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: 0196)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2010

FINANCIAL HIGHLIGHT

	Six months ended 30 June		
	2010	2009	% change
	(Unaudited)	(Unaudited) (restated)	
Revenue *(RMB'000)*	**685,596**	1,196,503	(42.7%)
Gross profit *(RMB'000)*	**161,667**	320,942	(49.6%)
Gross profit margin *(%)*	**23.6**	26.8	
(Loss)/profit from operations *(RMB'000)*	**(54,095)**	85,767	(163.1%)
(Loss)/earnings attributable to equity shareholders of the Company *(RMB'000)*	**(89,458)**	57,589	(255.3%)
Basic (loss)/earnings per share *(RMB cents)*	**(2.77)**	1.79	(254.7%)
Diluted (loss)/earnings per share *(RMB cents)*	**(2.77)**	1.79	(254.7%)

No interim dividend was declared for the six months ended 30 June 2010.

INTERIM RESULTS

The board (the "Board") of directors (the "Directors") of the Honghua Group Limited (the "Company") hereby announces the unaudited interim financial results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2010 (the "Period"), together with the comparative figures for the corresponding period in 2009.

The interim financial report for the six months ended 30 June 2010 is unaudited, but has been reviewed by KPMG, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of interim financial information performed by the independent auditor of the entity", issued by the Hong Kong Institute of Certified Public Accountants whose unmodified review report is included in the interim financial report to be sent to shareholders. These interim results have also been reviewed by the Company's audit committee, comprising solely the independent non-executive directors, one of whom chairs the committee.

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2010 – unaudited

(Expressed in Renminbi(“RMB”))

		Six months ended 30 June	
		2010	2009
	Note	***RMB'000***	*RMB'000*
			(restated)
Revenue	3, 4	**685,596**	1,196,503
Cost of sales		**(523,929)**	(875,561)
Gross profit		**161,667**	320,942
Other operating revenue	5	**3,193**	2,991
Other operating expenses		**(1,227)**	(2,523)
Selling expenses		**(69,984)**	(111,849)
General and administrative expenses		**(148,997)**	(128,157)
Other net income	5	**1,253**	4,363
(Loss)/profit from operations		**(54,095)**	85,767
Finance income		**8,755**	44,055
Finance expenses		**(54,526)**	(41,218)
Net finance (expense)/income	6(a)	**(45,771)**	2,837
Share of loss from jointly controlled entities		**(1,484)**	(2,152)
(Loss)/profit before taxation	6	**(101,350)**	86,452
Income tax credit/(expenses)	7	**12,176**	(20,333)
(Loss)/profit for the period		**(89,174)**	66,119
Attributable to:			
Equity shareholders of the Company		**(89,458)**	57,589
Non-controlling interests		**284**	8,530
(Loss)/profit for the period		**(89,174)**	66,119
(Loss)/earnings per share basic and diluted			
(RMB cents)			
Basic	9(a)	**(2.77)**	1.79
Diluted	9(b)	**(2.77)**	1.79

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010 – unaudited

(Expressed in RMB)

	Six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
		(restated)
(Loss)/profit for the period	**(89,174)**	66,119
Other comprehensive income for the period:		
Exchange differences on translation of financial statements of operations outside the People's Republic of China ("PRC")	**(18,504)**	(715)
Total comprehensive income for the period	**(107,678)**	65,404
Attributable to:		
Equity shareholders of the Company	**(107,969)**	56,874
Non-controlling interests	**291**	8,530
Total comprehensive income for the period	**(107,678)**	65,404

CONSOLIDATED BALANCE SHEET

At 30 June 2010 – unaudited
(Expressed in RMB)

	Note	**30 June 2010** *RMB'000*	31 December 2009 *RMB'000* (restated)
Non-current assets			
Fixed assets			
— Property, plant and equipment		**419,457**	414,746
— Interests in leasehold land held for own use under operating leases		**140,943**	141,829
— Freehold land		**5,474**	5,504
		565,874	562,079
Deposit paid for acquisition of leasehold land		**213,844**	209,308
Construction in progress		**105,147**	59,144
Intangible assets		**297,699**	318,859
Interests in jointly controlled entities		**8,573**	10,309
Deferred tax assets		**61,502**	49,372
Total non-current assets		**1,252,639**	1,209,071
Current assets			
Inventories	10	**1,856,074**	1,896,646
Trade and other receivables	11	**1,021,285**	1,246,351
Amounts due from related companies		**26,842**	31,096
Amount due from immediate holding company		**12**	6
Amount due from ultimate holding company		**—**	6
Current tax recoverable		**24,103**	24,393
Other financial assets		**3,700**	—
Pledged bank deposits		**47,757**	30,663
Bank deposits maturing over three months		**130,000**	542,898
Cash and cash equivalents		**1,541,415**	1,603,316
Total current assets		**4,651,188**	5,375,375
Total assets		**5,903,827**	6,584,446

CONSOLIDATED BALANCE SHEET

At 30 June 2010 – unaudited (continued)
(Expressed in RMB)

	Note	**30 June 2010** *RMB'000*	31 December 2009 *RMB'000* (restated)
Current liabilities			
Interest-bearing borrowings		**805,466**	1,046,090
Amounts due to related companies		**4,041**	5,609
Trade and other payables	12	**792,639**	974,024
Current tax payable		**14,284**	20,933
Provision for product warranties		**12,927**	15,579
Total current liabilities		**1,629,357**	2,062,235
Net current assets		**3,021,831**	3,313,140
Total assets less current liabilities		**4,274,470**	4,522,211
Non-current liabilities			
Interest-bearing borrowings		**102,377**	252,390
Deferred tax liabilities		**9,225**	10,414
Total non-current liabilities		**111,602**	262,804
Total liabilities		**1,740,959**	2,325,039
Equity			
Share capital		**299,593**	299,542
Reserves		**3,767,951**	3,864,841
Total equity attributable to equity shareholders of the Company		**4,067,544**	4,164,383
Non-controlling interests		**95,324**	95,024
Total equity		**4,162,868**	4,259,407
Total liabilities and equity		**5,903,827**	6,584,446

1. BASIS OF PREPARATION

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard ("IAS") 34, *Interim financial reporting*, adopted by the International Accounting Standards Board ("IASB"). It was authorised for issuance on 30 August 2010.

The interim financial report has also been prepared in accordance with the same accounting policies adopted by the Group in the 2009 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2010 annual financial statements. Details of these changes in accounting policies are set out in note 2.

