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宏 華 集 團 有 限 公 司

Honghua Group Limited

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

(Stock code: 0196)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2012

FINANCIAL HIGHLIGHT

	Six months ended 30 June		
	2012	2011	% change
	(Unaudited)	(Unaudited)	
Turnover *(RMB'000)*	**1,969,330**	1,295,290	52.0%
Gross profit *(RMB'000)*	**741,030**	330,025	124.5%
Gross profit margin *(%)*	**37.6%**	25.5%	
Profit from operations *(RMB'000)*	**269,335**	83,850	221.2%
Earnings attributable to equity shareholders of the Company *(RMB'000)*	**209,660**	52,774	297.3%
Earnings per share			
— Basic *(RMB cents)*	**6.530**	1.637	4.893
— Diluted *(RMB cents)*	**6.527**	1.637	4.890

The Board does not recommend payment of interim dividend for the six months ended 30 June 2012.

INTERIM RESULTS

The Board of the Company is pleased to announce the unaudited interim financial results of the Group for the six months ended 30 June 2012, together with the comparative figures for the corresponding period in 2011.

The interim financial report for the six months ended 30 June 2012 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 of the Company.

These interim results have also been reviewed by the Audit Committee, comprising solely the independent non-executive Directors, one of whom chairs the Audit Committee.

CONSOLIDATED INCOME STATEMENT

for the six months ended 30 June 2012 — unaudited

(Expressed in Renminbi)

	Note	**Six months ended 30 June 2012** *RMB'000*	2011 *RMB'000*
Turnover	3	**1,969,330**	1,295,290
Cost of sales		**(1,228,300)**	(965,265)
Gross profit		**741,030**	330,025
Other revenue	5	**15,945**	2,417
Other net gain/(loss)		**2,098**	(71)
Selling expenses		**(243,608)**	(75,945)
General and administrative expenses		**(208,783)**	(172,016)
Other operating expenses	5	**(37,347)**	(560)
Profit from operations		**269,335**	83,850
Finance income		**33,481**	10,840
Finance expenses		**(22,995)**	(16,623)
Net finance income/(expenses)	6(a)	**10,486**	(5,783)
Share of profit from an associate		**4,484**	1,757
Share of loss from jointly controlled entities		**(6,146)**	(4,537)
Profit before taxation	6	**278,159**	75,287
Income tax expenses	7	**(62,149)**	(15,059)
Profit for the period		**216,010**	60,228
Attributable to:			
Equity shareholders of the Company		**209,660**	52,774
Non-controlling interests		**6,350**	7,454
Profit for the period		**216,010**	60,228
Earnings per share — Basic *(RMB cents)*	9(a)	**6.530**	1.637
Earnings per share — Diluted *(RMB cents)*	9(b)	**6.527**	1.637

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 June 2012 — unaudited
(Expressed in Renminbi)

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Profit for the period	**216,010**	60,228
Other comprehensive income for the period:		
Exchange differences on translation of financial statements of operations outside the People's Republic of China ("PRC"), net of tax	**(4,307)**	(10,872)
Total comprehensive income for the period	**211,703**	49,356
Attributable to:		
Equity shareholders of the Company	**205,358**	41,957
Non-controlling interests	**6,345**	7,399
Total comprehensive income for the period	**211,703**	49,356

CONSOLIDATED BALANCE SHEET

at 30 June 2012 — unaudited

(Expressed in Renminbi)

	Note	**30 June 2012** *RMB'000*	31 December 2011 *RMB'000*
Non-current assets			
Fixed assets			
— Property, plant and equipment		**805,748**	678,597
— Interests in leasehold land held for own use under operating leases		**209,898**	181,189
— Freehold land		**5,099**	5,080
		1,020,745	864,866
Deposits paid for acquisition of leasehold land		**207,699**	192,830
Construction in progress		**699,150**	402,065
Intangible assets		**220,107**	235,994
Interest in an associate		**67,889**	63,405
Interests in jointly controlled entities		**32,989**	38,919
Deferred tax assets		**105,819**	84,253
Long-term receivables		**205,146**	—
Total non-current assets		**2,559,544**	1,882,332
Current assets			
Inventories	10	**2,037,158**	1,544,127
Trade and other receivables	11	**1,593,728**	1,562,410
Amounts due from related companies		**29,865**	64,854
Current tax recoverable		**17,320**	34,418
Other financial assets		**270,000**	678,000
Pledged bank deposits		**255,243**	65,612
Bank deposits maturing over three months		**17,607**	9,100
Cash and cash equivalents		**1,981,793**	851,847
Total current assets		**6,202,714**	4,810,368

