31 December 2007 and the management's view of the Group on the market conditions for the increase in demand for and the unit price of all kinds of drilling rigs and workover rigs and their parts and components taking into account of the increase of cost of raw material and the inflation in the forthcoming three years.

The Company confirms that the Sales Framework Agreement and the Purchases Framework Agreement are not inter-conditional to each other.

REASON FOR THE CONTINUING CONNECTED TRANSACTIONS

The Group is engaged in the business of developing, manufacturing and selling all kinds of drilling rigs and workover rigs and their parts and components and after sales services.

The Nabors Group is engaged primarily in the oilfield services business throughout the world.

The Group intends to expand its business opportunities in the United States, the Middle East and Africa. In light of this, the Group intends to expand the business activities with the Nabors Group. Sales to

LETTER FROM THE BOARD

the Nabors Group will enhance expansion of the Group's turnovers whereas purchases from the Nabors Group will provide the Group the advantage and benefit of ensuring consistency in product quality and the lower purchasing costs associated with larger scale purchases.

The Directors (excluding the independent non-executive Directors whose views will be given after taking into account the advice of an independent financial adviser) consider that the annual caps and the terms of the respective Sales Framework Agreement and the Purchases Framework Agreement are on normal commercial terms, fair and reasonable and in the interest of the Company and its Shareholders as a whole.

LISTING RULES IMPLICATIONS

Nabors Industries and its subsidiaries comprise the Nabors Group. Nabors Industries, through various operating subsidiaries, conducts oil, gas and geothermal land drilling operations in the United States, Canada, Central and South America, the Middle East, the Far East and Africa, and provides various ancillary products and services.

Nabors International, a member of the Nabors Group, currently owns approximately 13.5% of the issued share capital of the Company and thus the Nabors Group and its Associates are Connected Persons of the Company. Transactions under the Extra Sales, the Sales Framework Agreement and the Purchases Framework Agreement therefore constitute Continuing Connected Transactions.

In respect of the Extra Sales, as each of the applicable percentage ratios (other than the profit ratio) under Rule 14.07 of the Listing Rules is less than 2.5%, the Continuing Connected Transactions under the Extra Sales are subject to reporting and announcement requirements under Rule 14A.34 of the Listing Rules.

In respect of the Sales Framework Agreement and the Purchases Framework Agreement, as each of the applicable percentage ratios (other than the profit ratio) under Rule 14.07 of the Listing Rules is more than 2.5% and the annual consideration is more than HK\$10,000,000, the transactions contemplated under the Sales Framework Agreement and the Purchases Framework Agreement are subject to reporting, announcement and independent shareholders' approval requirements under Rules 14A.35(3) and (4) of the Listing Rules. Each of the Sales Framework Agreement and the Purchases Framework Agreement is subject to independent shareholders' approval requirements under Rules 14A.45 to 14A.48 and the annual review requirements under Rules 14A.37 and 14A.38 of the Listing Rules. Nabors International, being a shareholder with a material interest in the Continuing Connected Transactions, and its Associates will abstain from voting in the EGM.

EGM AND PROCEDURES FOR DEMANDING A POLL BY SHAREHOLDERS

A notice convening the EGM to be held at the Head Office of the Company, 3rd Floor Meeting Room, Circle Office Building, 99 East Road, Information Park, Jinniu District, Chengdu, Sichuan 610036, PRC at 3:00 p.m. on Wednesday, 8 October 2008 is set out on page 27 of this circular. At the EGM, an ordinary resolutions will be proposed for the Independent Shareholders to consider, and if thought fit, to approve, among other things, the Sales Framework Agreement and the Purchases Framework Agreement and their respective annual caps.

A form of proxy for use at the EGM is enclosed. Whether or not the Independent Shareholders are able to attend the EGM, they are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude the Independent Shareholders from attending and voting at the EGM or any adjournment thereof should they so wish.

According to the bye-law 72 of the Company, at any general meeting a resolution put to the vote of a meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded or otherwise required under the Listing Rules. A poll may be demanded by:

- (a) the chairman of such a meeting; or

LETTER FROM THE BOARD

- (b) at least 2 Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorized representative or by proxy for the time being entitled to vote at the meeting; or
- (c) any Shareholder or Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorized representative or by proxy and representing not less than one-tenth of the total voting rights of all the Shareholders having the right to vote at the meeting; or
- (d) any Shareholder or Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorized representative or by proxy and holding Shares conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all Shares conferring that right.

Pursuant to Rule 14A.52 of the Listing Rules, the votes of the Independent Shareholders at the EGM will be taken by poll.

GENERAL

The Independent Board Committee has been formed to advise the Independent Shareholders on the terms of the Sales Framework Agreement and the Purchases Framework Agreement. MCL Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders with respect to the Continuing Connected Transactions contemplated under the Sales Framework Agreement and the Purchases Framework Agreement.

Details of the Continuing Connected Transactions contemplated under the Sales Framework Agreement and the Purchases Framework Agreement will be included in each published annual report of the Company for the three years ending 31 December 2010. The Company will comply with the requirements as regards to annual review of the Continuing Connected Transactions under the Listing Rules.

RECOMMENDATIONS

Your attention is drawn to (i) the letter from the Independent Board Committee set out in this circular which contains the recommendation of the Independent Board Committee to the Independent Shareholders on the terms (including the annual caps) of the Sales Framework Agreement and the Purchases Framework Agreement and its view as to the Continuing Connected Transactions contemplated thereunder respectively; and (ii) the letter from MCL Capital set out in this circular which contains its recommendations to the Independent Board Committee and the Independent Shareholders in relation to the terms (including the annual caps) of the Sales Framework Agreement and the Purchases Framework Agreement and its view as to the Continuing Connected Transactions contemplated thereunder respectively.

The Independent Board Committee, having taken into account the advice of MCL Capital, considers that the Sales Framework Agreement and the Purchases Framework Agreement were entered into on normal commercial terms and in the ordinary and usual course of business of the Group, that the Continuing Connected Transactions contemplated thereunder respectively are in the interests of the Company and its Shareholders as a whole and that the terms (including the annual caps) of Sales Framework Agreement and the Purchases Framework Agreement are fair and reasonable so far as the Shareholders are concerned. Accordingly, the Board recommends all Independent Shareholders to attend and vote at the EGM in favour of the ordinary resolutions set out in the notice of the EGM.

ADDITIONAL INFORMATION

Your attention is also drawn to the general information as set out in the appendix of this circular.

Yours faithfully,
By order of the Board of
Honghua Group Limited
Zhang Mi
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the full text of the letter from the Independent Board Committee to the Independent Shareholders in connection with the terms (including the annual caps) of the Sales Framework Agreement and the Purchases Framework Agreement for inclusion in this circular.



HONG HUA

Honghua Group Limited

宏華集團有限公司

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

(Stock Code: 196)

19 September 2008

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

We have been appointed as members of the Independent Board Committee to advise you in connection with the terms (including the annual caps) of the Sales Framework Agreement and the Purchases Framework Agreement to express our view as to the Continuing Connected Transactions contemplated thereunder respectively, details of which are set out in the “Letter from the Board” in the circular issued by the Company to its Shareholders dated 19 September 2008 (the “**Circular**”) of which this letter forms part. Terms defined in the Circular have the same meanings when used in this letter unless the context otherwise requires.

MCL Capital has been appointed as the independent financial adviser to advise us and the Independent Shareholders on the terms (including the annual caps) of the Sales Framework Agreement and the Purchases Framework Agreement.

Your attention is drawn to the “Letter from the Board”, the advice of MCL Capital in its capacity as the independent financial adviser to the Independent Shareholders and the Independent Board Committee in respect of the Continuing Connected Transactions contemplated under the Sales Framework Agreement and the Purchases Framework Agreement as set out in the “Letter from MCL Capital” as well as other additional information set out in other parts of the Circular.

Having taken into account the advice of, and the principal factors and reasons considered by MCL Capital in relation thereto as stated in its letter, we consider the terms (including the annual caps) of the Sales Framework Agreement and the Purchases Framework Agreement and the Continuing Connected Transactions contemplated thereunder respectively are on normal commercial terms, fair and reasonable and in the interest of the Company and its Shareholders as a whole. We therefore recommend you to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the terms (including the annual caps) of the Sales Framework Agreement and the Purchases Framework Agreement.

