Honghua Group Limited

宏華集團有限公司

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

(Stock Code: 0196)

Listing Rule 13.09(1) Announcement

This announcement is made pursuant to the disclosure obligations under Rule 13.09(1) of the Listing Rules.an

The purpose of this announcement is to disclose the issue in relation to the cancellation of API monogram licenses of Honghua Company by API.

Shareholders of the Company and potential investors are advised to exercise caution when dealing in the shares of the Company.

This announcement is made pursuant to the disclosure obligations under Rule 13.09(1) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

References were made to the paragraph headed "Loss of or failure to review the API Monogram or other licenses certifying that our products meet benchmark quality standards could materially and adversely affect our business" under the section headed ''Risk Factors'' of the prospectus of Honghua Group Limited (the "**Company**") dated 25 February 2008. The board of directors of the Company (the

“**Board**”) announces that, as Sichuan Honghua Petroleum Equipment Co., Ltd. (“**Honghua Company**”), an indirect wholly-owned subsidiary of the Company, could not meet the revised requirements of American Petroleum Institute (“**API**”) during the transitional period, API has cancelled the API monogram licenses granted to Honghua Company on 13 April 2009 (the “**API License Issue**”).

Honghua Company pays serious attention on the API License Issue. In order to rectify the unsatisfactory standard quality requirements raised by API during the requisite audit examination, Honghua Company set up a specific rectification team to perform a full systematic review and to make appropriate corrective actions on the existing quality management system and to prepare a report in connection with such corrective actions to API. Currently, the quality management system of Honghua Company is still in operation in accordance with ISO9001, and has improved the operation standard under the requirements of the eighth edition of API Q1 and ISO9001-2008.

In order to minimize the adverse effect on the business of the Company and its subsidiaries (the “**Group**”) arising from the API License Issue, contingency measures were taken including ancillary sales of existing spare parts of rigs having been granted with API monogram license and outsourcing necessary spare parts of rigs from companies with API monogram license. In the meantime, Honghua Company has entered into a cooperation agreement with ModuSpec International (L) Limited (“**ModuSpec**”), an international well-known supervisor. ModuSpec should witness the production procedures of Honghua Company based on the API standard, issue conformity documents, allow marking “witnessed by ModuSpec” on Honghua Company’s products and suggest ways to Honghua Company to further strengthen its quality management system in an ongoing basis.

Since 13 April 2009, the Group acted in prudence and responsibility and performed a thorough evaluation on the possible impact on the Group’s business due to the API License Issue. Having taken the above-mentioned measures and steps to strengthen communication with customers, the Board takes the view that although the API License Issue would not have a material impact on the Group’s business as at the date of this announcement, possibility that, prior to the obtainment of the API monogram licenses, the Group's business may be materially affected due to the API License Issue could not be precluded. Honghua Company had submitted an application to API for obtaining API monogram licenses on 12 May 2009 and API accepted the application. Under the guidance of ModuSpec all the non-conformity issues have been solved. Pursuant to the rules and requirements of API, Honghua Company expects to meet the audit standard of API and to proceed with API audit procedure by the end of August 2009.

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By order of the Board of

HONGHUA GROUP LIMITED

Zhang Mi

Chairman

The People's Republic of China, 28 July 2009

As at the date of this announcement, the executive directors of the Company are Mr. Zhang Mi, Mr. Ren Jie, Mr. Liu Zhi; the non-executive directors of the Company are Mr. Xiang Qingsheng, Mr. He Sean Xing and Mr. Siegfried Meissner; and the independent non-executive directors of the Company are Mr. Liu Xiaofeng, Mr. Qi Daqing, Mr. Tai Kwok Leung, Alexander, Mr. Liu Yinchun, Mr. Chen Guoming Mr. Wang Li, and Mr. Shi Xingquan.