2. CHANGES IN ACCOUNTING POLICIES

(a) New accounting policies

The IASB has issued two revised International Financial Reporting Standards ("IFRSs"), a number of amendments to IFRSs and one new Interpretation that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

— IFRS 3 (revised 2008), *Business combinations*

— Amendments to IAS 27, *Consolidated and separate financial statements*

— Improvements to IFRSs (2009)

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The developments resulted in changes in accounting policy but none of these changes in policy have a material impact on the current or comparative periods, for the following reasons:

— The impact of the majority of the revisions to IFRS 3 and IAS 27 have not yet had a material effect on the Group's financial statements as these changes will first be effective as and when the Group enters into a relevant transaction (for example, a business combination, a disposal of a subsidiary or a non-cash distribution) and there is no requirement to restate the amounts recorded in respect of previous such transactions.

— The impact of the amendments to IFRS 3 (in respect of recognition of acquiree's deferred tax assets) and IAS 27 (in respect of allocation of losses to non-controlling interests (previously known as minority interests) in excess of their equity interest) have had no material impact as there is no requirement to restate amounts recorded in previous periods and no such deferred tax assets or losses arose in the current period.

Further details of these changes in accounting policy are as follows:

— As a result of the adoption of IFRS 3 (revised 2008), any business combination acquired on or after 1 January 2010 will be recognised in accordance with the new requirements and detailed guidance contained in IFRS 3 (revised 2008). These include the following changes in accounting policies:

  — Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, will be expensed as incurred, whereas previously they were accounted for as part of the cost of the business combination and therefore impacted the amount of goodwill recognised.

  — If the Group holds interests in the acquiree immediately prior to obtaining control, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.

  — Contingent consideration will be measured at fair value at the acquisition date. Any subsequent changes in the measurement of that contingent consideration will be recognised in profit or loss, unless they arise from obtaining additional information about facts and circumstances that existed at the acquisition date within 12 months from the date of acquisition (in which case they will be recognised as an adjustment to the cost of the business combination). Previously, contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably. All subsequent changes in the measurement of contingent consideration and from its settlement were previously recognised as an adjustment to the cost of the business combination and therefore impacted the amount of goodwill recognised.

  — If the acquiree has accumulated tax losses or other temporary deductible differences and these fail to meet the recognition criteria for deferred tax assets at the date of acquisition, then any subsequent recognition of these assets will be recognised in profit or loss, rather than as an adjustment to goodwill as was previously the policy.

  — In addition to the Group's existing policy of measuring the non-controlling interests (previously known as the "minority interests") in the acquiree at the non-controlling interest's proportionate share of the acquiree's net identifiable assets, in future the group may elect, on a transaction by transaction basis, to measure the non-controlling interest at fair value.

In accordance with the transitional provisions in IFRS 3 (revised 2008), these new accounting policies will be applied prospectively to any business combinations in the current or future periods. The new policy in respect of recognition in the movement of deferred tax assets will also be applied prospectively to accumulated tax losses and other temporary deductible differences acquired in previous business combinations. No adjustments have been made to the carrying values of assets and liabilities that arose from business combinations whose acquisition dates preceded the application of this revised standard.

— As a result of the adoption of IAS 27 (amended 2008), the following changes in policies will be applied as from 1 January 2010:

  — If the Group acquires an additional interest in a non-wholly owned subsidiary, the transaction will be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no goodwill will be recognised as a result of such transactions. Similarly, if the Group disposes of part of its interest in a subsidiary but still retains control, this transaction will also be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no profit or loss will be recognised as a result of such transactions.

  — If the Group loses control of a subsidiary, the transaction will be accounted for as a disposal of the entire interest in that subsidiary, with any remaining interest retained by the Group being recognised at fair value as if reacquired. In addition, as a result of the adoption of the amendment to IFRS 5, if at the balance sheet date the Group has the intention to dispose of a controlling interest in a subsidiary, the entire interest in that subsidiary will be classified as held for sale (assuming that the held for sale criteria in IFRS 5 are met) irrespective of the extent to which the Group will retain an interest. Previously such transactions were treated as partial disposals.

In accordance with the transitional provisions in IAS 27, these new accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

— In order to be consistent with the above amendments to IFRS 3 and IAS 27, and as a result of amendments to IAS 28, *Investments in associates*, and IAS 31, *Interests in joint ventures*, the following policies will be applied as from 1 January 2010.

  — If the Group holds interests in the acquiree immediately prior to obtaining significant influence or joint control, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining significant influence or joint control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.

  — If the Group loses significant influence or joint control, the transaction will be accounted for as a disposal of the entire interest in that investee, with any remaining interest being recognised at fair value as if reacquired. Previously such transactions were treated as partial disposals.

Consistent with the transitional provisions in IFRS 3 and IAS 27, these new accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

Other changes in accounting policies which are relevant to the Group's financial statements are as follows:

— As a result of the amendments to IAS 27, as from 1 January 2010 any losses incurred by a non-wholly owned subsidiary will be allocated between the controlling and non-controlling interests in proportion to their interests in that entity, even if this results in a deficit balance within consolidated equity being attributed to the non-controlling interests. Previously, if the allocation of losses to the non-controlling interests would have resulted in a deficit balance, the losses were only allocated to the non-controlling interests if the non-controlling interests were under a binding obligation to make good the losses. In accordance with the transitional provisions in IAS 27, this new accounting policy is being applied prospectively and therefore previous periods have not been restated.

— As a result of the amendment to IAS 17, *Leases*, arising from the "*Improvements to IFRSs (2009)*" omnibus standard, the Group has re-evaluated the classification of its interests in leasehold land as to whether, in the Group's judgement, the lease transfers significantly all the risks and rewards of ownership of the land such that the Group is in a position economically similar to that of a purchaser. The Group has concluded that the classification of such leases as operating leases continues to be appropriate.

(b) Change in application of accounting policies

In previous years, the Group's inventories were carried at the lower of cost and net realisable value. The cost was calculated using the first-in first-out formula. Following the substantial business development of the Group in recent years, the Directors of the Company are of the view that it is no longer practicable for the Group to continue adopting such accounting policy whereas using the weighted-average formula would result in the consolidated financial statements providing more appropriate and relevant information about the Group's results and financial position to the users of the financial statements. Consequently, the Group changed its accounting policy on inventories to follow the weighted-average formula with effect from 1 January 2010.