Yours faithfully,

Independent Board Committee of
Honghua Group Limited

Qi Daqing

Independent non-executive Director

Chen Guoming

Independent non-executive Director

Wang Li

Independent non-executive Director

Wang Chunlin

Independent non-executive Director

Liu Xiaofeng

Independent non-executive Director

Liu Yinchun

Independent non-executive Director

Tai Kwok Leung Alexander

Independent non-executive Director

LETTER FROM MCL CAPITAL

The following is the full text of the letter from MCL Capital to the Independent Board Committee and the Independent Shareholders in connection with the terms (including the annual caps) of the Sales Framework Agreement and the Purchases Framework Agreement for inclusion in this circular.



1901-2
St. George's Building
2 Ice House Street
Central
Hong Kong

19 September 2008

*To the Independent Board Committee and
the Independent Shareholders of
Honghua Group Limited*

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS

1. INTRODUCTION

We refer to our engagement as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions contemplated under the Sales Framework Agreement and the Purchases Framework Agreement (collectively, referred to herein as “**Transactions**” or “**Agreements**”), the details of which are set out in the “Letter from the Board” contained in the circular to Shareholders dated 19 September 2008 (the “**Circular**”), of which this letter forms a part. Unless otherwise stated, terms defined in the Circular have the same meanings in this letter.

On 31 August 2008, the Company (for itself and on behalf of its subsidiaries) and Nabors Industries (for itself and on behalf of its subsidiaries) entered into the Sales Framework Agreement in relation to the sale of certain products and the provision of the related after-sales services by the Group to the Nabors Group. On the same date, the parties also entered into the Purchases Framework Agreement in relation to the purchases of rig parts and components by the Group from the Nabors Group and the provision of related after-sales services by the Nabors Group to the Group. Each of the Sales Framework Agreement and the Purchases Framework Agreement is for a term of not more than three financial years ending 31 December 2010. As stated in the “Letter from the Board” in the Circular, Nabors Industries and its Associates are Connected Persons of the Company, and the Transactions constitute continuing connected transactions for the Company under Rule 14A.13(1)(a) of the Listing Rules.

Each of the applicable percentage ratios as defined in Rule 14A.10 of the Listing Rules calculated with reference to the proposed annual caps under each of the Agreements, for the periods from 31 August 2008 (or the date when the approval of the Independent Shareholders of the Company has been obtained with respect to the Transactions, whichever is later) to 31 December 2008, from 1 January 2009 to 31 December 2009 and from 1 January 2010 to 31 December 2010, exceeds 2.5%, and the proposed annual cap for each of the relevant periods under the Agreements is more than HK\$10,000,000. Therefore, under Rule 14A.35(4) of the Listing Rules, the Transactions are subject to, amongst others, approval of the Independent Shareholders in the EGM, the voting of which will be taken on a poll. Furthermore, under Rule 14A.21 of the Listing Rules, an independent board committee is required to be formed to advise the Independent Shareholders and an independent financial adviser is required to be appointed by the Company to advise to the said independent board committee and the Independent Shareholders.

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2. THE INDEPENDENT BOARD COMMITTEE AND THE INDEPENDENT FINANCIAL ADVISER

As at the date hereof, the Board comprises three executive Directors; namely, Mr Zhang Mi (Chairman), Mr Ren Jie and Mr Liu Zhi, three non-executive Directors; namely, Mr He Sean Xing, Mr Xiang Qingsheng and Mr Siegfried Meissner, and seven independent non-executive Directors; namely, Mr Qi Daqing, Mr Liu Xiaofeng, Mr Chen Guoming, Mr Liu Yinchun, Mr Wang Li, Mr Tai Kwok Leung Alexander and Mr Wang Chunlin.

According to Rule 13A.21 of the Listing Rules, the Independent Board Committee comprising all of the seven independent non-executive Directors; namely, Mr Qi Daqing, Mr Liu Xiaofeng, Mr Chen Guoming, Mr Liu Yinchun, Mr Wang Li, Mr Tai Kwok Leung Alexander and Mr Wang Chunlin, has been formed to advise the Independent Shareholders with respect to the Transactions. Each of the members of the Independent Board Committee has confirmed that he does not have any material interest in the Transactions. Based on such confirmation, we are satisfied that all independent non-executive Directors are eligible to be members of the Independent Board Committee.

MCL Capital Limited is independent from, and not connected with, any of the Company, Nabors Industries and their respective Associates, and does not have any interest in the Transactions. In the context of Rule 14A.21 of the Listing Rules, we have been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders with respect to the Transactions, specifically, as to whether the terms of the Agreements are (i) fair and reasonable so far as the Company and the Independent Shareholders are concerned, (ii) on normal commercial terms, and (iii) in the ordinary and usual course of business, and whether the Transactions are in the interests of the Company and the Shareholders as a whole, as well as to advise the Independent Board Committee on its recommendations to the Independent Shareholders as to how they may vote in respect of the Transactions.

3. BASIS OF OUR OPINION

In formulating our recommendation, we have relied on the information and representations contained or referred to in the Circular as well as on information provided, representations made and opinions expressed by the Company, its management and/or the Directors. We have assumed that all information provided and representations made or referred to in the Circular were true at the time they were supplied or made, and continue to be true and valid as at the date of the Circular. We have also assumed that all statements of belief or expectations, opinions and intentions made by the Company, its management and/or the Directors in the Circular have been arrived at after due and careful consideration.

We have sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed. We consider that we have been provided with sufficient information for us to reach an informed view, and have no reason to doubt the truth or accuracy or completeness of the information provided to us by the Company, its management and/or the Directors. We have not however conducted an independent investigation into or verification of the financial position, business and affairs of the Group and or the prospects of the markets in which the Group operates.

4. PRINCIPAL FACTORS CONSIDERED

In arriving at our opinion on the terms of the Transactions, we have considered the following principal factors and reasons:

4.1 Selected financial information and prospect of the Group

According to its 2007 annual report (the “**Company’s 2007 AR**”), the Company is a leading manufacturer of land drilling rigs in China, with a focus on production and sale of two types of products; namely, (i) land drilling rigs, which is the core business of the Company, and (ii) related rig parts and components; as well as provision of technical support services to its customers. The Company was quoted in “The Global Land Drilling Rig Manufacturing Market”, published by Spears & Associates Inc. as the second largest land rig manufacturer in the world in terms of revenue and sales volume as of February 2008.

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The table below sets out the operating results of the Group for the two years ended 31 December 2007 as extracted from the Company's 2007 AR:

	(Audited)			
	For the year ended 31 December 2007		2006	
	RMB'000		RMB'000	
		<i>% of total revenue</i>		<i>% of total revenue</i>
Revenue				
(i) sale of drilling rigs	2,774,261	87.7	2,037,272	83.6
(ii) sale of parts and components	389,761	12.3	298,676	16.4
	3,164,022		2,335,948	
		<i>operating margin %</i>		<i>operating margin %</i>
Profit from operations	727,975	23.0	590,254	24.2

For the year ended 31 December 2007, revenue of the Group from sale of land drilling rigs amounted to approximately RMB2,774 million, representing approximately 87.7% of the total revenue of the Group and an increase of approximately 36.2% over that of the previous year. During such period, the Group sold 94 units of drilling rigs, of which 15 units and 49 units were sold in the North American and the PRC markets respectively, representing a total of over 68% of the total units sold. The average gross margin of drilling rigs sold by the Group in 2007 was 34.1%.

The Group recorded revenue of approximately RMB390 million from sale of rig parts and components, contributing the remaining 12.3% to its the total revenue and representing an increase of approximately 30.5% as compared to that of the previous year. One of the major products of the Group in this segment was mud pumps, the revenue from sale of which was approximately RMB166 million in year 2007, representing approximately 42.6% of the relevant segment revenue. The average gross margin of rig parts and components sold by the Group was approximately 34.6% in year 2007.

In the Company's 2007 AR, the Company cited the forecast by International Energy Agency and US International Energy Advisory Administration that the global demand for oil products in 2008 would increase by 2.5%, implying the persistent growth of global oil demand and that global oil price would observe an ever-increasing trend. The Company was of the view that capital expenditures for petroleum drilling and mining globally would continue to increase, as stimulated by oil price hikes and such capital investments would drive the demand for petroleum drilling rigs further upward. As such, the Group is planning to enhance the production capacity of drilling rigs from 101 units in 2007 to 150 units in 2008 per annum and that of mud pumps from 290 units to 500 units in the same period.

