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)

ENTERING INTO A SALE AND PURCHASE AGREEMENT

This announcement is made by the Company pursuant to Rule 13.09(1) of the Listing Rules.

The Board is pleased to announce that on 12 November 2010, Russia Honghua and BKE entered into the Sale and Purchase Agreement pursuant to which Russia Honghua shall sell to BKE and BKE shall purchase from Russia Honghua certain quantities of land drilling rigs with certain specifications in accordance with the terms and conditions of the Sale and Purchase Agreement.

This announcement is made by Honghua Group Limited (the "**Company**") pursuant to Rule13.09 (1) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

The Sale and Purchase Agreement

The board of the Company (the "**Board**") is pleased to announce that on 12 November 2010, Russia Honghua Co., Ltd ("**Russia Honghua**"), a subsidiary of the Company and OOO Burovoya Kompaniya Eurasia **("BKE")** entered into a sale and purchase agreement (the "**Sale and Purchase Agreement**") pursuant to which Russia Honghua shall sell to BKE and BKE shall purchase from Russia Honghua certain quantities of land drilling rigs with certain specifications in accordance with the terms and conditions of the Sale and Purchase Agreement. .

The consideration in relation to the transaction contemplated under the Sale and

Purchase Agreement amounts to an aggregate of more than RMB 1.3 billion, representing more than 22% of the Company's total assets as at 30 June 2010 and 66% of the Company's total revenue for the year ended 31 December 2009 respectively.

Pursuant to the Sale and Purchase Agreement, the clauses of trading over RMB 600 million of land drilling rigs have been confirmed. Meanwhile, another land drilling rigs package worth over RMB 700 million will, based on the Sale and Purchase Agreement, be further negotiated on the supply conditions and payment terms no later than July 31 2011. Shall both parties eventually reach an agreement during the negotiation, a complementary agreement will be signed to confirm the trade which worths more than RMB 700 million.

The Sale and Purchase Agreement was determined after arms' length negotiation between Russia Honghua and BKE. The directors of the Company (the "**Directors**") are of the view that the terms of the Sale and Purchase Agreement are on normal commercial terms, fair and reasonable and in the interest of the Company and the Shareholders as a whole.

The Board takes the view that the transaction contemplated under the Sale and Purchase Agreement is of a revenue nature in the ordinary and usual course of business of the Company under Rule 14.04(1)(g) of the Listing Rules. .

Information of Russian Honghua and BKE

Russia Honghua is a company incorporated in Russia and is a subsidiary of the Company. It is principally engaged in trading of drilling rigs and related parts.

BKE is a company incorporated in Russia and as measured by meters drilled is the largest onshore drilling contractor in Russia. It is principally engaged in well construction and workover of all types of oil and gas wells.

To the best of the knowledge, information and belief of the Directors and after having made all reasonable enquiries, BKE is an independent third party not connected with the Company and its connected persons (as defined in the Listing Rules).

General

The transaction contemplated under the Sale and Purchase Agreement does not constitute any notifiable transaction of the Company under Chapter 14 of the Listing Rules nor any connected transaction under Chapter 14A of the Listing Rules.

As the transaction contemplated under the Sale and Purchase Agreement will have a material influence on the results for the Company and its subsidiaries (the "**Group**"), the Directors consider that it is appropriate to make disclosure in respect of the entering of the Sale and Purchase Agreement by publication of this announcement in order to enable the shareholders of the Company and the public to appraise the position of the Group.

By order of the Board of
HONGHUA GROUP LIMITED
Zhang Mi
Chairman

The PRC, 12 November 2010

As at the date of this announcement, the executive directors of the Company are Mr. Zhang Mi, Mr. Ren Jie and Mr. Liu Zhi; the non-executive directors of the Company are Mr. Huang Dongyang 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. Shi Xingquan, Mr. Chen Guoming and Mr. Wang Li.