HONGHUA GROUP LIMITED

宏華集團有限公司

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

CONNECTED TRANSACTIONS
ACQUISTION OF 20% EQUITY INTEREST IN AN INDIRECT NON WHOLLY-OWNED SUBSIDIARY

Equity Transfer Agreement

The Board is pleased to announce that on 8 March 2012, Sichuan Honghua entered into the Equity Transfer Agreements with nine individual shareholders of Youxin Company respectively. Pursuant to the Equity Transfer Agreements, Sichuan Honghua will acquire 20% equity interest in Youxin Company held by nine individual shareholders at the consideration of RMB28, 961,700. And among which, Sichuan Honghua will acquire 4.799% equity interest in Youxin Company held by Mr. Zhao Ping and acquire 4.000% equity interest in Youxin Company held by Mr. Zhang Changlun at the consideration of about RMB 6,949,360 and RMB5,792,340. Upon the completion of the equity transfer, Youxin Company will be the wholly-owned subsidiary of Sichuan Honghua. Thereafter, Youxin Company will be restructured by Sichuan Honghua.

Implication of the Listing Rules

Mr. Zhao Ping is a director of Sichuan Honghua and Youxin Company, and Mr. Zhang Changlun is a director of Youxin Company and are thus connected persons of the Company under the Listing Rules. The transactions of equity acquisition by Sichuan Honghua from Mr. Zhao Ping and Mr. Zhang Changlun constitute connected transactions.

As the applicable percentage ratios (as defined in the Listing Rules) in respect of the transactions contemplated under the Equity Transfer Agreements in aggregate will exceed 1% but less than 5%, the connected transactions under the Equity Transfer Agreement is subject to the reporting and announcement requirements but is exempt from independent shareholders' approval requirement under Chapter 14A.32 of the Listing Rules.

Introduction

The board of the Company is pleased to announce that on 8 March 2012, Sichuan Honghua, an indirect wholly-owned subsidiary of the Company, entered into the Equity Transfer Agreements with nine individual shareholders of Youxin Company respectively, a direct 80%-owned subsidiary of Sichuan Honghua. Pursuant to the Equity Transfer Agreement, Sichuan Honghua will acquire 20% equity interest in Youxin Company held by nine individual shareholders at the consideration of RMB28, 961,700. And among which, Sichuan Honghua will acquire 4.799% equity interest in Youxin Company held by Mr. Zhao Ping and acquire 4.000% equity interest in Youxin Company held by Mr. Zhang Changlun at the consideration of about RMB 6,949,360 and RMB5,792,340. Upon the completion of the equity transfer, Youxin Company will be a wholly-owned subsidiary of Sichuan Honghua. Thereafter, Youxin Company will be restructured by Sichuan Honghua.

The Equity Transfer Agreements

Date: 8 March 2012

Parties: (1) Sichuan Honghua as buyer
(2) nine shareholders as seller respectively

Consideration

The total consideration payable by Sichuan Honghua to the nine individual shareholders for the acquisition of 20% equity interest in Youxin Company is RMB28, 961,700. Among which, the consideration payable by Sichuan Honghua to Mr. Zhao Ping for the acquisition of 4.799% equity interest in Youxin Company and payable to Mr. Zhang Changlun for the acquisition of 4.000% equity interest in Youxin Company is about RMB 6,949,360 and RMB5,792,340.

The consideration was determined after arm's length negations between Sichuan Honghua and the nine shareholders of Youxin Company in consideration of the profitability, development prospect of Youxin Company and the appreciation of land, buildings and intangible assets and with reference to 1.2 times of the appraised net asset value of Youxin Company attributable to the equity interest acquired at 31 December 2011 as shown in an audited financial report by an independent auditor in the PRC. The appraised net asset value of You Company at 31December 2011 is about RMB 120,673,751.

The consideration shall be paid in cash within 10 working days from the effective date of the Equity Transfer Agreements.

Completion

The nine shareholders will transfer their aggregate 20% equity interest in Youxin Company to Sichuan Honghua upon the payment of the consideration by Sichuan Honghua. Completion of the equity transfer shall take place on completion of the change of registration at the Administration of Industry and Commerce in the PRC.