We note that the sale and manufacture of drilling rigs is the core business of the Group, which has continued to contribute a substantial portion of revenue to and business growth of the Group, and each of the drilling rigs and rig parts and components businesses has maintained healthy average gross margin and relatively stable operating margins. The Group has planned to expand its production capacity, supported by the general expectations of a positive outlook of the underlying industry and hence the demand for drilling rigs. In addition, the management of the Company has confirmed to us that the production capacity of the Group, at least up to financial year 2009, will be expanded to a scale which is enough to fulfill not only the transactions under the Sales Framework Agreement but also the possible growth of this core business expected to be generated from the Group's other major customers.

According to the management of the Company, the products to be purchased from the Nabors Group under the Purchases Framework Agreement will be, to a small extent, used as designated parts in the manufacture of the drilling rigs to be sold to the Nabors Group under the Sales Framework Agreement. Nevertheless, the transactions under the Purchases Framework Agreement would facilitate, to an extent, the sale of drilling rigs to the Nabors Group under the Sales Framework Agreement as it requires certain drilling rigs to be made use of the parts purchased by the Group under the Purchases Framework Agreement.

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Having considered the above information and analysis, we are of the opinion that the Transactions, if materialised to a substantial extent, will represent positive developments for the Group's core business and effectively help the Group achieve higher economies of scale in its operations and significant growth in revenue, and therefore, the Transactions are in the interests of the Company and the Shareholders as a whole. Given that the Transactions are expected to contribute to the Group's core business of the sale and manufacture of drilling rigs, we are of the view that the Transactions have been, and will continue to be conducted in the ordinary and usual course of business of the Group.

4.2 Information on Nabors Industries and the relationship between it and the Group

According to the Prospectus, Nabors Industries is a company listed on the New York Stock Exchange. Nabors Industries conducts oil, gas and geothermal land drilling operations in the world, including without limitation United States, the Middle East and Africa, and provides various ancillary products and services. In the Prospectus, it was also noted that Nabors Group did not involve significantly in the business of manufacturing and sale of rigs, or spare parts, and was in fact the end-user of the Group's products. According to a research report published by Standard & Poor's (the "**S&P Report**") on Nabors Industries dated 26 June 2008, Nabors Industries is the world's largest oil and gas land drilling contractor. In the S&P Report, it was noted that the fundamental outlook for the oil and gas drilling sub-industry for the next 12 months is positive and the operating performance of Nabors Industries as measured by the return on capital employed has maintained an upward trajectory since 1989. According to the financial information published by Nabors Industries, it recorded revenue and net income of US\$4,939 million and US\$931 million, respectively, for the year ended 31 December 2007 and its total assets were US\$10,103 million as at 31 December 2007.

As disclosed in the Prospectus, during the two years ended 31 December 2005 and 2006 and the eight months ended 31 August 2007, the Nabors Group was the largest customer of the Group. Furthermore, according to the Company's 2007 AR, Nabors International, which is a member of the Nabors Group, was also the largest customer of the Group in year ended 31 December 2007.

Upon the initial public offering of the Company, Nabors International has become a substantial shareholder (as defined under the Listing Rules) of the Company and thus the Nabors Group and its Associates are Connected Persons of the Company.

Nabors Global Holdings Limited ("**Nabors Global**"), which is also a member of the Nabors Group, has granted to the Company, under the legally binding Technology License Agreement (as disclosed in the Prospectus) entered into in October 2007, a license to use whatever know how, manufacturing techniques, method of operations, etc. that Nabors Global has or has the right to use with respect to certain products of the Group. In addition, to further strengthen the strategic business relationship, Nabors Group, through Nabors Industries, and the Group entered into the Strategic Cooperation Agreement (as disclosed in the Prospectus) in November 2007, which sets out the intention of the parties, pursuant to which, amongst other matters, the Group will be a preferred supplier of drilling rigs to Nabors Group and a significant portion of Nabors Group's future demand for drilling rigs, drilling equipment and spare parts will be fulfilled by the Group at the pricing and terms that comply with the requirements of the Stock Exchange.

As stated in the "Letter from the Board" in the Circular, the Group has been selling similar products such as drilling rigs to the Nabors Group since 2005 and has been purchasing, mainly parts and components for drilling rigs, from the Nabors Group since 2006. We note from the Prospectus that the Directors (including the independent non-executive Directors) confirmed that such continuing connected transactions in the past between the Nabors Group and the Group had been entered into in the ordinary course of the business of the Group, and had been based on arm's length negotiations and on normal commercial terms that were fair and reasonable and in the best interests of the Shareholders as a whole ("**Confirmation from the Directors**").

Based on our review of the information related to the above, we are of the view that (i) the Nabors Group and the Group have the mutual intention to build up a closer business relationship, (ii) the Nabors Group is a significant customer of the Group, and (iii) the Nabors Group has sound financial background.

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We are also of the opinion that the Transactions will strengthen further the relationship between the Group and the Nabors Group, which has arisen out of the existing, mutually beneficial co-operation between the parties, and accordingly we consider the Transactions to be in the interests of the Company and the Shareholder as a whole given the market leadership position and financial strength of Nabors Industries as its position as the key customer of the Group. Given that the Group has been selling products to, and purchasing products from, the Nabors Group for the past approximately three years, with the business relationship commencing well before the Nabors Group became a Connected Person of the Company and in view of the Confirmation from the Directors, we consider that the Transactions have been and will continue to be conducted on normal commercial terms and in the ordinary and usual course of business of the Group.

4.3 Principal terms of the Continuing Connected Transactions

4.3.1 The Sales Framework Agreement

Under the Sales Framework Agreement entered into between the Company and Nabors Industries on 31 August 2008, the Group may sell to the Nabors Group certain types of drilling rigs and workover rigs ranging from 450HP to 3,000HP and related parts and components, and similar products to be developed in line with future market needs, as well as provide to the Nabors Group related after-sales services. We understand from the management of the Company that the Nabors Group may place specific purchase orders with the Group for purchases of the above mentioned products and services from time to time provided that the annual purchase order amount (including the Extra Sales with respect to the 2008 financial year) with respect to the Sales Framework Agreement shall not exceed the respective annual cap set out therein during the term of the agreement. According to the “Letter from the Board” in the Circular, the price of the subject products and services will be determined from time to time after arm’s length negotiations and on normal commercial terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole. In addition, the relevant payment terms shall be mutually agreed between the parties.

4.3.2 The Purchases Framework Agreement

The Purchases Framework Agreement was also entered into between the Company and Nabors Industries on 31 August 2008, and provides a framework for the Group to purchase rig parts and components, comprising mainly top drives, for drilling rigs and the related after-sales services. According to the “Letter from the Board” in the Circular, the price of the subject products and services will be determined from time to time after arm’s length negotiations and on normal commercial terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole. In addition, the relevant payment terms shall be mutually agreed between the parties. We understand from the management of the Company that the annual purchase order amount with respect to the Purchases Framework Agreement shall not exceed the respective annual cap set out therein during the term of the agreement.

4.4 Reasons for and benefits of the Continuing Connected Transactions

As stated in the “Letter from the Board” in the Circular and as mentioned in the Prospectus under the Business Strategies section, the Group intends to strengthen and expand its presence and business in several key international markets, including the Middle East and Africa. Since the business operations of the Nabors Group already cover these markets, and given the concentration of the Group’s existing sale of drilling rigs mainly in the US and the PRC markets (as indicated under paragraph 4.1 hereinabove), we are of the view that the transactions contemplated under the Sales Framework Agreement would help the Group achieve its aim of expanding its business opportunities in these markets and are therefore in line with the Group’s business strategy.

In addition, based on our understanding that rig building contracts are lumpy and there are no assurances that existing customers will maintain or increase their level of business with the Company, the transactions contemplated under the Sales Framework agreement, if materialised to a substantial extent, will help the Company achieve more steady growth in its core business.

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According to the management of the Company, the products to be purchased from the Nabors Group under the Purchases Framework Agreement will be, to a small extent, used as designated parts in the manufacture of the drilling rigs to be sold subsequently to the Nabors Group. We further understand from the management that the Nabors Group provides competitive quality-to-price top drives, albeit its brand might be less recognised, as compared to its comparable international manufacturers. As such, and in light of the mutual intention to build a closer mutually beneficial co-operation between the Nabors Group and the Group, we are of the view that the purchases of the products and services from the Nabors Group under the Purchases Framework Agreement have facilitated, and will continue to facilitate, the Group's operations in its core business as a whole.