CONSOLIDATED BALANCE SHEET *(continued)*

at 30 June 2012 — unaudited

(Expressed in Renminbi)

	Note	**30 June 2012** ***RMB'000***	31 December 2011 *RMB'000*
Current liabilities			
Interest-bearing borrowings		**472,837**	499,738
Amounts due to related companies		**21,563**	28,290
Trade and other payables	12	**3,499,528**	1,531,323
Current tax payable		**23,200**	38,543
Provisions		**49,927**	21,243
Total current liabilities		**4,067,055**	2,119,137
Net current assets		**2,135,659**	2,691,231
Total assets less current liabilities		**4,695,203**	4,573,563
Non-current liabilities			
Interest-bearing borrowings		**400,000**	380,000
Deferred tax liabilities		**25,482**	18,705
Total non-current liabilities		**425,482**	398,705
Net assets		**4,269,721**	4,174,858
Equity			
Share capital		**299,602**	299,593
Reserves		**3,833,599**	3,758,990
Total equity attributable to equity shareholders of the Company		**4,133,201**	4,058,583
Non-controlling interests		**136,520**	116,275
Total equity		**4,269,721**	4,174,858

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 28 August 2012.

The interim financial report has also been prepared in accordance with the same accounting policies adopted by the Group in the 2011 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2012 annual financial statements. Details of these changes in accounting policies are set out in note 2.

2 CHANGES IN ACCOUNTING POLICIES

The IASB has issued a number of amendments to International Financial Reporting Standards ("IFRSs") that are first effective for the current accounting period of the Group and the Company. These include the amendments to *IFRS 7 Financial instruments: disclosures* concerning transfers of financial assets require certain disclosures to be included in the annual financial statements in respect of all transferred financial assets that are not derecognised and for any continuing involvement in a transferred asset existing at the reporting date, irrespective of when the related transfer transaction occurred.

None of the other developments are relevant to the Group's financial statements and the Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

These developments related primarily to clarification of certain disclosure requirements applicable to the Group's financial statements. These developments have had no material impact on the contents of this interim financial report.

3 TURNOVER AND SEGMENT REPORTING

The principal activities of the Group are manufacturing, sale and trading of land drilling rigs, offshore drilling rigs and related parts and components. Turnover represents revenue recognised for the sales value of goods supplied to customers net of value-added tax, returns and trade discounts.

For the six months ended 30 June 2012, the Group's customer base include one customer (six months ended 30 June 2011: four customers) with whom transactions representing 64% (six months ended 30 June 2011: 16%, 15%, 12% and 12%) of the Group's revenue. For the six months ended 30 June 2012, revenues from sales of drilling rigs and related parts and components to this customer arose in Americas region (six months ended 30 June 2011: Middle East region, Europe and Central Asia region, Americas region, and Europe and Central Asia region, respectively).

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:

For the six months ended 30 June	Land drilling rigs		Offshore drilling rigs		Parts, components and others		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Revenue from external customers	**1,610,219**	907,454	**13,323**	—	**345,788**	387,836	**1,969,330**	1,295,290
Inter-segment revenue	**—**	—	**—**	—	**517,128**	312,184	**517,128**	312,184
Reportable segment revenue	**1,610,219**	907,454	**13,323**	—	**862,916**	700,020	**2,486,458**	1,607,474
Reportable segment profit/(loss)	**387,503**	89,776	**(26,312)**	(22,295)	**19,159**	36,165	**380,350**	103,646
As at 30 June/31 December	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Reportable segment assets	**1,989,521**	2,461,847	**1,100,450**	960,013	**2,121,844**	1,516,210	**5,211,815**	4,938,070