This change in accounting policy has been applied retrospectively with comparatives restated. The adjustments for each financial statement line item affected for the six months ended 30 June 2010 and 2009 are set out below:

Consolidated income statement for the six months ended 30 June

	2010	2009
	RMB'000	*RMB'000*
Increase in net loss/(profit)		
Cost of sales	**1,159**	(1,476)
(Loss)/profit for the period	**1,159**	(1,476)
Attributable to:		
— Equity shareholders of the Company	**1,159**	(1,476)
— Non-controlling interests	**—**	—
(Loss)/earnings per share (basic) in cents	**0.04**	(0.05)
(Loss)/earnings per share (diluted) in cents	**0.04**	(0.05)

Consolidated statement of changes in equity for the six months ended 30 June

	2010	2009
	RMB'000	*RMB'000*
(Decrease)/increase in total equity		
Total equity at 1 January	**(4,522)**	(3,896)
Total comprehensive income for the period	**(1,159)**	1,476
Total equity at 30 June	**(5,681)**	(2,420)

Consolidated balance sheet

	30 June	31 December	1 January
	2010	2009	2009
	RMB'000	*RMB'000*	*RMB'000*
Decrease in net assets			
Inventories	**(5,681)**	(4,522)	(3,896)
Net current assets	**(5,681)**	(4,522)	(3,896)
Net assets	**(5,681)**	(4,522)	(3,896)
Retained profits and total equity	**(5,681)**	(4,522)	(3,896)

3. SEGMENT REPORTING

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the period is set out below.

	Drilling rigs		Parts and components		Total	
For the six months ended 30 June	**2010**	2009	**2010**	2009	**2010**	2009
	RMB'000	*RMB'000* (restated)	***RMB'000***	*RMB'000* (restated)	***RMB'000***	*RMB'000* (restated)
Revenue from external customers	**466,642**	1,023,699	**218,954**	172,804	**685,596**	1,196,503
Inter-segment revenue	**—**	—	**139,423**	459,170	**139,423**	459,170
Reportable segment revenue	**466,642**	1,023,699	**358,377**	631,974	**825,019**	1,655,673
Reportable segment (loss)/profit	**(27,501)**	125,963	**20,859**	92,074	**(6,642)**	218,037

	Drilling rigs		Parts and components		Total	
As at 30 June/31 December	**2010**	2009	**2010**	2009	**2010**	2009
	RMB'000	*RMB'000* (restated)	***RMB'000***	*RMB'000* (restated)	***RMB'000***	*RMB'000* (restated)
Reportable segment assets	**2,738,852**	2,914,246	**1,068,535**	1,303,947	**3,807,387**	4,218,193

(a) Reconciliation of reportable segment profit or loss

	Six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000* *(restated)*
(Loss)/profit		
Reportable segment (loss)/profit	**(6,642)**	218,037
Elimination of inter-segment profits	**(35,179)**	(135,934)
Reportable segment (loss)/profit derived from Group's external customers	**(41,821)**	82,103
Share of loss from jointly controlled entities	**(1,484)**	(2,152)
Other operating revenue, expenses and net income	**3,219**	4,831
Net finance (expenses)/income	**(45,771)**	2,837
Unallocated head office and corporate expenses	**(15,493)**	(1,167)
(Loss)/profit before taxation	**(101,350)**	86,452

(b) Seasonality of operations

The Group experiences higher sales in the second half of the year compared to the first half of the year. It is the general practice for the Group's customers, engaging in oil and gas drilling industry, to place larger amounts of purchase orders at the beginning of the year. Having considered the production and delivery schedule, the finished goods related to these purchase orders are delivered in the second half of the year. Revenue from the sale of finished goods is recognised when the customer has accepted the related risks and rewards of ownership. Accordingly, the Group anticipates the inventories would gradually build up before the delivery of finished goods in the second half of the year. As a result, the first half year typically reports lower revenues and results, than the second half.

4. REVENUE

The principal activities of the Group are the manufacturing, sale and trading of drilling rigs and related parts and components. Revenue represents the sales value of goods supplied to customers less value-added tax, returns and trade discounts.

	Six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
Sale of drilling rigs	**466,642**	1,023,699
Sale of parts and components	**218,954**	172,804
	685,596	1,196,503

For the six months ended 30 June 2010, the Group's customer base include three customers with whom transactions representing 29%, 24% and 22% (2009: 47%, 17% and 13%) of the Group's revenue respectively. In 2010, revenues from sales of drilling rigs and related parts and components to these customers, amounted to approximately RMB198 million, RMB166 million and RMB151 million (2009: RMB564 million, RMB200 million and RMB161 million) respectively which arose in North America, Europe and Central Asia, and South Asia regions.

5. OTHER OPERATING REVENUE AND OTHER NET INCOME

	Six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
Other operating revenue		
Rendering of repairing services	**2,834**	2,523
Others	**359**	468
	3,193	2,991
Other net income		
Government grants	**3,666**	6,239
Loss on disposals of fixed assets	**(62)**	(726)
Realised gains on other financial assets	**1,201**	59
Donations	**(1,202)**	(220)
Others	**(2,350)**	(989)
	1,253	4,363

6. (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation is arrived at after charging/(crediting):

	Six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
(a) Net finance expense/(income)		
Exchange loss/(gain), net	**30,703**	(20,650)
Interest income	**(8,755)**	(23,405)
Interest on bank borrowings wholly repayable within five years	**26,712**	37,476
Bank charges	**1,935**	3,742
	50,595	(2,837)
Less: interest expense capitalised into assets under construction*	**(4,824)**	—
	45,771	(2,837)

* The borrowing costs have been capitalised at a rate of 0.68% – 6.50% per annum (2009: Nil.)

	Six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
(b) Staff costs		
Contributions to defined contribution retirement scheme	**19,931**	13,098
Equity-settled share based payment expenses	**10,482**	15,385
Salaries, wages and other benefits	**106,098**	89,818
	136,511	118,301
(c) Other items		
Amortisation and depreciation		
— assets held for use under operating leases	**886**	764
— other assets	**23,736**	22,151
— intangible assets	**18,350**	18,415
Operating lease charges in respect of properties	**2,839**	2,263
Provision for product warranties	**13,663**	5,875
Research and development costs*	**18,888**	15,100

* The amounts included staff costs of employees in the Research and Development Department.

7. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	Six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
Current tax — outside Hong Kong		
Provision for the period	**2,234**	37,355
Over provision in respect of prior years	**(1,113)**	(3,614)
	1,121	33,741
Deferred tax		
Origination and reversal of temporary differences	**(13,297)**	(13,408)
	(12,176)	20,333

(i) Hong Kong

No provision for the Hong Kong Profits Tax has been made as the Group did not have assessable profits subject to Hong Kong Profits Tax for the period (2009: Nil).