Having considered the above factors, we concur with the view of Directors (excluding the independent non-executive Directors) as stated in the "Letter from the Board" in the Circular that the Transactions are in the interests of the Company and the Shareholders as a whole.

4.5 Basis of price determination

4.5.1 Sales of products and services to the Nabors Group under the Sales Framework Agreement

We note that under the Sales Framework Agreement, the price of the products and services to be purchased by the Nabors Group from the Group will be determined from time to time after arm's length negotiations between the parties and on normal commercial terms that are fair and reasonable and in the interests of the Company and the Shareholders as whole.

In addition, the management of the Company has confirmed to us that the price of products or services will be determined on an individual purchase order basis and on the following principles:

- (i) by reference to the prevailing market price of the same or substantially similar product or services, taking into account of the price of the same or substantially similar product or services with comparable order quantity and quality offered by other manufacturers, and on terms no less favourable than the general market price and terms;
- (ii) if there are not sufficient comparable transactions in (i) above, on terms no less favourable to the Group than those offered by the Group to independent third parties with comparable credit worthiness in respect of the same or substantially similar products or services with comparable quantity; and
- (iii) if both (i) and (ii) above are not applicable, by reference to the average gross margin for similar products or services sold by the Group, taking into account of the price and terms of the same or substantially similar product or services offered to the Nabors Group in the past three years, and on terms no less favourable to the Group than those offered to the Group by independent third parties.

Based on our discussions with the management of the Company, we understand that the products or services to be sold by Group under the Sales Framework Agreement could cover a wide range of specifications and hence comparable transactions for, or market price of, the same products or services might in some cases not be available. However, considering the general pricing policy and the detailed pricing principles, which are comprehensive so as to cover various situations, as disclosed above, we are of the view that these guidelines are sufficient or otherwise the best available to the Company to determine prices that are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

4.5.2 Purchases of products and services from the Nabors Group under the Purchases Framework Agreement

As stated in the "Letter from the Board" in the Circular, pursuant to the Purchases Framework Agreement, the price of the products and services to be purchased from the Nabors Group will be determined from time to time after arm's length negotiations between the Nabors Group and the Group and on normal commercial terms that are fair and reasonable and in the interests of the Company and the Shareholders as whole.

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The management of the Company has confirmed to us that the price of products or services will be determined on an individual purchase order basis and on the following principles:

- (i) by reference to the prevailing market price of the same or substantially similar product or services, taking into account of the price of the same or substantially similar product or services with comparable order quantity and quality offered by other manufacturers, and on terms no less favourable than the general market price and terms;
- (ii) if there are not sufficient comparable transactions in (i) above, on terms no less favourable to the Group than those offered to the Group by independent third parties in respect of the same or substantially similar products or services with comparable quantity; and
- (iii) if both (i) and (ii) above are not applicable, by reference to the average price of similar products or services previously purchased by the Group, and on terms no less favourable to the Group than those offered to the Group by independent third parties.

According to the management of the Company, comparable transactions for and market price of the products, mainly top drives, and services referred to in the Purchases Framework Agreement are relatively easy to obtain. On this basis and considering the general pricing policy and the detailed pricing principles as disclosed above, we are of the view that price determination regarding the purchases of the products and services under the Purchases Framework Agreement is fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

Having considered the above, we are of the opinion that (i) the Agreements are based on normal commercial terms, and (ii) the basis for determining the prices for the selling of products and services under the Sales Framework Agreement and for the purchases of products and services under the Purchases Framework Agreement, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

4.6 Proposed annual caps of the Transactions

4.6.1 Under the Sales Framework Agreement

The proposed annual caps under the Sales Framework Agreement for each of the years ending 31 December 2008, 2009 and 2010 are set out as follows:

	Proposed annual caps (US\$'000)		
	For the year ending 31 December		
	2008	2009	2010
Selling by the Group to the Nabors Group of certain types of drilling rigs and workover rigs, other similar products, and provision of the related after-sales services by the Group to the Nabors Group	200,000	250,000	300,000

According to the “Letter from the Board” in the Circular, the proposed caps have been determined by reference to, inter alia, the anticipated orders that would be placed by the Nabors Group. We have sought and received confirmation from the management of the Company that it was the intention of the Nabors Group and the Group that the annual purchase order value with respect to the purchases by the Nabors Group under the Sales Framework Agreement shall not exceed the respective annual cap set out above.

We note from the acknowledgements made by Nabors Industries and the Company, as stated in the “Letter from the Board” in the Circular, that the demand from Nabors Industries for the Group’s products and services tends to fluctuate due to, amongst other matters, the demand from the customers of Nabors Industries, and the types and quantities of equipment available to Nabors Industries for projects at any particular time. As such, we concur with the Board that the historical sales figures, or even the historical purchase order amount, may not be entirely relevant for determining the respective proposed annual caps

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under the agreement. We are however of the view that the estimated value of the purchase orders to be placed by the Nabors Group shall be the principal factor to be considered in determining the respective annual caps during the term of the Sales Framework Agreement.

From our discussions with the management of the Company, we were advised that the Company has determined the relevant annual caps by reference to the estimated value of the purchase orders to be placed by the Nabors Group with respect to (i) the potential demand for the products and services (in terms of quantity and specifications) of the Group from the Nabors Group as contemplated by the Nabors Group, (ii) the Group's best estimates of the relevant production costs after taking into account the factors such as the appreciation of RMB against US dollars and the increase in raw material and labour costs during the term of the Sales Framework Agreement, and (iii) the historical selling price of the relevant products and services as reference. We have reviewed the assumptions upon which the Group has arrived at the estimated value of the purchase orders for (i) drilling rigs and (ii) parts and components under the Sales Framework Agreement and note the following points from our discussions with the management of the Company:

Estimated 2008 order value

- The annual order quantity of ten drilling rigs in 2008 has been arrived at based on the anticipated orders as contemplated by the Nabors Group arising from the discussions between the Nabors Group and the Group.
- The estimated average unit price of drilling rigs in 2008 as compared to the relevant current unit total costs represents a gross margin (calculated based on sales after converted into RMB) of about 30%, which is in line with the gross margin of the Group's drilling rig business of approximately 34% in 2007.
- The estimated annual order quantity of parts and components (including the anticipated orders for 100 units of mud pumps) in 2008 has been arrived at, by large, based on the anticipated orders as contemplated by the Nabors Group arising from the discussions between the Nabors Group and the Group.
- The estimated average unit price of parts and components in 2008 has been arrived at based on the relevant historical unit price of the products in 2007 after adjustment for the increase in material and labour cost since then.

Estimated 2009 and 2010 order values

- The estimated annual order quantity of 14 and 16 drilling rigs in 2009 and 2010, respectively, has been based on the Group's best estimate of the orders to be placed by the Nabors Group and each of the annual order quantity is in line with the 15 sets of drilling rigs delivered by the Group to the Nabors Group in 2007 (having considered (i) the increase in production capacity of the Group and the general positive outlook of demand for drilling rigs, and (ii) the recent addition of 12 drilling rigs in the first quarter of 2008 by Nabors Industries as stated in a research report dated 29 April 2008 and published by an internationally renowned investment bank on Nabors Industries, we are of the opinion that the estimated annual order quantity in each of 2009 and 2010 is possibly feasible and achievable).
- In each of 2009 and 2010, the estimated average unit price of drilling rigs represents an increase of 15% and 10% on a year-on-year basis, respectively, and the respective estimated average unit price (after taking into account mainly an average 8% annual appreciation of RMB against the US\$ each year) as compared to the estimated relevant unit total costs (after taking into account an average 5% annual increase in raw material and labour costs each year) represent a gross margin of about 30% (given that such estimated gross margin is in line with the historical gross margin of the Group's drilling rig business of approximately 34% in 2007, we are of the opinion that the estimated average unit prices are fair and reasonable).
- In each of 2009 and 2010, the estimated order value for parts and components represents an increase of 15% and 10% on a year-on-year basis, respectively, which is in tandem with the increase in the corresponding year's estimated average unit price of drilling rigs (we have sought and received

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confirmation from the management of the Company that since the parts and components will be used mainly for the drilling rigs sold by the Group to the Nabors Group and hence by reference to the increase in unit price is the best available basis available to the Group in arriving at such estimated order amounts in dollar value).

