Honghua Group Limited

宏華集團有限公司

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

VOLUNTARY ANNOUNCEMENT

DEVELOPMENT OF LITIGATION WITH 57 NATURAL PERSONS

This is a voluntary announcement made by Honghua Group Limited (the "**Company**").

Background

References are made to the Prospectus of the Company dated 25 February 2008 (the "**Prospectus"**) and the interim and annual reports of the Company during the period from 2007 to 2011 (the "**Interim and Annual Reports**"). Unless otherwise defined, terms used in this announcement have the same meanings as those defined in the Prospectus and in the Interim and Annual Reports.

As disclosed in the paragraph headed "Legal Proceedings" under the section headed "Our Business" of the Prospectus and in the paragraph headed "Contingent Liabilities" under the section headed "Notes to the Financial Statements" in the Interim and Annual Reports, as of 31 December 2005, 728 employees of Oil Drilling Plant (the "**original investors**"), through 11 representatives, held in aggregate approximately 33.63% of the equity interest of Honghua Company. These 11 representatives were registered as shareholders of Honghua Company with the competent PRC government authority. On 7 January 2006, Honghua Company passed a shareholders' resolution to reduce its registered capital and buy-out all the equity interests from these 11 registered shareholders.

Honghua Company entered into a share purchase agreement with the 11 registered shareholders on 12 January 2006, under which, with the written consent of the 11 registered shareholders, Honghua Company agreed to pay the equity repurchase price directly to the 728 original investors. The capital reduction process with the competent PRC government authority was completed on 26 April 2006. 664 of the 728 original investors have agreed to the buy-out arrangement and had accepted payment from Honghua Company. The remaining 64 original investors, who invested an aggregate of RMB651,385, claimed that they were still shareholders and refused to accept the buy-out arrangement and payment from Honghua Company.

On 11 December 2007, 57 out of the 64 original investors initiated legal proceedings at the Intermediate Peoples' Court of Chengdu City (the **"Chengdu Intermediate Court"**), Sichuan Province (Action No: (2008) Cheng Min Chu Zi No. 53). The 57 individuals joined as plaintiffs to the legal proceedings against Honghua Company as the 1st defendant, Honghua Holdings (formerly known as Asia Harbour International Limited) as the 2nd defendant and certain 14 individuals as the 3rd to 16th defendants.

The relief sought by the 57 plaintiffs include (1) an adjudication by the court that the 592,250 shares held by the 3rd to 16th defendants were actually owned by the 57 plaintiffs, and all the benefits and rights in such equity interests be restored to the 57 plaintiffs and the names of the 57 plaintiffs be entered into the register of members of Honghua Company; (2) an adjudication by the court that Honghua Company be ordered to pay to the 57 plaintiffs a total sum of RMB296,125, being the 2003 dividends; (3) an adjudication that the repurchase of the 592,250 shares of Honghua Company be declared null and void; (4) an adjudication that Honghua Holdings be jointly and severally liable for the above members sought by the 57 plaintiffs and the consequential liabilities thereof, and that Honghua Holdings with Honghua Company be ordered to apply to the relevant Administration of Commerce to register the 57 plaintiffs as shareholders of Honghua Company; and (5) an adjudication that all the defendants be jointly liable for the legal costs arising from proceedings.

On 23 June 2011, the 57 plaintiffs applied to the court to amend and supplement their claims including but not limited to an adjudication that the repurchase and cancellation of plaintiffs' equity interest in Honghua Company is illegal and infringes plaintiffs' right and an adjudication that Honghua Company be liable for damages of RMB 341,949,961.58, including equity interest and dividend. The plaintiffs abandoned their claims to be registered as the shareholders of Honghua Company. The court conducted a hearing for these amended and supplemented claims on September 30, 2011.

Judgment

On 18 April 2012, the Company received the first instance judgment ((2008) Cheng Min Chu Zi No. 53) from Chengdu Intermediate Court (the **"Judgment"**) as follows (1) within 30 days from the effective date of the Judgment, Honghua Company shall pay to the plaintiffs' the economic loss of RMB20,728,750 and dividend of RMB 296,125 together with their respective interests thereon (for the period from 26 April 2006 to the date when the payment is fully paid, based on the current interest rate of one year term loan of the People's Bank of China); (2) within 30 days from the effective date of the Judgment, Honghua Company shall pay to the plaintiffs' other economic loss of RMB100,000; (3) the plaintiffs' other claims were dismissed. For the court proceeding fee of RMB1,751,549.81, RMB200,000 shall be borne by the plaintiffs, and RMB 1,551,549.81 shall be borne by Honghua Company.

The Judgment: (1) Dismissed more than RMB 310 million from the plaintiffs' claim for damages of RMB 341,949,961.58; and (2) Dismissed the plaintiffs' claim that Honghua Holdings as the 2nd defendant and the 3rd to 16th defendants be jointly and severally liable for the plaintiffs' damages.

Pursuant to the laws of the People's Republic of China (the "**PRC**"), the Judgment has not become effective**.** The plaintiffs and the 1st and 3rd to 16th defendants have the right to file their respective appeals to the Sichuan Higher People's Court within 15 days from the service date of the Judgment, whereas the 2nd defendant has the right to file its appeal to the Sichuan Higher People's Court within 30 days from the service date of the Judgment.

The Company takes the view that Honghua Company's repurchase of the equity interest and capital reduction were conducted under the PRC law. Therefore, Honghua Company will file an appeal pursuant to the applicable law.

A deed of indemnity in respect of dispute and risk dated 15 February 2008 was entered into between each of the Indemnifiers (as defined therein) in favour of the Group pursuant to which each of the Indemnifiers jointly and severally provided an indemnity to any members of the Group for potential damages that the Company may suffer as a result of the legal proceedings initiated by the 57 plaintiffs or the dispute with the 64 individuals.

The Company takes the view that the results of the Judgment will not have material impacts on the finance and operation of the Group.

The Company will make further announcement on the development of the abovementioned litigation as and when appropriate.

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

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

The PRC, 19 April 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.