(ii) PRC

Pursuant to the income tax rules and regulations of the PRC, the companies comprising the Group in the PRC are liable to PRC corporate income tax at a rate of 25% during the six months ended 30 June 2010 (2009: 25%), except for the following companies:

(a) Sichuan Honghua Petroleum Equipment Co., Ltd ("Honghua Company")

On 15 September 2006, Honghua Company changed from being a domestic enterprise to a wholly owned foreign invested enterprise, and was entitled to tax concessions from 1 October 2006 whereby the profit for the first two financial years commencing on the profit-making year (after netting off tax losses carried forward from prior years) was exempt from income tax in the PRC and the profit for each of the subsequent three financial years was taxed at 50% of the prevailing tax rate set by the relevant authorities. Therefore all income earned for the period from 1 January 2010 to 30 June 2010 are subject to an income tax rate of 12.5% (2009: 12.5%).

(b) Chengdu Hongtian Electric Drive Engineering Co., Ltd ("Hongtian Company") and Sichuan Honghua Youxin Petroleum Machinery Co., Ltd ("Youxin Company")

Hongtian Company and Youxin Company are recognised as entities established in the western regions of the PRC with principal revenue of over 70% generated from the encouraged business activities. Pursuant to the approvals obtained from the relevant PRC tax authorities, the companies are entitled to a preferential income tax rate of 15%.

(iii) Others

Taxation for other entities is charged at the appropriate current rates of taxation ruling in the relevant jurisdictions.

(b) Withholding tax

Under the PRC tax law and its Implementation Rules, dividends receivable by non-PRC resident enterprises from PRC resident enterprises are subject to withholding tax at a rate of 10% unless reduced by tax treaties or agreements. Under the *Arrangement between the Mainland of China and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income*, Hong Kong tax residents which hold 25% or more of a PRC enterprise are entitled to a reduced dividend withholding tax rate of 5%. Pursuant to CaiShui 2008 No. 1 *Notice on Certain Preferential Enterprise Income Tax Policies*, undistributed earnings generated prior to 1 January 2008 are exemption from such withholding tax. Accordingly, dividends receivable by Honghua Holdings Limited from its subsidiaries established in the PRC in respect of their profits earned since 1 January 2008 is subject to 5% withholding tax. Deferred tax liabilities have been recognised for undistributed retained profits of its subsidiaries established in the PRC earned since 1 January 2008 to the extent that profits are likely to be distributed in the foreseeable future.

8. DIVIDENDS

Dividends payable to equity shareholders attributable to the previous financial year, approved and paid during the interim period

	Six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year, approved during the following interim period, of HK$Nil cents per share (six months ended 30 June 2009: HK$6 cents per share)	—	170,371

9. (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share for the six months ended 30 June 2010 is based on the loss attributable to shareholders of the Company for the period of RMB89,458,000 (six months ended 30 June 2009 (restated): a profit of RMB57,589,000) and the weighted average number of shares of 3,223,782,961 (2009: 3,223,688,000) in issue during the interim period.

(b) Diluted (loss)/earnings per share

The calculation of diluted (loss)/earnings per share is based on the loss attributable to shareholders of the Company for the period of RMB89,458,000 and the weighted average number of shares of 3,224,493,154 in issue during the interim period.

There were no dilutive potential ordinary shares for the six months ended 30 June 2009 and, therefore, dilutive earnings per share are the same as the basic earnings per share.

10. INVENTORIES

	30 June 2010 *RMB'000*	31 December 2009 *RMB'000* *(restated)*
Raw materials	**681,352**	826,213
Work in progress	**625,578**	536,948
Finished goods	**542,906**	529,288
Goods in transit	**6,238**	4,197
	1,856,074	1,896,646

An analysis of the amount of inventories recognised as an expense is as follows:

	Six months ended 30 June	
	2010 *RMB'000*	2009 RMB'000 (restated)
Carrying amount of inventories sold	**500,801**	843,874
Write-down of inventories	**9,702**	25,812
Reversal of write-down of inventories	**(237)**	—
	510,266	869,686

11. TRADE AND OTHER RECEIVABLES

	30 June 2010 RMB'000	31 December 2009 RMB'000
Trade receivables	**737,511**	901,707
Bills receivable	**3,000**	2,200
Less: allowance for doubtful debts	**(125,345)**	(124,669)
Sub-total	**615,166**	779,238
Value-added tax receivable	**171,430**	191,450
Prepayments	**134,573**	154,884
Other receivables	**100,116**	120,779
	1,021,285	1,246,351

All of the trade and other receivables are expected to be recovered within one year.

Included in trade and other receivables are trade receivables and bills receivable (net of allowance for doubtful debts) with the following ageing analysis as of the balance sheet date:

	30 June 2010 RMB'000	31 December 2009 RMB'000
Current	**183,469**	276,849
Less than 1 month past due	**7,292**	24,970
No less than 1 month but less than 3 months past due	**5,790**	60,121
No less than 3 months but less than 12 months past due	**111,890**	136,445
No less than 1 year past due	**306,725**	280,853
	615,166	779,238

The Group normally grants an average credit period of 30 to 90 days to its trade customers.

12. TRADE AND OTHER PAYABLES

	30 June 2010 *RMB'000*	31 December 2009 *RMB'000*
Trade payables	**416,707**	413,060
Bills payable	**53,180**	104,442
Receipts in advance	**246,594**	316,444
Other payables	**76,158**	140,078
	792,639	974,024

Bills payable as at 30 June 2010 and at 31 December 2009 were secured by pledged bank deposits. All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

An ageing analysis of the trade and bills payable based on the invoice date is as follows:

	30 June 2010 *RMB'000*	31 December 2009 *RMB'000*
Within 3 months	**208,708**	235,754
3 months to 6 months	**66,200**	98,020
6 months to 1 year	**50,594**	51,061
Over 1 year	**144,385**	132,667
	469,887	517,502

MANAGEMENT DISCUSSION AND ANALYSIS

During the Period, the Group recorded a turnover of approximately RMB686 million, a decrease of 42.7% as compared to RMB1,197 million recorded during the six months ended 30 June 2009 (the same period last year). Gross profit was RMB162 million and loss attributable to equity shareholders of the Company was RMB89 million.