(a) Reconciliation of reportable segment profit

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Profit		
Reportable segment profit	**380,350**	103,646
Elimination of inter-segment profits	**(89,803)**	(19,707)
Reportable segment profit derived from Group's external customers	**290,547**	83,939
Share of profit from an associate	**4,484**	1,757
Share of loss from jointly controlled entities	**(6,146)**	(4,537)
Other revenue, other operating expenses and other net gain/(loss)	**(19,304)**	1,786
Net finance income/(expenses)	**10,486**	(5,783)
Unallocated head office and corporate expenses	**(1,908)**	(1,875)
Consolidated profit before taxation	**278,159**	75,287

(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, than the second half.

4 BUSINESS COMBINATION

Pursuant to an agreement entered between Sichuan Honghua Petroleum Equipment Co., Ltd. ("Honghua Company"), the wholly-owned subsidiary of the Company, and Gansu Huateng Oil & Gas Equipment Manufacturing Co., Ltd. ("Gansu Huateng") dated 5 December 2011, Honghua Company obtained control from Gansu Huateng on 17 February 2012 of a group of assets which constitute a business of manufacturing and sales of special vehicles, pressure container, equipments in relation with oil rigging, mining drilling, refining and chemicals engineering for cash consideration of RMB39,000,000 and equity interests in Honghua Company. As a result, the Group held 70% effective interest in the acquired business.

Details of the provisional fair value of net identifiable assets acquired are as follows:

	Provisional fair value of net identifiable assets acquired as at the acquisition date *RMB'000*
Fixed assets	
— property, plant and equipment	27,194
— interests in leasehold land held for own use under operating lease	30,020
Construction in progress	1,614
Inventories	16,172
Total net identifiable assets at provisional fair value	75,000

The fair values are determined provisionally based on information available up to the date of this report. The Directors are in the process of finalising the valuation of the net identifiable assets acquired. If new information obtained within one year from the acquisition date about facts and circumstances that existed at the acquisition date identifies adjustments to the above amounts, or any additional provisions that existed at the acquisition date, then the acquisition accounting will be revised.

Cash consideration	39,000
Provisional fair value of non-controlling interests in Honghua Company (note 2)	36,000
Provisional fair value of total identifiable net assets	75,000
Net cash outflow arising from acquisition (note 3)	27,000
Cash and cash equivalent balances acquired	—

Note 1: Since the date of the acquisition, the subsidiary contributed a loss of RMB377,659 to the Group.

Note 2: The Group has chosen to measure the non-controlling interests ("NCI") in Honghua Company at fair value for this acquisition. The fair value of the NCI of RMB36,000,000 is determined provisionally based on information available up to the date of this report.

Note 3: The cash outflow as at 30 June 2012 amounted to RMB27,000,000 and the deferred cash consideration of RMB12,000,000 has been recorded in other payables in note 12.

5 OTHER REVENUE AND OTHER OPERATING EXPENSES

(a) Other revenue

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Repair services income	**3,312**	688
Government grants (note)	**11,936**	1,496
Others	**697**	233
	15,945	2,417

Note: Government grants are subsidies received from government mainly for industry development encouragement.

(b) Other operating expenses

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Provision for a legal claim	**31,686**	—
Others	**5,661**	560
	37,347	560

6 PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
(a) Net finance (income)/expenses		
Interest income on bank deposits	**(14,390)**	(3,963)
Interest income on disposal of other financial assets	**(16,320)**	(6,877)
Net foreign exchange gain	**(2,771)**	—
Finance income	**(33,481)**	(10,840)
Bank charges	**6,199**	2,536
Net foreign exchange loss	**—**	1,517
Interest on interest-bearing borrowings wholly repayable within five years	**32,760**	19,904
Less: interest expense capitalised into assets under construction *	**(15,964)**	(7,334)
Finance expenses	**22,995**	16,623
Net finance (income)/expenses	**(10,486)**	5,783

* The borrowing costs have been capitalised at a rate of 1.97%–7.70% per annum (six months ended 30 June 2011: 2.29%–6.97%).