As a whole, we agree with the Company's basis of estimation and are of the opinion that the proposed annual caps with respect to the Sales Framework Agreement have been arrived at by the Group after due and careful consideration.

Having considered the above principal factors, we are of the opinion that the proposed annual caps under the Sales Framework Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole although the estimated order value in each year is slightly below the respective proposed annual cap.

4.6.2 Under the Purchases Framework Agreement

The proposed annual caps under the Purchases Framework Agreement for each of the years ending 31 December 2008, 2009 and 2010 are set out as follows:

	Proposed annual caps (US\$'000)		
	For the year ending		
	31 December		
	2008	2009	2010
Purchases by the Group of rig parts and components from the Nabors Group, and provision by the Nabors Group of the related after-sales services to the Group	20,000	40,000	40,000

We were also advised by the management of the Company that it was the intention of the Nabors Group and the Group that the annual purchase order value with respect to the purchases by the Group under the Purchases Framework Agreement shall not exceed the respective annual cap set out above. We have sought and received confirmation from the management of the Company that the annual caps under the Purchases Framework Agreement have been determined by reference to the estimated value of annual purchase orders to be placed by the Group with respect to its estimated demand for the relevant products and services by the Group under the Sales Framework Agreement and for the sale of drilling rigs to other customers of the Group.

Given that the products and services to be purchased under the Purchases Framework Agreement are to be used in the manufacture of drilling rigs of the Group, we are of the view that, for the same reason as that with respect to the determination of the annual caps under the Sales Framework Agreement, the historical purchases by the Group from the Nabors Group has little relevance to the future purchase order amount with respect to the subject products and services under the Purchases Framework Agreement. Accordingly, we are of the view that the estimated value of the purchase orders to be placed by the Group shall be the principal factor to be considered in determining the respective annual caps during the term of the Sales Framework Agreement.

According to the management of the Company and as stated generally in the "Letter from the Board" in the Circular, the estimated value of the purchase orders to be placed by the Group under the Purchases Framework Agreement was arrived at after having considered (i) the management's view of the Group on the future market dynamics (demand and unit price) in respect of the products likely to be purchased under the Purchase Framework Agreement by the Group, (ii) the estimated increase in raw material costs and inflation, during the term of the agreement, and (iii) the historical selling price of the relevant products and services as reference. We have reviewed the assumptions upon which the Group has arrived at the estimated value of the purchase orders (for (i) top drives and (ii) other parts and components) under the Purchases Framework Agreement and note the following points from our discussions with the management of the Company:

Estimated 2008 order value

- The annual order quantity of four top drives in 2008 has been arrived at based on the orders as stipulated by the Group.

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- The estimated average unit price of the top drives in 2008 is the same as the unit purchase price of a top drive contracted to purchase by the Group from the Nabors Group in January 2008 as disclosed in the Prospectus.
- As regards the estimated 2008 order value for the other parts and components, since these will be used in the manufacture of the drilling rigs that are to be sold to the Nabors Group under the Sales Framework Agreement, their estimated 2008 order value under the Purchases Framework Agreement has been arrived at by applying a ratio of approximately 13% to the estimated order value for drilling rigs in 2008 by the Nabors Group under the Sales Framework Agreement. The ratio of 13% is equal to the historical average ratio of (i) the 2006 and 2007 purchase value of the other parts and components purchased by the Group from the Nabors Group, to (ii) the sales value of corresponding drilling rigs sold to the Nabors Group by the Group (“**Basis of Determining the Order Value for Other Parts and Components**”)

Estimated 2009 and 2010 order values

- The estimated annual order quantity of nine top drive drilling systems in each of 2009 and 2010 has been arrived at based on the management’s view of the Group on the future market demand for the Nabors Group’s top drives.
- In each of 2009 and 2010, the estimated average unit price of top drives represents a 5% and nil % increase on a year-on-year basis, respectively, which has been arrived at based on the management’s view of the Group on the general trend of the increase in raw material prices and the possible selling price of the Nabors Group’s top drives.
- In each of 2009 and 2010, the respective order value for the other parts and components has also been arrived at by applying a ratio of approximately 13% (please refer to the above mentioned Basis of Determining the Order Value for Other Parts and Components) to the estimated order value for drillings rigs in the respective year under the Sales Framework Agreement.

Given the information above and as a whole, we agree with the Company’s basis of estimation and are of the opinion that the annual caps with respect to the Purchases Framework Agreement have been arrived at by the Group after due and careful consideration.

Having considered the above principal factors, we are of the opinion that the proposed annual caps under the Purchases Framework Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

5. RECOMMENDATION

We have considered the above principal factors and reasons and we are of the opinion that the Continuing Connected Transactions contemplated under the Agreements are on normal commercial terms, in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole, and the terms of the Agreements and the relevant annual caps are fair and reasonable so far as the Company and the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders, and we recommend the Independent Shareholders, to vote in favour of the ordinary resolutions set out in the notice of the EGM.

Yours faithfully ,
For and on behalf of
MCL CAPITAL LIMITED
David Yu
Director

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in this circular misleading.

2. DIRECTORS' DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company (if any) in the Shares, underlying Shares, debentures of the Company and its associated corporation (within the meaning of Part XV of the SFO), which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have taken under such provisions of the SFO); or (b) were required to be recorded in the register maintained by the Company pursuant to section 352 of the SFO; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) adopted by the Company, to be notified to the Company and the Stock Exchange, were as follows:

(a) Directors' interests and short positions in the Shares, underlying Shares and debentures of the Company and its associated corporations

Name	Long/Short position	Personal interest	Corporate interest	Number of shares held			% of the issued share capital of the Company
				Corporate interest and settlor of a discretionary trust	Interest of the Concert Group	Total	
Mr. Zhang Mi	Long	10,180,000	NIL	1,617,727,837	15,845,000	1,643,752,837 ⁽¹⁾⁽⁴⁾	49.31
Mr. Ren Jie	Long	3,269,000	NIL	1,617,727,837	22,756,000	1,643,752,837 ⁽²⁾⁽⁴⁾	49.31
Mr. Liu Zhi	Long	2,800,000	NIL	1,617,727,837	23,225,000	1,643,752,837 ⁽³⁾⁽⁴⁾	49.31

(1) Zhang Mi is a member of the Concert Group. He is the settlor of a discretionary trust, The ZYL Family Trust, whose trustee, through Wealth Afflux Limited, holds the entire issued share capital of Ally Smooth Investments Limited, which in turn is the beneficial owner of 36% of the issued share capital of Ample Chance International Limited, which in turn is the beneficial owner of the entire issued share capital of Ally Giant Limited which holds 1,617,727,837 Shares.

(2) Ren Jie is a member of the Concert Group. He is the settlor of a discretionary trust, The RJDJ Victory Trust, whose trustee, through Mowbray Worldwide Limited, holds approximately 41.34% of the issued share capital of Charm Moral International Limited, which in turn is the beneficial owner of approximately 19.09% of the issued share capital of Ample Chance International Limited, which in turn is the beneficial owner of the entire issued share capital of Ally Giant Limited which holds 1,617,727,837 Shares.

(3) Liu Zhi is a member of the Concert Group. He is the settlor of a discretionary trust, The LZWM Family Trust, whose trustee, through Ecotech Enterprises Corporation, holds approximately 29.33% of the issued share capital of Charm Moral International Limited, which in turn is the beneficial owner of approximately 19.09% of the issued share capital of Ample Chance International Limited, which in turn is the beneficial owner of the entire issued share capital of Ally Giant Limited which holds 1,617,727,837 Shares.

(4) Concert Group is defined in the Prospectus.

(b) Pre-IPO Share Option Scheme

Grantee	Long/Short position	Number of option held — Interest of the Concert Group	
		Number of option held — Personal interest	Number of option held — Interest of the Concert Group
Mr. Zhang Mi	Long	9,900,000	15,676,000
Mr. Ren Jie	Long	3,100,000	22,476,000
Mr. Liu Zhi	Long	2,800,000	22,776,000

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executives of the Company (if any) had any interests or short positions in the Shares, underlying Shares and debentures of the Company or of any of its associated corporation (within the meaning of Part XV of the SFO) which:

(a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of

Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO); or (b) were required to be recorded in the register maintained by the Company pursuant to section 352 of the SFO; or (c) were required, pursuant to the Model Code adopted by the Company, to be notified to the Company and the Stock Exchange.