INDUSTRY REVIEW

Although the global economy showed signs of recovery in the first half of 2010, the pace of recovery was relatively slow, especially the U.S. and China where the economic growth rates were lower than market anticipation. Furthermore, the European debt crisis caused a decrease in demand for oil, leading to fluctuation in world crude oil prices. As a result, the steady recovery of global drilling activities and drilling rig day rates were restrained. During the Period, global drilling activities recorded a slight increase amid volatility. According to Schlumberger research, there were

4,788 units of active drilling rigs worldwide as at the end of June 2010, representing an increase of only 6% as compared to the beginning of the year. In regards to the geographical distribution, apart from North America recording an increase in land drilling activities as compared to the same period last year, the utilization rates of land and offshore drilling equipment in other regions were still as low as those in 2009. In April 2010, the largest oil spill ever in American history occurred in the Gulf of Mexico. In the short-term, the incident will undoubtedly restrain the rebound in offshore drilling activities and fleet utilization rates. From a long-term perspective, however, the incident will greatly arouse concerns about the safety standards of drilling platforms, triggering a new round of equipment replacement which favors the offshore drilling equipment industry. Furthermore, large international energy enterprises, such as Shell and Exxon Mobil Oil have been deploying their new unconventional gas business. In addition, the PRC government has implemented a number of favorable policies and incentive schemes in unconventional natural gas exploration, bringing new business opportunities to the related drilling equipment industry.

PRODUCTION, RESEARCH AND DEVELOPMENT

Although the sales volume of land drilling rigs was affected by the macro economic downturn and the slow recovery of the global land rig market during the Period, the Group implemented initiatives for enhancing productivity and facilitating operational capability steadily in order to capture potential opportunities arising from the revival of the global economy and land rig market. Currently, the Group is engaged in the construction of its new Jiangsu Qidong offshore manufacturing base. The new motor plant and production line of the Group's Guanghan production base is completed and will commence operations in the near future. The Group's U.S. assembly base has already been operating on the assembly and refurbishment business for domestic U.S. clients, while the Group's drilling rig parts and components distribution center in Irkutsk, Russia has also begun operations. In addition, the Group utilized the ERP system for further enhancement of production process, reduction in production costs, strict cost control, and further strengthening of supplies and materials management. Regarding quality control, the Group strictly abides by the requirements of APIQ1 8th Edition and ISO9001 and constantly modifies and optimizes the quality control system to be stricter and more professional for all procedures ranging from raw materials purchase, production to final product testing. The Group's quality control system also gradually extends from the self-manufacturing sector to external co-production and outsourcing sectors to ensure that the Group's final products conform to the related quality standards and requirements.

During the Period, the Group continued to strengthen the design, research and development of its products, so as to adapt to different drilling conditions, meet the demand of different markets and maintain its leading position in the market. The Group completed the design of new super single pipe rigs and conducted trial production of coiled tubing rigs, which will be promoted in the market soon. The design of the first "Honghua No.1" jack-up rig has been completed and submitted to the American Bureau of Shipping ("ABS") for review, and is expected to be approved in the near future. To satisfy the needs of various markets in fast moving rigs, the Group successfully developed a series of skidding devices, including the new desert trailer drilling rigs sold to Kuwait, the train-skidding device successfully promoted in the Russian market, as well as the hydraulic step-by-step skidding system applied to cluster wells and new vehicular rigs designed for the North American market. In addition, the Group remained committed to developing high value-added parts and components, such as Quintuple motor direct drive pump, offshore drilling platforms and drilling modules applied to offshore drilling rigs.

As at 30 June 2010, the Group has a total of 364 research and development personnel. The total research and development expenses amounted to RMB19 million, representing an increase of 25.1% as compared to the same period last year. Meanwhile, the Group is planning to establish an offshore equipment research centre in Shanghai, fully utilizing high-quality local technology and human resources in order to build a solid foundation for penetrating into the offshore drilling and exploration market. During the Period, the Group had 29 new patent applications and 11 of them were new inventions. The Group has accumulated applications for up to 72 patents (41 of them are pending for the approval of the Chinese State Intellectual Property Office).

PROSPECTS

The Group takes a cautious view of its business for the second half of 2010. It is predicted that the depressed market will still pose serious challenges for the Group's business. However, the Group continues to believe that the development of the global economy in the foreseeable future will still rely on oil and natural gas resources. In the long run, expenditure on oil and gas exploration and production will continue to increase significantly. Oil and gas resources and the related equipment industry will certainly ride out the market cyclical downturn. Therefore, the Group is well prepared for potential opportunities and development. We will continue to focus on the design and production of high-efficiency and high-quality land and offshore drilling equipments. We will also further penetrate into Central Asia and Russia in terms of our new business of oil and gas engineering services. Meanwhile, we will capture the business opportunities arising from the sustaining development of the unconventional natural gas market such as shale gas and coalbed methane, by developing a series of products for the exploration of unconventional gas, as well as searching for potential cooperative development projects.

The Group believes that leveraging on the strengths of manufacturing land and offshore oil and gas equipment, it will gradually extend its production chain to realize vertical and horizontal expansion and become a strong and competitive participant in the industry. Having encountered the challenges of economic and cyclical industry downturn, by relying on continuous practice and accumulation of experience, the Group will gradually transform into a diversified energy company with interactive development in the fields of equipment production, resource exploration and engineering services based on the solid experience on land and offshore oil and gas equipment manufacturing.

FINANCIAL REVIEW

During the Period, the Group's gross profit and loss attributable to equity shareholders of the Company amounted to approximately RMB162 million and RMB89 million respectively. Gross margin and net loss margin amounted to approximately 23.6% and 13.0% respectively. During the Period, the decrease of the Group's gross profit and loss attributable to shareholders was mainly due to the substantial decline in the Group's total turnover which was caused by the prolonged influence of the financial crisis and slow recovery in oil demand.

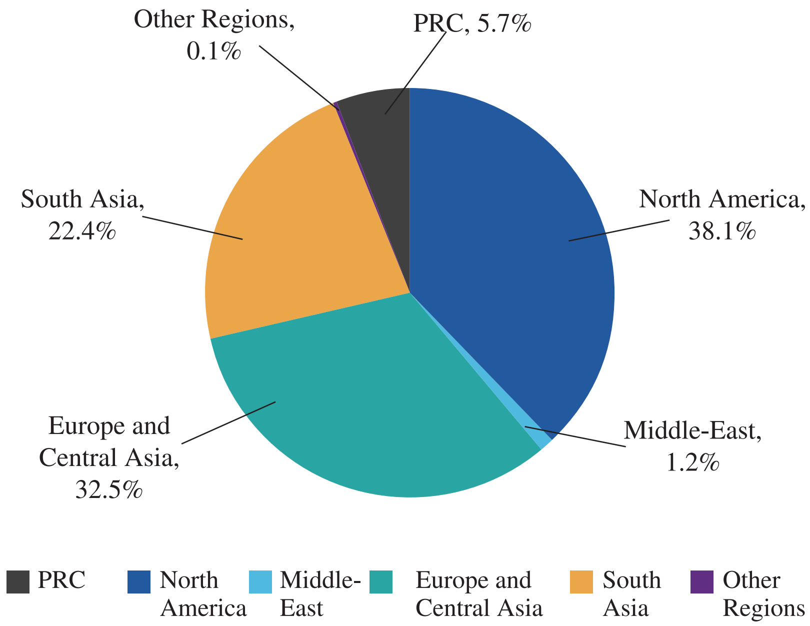
Revenue

During the Period, the Group's revenue amounted to approximately RMB686 million, representing a decrease of approximately RMB511 million or 42.7% as compared to approximately RMB1,197 million in the same period last year. The decrease in revenue was mainly attributable to the slow recovery of the global land rig market which led to the weakened demand for land rigs. During the Period, total number of rigs sold decreased to 9 units from 27 units in the same period last year.

