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宏华集团
HONGHUA GROUP

Honghua Group Limited

宏華集團有限公司

(a company incorporated in the Cayman Island with Limited Liability)
（Stock Code：196）

CONTINUING CONNECTED TRANSACTIONS

2013 Agreement

In view of the rapid business development of Honghua Oil & Gas Engineering, it is expected that the Annual Caps of 2012 Agreement will not be sufficient for the expected purchases of the Group. The Board decides to sign 2013 Agreement effective from the date of execution hereof and expiring on 31 December 2015, and the annual purchase caps thereunder for each of the three financial years ending 31 December 2013, 31 December 2014 and 31 December 2015 are RMB12,000,000, RMB15,000,000 and RMB18,000,000 respectively.

The Directors（including the independent non-executive Directors）consider that 2013 Agreement and the transactions contemplated thereunder were entered into in the ordinary and usual course of the business of the Group, and have been negotiated on an arm's length basis between the parties on normal commercial terms. The terms of the Agreement (including the Annual Caps) are fair and reasonable and are in the interests of the Company and its Shareholders as a whole.

Listing Rules Implications

Shenyuan Company is owned as to 34% by the spouses of Zhangmi, the director of the Company，and hence Shenyuan Company is a connected person of the Company pursuant to the Listing Rules. 2013 Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Group under Chapter14A of the Listing Rules.

Since each of the applicable percentage ratios calculated according to Rule 14.07 of the Listing Rules with reference to each of the Annual Caps for 2013 Agreement is less than 5%, the continuing connected transactions contemplated under 2013 Agreement are subject to reporting and announcement requirements but exempt from the independent shareholders’ approval requirement under Rules 14A.34(1) of the Listing Rules.

2013 AGREEMENT

Date

25 March 2013

Parties

(1) Honghua Oil & Gas Engineering as purchaser; and

(2) Shenyuan Company as seller

Term of 2012 Agreement and Term of 2013 Agreement

2012 Agreement entered into effect from the date of execution hereof and shall expire on 31 December 2014.

2013 Agreement shall enter into effect from the date of execution hereof and shall expire on 31 December 2015.

Nature of 2013 Agreement

Pursuant to 2013 Agreement, Honghua Oil & Gas Engineering shall purchase PDC aiguilles from Shenyuan Company.

During the term of 2013 Agreement, the parties agree that they may enter into further individual purchase agreement(s) from time to time upon and subject to such terms and conditions as may be agreed between the parties, in each case to be negotiated on a case-by-case and arm’s length basis and on normal commercial terms or if there are not sufficient comparable transactions to judge for the normal commercial terms, on terms no less favorable to the Group than terms available from independent third parties for similar products in comparable quantities.

Price

The purchase price for the transactions contemplated under 2013 Agreement will be determined by reference to the prevailing market price of the same or substantially similar products provided under 2013 Agreement determined on an arm’s length basis.

The aggregate annual purchase amount shall not exceed the Annual Caps (as defined below) for the relevant financial year.

ANNUAL CAPS OF 2012 AGREEMENT

the Annual Caps for Honghua Oil & Gas Engineering to purchase from Shenyuan Company under 2012 Agreement for each of the three financial years ending 31 December 2012, 31 December 2013 and 31 December 2014 are RMB2,800,000, RMB2,800,000 and RMB2,800,000 respectively.

HISTORICAL AMOUNTS

For the year ended 31 December 2012, the aggregate purchase amount paid by Honghua Oil & Gas Engineering to Shenyuan Company under 2012 Agreement amounted to RMB2,734,000

ANNUAL CAPS OF 2013 AGREEMENT

Thanks to Honghua Oil & Gas Engineering' rapid development of well drilling contracting business, the Annual Caps of 2012 Agreement will not be sufficient for the increasing demand for drilling equipment and perishable goods in oil drilling of Honghua Oil & Gas Engineering. The Board decides to sign 2013 Agreement with Shenyuan Company and the Annual Caps for the three financial years ending 31 December 2013, 31 December 2014 and 31 December 2015 are RMB12,000,000 , RMB15,000,000 and RMB18,000,000 respectively.

REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS

Continuing connected transaction under 2013 Agreement will become the regular and continuous day-to-day business of the group. In terms of their actual use, drill products of Shenyuan Company have wonderful performance in drilling depth and penetration. Moreover, Shenyuan Company provides prompt services and reasonable prices. As a result, its drill products have comprehensive advantages on performance, prices, durability and ease to repair.

The Directors（including the independent non-executive Directors）consider that 2013 Agreement and the transactions contemplated thereunder were entered into in the ordinary and usual course of the business of the Group, and have been negotiated on an arm's length basis between the parties on normal commercial terms. The terms of the Agreement (including the Annual Caps) are fair and reasonable and are in the interest of the Company and its Shareholders as a whole.

LISTING RULES IMPLICATIONS

Shenyuan Company is owned as to 34% by the spouses of Zhangmi, the director of the Company，and hence Shenyuan Company is a connected person of the Company pursuant to the Listing Rules. 2013 Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Group under Chapter14A of the Listing Rules.

Since each of the applicable percentage ratios calculated according to Rule 14.07 of the Listing Rules with reference to each of the Annual Caps for 2013 Agreement is less than 5%, the continuing connected transactions contemplated under 2013 Agreement are subject to reporting and announcement requirements but exempt from the independent shareholders' approval requirement under Rules 14A.34(1) of the Listing Rules.

The board of the Company (the "Board") declares that Mr. Zhang Mi, the chairman and an executive director of the Company have conflict of interest in the 2013 Agreement and have abstained from voting on the Board resolution approving 2013 Agreement.

GENERAL INFORMATION

The Group is engaged in the business of developing, manufacturing and selling all kinds of drilling rigs and their parts and components and after sales services.

Honghua Oil & Gas Engineering is an indirect wholly-owned subsidiary, specializing in engineering technology services including oil, natural gas and oil drilling, well repair, etc.

Shenyuan Company, Connected persons under the listing rules, mainly deal in modern oil drilling tools and R&D, manufacturing, marketing and technical service of equipments.

DEFINITIONS

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
"Director(s)"	director(s) of the Company
"2012 Agreement"	the purchase framework agreement signed on 30 June 2012 between Honghua Oil & Gas Engineering and Shenyuan Company
"2013 Agreement"	the purchase framework agreement signed on 25 March 2013 between Honghua Oil & Gas Engineering and Shenyuan Company

"Group"	the Company and its subsidiaries
"Honghua Oil & Gas Engineering"	Honghua Oil&Gas Engineering and Technology Services (Sichuan) Co .,Ltd., a limited liability company established in the PRC and an indirect wholly-owned subsidiary of the Company
"**Hong Kong**"	the Hong Kong Special Administrative region of the PRC
"Shenyuan Company"	Sichuan Deep&Fast Oil Drilling Tools Co.,Ltd, a limited liability company established in the PRC
"Listing Rules"	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"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
"Shareholders"	shareholders of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

By order of the Board
Honghua Group Limited
Ren Jie
Executive Director

PRC, 25 March 2013

As at the date of this announcement, the executive Directors are Mr. Zhang Mi (Chairman), Mr. Ren Jie and Mr. Liu Zhi, the non-executive Director is Mr. Siegfried Meissner, the independent non-executive Directors are Mr. Liu Xiaofeng, Mr. Qi Daqing, Mr. Tai Kwok Leung, Alexander, Mr. Chen Guoming, Mr. Shi Xingquan and Mr. Guo yanjun.