(b) Staff costs		
Contributions to defined contribution retirement schemes	**26,137**	23,316
Equity-settled share-based payment expenses	**2,773**	4,312
Salaries, wages and other benefits	**172,124**	134,320
	201,034	161,948
(c) Other items		
Amortisation and depreciation		
— leasehold land held for own use under operating leases	**1,345**	1,433
— other assets	**42,824**	30,220
— intangible assets	**17,608**	17,560
Impairment losses on trade and other receivables	**28,811**	13,712
Operating lease charges: properties	**3,028**	2,033
Provision for product warranties	**5,705**	19,130
Research and development costs other than amortisation costs (note)	**18,546**	22,286

Note: The amounts included staff costs of employees in the Research and Development Department totaling RMB14,378,458, which are included in the total staff costs as disclosed in note 6(b) above.

7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Current tax — outside Hong Kong		
Provision for the period	**80,031**	15,426
Under-provision in respect of prior years	**1,660**	523
	81,691	15,949
Deferred tax		
Origination and reversal of temporary differences	**(19,542)**	(890)
Income tax expenses	**62,149**	15,059

(i) Hong Kong

No provision for Hong Kong Profits Tax has been made as the Group did not have assessable profits subject to Hong Kong Profits Tax during the six months ended 30 June 2011 and 2012.

(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 enterprise income tax at a rate of 25% during the six months ended 30 June 2012 and 2011, except for the following companies:

(a) Honghua Company

Honghua Company is a wholly foreign-owned enterprise, income tax is accrued at a tax rate of 15% applicable for Hi-Tech Enterprises pursuant to the relevant PRC tax rules and regulations during the six months ended 30 June 2011 and 2012.

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

On 27 July 2011, the Ministry of Finance, the General Administration of Customs and the State Administration of Taxation jointly issued CaiShui [2011] No.58 which states that enterprises within encouraged industries and located in the Western Region are entitled to a preferential tax rate of 15% for the period from 1 January 2011 to 31 December 2020 ("Tax Concession"). The Tax Concession needs to be applied annually. Hongtian Company and Youxin Company applied for and successfully obtained the Tax Concession with 15% preferential income tax rate during the 12 months ended 31 December 2011. The directors of the Company assess that it is highly probable that these two subsidiaries will continue to be granted with the Tax Concession upon their application for renewal, and accordingly provision for PRC enterprise income tax for these two subsidiaries were made at the preferential rate of 15% in this interim financial report.

(iii) Russian Federation

In accordance with the Russian tax legislation, Russia Honghua Co., Ltd ("Russia Honghua") is subject to corporate profit tax at a rate of 20%. No provision for Russian Profits Tax has been made as Russia Honghua did not earn any assessable profits during the period ended 30 June 2011 and 2012.

(iv) United States of America ("US")

Honghua America LLC ("Honghua America") is treated as a partnership for US federal income tax purpose and therefore makes no provision for federal and state income taxes while the partners are responsible for the tax on their share of the taxable income or loss and any available tax credits on their income tax returns. However, Honghua America is required, among other things, to withhold US federal income tax on fixed or determinable annual or periodic US source income gains and profits allocable to its foreign partners as required under applicable US tax law. It is also required to pay withholding tax with respect to the effectively connected taxable income for a taxable year allocable to any of its foreign partners as required under applicable US tax law.

(v) Others

Taxation for other entities is charged at their respective applicable tax rates 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 enterprises on earnings earned since 1 January 2008 are subject to withholding tax at a rate of 10%. 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

The Board does not recommend the payment of dividends attributable to the six months ended 30 June 2012 (six months ended 30 June 2011: Nil).

9 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2012 is based on the profit attributable to equity shareholders of the Company for the period of RMB209,660,000 (six months ended 30 June 2011: profit of RMB52,774,000) and the weighted average number of shares of 3,210,765,021 (six months ended 30 June 2011: 3,223,798,400) in issue during the interim period.