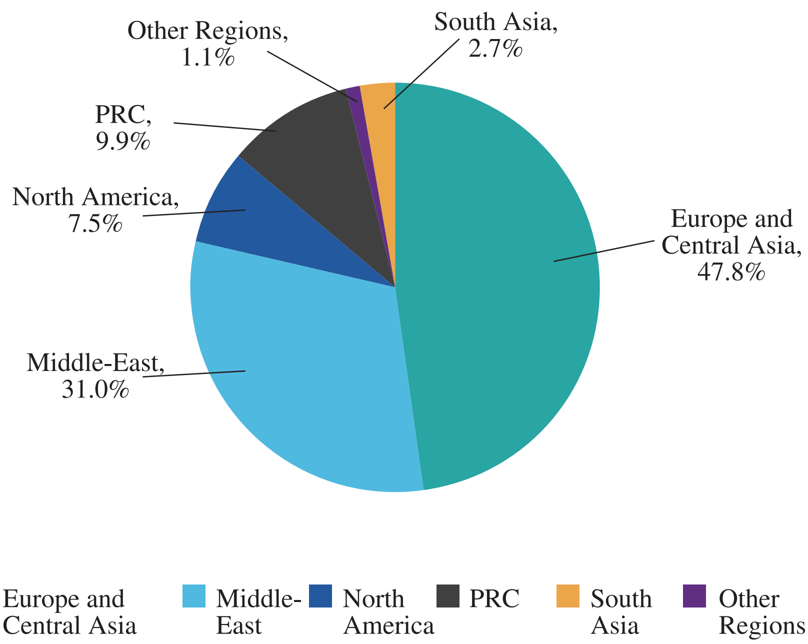
During the Period, revenue from exports amounted to approximately RMB647 million, representing a decrease of RMB431 million as compared to the same period last year, and accounted for approximately 94.3% of the Group's total revenue. Among which, revenue from the European and Central Asian markets, and Middle-Eastern market decreased significantly due to slowdown in demand. During the Period, the sales volume of the said markets decreased to 3 and 0 units respectively from 14 and 6 units respectively in the same period last year. The North American market recovered gradually and a sales volume of 3 units was recorded, as compared to 1 unit in the same period last year. During the Period, the South Asian market was penetrated and a 70DBS rig with high configuration requirements was sold to the People's Republic of Bangladesh, while only 3 units with low configuration requirements were sold in the same period of last year. Meanwhile, the Group's revenue in the PRC market and other areas experienced different degrees of decrease, among which, the sales volume of rigs to the PRC was 2 units, as compared to 3 units in the same period last year.

Revenue by Geographical Areas

For the six months ended 30 June 2010



For the six months ended 30 June 2009



During the Period, revenue by product categories was as follows:

Revenue by product categories	For the six months ended 30 June 2010			For the six months ended 30 June 2009			2010.1-6 vs 2009.1-6	
	Revenue	Proportion	Quantity	Revenue	Proportion	Quantity	Change	Change
	(RMB'000)	*(%)*	*(unit)*	*(RMB'000)*	*(%)*	*(unit)*	*(RMB'000)*	*(%)*
Digitally-controlled Rigs	466,642	68.1%	9	759,574	63.5%	19	(292,932)	-38.6%
Conventional Rigs	—	—	—	264,125	22.1%	8	(264,125)	-100.0%
Subtotal	466,642	68.1%	9	1,023,699	85.6%	27	(557,057)	-54.4%
Mud Pumps	60,111	8.8%	55	71,072	5.9%	64	(10,961)	-15.4%
Other Parts and Components	158,843	23.1%		101,732	8.5%		57,111	56.1%
Subtotal	218,954	31.9%	55	172,804	14.4%	64	46,150	26.7%
Total	685,596	100.0%		1,196,503	100.0%		(510,907)	-42.7%

During the Period, revenue from drilling rigs as well as parts and components were RMB467 million and RMB219 million respectively, representing a decrease of 54.4% and an increase of 26.7% as compared to RMB1,024 million and RMB173 million in the same period last year.

Drilling rigs comprise of digitally-controlled land rigs and conventional land rigs. During the Period, all the rigs sold were digitally-controlled rigs, revenue from which amounted to RMB467 million. The decrease in revenue from drilling rigs was mainly due to the decrease in sales volume of drilling rigs from 27 units in the same period last year to 9 units during the Period. Meanwhile, increased drilling rig configuration requirements caused the average price to rise to RMB52 million during the Period, up from RMB38 million in the same period last year. During the Period, the Group recorded sales of 2 heavy 7000-meter drilling rigs, 4 medium 5000-meter drilling rigs, 2 medium 4000-meter drilling rigs and 1 light 1000-meter drilling rig.

The increase in revenue from parts and components was mainly due to sales of 5 train-skidding rig device with a sales amount of RMB65 million, compared to zero in the same period last year. During the Period, sales of 55 units of mud pumps was recorded, among which, 9 were mud pumps with high configuration requirements, as compared to 64 units and 8 units respectively in the same period last year.

Cost of Sales

During the Period, the Group's cost of sales amounted to approximately RMB524 million, representing a decrease of approximately RMB352 million or 40.2% as compared to the same period last year. The decrease was mainly due to the decrease in the Group's revenue.

Gross Profit and Gross Margin

During the Period, the Group's gross profit recorded approximately RMB162 million, representing a decrease of RMB159 million as compared to the same period last year, among which, gross profit from digitally-controlled rigs amounted to approximately RMB97 million, representing a decrease of 51.3% as compared to the same period last year. No sales of conventional rigs were recorded during the Period. Gross profit from parts and components amounted to approximately RMB64 million, representing an increase of 38.1% as compared to the same period last year.

