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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)

ANNOUNCEMENT
VOLUNTARY WINDING-UP OF AN INDIRECT WHOLLY-OWNEDSUBSIDIARY

This announcement is made by Honghua Group Limited (the "**Company**") pursuant to Rule13.25 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**")

Voluntary Winding-up of Youxin Company

The board of directors (the "**Board**") of the Company wishes to inform the shareholders of the Company and potential investors that on 2 May 2012, resolutions were passed by the board of directors and the sole shareholder, Sichuan Honghua Petroleum Equipment Co., Ltd. ("**Honghua Company"**), of Sichuan Honghua Youxin Petroleum Machinery Co., Ltd. ("**Youxin Company**") respectively to approve the absorption and merge of Youxin Company by Honghua Company and the voluntary winding-up of Youxin Company. Upon the completion of absorption and merge, all assets, credit and debt and all collateral rights and obligations of Youxin Company shall be taken over and succeeded by Honghua Company.

Information on Youxin Company and Honghua Company

Youxin Company, a company established in the PRC with limited liability, is an indirect wholly-owned subsidiary of the Company. 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.

As the respective value of the total revenue and profit of Youxin Company for the year ended 31 December 2011 represent more than 5% of the Company's total revenue and profit as shown in the audited consolidated financial statements of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2011 being the latest published audited consolidated financial statements of the Group, Youxin Company is considered to be a "major subsidiary" of the Company under Rule 13.25(2) of the Listing Rules.

Honghua Company, 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 equipment for oil exploration and development.

Reasons for the Voluntary Winding-up of Youxin Company

Since its establishment, Youxin Company is mainly engaged in sales of its products to Honghua Company and actually in provision to Honghua Company with complementary products and service. However, its management decision, financial accounting, staffing and marketing are relatively independent.

Integrating research and development, production, sale and procurement resource of Honghua Company and Youxin Company will realize mutual complementation and will achieve streamlining the structure, expanding the business scale, improving the management efficiency and enhancing the market influence and control of the Group. In light of this, it is approved that Youxin Company be absorbed and merged by Honghua Company and, then Youxin Company be voluntarily wound up. The directors of the Company are of the view that the proposed absorption and merge of Youxin Company by Honghua Company and the proposed voluntary winding up of Youxin Company will be in the best interest of the Company and its shareholders as a whole and will not have material adverse impact to the Group. Upon the completion of absorption and merge, all assets, credit and debt and all collateral rights and obligations of Youxin Company shall be taken over and succeeded by Honghua Company.

The Company will publish further announcement if there is any important development on the progress of the voluntary winding up of Youxin Company.

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, 2 May 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.