Weighted average number of ordinary shares

	2012	2011
Issued ordinary shares at 1 January	**3,223,798,400**	3,223,798,400
Effect of share repurchased for share award scheme	**(13,077,335)**	—
Effect of share options exercised	**43,956**	—
Weighted average number of ordinary shares at 30 June	**3,210,765,021**	3,223,798,400

(b) Diluted earnings per share

The calculation of diluted earnings per share for the six months ended 30 June 2012 is based on the profit attributable to equity shareholders of the Company of RMB209,660,000 (six months ended 30 June 2011: profit of RMB52,774,000) and the weighted average number of shares of 3,212,351,021 (six months ended 30 June 2011: 3,223,798,400 shares), calculated as follows:

Weighted average number of ordinary shares (diluted)

	2012	2011
Weighted average number of ordinary shares at 30 June	**3,210,765,021**	3,223,798,400
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	**1,586,000**	—
Weighted average number of ordinary shares (diluted) at 30 June	**3,212,351,021**	3,223,798,400

10 INVENTORIES

(a) Inventories in the consolidated balance sheet comprise:

	30 June 2012 *RMB'000*	31 December 2011 *RMB'000*
Raw materials	**519,639**	520,732
Work in progress	**937,015**	586,965
Finished goods	**420,923**	425,912
Goods in transit	**159,581**	10,518
	2,037,158	1,544,127

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

	Six months ended 30 June	
	2012 *RMB'000*	2011 *RMB'000*
Carrying amount of inventories sold	**1,171,991**	941,659
Write-down of inventories	**50,605**	4,501
	1,222,596	946,160

11 TRADE AND OTHER RECEIVABLES

	30 June 2012 *RMB'000*	31 December 2011 *RMB'000*
Trade receivables	**910,311**	1,235,780
Bills receivable	**6,500**	1,700
Less: Allowance for doubtful debts	**(168,910)**	(140,099)
Sub-total	**747,901**	1,097,381
Value-added tax recoverable	**233,743**	223,019
Prepayments	**425,545**	120,734
Other receivables (note)	**186,539**	121,276
	1,593,728	1,562,410

Note: Included in other receivables of the Group as at 30 June 2012, RMB31,686,000 (31 December 2011: Nil) is the amount to be indemnified by the Indemnifiers in relation to a legal claim.

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

Ageing analysis

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 2012 *RMB'000*	31 December *2011* *RMB'000*
Current	**326,631**	770,419
Less than 1 month past due	**3,468**	12,017
1 to 3 months past due	**2,734**	25,136
More than 3 months but less than 12 months past due	**288,222**	213,628
More than 1 year past due	**126,846**	76,181
	747,901	1,097,381

The Group maintains different billing policies for different customers based on the negotiated terms with each of the customers. The Group will bill different percentages of the contract price at different stages such as upon the signing of contracts and upon the delivery of products. The exact percentage of each part of payment varies from contract to contract. Trade receivables are due for payment upon the Group presenting the bills to the customers.

12 TRADE AND OTHER PAYABLES

	30 June 2012 *RMB'000*	31 December 2011 *RMB'000*
Trade payables	**836,740**	596,907
Bills payable	**509,880**	289,439
Receipts in advance	**1,834,316**	256,804
Other payables	**318,592**	388,173
	3,499,528	1,531,323

Bills payable as at 30 June 2012 and at 31 December 2011 were secured by pledged bank deposits. Included in other payables was an amount due to acquire Gansu Huateng of RMB12,000,000 for the acquisition of a group of assets that constituted a business (see note 4).

