Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

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)

CHANGES OF USE OF PROCEEDS

Reference is made to the Prospectus and the 2008 Announcement. The Directors wish to announce that, in order to improve the fund structure and efficiency of use of proceeds of the Group, the Company has decided to further 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 and the announcement of change of use of proceeds dated 26 November 2008 (the **"2008 Announcement"**).

（1） <u>Change of Use of the 20% Net Proceeds</u>

As stated in the section headed "Future Plans and Use of Proceeds" of the Prospectus, approximately 20% of the net proceeds of the Global offering (the "**20% Net Proceeds**") is to be used for acquisitions, establishing joint ventures and strategic alliances with international partners, in order to expand the Group's product offerings to the oil and gas exploration and production industry specifically, in the following areas:
(a) BOP system, casing pipe-head, and wellhead equipment;
(b) drilling equipment (drill pipe, oil pipe ,and drill collar) and tools;
(c) casting technology and forging technology; and
(d) electrical machines and gears.

As at the date of this announcement, the aforesaid 20% Net Proceeds, approximately HK$592 million, has not been incurred.

According to the strategy of the Group for the future development, the Group will with its solid foundation in the industry gradually transform into a diversified business with interactive development in the fields of equipment production, resource exploration and engineering services on land and offshore oil and gas equipment manufacturing. The new business will expand and diversify the business scope of the Group and will also increase profits and spread risks of the Group.

In light of the Group's development strategy as abovementioned, the Company intends to change the use of the 20% Net Proceeds for provision of products and services for expansion of hydrocarbon exploration, exploitation and sale, oil and gas engineering services, oil and gas resources exploration and development, and other businesses in the interests of the Group. The change of the use of the 20% Net Proceeds will improve efficiency of use of proceeds of the Group, which is in line with the trend of current industry development and is advantageous to the diversification of the Group's business.

（2） <u>Further Change of Use of the 60% Net Proceeds</u>

It was stated in the section headed "Future Plans and Use of Proceeds" of the Prospectus that approximately 60% of net proceeds of the Global Offering (the "**60% Net Proceeds**"), approximately HK$1,775 million or RMB1, 562 million is to be used for the Offshore Project (as defined in the 2008 Announcement).

According to the 2008 Announcement, the Company had already changed the use of the 60% Net Proceed originally for the Offshore Project to an extent of an amount of HK$500 million (approximately RMB440 million) to be used as purchase of raw material and working capital expenditure.

Given the current situation of offshore drilling equipment industry and good partnership established by the Group with banks, the Company expects that the needs of own reserves for the Offshore Project will be less than that as initially planned.

In order to improve the efficiency of use of proceeds and the fund structure of the Group, and to save expenses of financial cost, the Company will further change the use of the 60% Net Proceed for the Offshore Project to an extent of an amount of HK$300 million (approximately RMB257 million) for the Group's working capital expenditure.

The directors of the Company consider that the abovementioned changes of use of proceeds from the Global Offering will attain diversification of the Group's business with no material impact on the Offshore Project, and hence such changes are favorable in achieving the maximum benefit from use of proceeds and are in line with the strategy of the Group's development and in the interest of the Company's shareholders as a whole.

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

The PRC, 3 December 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.