3. INTERESTS AND SHORT POSITIONS WHICH ARE DISCLOSEABLE UNDER DIVISIONS 2 AND 3 OF PART XV OF THE SFO

As at the Latest Practicable Date, so far as is known to the Directors, the persons (other than a Director or chief executive of the Company (if any) whose interest have been disclosed above) who had an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 5 per cent. or more of the nominal value of any class of share capital carry rights to vote in all circumstances at general meeting of any other member of the Group, or in any option, in respect of such securities were as follows:

Name	Long/Short position	Number of shares held					% of the issued share capital of the Company
		Personal interest	Corporate interest	Corporate interest and settlor of a discretionary trust	Interest of the Concert Group	Total	
Ally Giant Limited	Long	1,617,727,837	NIL	NIL	26,025,000	1,643,752,837 ⁽¹⁾	49.31
Ample Chance International Limited	Long	NIL	1,617,727,837	NIL	26,025,000	1,643,752,837 ⁽²⁾	49.31
Wealth Afflux Limited	Long	NIL	1,617,727,837	NIL	26,025,000	1,643,752,837 ⁽³⁾	49.31
Ally Smooth Investments Limited	Long	NIL	1,617,727,837	NIL	26,025,000	1,643,752,837 ⁽³⁾	49.31
Equity Trustee Limited	Long	NIL	NIL	(trustee of a discretionary trust)	NIL	1,617,727,837 ⁽³⁾	48.53
				1,617,727,837		(5)(6)(9)(10)(14)(20)(22)	
Charm Moral International limited	Long	NIL	1,617,727,837	NIL	26,025,000	1,643,752,837 ⁽⁴⁾	49.31
Mowbray Worldwide Limited	Long	NIL	1,617,727,837	NIL	26,025,000	1,643,752,837 ⁽⁵⁾	49.31
Ecotech Enterprises Corporation	Long	NIL	1,617,727,837	NIL	26,025,000	1,643,752,837 ⁽⁶⁾	49.31
Mr. Zheng Yong	Long	1,390,000	1,617,727,837	NIL	24,635,000	1,643,752,837 ⁽⁷⁾	49.31
Beauty Clear Holdings Limited	Long	NIL	1,617,727,837	NIL	26,025,000	1,643,752,837 ⁽⁸⁾	49.31
Mr. Zuo Huixian	Long	1,060,000	NIL	1,617,727,837	24,965,000	1,643,752,837 ⁽⁹⁾	49.31
Vast & Fast Corporation	Long	NIL	1,617,727,837	NIL	26,025,000	1,643,752,837 ⁽⁹⁾	49.31
Mr. Zhang Xu	Long	1,191,000	NIL	1,617,727,837	24,834,000	1,643,752,837 ⁽¹⁰⁾	49.31
Cavendish Global Corporation	Long	NIL	1,617,727,837	NIL	26,025,000	1,643,752,837 ⁽¹⁰⁾	49.31
Mr. Wang Jiangyang	Long	640,000	1,617,727,837	NIL	25,385,000	1,643,752,837 ⁽¹¹⁾	49.31
Mr. Chen Jun	Long	540,000	1,617,727,837	NIL	25,485,000	1,643,752,837 ⁽¹²⁾	49.31
Believe Power International Limited	Long	NIL	1,617,727,837	NIL	26,025,000	1,643,752,837 ⁽¹³⁾	49.31
Mr. Fan Bing	Long	1,175,000	NIL	1,617,727,837	24,850,000	1,643,752,837 ⁽¹⁴⁾	49.31
Brondesbury Enterprises Limited	Long	NIL	1,617,727,837	NIL	26,025,000	1,643,752,837 ⁽¹⁴⁾	49.31
Mr. Zhang Yanyong	Long	1,000,000	1,617,727,837	NIL	25,025,000	1,643,752,837 ⁽¹⁵⁾	49.31
Mr. Ao Pei	Long	440,000	1,617,727,837	NIL	25,585,000	1,643,752,837 ⁽¹⁶⁾	49.31
Mr. Tian Diyong	Long	355,000	1,617,727,837	NIL	25,670,000	1,643,752,837 ⁽¹⁷⁾	49.31
Mr. Shen Dingjian	Long	175,000	1,617,727,837	NIL	25,850,000	1,643,752,837 ⁽¹⁸⁾	49.31
Benefit Way International Limited	Long	NIL	1,617,727,837	NIL	26,025,000	1,643,752,837 ⁽¹⁹⁾	49.31
Mr. Liu Xuetian (deceased)	Long	NIL	NIL	1,617,727,837	26,025,000	1,643,752,837 ⁽²⁰⁾	49.31
Dobson Global Inc.	Long	NIL	1,617,727,837	NIL	26,025,000	1,643,752,837 ⁽²⁰⁾	49.31
Ms. Qu Yihong	Long	NIL	1,617,727,837	NIL	26,025,000	1,643,752,837 ⁽²¹⁾	49.31
Mr. Liu Ying	Long	NIL	1,617,727,837	NIL	26,025,000	1,643,752,837 ⁽²¹⁾	49.31
Mr. Zhou Bing	Long	750,000	NIL	1,617,727,837	25,275,000	1,643,752,837 ⁽²²⁾	49.31
Darius Enterprises Limited	Long	NIL	1,617,727,837	NIL	26,025,000	1,643,752,837 ⁽²²⁾	49.31
Ms. Lu Lan	Long	345,000	1,617,727,837	NIL	25,680,000	1,643,752,837 ⁽²³⁾	49.31
Mr. Tian Yu	Long	240,000	1,617,727,837	NIL	25,785,000	1,643,752,837 ⁽²⁴⁾	49.31
Mr. Li Hangqiang	Long	215,000	1,617,727,837	NIL	25,810,000	1,643,752,837 ⁽²⁵⁾	49.31
Mr. Liu Yingguo	Long	125,000	1,617,727,837	NIL	25,900,000	1,643,752,837 ⁽²⁶⁾	49.31
Ms. Liu Lulu	Long	135,000	1,617,727,837	NIL	25,890,000	1,643,752,837 ⁽²⁷⁾	49.31
China Ocean Oilfields Services (Hong Kong) Limited	Long	174,425,609	NIL	NIL	NIL	174,425,609 ⁽²⁸⁾	5.23

Name	Long/Short position	Personal interest	Corporate interest	Number of shares held		Total	% of the issued share capital of the Company
				Corporate interest and settlor of a discretionary trust	Interest of the Concert Group		
China National Offshore Oil Corporation	Long	NIL	174,425,609	NIL	NIL	174,425,609 ⁽²⁸⁾	5.23
Nabors Drilling International II Limited	Long	450,000,000	NIL	NIL	NIL	450,000,000 ⁽²⁹⁾	13.50
Nabors International Management Limited	Long	NIL	450,000,000	NIL	NIL	450,000,000 ⁽²⁹⁾	13.50
Nabors Global Holdings Limited	Long	NIL	450,000,000	NIL	NIL	450,000,000 ⁽²⁹⁾	13.50
Nabors Industries Ltd.	Long	NIL	450,000,000	NIL	NIL	450,000,000 ⁽²⁹⁾	13.50