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:

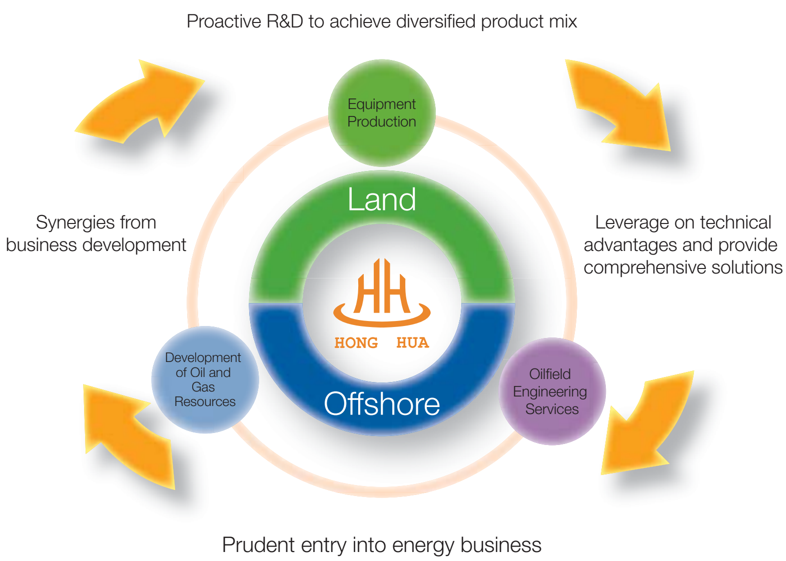
	30 June 2012 *RMB'000*	31 December *2011* *RMB'000*
Within 3 months	**914,016**	527,180
3 months to 6 months	**223,524**	172,924
6 months to 1 year	**57,028**	63,170
Over 1 year	**152,052**	123,072
	1,346,620	886,346

Management Discussion and Analysis

Business Overview

Facing numerous challenges in the first half of 2012, overall growth of the global economy has slowed down. Global crude oil price fluctuated violently due to geopolitical issues such as the European debt crisis and Iranian nuclear issues. New York WTI crude oil prices and London Brent oil prices have maintained relatively high levels, namely US$90 per barrel and US$80 per barrel, respectively. The high oil prices have stimulated oil and gas exploration and investment to some extent. According to Barclays Capital, it is expected that global exploration and production investment in 2012 will reach US$598.5 billion, representing an increase of 10% as compared to US$544.5 billion in 2011. Benefiting from the steady development and investment, it has promoted continuous active oil drilling activities worldwide and maintained stable growth in oil exploration equipment. According to Baker Hughes research, the average number of operating rigs worldwide during the Period amounted to 3,572 sets(Note), increasing by 7.7% as compared to the same period last year and hitting a record high since 1986. Moreover, according to statistics of IHS Petrodata, the overall daily rate of global drilling platform increased greatly in the first half of 2012, with an average growth rate of over 10%. At the same time, the utilization rate of global drilling platforms reached 81.7%, an increase of 4.2 percentage points as compared with the same period last year.

During the Period, following the development of the industry trend, the Group continued to promote the diversified long-term development strategy of "Focusing on land equipment production business with integration in offshore equipment manufacture, oil and gas engineering services and unconventional oil and gas exploration to create synergies". The Group's business continued to maintain rapid growth, with revenue amounting to approximately RMB1,969 million, representing a significant increase of 52% as compared to the same period last year. During the Period, the Group's gross profit was approximately RMB741 million, representing an increase of 124.5% as compared to the same period last year. Profit attributable to equity shareholders was approximately RMB210 million, representing an increase of 297.3% as compared to the same period last year.



Note: Statistics of Baker Hughes' active drilling rigs does not include China and Russia.

Business Review

During the Period, the Group put forward the concept of "Creative Manufacturing", and proactively researched and developed new products, technologies, markets, businesses and models with a focus on market and customer needs, so as to further optimize markets, products and service mix, as well as improve integrated competitiveness and profitability.

Land Drilling Rigs and Components Business

During the Period, the Group enhanced promotion and marketing strength, participating in 10 large-scaled international and domestic exhibitions and placed 18 print advertisements with remarkable effects in the major industry media, further improving product awareness and recognition. Meanwhile, the Group continued to implement its strategy of "Localization" by providing high quality products and comprehensive extended and value-added services, so as to consolidate the customer base in mature markets, while at the same time explore new markets and clients.

