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HONGHUA GROUP LIMITED

宏華集團有限公司

(a company incorporated in the Cayman Islands with limited liability)

(Stock Code: 196)

PROFIT IMPROVEMENT ALERT

This announcement is made by the Company pursuant to Rule 13.09(1) of the Listing Rules.

The Board would like to inform the shareholders of the Company and potential investors that it is expected that the results of the Group may record a significant improvement, and may be turned around to profit for the six-month period ended 30 June 2011 as compared to a loss for the corresponding period in 2010.

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

This announcement is made by Honghua Group Limited (the “**Company**”) pursuant to Rule 13.09(1) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

The board of directors of the Company (the “**Board**”) would like to inform the shareholders of the Company and potential investors that it is expected that the results of the Company and its subsidiaries (the “**Group**”) may record a significant improvement, and may be turned around to profit for the six-month period ended 30 June 2011 as compared to a loss for the corresponding period in 2010, primarily due to a substantial increase of sales in land drilling rigs and components.

The Company wishes to caution that the performance of the Company for the whole year remains dependent on various key elements, including without limitation, the production schedule and delivery of the goods, uncertainty of cost changes, exchange rate and so on.

The Company is in the process of finalizing the interim results of the Group for the six-month period ended 30 June 2011. The information contained in this announcement is only a preliminary assessment of the management accounts of the Group as at 30 June 2011 and the information currently available to the Company and is not based on any figures or information that have been audited or reviewed by the Company's auditors. Details of the Group's results will be disclosed in the interim results for the six months ended 30 June 2011.

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

On behalf of the Board
Honghua Group Limited
Zhang Mi
Chairman

China, 10 July 2011

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. Siegfried Meissner and Mr. Huang Dongyang 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.