- (1) Ally Giant Limited is wholly-owned by Ample Chance International Limited and holds 1,617,127,837 Shares.
- (2) Ample Chance International Limited is owned 36% by Ally Smooth Investments Limited, approximately 19.09% by Charm Moral International Limited, approximately 18.51% by Beauty Clear Holdings Limited, approximately 12.71% by Believe Power International Limited, approximately 10.50 % by Benefit Way International Limited and approximately 3.19% by a corporation.
- (3) The entire issued share capital of Ally Smooth Investments Limited is owned by Wealth Afflux Limited, which in turn is held by Equity Trustee Limited as trustee of The ZYL Family Trust. The ZYL Family Trust is a discretionary trust established by Zhang Mi as settlor, with Equity Trustee Limited as trustee. The beneficiaries under The ZYL Family Trust are Zhang Mi and his family members. Zhang Mi is a member of the Concert Group.
- (4) Charm Moral International Limited is owned approximately 41.34% by Mowbray Worldwide Limited, approximately 29.33% by Ecotech Enterprises Corporation and approximately 29.33% by Zheng Yong.
- (5) Approximately 41.34% of the issued share capital of Charm Moral International Limited is owned by Mowbray Worldwide Limited, which in turn is held by Equity Trustee Limited as trustee of The RJDJ Victory Trust. The RJDJ Victory Trust is a discretionary trust established by Ren Jie as settlor, with Equity Trustee Limited as trustee. The beneficiaries under The RJDJ Victory Trust are Ren Jie and his family members. Ren Jie is a member of the Concert Group.
- (6) Approximately 29.33% of the issued share capital of Charm Moral International Limited is held by Ecotech Enterprises Corporation, which in turn is held by Equity Trustee Limited as trustee of The LZWM Family Trust. The LZWM Family Trust is a discretionary trust, established by Liu Zhi as settlor, with Equity Trustee Limited as trustee. The beneficiaries under The LZWM Family Trust are Liu Zhi and his family members. Liu Zhi is a member of the Concert Group.
- (7) Zheng Yong is the beneficial owner of approximately 29.33% of the issued share capital of Charm Moral International Limited, which is in turn the beneficial owner of approximately 19.09% of the issued share capital of Ample Chance International Limited. Zheng Yong is a member of the Concert Group.
- (8) Beauty Clear Holdings Limited is owned approximately 23.63% by Vast & Fast Corporation, approximately 22.77% by Cavendish Global Corporation, approximately 5.76% by Wang Jiangyang, approximately 5.10% by Chen Jun, and a total of approximately 42.74% by 3 other shareholders.
- (9) Approximately 23.63% of issued share capital of Beauty Clear Holdings Limited is owned by Vast & Fast Corporation, which in turn is held by Equity Trustee Limited as trustee of The ZHH Family Trust. The ZHH Family Trust is a discretionary trust, established by Zuo Huixian as settlor, with Equity Trustee Limited as trustee. The beneficiaries under The ZHH Family Trust are Zuo Huixian and his family members. Zuo Huixian is a member of the Concert Group.
- (10) Approximately 22.77% of the issued share capital of Beauty Clear Holdings Limited is held by Cavendish Global Corporation, which in turn is held by Equity Trustee Limited as trustee of The Hong Xu Family Trust. The Hong Xu Family Trust is a discretionary trust, established by Zhang Xu as settlor, with Equity Trustee Limited as trustee. The beneficiaries under The Hong Xu Family Trust are Zhang Xu and his family members. Zhang Xu is a member of the Concert Group.
- (11) Wang Jiangyang is the beneficial owner of approximately 5.76% of the issued share capital of Beauty Clear Holdings Limited, which in turn is the beneficial owner of approximately 18.51% of the issued share capital of Ample Chance International Limited. Wang Jiangyang is a member of the Concert Group.
- (12) Chen Jun is the beneficial owner of approximately 5.10% of the issued share capital of Beauty Clear Holdings Limited, which in turn is the beneficial owner of approximately 18.51% of the issued share capital of Ample Chance International Limited. Chen Jun is a member of the Concert Group.
- (13) Believe Power International Limited is owned approximately 32.72% by Brondesbury Enterprises Limited, approximately 29.16% by Zhang Yanyong, approximately 5.53% by Ao Pei, approximately 2.85% by Tian Diyong, approximately 2.24% by Shen Dingjian, and a total of approximately 27.50% by 4 other shareholders.
- (14) Approximately 32.72% of the issued share capital of Believe Power International Limited is held by Brondesbury Enterprises Limited, which in turn is held by Equity Trustee Limited as trustee of The FBX Family Trust. The FBX Family Trust is a discretionary trust, established by Fan Bing as settlor, with Equity Trustee Limited as trustee. The beneficiaries under The FBX Family Trust are Fan Bing and his family members. Fan Bing is a member of the Concert Group.

- (15) Zhang Yanyong is the beneficial owner of approximately 29.16% of the issued share capital of Believe Power International Limited, which in turn is the beneficial owner of approximately 12.71% of the issued share capital of Ample Chance International Limited. Zhang Yanyong is a member of the Concert Group.
- (16) Ao Pei is the beneficial owner of approximately 5.53% of the issued share capital of Believe Power International Limited, which in turn is the beneficial owner of approximately 12.71% of the issued share capital of Ample Chance International Limited. Ao Pei is a member of the Concert Group.
- (17) Tian Diyong is the beneficial owner of approximately 2.85% of the issued share capital of Believe Power International Limited, which in turn is the beneficial owner of approximately 12.71% of the issued share capital of Ample Chance International Limited. Tian Diyong is a member of the Concert Group.
- (18) Shen Dingjian is the beneficial owner of approximately 2.24% of the issued share capital of Believe Power International Limited, which in turn is the beneficial owner of approximately 12.71% of the issued share capital of Ample Chance International Limited. Shen Dingjian is a member of the Concert Group.
- (19) Benefit Way International Limited is owned approximately 35.57% by Dobson Global Inc., approximately 19.36% by Darius Enterprises Limited, approximately 6.49% by Lu Lan, approximately 3.91% by Tian Yu, approximately 3.50% by Li Hangqiang, approximately 1.52% by Liu Yingyuo, approximately 1.22% by Liu Lulu and approximately 28.43% by 6 other shareholders.
- (20) Approximately 35.57% of the issued share capital of Benefit Way International Limited is held by Dobson Global Inc., which in turn is held by Equity Trustee Limited as trustee of The LXYY Family Trust. The LXYY Family Trust is a discretionary trust, established by Liu Xuetian (deceased) as settlor, with Equity Trustee Limited as trustee. The beneficiaries under The LXYY Family Trust are Liu Xuetian (deceased) and his family members. Liu Xuetian (deceased) was a member of the Concert Group and passed away on January 23, 2008.
- (21) Qu Yihong and Liu Ying, family members of Liu Xuetian (deceased), are deemed to be interested in 1,617,727,837 Shares as directors of Dobson Global Inc.
- (22) Approximately 19.36% of the issued share capital of Benefit Way International Limited is held by Darius Enterprises Limited, which in turn is held by Equity Trustee Limited as trustee of The Fang Zhou Family Trust. The Fang Zhou Family Trust is a discretionary trust, established by Zhou Bing as settlor, with Equity Trustee Limited as trustee. The beneficiaries under The Fang Zhou Family Trust are Zhou Bing and his family members. Zhou Bing is a member of the Concert Group.
- (23) Lu Lan is the beneficial owner of approximately 6.49% of the issued share capital of Benefit Way International Limited, which in turn is the beneficial owner of approximately 10.50% of issued share capital of Ample Chance International Limited. Lu Lan is a member of the Concert Group.
- (24) Tian Yu is the beneficial owner of approximately 3.91% of the issued share capital of Benefit Way International Limited, which in turn is the beneficial owner of approximately 10.50% of issued share capital of Ample Chance International Limited. Tian Yu is a member of the Concert Group.
- (25) Li Hanqiang is the beneficial owner of approximately 3.50% of the issued share capital of Benefit Way International Limited, which in turn is the beneficial owner of approximately 10.50% of issued share capital of Ample Chance International Limited. Li Hanqiang is a member of the Concert Group.
- (26) Liu Yingyuo is the beneficial owner of approximately 1.52% of the issued share capital of Benefit Way International Limited, which in turn is the beneficial owner of approximately 10.50% of issued share capital of Ample Chance International Limited. Liu Yingyuo is a member of the Concert Group.
- (27) Liu Lulu is the beneficial owner of approximately 1.22% of the issued share capital of Benefit Way International Limited, which in turn is the beneficial owner of approximately 10.50% of issued share capital of Ample Chance International Limited. Liu Lulu is a member of the Concert Group.
- (28) China Ocean Oilfields Services (Hong Kong) Limited holds 174,425,609 Shares. The issued share capital of China Ocean Oilfields Services (Hong Kong) Limited was beneficially owned approximately 98.8% by China National Offshore Oil Corporation and approximately 1.2% by Overseas Oil & Gas Corporation Limited.
- (29) Nabors Drilling International II Limited holds 450,000,000 Shares. The entire issued capital of Nabors Drilling International II Limited was owned by Nabors International Management Limited. Nabors International Management Limited is wholly owned by Nabors Global Holdings Limited which is in turn wholly owned by Nabors Industries Ltd.