The Group has successfully entered into a land drilling rig sales agreement worth approximately US$187 million with Petróleros de Venezuela, S.A. during the Period, which further improved the Group's market share in the South American market. In July 2012, the Group renewed the workover rig sales agreement worth approximately US$21.6 million with the National Drilling Company, enlarging its influence in the Middle Eastern market. At the same time, the Group successfully penetrated into the Nigerian and Azerbaijan markets, obtaining 1 rig sales contract in Nigeria as well as 4 rig sales contracts in Azerbaijan. Under the environment of increasing competition in the domestic market, the Group strived to achieve cooperation amid these circumstances and signed 3 sales contracts with ZYT Petroleum Equipment Co., Ltd.. In July 2012, the Group entered into a land drilling rig sales agreement worth approximately RMB320 million with a new client, Jiangsu Xinde Petroleum Machinery Co., Ltd., gradually improving its revenue proportion in the domestic market.

At the same time, the Group strived to develop new drilling rigs and related products, fully utilize its technological advantage of "mechanical and electrical integration" and increase profit contribution of high value-added products, so as to provide continuous momentum for the Group's long-term stable development. During the Period, the Group's self-innovated series product of top drives achieved satisfactory sales, recording individual sales of 2 sets and supporting sales of 12 sets. Moreover, through proactive exploration of new sales models and application of operating and financial leases, the Group achieved successful sales of top drive products in the domestic market including Zhongyuan oilfield and Jiangsu oilfield, etc.

Offshore Equipment Business

The Group has entered the finishing stages of the first phase of construction of the offshore engineering equipment production base located in Qidong City, Jiangsu Province, which possesses the production conditions and capabilities to undertake the entire offshore platform order. In addition, the construction program of the core equipment of the innovative "onshore-made offshore equipment" construction program — the "Honghai Crane", has been approved, and will begin construction soon.

The Group has gained a foothold in the global market, and will strive to strengthen the marketing of its offshore business and actively develop potential customers. During the Period, the Group's wholly owned subsidiary successfully signed a sales contract with Shanghai Shipyard Co., Ltd. for TIGER series drilling vessels drilling equipment packages worth a total value of more than RMB300 million. The agreement not only marks the first time a Chinese offshore manufacturing enterprise has broken the deep-water drilling package monopoly of international giants, opening a new chapter of the Group's entrance into the deep-water drilling package market and setting a new milestone of the Group's entrance into the offshore equipment market. The project was included in the national hi-tech industry development project plans and investment plans and got approval document of subsidy from the National Development and Reform Commission, which will gradually invest totally RMB40 million to the Group.

Oil and Gas Engineering Services Business

In the first half of 2012, the Group achieved breakthroughs in its oil and gas engineering services business. On one hand, the Group has consolidated the Kazakhstan market by obtaining new contracts in the region. On the other hand, the Group has successfully explored new markets including Xinjiang Karamay, Sinopac Northeast Oil and Gas Company, Sichuan Antonoil and Iraq and signed long-term service agreements with clients. Meanwhile, through entering into a drilling service contract with Baker Hughes, the world's third largest oil and gas engineering services company, and providing services to Italian company ENI, the Group has officially stepped into the global high-end market and obtained product and services recognition by clients.

During the Period, the Company secured the China Drilling Engineering Industry Safety Production License and also successfully joined the network of Sinopec Northeast Oil and Gas Company, laying a foundation for full entry into Sinopec's oil and gas engineering market network.

The Group's Oil and Gas Engineering Service Company has 5 operational drilling rigs in total during the Period. The oil and gas engineering team has 427 employees. During the Period, operational efficiency of the oil and gas engineering business continued to improve and the average drilling completion date per well decreased significantly. In addition, through continued expansion of new business, the Group has begun to get involved in mud pumping services in its Northeast projects.

Unconventional Oil and Gas Equipment Business

According to the "Shale Gas Development Plan (2011–2015)" announced by the National Energy Administration in March 2012, the target of shale gas production by 2015 is 6.5 billion cubic meters, and shale gas resources are currently in the early stages of exploration. Large-scale development is expected to begin during 2016–2020, and will strive to achieve an annual output of 100 billion cubic meters by 2020.

