Honghua Group Limited
宏華集團有限公司

(a company incorporated in the Cayman Islands with limited liability)
(Stock Code: 196)

CHANGE OF USE OF PROCEEDS

Reference is made to the prospectus of the Company dated 25 February 2008 relating to the Global Offering for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited. The Directors wish to announce that, in order to better utilise the cashflow of the Group, the Company has decided to change the use of proceeds from the Global Offering, particularly set out in this announcement.

Reference is made to the prospectus of Honghua Group Limited (the "Company", together with its subsidiaries, the "Group") dated 25 February 2008 (the "Prospectus") relating to the initial public offering and international placing of the Company's shares (the "Global Offering") for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited.

It was stated in the section headed "Future Plans and Use of Proceeds — Use of Proceeds" of the Prospectus that approximately 60% of net proceeds of Global Offering, approximately HK$1,775 million or RMB1,562 million is to be used for the construction of an offshore equipment manufacturing base in the eastern coastal area of China, to produce jack-up rigs and fixed rigs as well as large structures ("Offshore Project"). This includes acquiring land and coastline in Shanghai or neighboring provinces, investing in research and development and new equipment, and constructing new factories.

The cost of Offshore Project is approximately RMB2,000 million, out of which, approximately RMB1,562 million is planned to be from the net proceeds of Global Offering. The Offshore Project has an investing period of 3 years. The estimated cash required for the investment for each of three years ending 31 December 2010 are RMB200 million, RMB800 million, and RMB800 million to RMB1,000 million respectively. In view of this, for the year ending 2008, an aggregate amount of approximately RMB1,300 million of the net proceeds from the Global Offering to be used for Offshare Project are not immediately applied to the Offshore Project.

Owing to the current economic and financial conditions, land cost, steel and other kinds of resource price have dropped obviously and hence the previous budget used in the Offshore Project will probably be reduced. The Company estimated additional working capital required for the period from 1 November 2008 to 31 December 2008 is approximately RMB600 million to RMB800 million.

In order to delay the demand for loans for saving interest expenses and use of unused net proceeds from the Global Offering in a more efficient way, the directors of the Company ("Directors") intend to change an amount of HK$500 million (approximately RMB440 million) originally for the Offshore Project to be used as purchase of raw material and working capital expenditure.

Our Directors (including all independent non-executive Directors) consider that the abovementioned change of use of net proceeds from the Global Offering can keep a better gearing ratio and effectively utilise the cashflow without delay the development of the Offshore Project, which are in the interest of the Company and its shareholders as a whole.

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

PRC, 26 November 2008

As at the date of this announcement, the board consists of 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.