Reasons for the Acquisition

Upon the completion of the equity transfer, Youxin Company will be a wholly-owned subsidiary of Sichuan Honghua. Thereafter, Youxin Company will be restructured by Sichuan Honghua for the integration of research, manufacturing, sale and procurement resource of the two companies, complementing each other, expanding business scale, improving management efficiency and enhancing the market influence and control.

The directors of the Company are of the view that the Equity Transfer Agreements are entered into after arm's length negotiations between Sichuan Honghua and nine shareholders of Youxin Company, and the terms of the Equity Transfer Agreements are on normal commercial terms, fair and reasonable and in the interests of the Company and its shareholders as a whole.

Information of Sichuan Honghua, Youxin Company and the Sellers

Sichuan Honghua

Sichuan Honghua, a company established in the PRC with limited liability, is an indirect wholly-owned subsidiary of the Company. As a large scale equipment manufacturer, it is mainly engaged in research, design, manufacturing and general assembly of oil drilling rigs and equipments for oil exploration and development.

Youxin Company

Youxin Company, a company established in the PRC with limited liability, is a direct 80%-owned subsidiary of Sichuan Honghua. It is mainly engaged in design, research, manufacturing and sale of oil equipment and accessories, oil drilling engineering and technical services and petroleum machinery installation, commissioning and maintenance services.

Sellers

Mr. Zhao Ping, holding 4.799% equity interest in Youxin Company before the equity acquisition, is a director of Sichuan Honghua and Youxin Company.

Mr. Zhang Changlun, holding 4.000% equity interest in Youxin Company before the equity acquisition, is a director of Youxin Company.

To the best of directors' knowledge, information and belief, and having made all the reasonable enquiries ,other individual shareholders, holding totally 11.201% equity interest in Youxin Company before acquisition, are independent third parties not connected with the Company and its connected persons (as defined in the Listing Rules).

Listing Rules Implications

Mr. Zhao Ping is a director of Sichuan Honghua and Youxin Company, and Mr. Zhang Changlun is a director of Youxin Company and thus connected persons of the Company under the Listing Rules. The transaction of equity acquisition by Sichuan Honghua from Mr. Zhao Ping and Mr. Zhang Changlun constitute connected transactions.

As the applicable percentage ratios in respect of the transactions contemplated under the Equity Transfer Agreement in aggregate will exceed 1% but less than 5%, the connected transaction under the Equity Transfer Agreement is subject to the reporting and announcement requirements but is exempt from independent shareholders' approval requirement under Chapter 14A.32 of the Listing Rules.

In this announcement, unless the context otherwise requires, the following terms have the following meanings.

"**Board**"	the board of Directors of the Company
"Company"	Honghua Group Limited, a company incorporated in the Cayman Islands with limited liability and its shares are listed on the Main Board of the Stock Exchange
"Connected Person"	has the meaning ascribed to it in the Listing rules
"Equity Transfer Agreements"	the quity transfer agreement dated 8 March 2012 entered into between Sichuan Honghua and nine shareholders of Younxin Company
"**Hong Kong**"	the Hong Kong Special Administrative region of the PRC
"Listing Rules"	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Nine natural shareholders"	Nine shareholders of Youxin Company holding totally 20% equity interest in Youxin Company, who are Zhao Ping, Zhang Changlun, Ju Lang, Xie Xiaohong, Chen Yaling, Lin Ye, Zhuang Jiandong, Xiao Kaiyun and Fang Yong;
"PRC"	the People's Republic of China, but for the purpose of this announcement, excluding Hong Kong, the Macau Special Administrative Region and Taiwan
"RMB"	Renminbi, the lawful currency of the PRC
" Sichuan Honghua "	Sichuan Honghua Petroleum Equipment Co., Ltd, a limited liability company established in the PRC and an indirect wholly-owned subsidiary of the Company
"Youxin Company"	a company established in the PRC with limited liability

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

The PRC, 8 March 2012

As at the date of this announcement, the executive directors of the Company are Mr. Zhang Mi (Chairman), 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. Chen Guoming, Mr. Shi Xingquan and Mr. Guo Yanjun.