Saved as disclosed above, as at the Latest Practicable Date, there was no other person (other than the Directors or the chief executives of the Company (if any)) who had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, who was, directly or indirectly, interested in five per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or in any options in respect of such share capital.

4. DIRECTORS INTEREST IN ASSETS/CONTRACTS AND OTHER INTERESTS

None of the Directors have any interest, direct or indirect, in any asset which have since 31 December 2007, being the date to which the latest published audited accounts of the Company were made up, up to the Latest Practicable Date, been acquired or disposed of by, or leased to, any member of the Group, or are proposed to be acquired or disposed of by, or leased to, any member of the Group.

As at the Latest Practicable Date, none of the Directors is materially interested in any contract or arrangement subsisting at the date of this circular which is significant in relation to the business of the Group.

5. DIRECTORS' COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and their respective associates were considered to have interests in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group or have any other conflicts of interest with the Group pursuant to the Listing Rules.

6. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered or was proposing to enter into a service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

7. EXPERT'S QUALIFICATION AND CONSENT

The following is the qualification of the expert who has given opinion or advice which is contained in this circular:

Name	Qualification
MCL Capital Limited	A corporation licensed to carry out business in type 6 regulated activities under the SFO

MCL Capital, the Independent Financial Adviser, has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they are included. The letter and recommendation given by MCL Capital are given as of the date of this circular for incorporation herein.

8. EXPERT'S INTERESTS

As at the Latest Practice Date, MCL Capital:

- (a) had no direct or indirect interest in any asset which had since 31 December 2007, being the date to which the latest published audited accounts of the Company were made up, been acquired or disposed of by, or leased to, any member of the Group, or was proposed to be acquired or disposed of by, or leased to, any member of the Group; and
- (b) was not beneficially interested in the share capital of any member of the Group nor did they have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

9. LITIGATION

Save as disclosed on pages 172 to 178 of the Prospectus, as at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

10. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2007, being the date to which the latest published audited accounts of the Company were made up.

11. MISCELLANEOUS

- (a) The Qualified Accountant of the Company is Ms. Lu Hong who is a certified public accountant in China, a certified public accountant in Hong Kong, and has obtained a fellowship from the Association of Chartered Certified Accountants.
- (b) The Joint Company Secretaries of the Company are Mr. Liu Gangqiang and Ms. Corinna Leung. Mr. Liu Gangqiang received a Ph.D. in Economics of Southwest University of Finance and Economics. Ms. Corinna Leung is an associate with the Institute of Chartered Secretaries and Administrations and the Hong Kong Institute of Chartered Secretaries.
- (c) The Hong Kong branch share registrar and transfer office of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (d) This circular has been prepared in both English and Chinese. In the case of any discrepancy, the English text shall prevail.

12. DOCUMENTS FOR INSPECTION

Copies of the following documents are available for inspection during the normal business hours at the principal place of business of the Company in Hong Kong at Room 908, Hutchison House, Central, Hong Kong for a period of 14 days from the date of this circular:

- (a) the Sales Framework Agreement;
- (b) the Purchases Framework Agreement;
- (c) the "Letter from the Independent Board Committee", the text of which as set out on page 10 of this circular;
- (d) the "Letter from MCL Capital", the text of which as set out on pages 11 to 20 of this circular; and
- (e) the written consent from MCL Capital, the Independent Financial Adviser, referred to in paragraph 7 of this Appendix.

NOTICE OF EXTRAORDINARY GENERAL MEETING



HONG HUA

Honghua Group Limited 宏華集團有限公司

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

(Stock Code: 196)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**Meeting**”) of Honghua Group Limited (the “**Company**”) will be held at its Head Office, 3rd Floor Meeting Room, Circle Office Building, 99 East Road, Information Park, Jinniu District, Chengdu, Sichuan 610036, PRC, on Wednesday, 8 October 2008 at 3:00 p.m. for the purpose of considering and, if thought fit, passing the following resolutions as an ordinary resolution of the Company:

ORDINARY RESOLUTIONS

1. “THAT:

- (a) the Sales Framework Agreement dated 31 August 2008 made between the Company (for itself and on behalf of its subsidiaries) and Nabors Industries (for itself and on behalf of its subsidiaries) (a copy of which marked “A” is produced to the Meeting and initialed by Mr. Zhang Mi, the Chairman of the Meeting, for the purpose of identification) for the sales to Nabors Industries and the Nabors Group by the Group of Products and Services (as defined therein) on an ongoing basis and the transactions contemplated thereunder, be and are hereby approved, confirmed and ratified;
- (b) the proposed annual caps under the Sales Framework Agreement of the Products and the Services (as defined therein) shall not exceed US\$200 million, US\$250 million and US\$300 million for each of the three years ending 31 December 2010 respectively be and are hereby approved, confirmed and ratified;
- (c) the execution of the Sales Framework Agreement by Mr. Zhang Mi, the Chairman of the Company, for and on behalf of the Company and the affixation of the common seal of the Company, if necessary, be and are hereby approved, confirmed and ratified; and
- (d) any one director of the Company be and is hereby authorized to sign, seal, execute and deliver all such other documents and deeds and to do all such acts or things which in their absolute discretion consider necessary, desirable or expedient to implement and/or to give full effect to the agreement and the annual caps referred to in the Sales Framework Agreement and the transactions contemplated thereunder”.

2. “THAT:

- (a) the Purchases Framework Agreement dated 31 August 2008 made between the Company (for itself and on behalf of its subsidiaries) and Nabors Industries (for itself and on behalf of its subsidiaries) (a copy of which marked “B” is produced to the Meeting and initialed by Mr. Zhang Mi, the Chairman of the Meeting, for the purpose of identification) for the purchase from Nabors Industries and the Nabors Group by the Group of Products and Services (as defined therein) on an ongoing basis and the transactions contemplated thereunder, be and are hereby approved, confirmed and ratified;
- (b) the proposed annual caps under the Purchases Framework Agreement of the Products and the Services (as defined therein) shall not exceed US\$20 million, US\$40 million and US\$40 million for each of the three years ending 31 December 2010 respectively be and are hereby approved, confirmed and ratified;

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (c) the execution of the Purchases Framework Agreement by Mr. Zhang Mi, the Chairman of the Company, for and on behalf of the Company and the affixation of the common seal of the Company, if necessary, be and are hereby approved, confirmed and ratified; and
- (d) any one director of the Company be and is hereby authorized to sign, seal, execute and deliver all such other documents and deeds and to do all such acts or things which in their absolute discretion consider necessary, desirable or expedient to implement and/or to give full effect to the agreement and the annual caps referred to in the Sales Framework Agreement and the transactions contemplated thereunder”.

By order of the Board of
Honghua Group Limited
Zhang Mi
Chairman

PRC, 19 September 2008

Notes:

1. Any shareholder of the Company entitled to attend and vote at the Meeting shall be entitled to appoint another person as his proxy to attend and vote on his behalf. A shareholder of the Company who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at the Meeting. A proxy need not be a shareholder of the Company. On a poll votes may be given either personally (or, in the case of a shareholder being a corporation, by its duly authorized representative) or by proxy.
2. No appointment of a proxy shall be valid unless it names the person appointed and his appointor.
3. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorized in writing, or if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorized.
4. In order to be valid, the instrument appointing a proxy together with any power of attorney or other authority (if any) under which it is signed or a certified copy of such power of authority, must be deposited with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time fixed for holding the Meeting, or adjournment thereof. Delivery of an instrument appointing a proxy shall not preclude a shareholder of the Company from attending and voting in person (or in the case of a shareholder being a corporation, its duly authorized representative) at the Meeting and in such event, the instrument appointing a proxy shall be deemed to be revoked.
5. Where there are joint registered holders of any share of the Company, any one of such persons may vote at the Meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at the Meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of shareholders of the Company in respect of such share shall alone be entitled to vote in respect thereof.
6. The votes to be taken at the Meeting will be by way of a poll.

As at the date of this notice, our Directors are Mr. Zhang Mi (Chairman), Mr. Ren Jie and Mr. Liu Zhi as executive Directors, Mr. He Sean Xing, Mr. Xiang Qingsheng and Mr. Siegfried Meissner as non-executive Directors, and Mr. Chen Guoming, Mr. Tai Kwok Leung, Alexander, Mr. Liu Xiaofeng, Mr. Liu Yinchun, Mr. Qi Daqing, Mr. Wang Chunlin and Mr. Wang Li as independent non-executive Directors.