During the Period, the Group's overall gross margin was 23.6%, representing a decrease of 3.2 percentage points as compared to 26.8% in the same period last year.

The gross margin for drilling rigs was approximately 20.8%, representing a decrease of 6.0 percentage points as compared to 26.8% in the same period last year. The decline in margin was mainly due to the special offers for clients because of weakened market demand and relatively low gross margin gained in carrying trade of part of the components.

Gross margin of rig parts and components was 29.4%, representing an increase of 2.4 percentage points as compared to the same period last year. Among which, gross margin of mud pumps was 38.5%, representing an increase of 13.6 percentage points as compared to 24.9% in the same period last year. The increase in margin was mainly attributable to the rebound of North American market. Sales of mud pumps fabricated by the Group's US plant over the total sales of mud pumps has increased to 96.7% from 48.9% compared to the same period last year, and exports have relatively higher gross margin. The gross margin of other rig parts and components was 26.0%, representing a decrease of 2.5 percentage points as compared to 28.5% in the same period last year.

Other Net Operating Revenue and Other Net Income

During the Period, the Group's other net operating revenue amounted to approximately RMB1.97 million, representing an increase of approximately RMB1.5 million, or 320% as compared to RMB0.47 million in the same period last year. The increase was mainly due to increase in revenue of services provided to overseas customers. Other net income amounted to approximately RMB1.25 million, representing a decrease of RMB3.11 million or 71.3% as compared to RMB4.36 million in the same period last year. The decrease was mainly due to the decrease in subsidy income.

Expenses in the Period

During the Period, the Group's selling expenses amounted to approximately RMB70 million, representing a decrease of RMB42 million or 37.4% as compared to RMB112 million in the same period last year. The decrease was mainly attributable to a reduction in transportation costs to RMB24 million, representing a decrease of 61.9% as compared to RMB62 million in the same period last year, and a reduction of agency fee to RMB14 million, representing a decrease of 24.9% as compared to RMB20 million in the same period last year. During the Period, the decrease in transportation cost was mainly due to the decrease in sales volume.

During the Period, the Group's general and administration expenses amounted to approximately RMB149 million, representing an increase of RMB21 million or 16.3% as compared to RMB128 million in the same period last year. The increase was mainly due to an increase in research and development expenses of RMB4 million and a consultation fee of RMB4 million during the Period. Meanwhile, the depreciation and staff costs increased by RMB3 million and RMB2 million respectively as compared to the same period last year.

During the Period, the Group's net finance expense amounted to approximately RMB46 million, as compared to net finance income of RMB3 million in the same period last year. The significant increase in net finance expenses was mainly attributable to a net exchange loss of RMB31 million in the Group's related contracts due to the significant decrease in the exchange rate of the Euro against RMB, compared to a net exchange gain of RMB21 million from the exchange gain of contracts in the Euros and US dollars in the same period last year.

Share of Loss from Jointly Controlled Entities

During the Period, the Group's share of loss from jointly controlled entities amounted to approximately RMB1 million, representing a decrease of RMB1 million as compared to share of loss of RMB2 million in the same period last year.

Loss/Profit before Taxation

During the Period, loss before taxation of the Group amounted to approximately RMB101 million, whereas profit before taxation was RMB86 million in the same period last year. The loss was mainly attributable to the sharp decrease in gross profit.

Income Tax Credit/Expenses

During the Period, the Group's income tax credit amounted to approximately RMB12 million, as compared to the income tax expense of approximately RMB20 million in the same period last year. The decrease was mainly attributable to the loss before taxation.

Loss/Profit for the Period

During the Period, the Group's loss amounted to approximately RMB89 million, as compared to a profit of approximately RMB66 million in the same period last year. Among which, loss attributable to equity shareholders of the Company was approximately RMB89 million, while loss attributable to non-controlling interest was approximately RMB0.28 million. Net loss margin was 13.0%, as compared to a net profit margin of 4.8% in the same period last year, which was mainly attributable to the decrease in gross profit and a higher general and administration cost rate.

Earnings before Interest, Taxes, Depreciation and Amortization ("EBITDA") and EBITDA Margin

During the Period, EBITDA loss amounted to RMB13 million, as compared to an EBITDA of approximately RMB123 million in the same period last year. The loss was mainly due to the decrease in gross profit. The EBITDA loss margin was 1.8%, as compared to a margin of 10.4% in the same period last year, which was mainly attributable to the decrease in gross profit and a higher general and administration cost rate.

Dividend

For the six months ended 30 June 2010, the Board does not recommend the payment of interim dividend.

Source of Capital and Borrowings

The Group's principal sources of capital include listing proceeds, cash from operations and bank borrowings.

As at 30 June 2010, the Group's bank borrowings amounted to approximately RMB908 million, representing a decrease of approximately RMB391 million as compared to 31 December 2009. Among which, borrowings repayable within one year amounted to approximately RMB805 million, representing a decrease of RMB241 million as compared to 31 December 2009.

Deposit and Cash Flow

As at 30 June 2010, the Group's cash and cash equivalents amounted to approximately RMB1,541 million, representing a decrease of approximately RMB62 million as compared to 31 December 2009.

During the Period, the Group's operating cash inflow amounted to approximately RMB9 million, cash inflow from investing activities amounting to approximately RMB346 million as a result of transferral of time deposits to cash and cash equivalents, and cash outflow from financing activities of approximately RMB412 million as a result of payments of bank loans.

Assets Structure and Changes Thereof

As at 30 June 2010, the Group's total assets amounted to approximately RMB5,904 million, representing a decrease of RMB681 million, or approximately 10.3%, as compared to 31 December 2009. Among which, current assets amounted to approximately RMB4,651 million, which were mainly listing proceeds, inventories and trade receivables and accounted for approximately 78.8% of total assets; non-current assets amounted to approximately RMB1,253 million, accounting for approximately 21.2% of total assets.

Liabilities

As at 30 June 2010, the Group's total liabilities amounted to approximately RMB1,741 million, representing a decrease of approximately RMB584 million as compared to 31 December 2009. Among which, current liabilities amounted to approximately RMB1,629 million, accounting for approximately 93.6% of total liabilities; non-current liabilities amounted to approximately RMB112 million, accounting for approximately 6.4% of total liabilities. As at 30 June 2010, the Group's gearing ratio is approximately 29.5%, decreased by 5.8 percentage points compared to 31 December 2009.

Total Equity

As at 30 June 2010, total equity amounted to RMB4,163 million, representing a decrease of RMB97 million as compared to 31 December 2009. Total equity attributable to equity shareholders of the Company amounted to approximately RMB4,068 million, representing a decrease of RMB97 million as compared to 31 December 2009. Non-controlling interests totaled approximately RMB95 million, representing an increase of RMB0.30 million as compared to 31 December 2009. Net asset value reached approximately RMB1.29 per share, representing a decrease of RMB0.03 as compared to RMB1.32 at 31 December 2009. During the Period, the Group's loss per share was approximately RMB2.77 cents, representing a decrease of RMB4.56 cents as compared to earnings per share of RMB1.79 cents in the corresponding period last year.

Contingent Liabilities and Pledge

As at 30 June 2010, the Group's contingent liabilities were mainly due to the disputes with 64 natural persons. According to experts in China Law, it is viewed that 64 original investors do not have rationale for being the Group's shareholders as they have not registered at the relevant China Government Department. Hence the Group considered that sufficient provision in legal costs in respect of the dispute has been made as at 30 June 2010.

The Group has pledged bank deposits of approximately RMB48 million, representing a decrease of approximately RMB17 million as compared to 31 December 2009, in order to reduce finance cost for internally guaranteed loans.

Capital Expenditure, Major Investment and Capital Commitments

During the Period, capital expenditure of the Group on infrastructure and technical improvements amounted to approximately RMB75 million, representing an increase of approximately RMB29 million as compared to the same period last year. This was mainly due to the gradual development of offshore construction projects.

As at 30 June 2010, the Group had capital commitments of approximately RMB1,993 million, which will be used for the construction of Jiangsu Qidong offshore manufacturing base to expand the Group's business as well as its production capacity.

Foreign Currency Risk

The Group has certain foreign currency deposits. As at 30 June 2010, the Group's foreign currency deposits were equivalent to approximately RMB118 million trade receivables and other receivables denominated in foreign currency were equivalent to approximately RMB504 million. Exports and foreign currencies settled business also exposed the Group to exchange risk.

Use of Proceeds from the Initial Public Offerings

The net proceeds after the deduction of the related expenses from the initial public offering were approximately HK$2,958 million. The Group has used the net proceeds obtained from the initial public offering in accordance with the "Use of Proceeds" in the prospectus of the Company issued at 25 February 2008. As at 30 June 2010, the use of the net proceeds was as follows: proceeds of HK$1,275 million to be used for the offshore project, among which HK$339 million was incurred; proceeds of HK$592 million to be used for potential acquisitions, none has incurred; proceeds of HK$354 million to be used for production capacity expansion and research and development expenses, all has incurred; proceeds of HK$737 million to be used as working capital and day to day expenses, all has incurred.

Employee Remuneration and Benefit

During the Period, the average number of the Group's employees was 3,401. The total remuneration and benefit amounted to approximately RMB137 million, representing an increase of RMB18 million or approximately 15.4% as compared to the same period last year. It was mainly attributable to the offshore research and development and oil and gas drilling market exploiting began from the second half of 2009, incurring a labor cost of RMB8 million, whereas none had incurred in the same period last year. Meanwhile, the remuneration for workers on product line increased RMB7 million as compared to the same period last year.

The Group strives to maintain its outstanding corporate culture and implement a people-oriented principle. We emphasize on strengthening team cohesion and raising staff morale. To create and enhance its human resource management system which is in line with strategic plans, the Group has steadily executed the ERP project to consolidate the fundamental management and streamline operation procedures. In order to establish a competitive and fair remuneration system, the Group carried out a reform in its remuneration system during the Period, so as to standardize and enhance the remuneration system of its subsidiaries. During the Period, the Group offered training and skill enhancement programs to employees at all management levels as well as technicians in order to consolidate its workforce foundation.

PURCHASE, REDEMPTION OR SALE OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the Period.

AUDIT COMMITTEE

The audit committee of the Company ("Audit Committee") comprises all the Independent Non-executive Directors with written terms of reference in compliance with the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules"). The Audit Committee is responsible for reviewing and supervising financial reporting process and internal control systems and providing advices and recommendations to the Board. The Audit Committee shall hold at least two meetings a year and review opinions of internal auditors, matters in respects of internal control, risk management and financial reporting. The Audit Committee has reviewed the interim results of the Group for the six months ended 30 June 2010.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the principles as set out in the Code on Corporate Governance Practice as set out in Appendix 14 of the Listing Rules (the "CG Code") throughout the six months ended 30 June 2010, except the following deviations:

Based on the Rule A.2.1 of CG Code, the positions of Chairman and President (Chief Executive Officer) should be separated and should not be performed by the same individual. However, Mr. Zhang Mi is the Chairman of the Board and President (Chief Executive Officer) of the Company. Mr. Zhang Mi is the main founder of the Group and has extensive experiences in the industry and related industries. In the opinion of the Board, the vesting of duties of Chairman of the Board and President (Chief Executive Officer) of the Company to Mr. Zhang Mi would provide a strong and consistent leadership and allow effective planning and executing business decisions and strategies, as well as ensure the interests of the shareholders as a whole. On the other hand, the balance between powers and duties could be ensured through the operation of the Board and the committees under it. The Company will continue to review the effectiveness of the Group's corporate governance structure and consider whether it needs to make any changes, including the separation of duties of Chairman of the Board and President (Chief Executive Officer) of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a set of code for securities trading since 21 January 2008, the strict level of which is no less exacting than that of the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 of the Listing Rules. After the specific enquiry by the Company, all the Directors have confirmed that they have complied with the standards specified in both of the code for securities trading and the Model Code throughout the six months ended 30 June 2010.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT IN 2010

This announcement will be published on both the websites of the Company (www.hh-gltd.com) and of the Stock Exchange of Hong Kong Limited (www.hkexnew.hk). The interim report of the Company for the six months ended 30 June 2010 will be dispatched to shareholders and published on the aforesaid websites in due course.

Appreciation

On behalf of the Board, I would like to take this opportunity to express heartfelt thanks to management and all employees for their hard work in the past and thanks to the shareholders, business partners and investors for their continuous support.

On behalf of the Board of
Honghua Group Limited
Zhang Mi
Chairman

Hong Kong, 30 August 2010

As at the date of this announcement, our directors are Mr. Zhang Mi (Chairman), Mr. Ren Jie and Mr. Liu Zhi as executive directors, Mr. Huang Dongyang and Mr. Siegfried Meissner, as non-executive directors, and Mr. Chen Guoming, Mr. Tai Kwok Leung, Alexander, Mr. Liu Xiaofeng, Mr. Qi Daqing, Mr. Wang Li and Mr. Shi Xingquan as independent non-executive directors.