In 2011, U.S. shale gas production reached 180 billion cubic meters, with a fracturing capacity of 12 million hydraulic horsepower. Based on projections, in 2020, if the annual shale gas production in China reaches 60–100 billion cubic meters, and annual fracturing demand will grow to over 600,000 hydraulic horsepower, equivalent to an annual demand for 240 new fracturing units, a market scale of up to RMB3.6 billion. Thus, the room for growth in the fracturing equipment market is huge.

During the Period, the Group has been actively promoting its unique "To establish substation and electricity transmission network ahead; to exploit gas by using gas; to use gas fired power-gen and power grid; to pursue flow process operations; to realize large-scale industrial production" shale gas development solutions and ideas. This set of innovative ideas as well as the special equipment developed for shale gas (i.e. 6000HP fracturing pump), was exhibited in May of this year at the OTC exhibition in the USA, and received industry-wide attention and praise for its significant advantage in reduced footprints, reduced costs and environmental friendliness. While the Group promotes its programs and related equipment, it has also gradually accelerated its shale gas special equipment R&D process, of which the 6000HP fracturing truck design was completed in May of this year, prototype assembly sets will be completed in October.

During the Period, the Group's subsidiary Gansu Hongteng Oil & Gas Equipment Manufacturing Co., Ltd. obtained orders of 2 fracturing trucks and 1 70-fracturing truck. The technological transformation of fracturing equipment production line and the R&D of traditional fracturing equipment 3000HP fracturing trucks as well as digital variable frequency sand mixing cars are related to the long-term development of the company, and are currently being undertaken in an orderly manner.

Innovation, Research and Development

The Group firmly believes that innovation and R&D are the driving forces for an enterprise's development. During the Period, the Group increased cooperation with renowned research institutions and universities in the area of new product development and introduced engineers and experienced researchers and implemented innovation and R&D for series of products, focusing on a main stream of new drilling rigs, high value-added components and shale gas exploration equipment. During the Period, the Group invested a total of RMB18.546 million into R&D funding, which has seen some encouraging progress. Among these, the land equipment's serialized direct top drive-90 series top drive prototype has completed restructuring and site testing and the five-cylinder direct-drive mud pump industrial tests were completed in June. With regards to unconventional oil and gas development, the component design and optimization of the rack and pinion rig was completed in May. As of 30 June 2012, the Group has accumulatively filed 165 patent applications and 86 of them had been approved.

Improving Operating Efficiency

The Group established the Procurement and Logistics Department early this year, aiming to develop and implement the Group's procurement strategies at corporate level, establish an optimized procurement structure, maximize supply chain resources through insights of supply chain and application of management strategies, so as to provide strong supply chain resources and protection for realization of the Group's strategic goals on operating development. In terms of quality control, the Group further implemented a simplified production mechanism and improved production processes, effectively shortening production cycle of parts and eliminated waste, as well as increasing efficiency of product testing.

During the Period, the Group continued to adopt comprehensive budget management and implement rigorous cost control measures. Meanwhile, the Group also strengthened income and accounts receivable management, implemented monthly alert and monitoring on sales income to establish dynamic administrative mechanism for sales income. With an aim of reducing the accounts receivable turnover period, the Group also developed regulations for receivable management and implemented assessment for receivable rate. During the Period, the Group's average receivables turnover [Note] period was 95 days, a decrease of 32 days as compared to the same period last year.

In addition, the Group has strengthened the sorting of all warehouse processes and standardized inventory logistics management and operations. Strict control of production technology, production processes, materials distribution processes and other aspects, while guaranteeing product quality and production cycles, have effectively controlled production costs and improved production efficiency. During the Period, the Group's inventory turnover period was 266 days, a decrease of 77 days as compared to the same period last year.

Human Resources Management

During the Period, the Group continued to emphasize on optimization of organizational and professional structure as well as strengthened introduction of industry experts, first-class technical professionals and international talents, so as to enrich and improve its human resources reserve for its long-term development. At the same time, the Group further improved training systems, and strengthened employment and cultivation of senior management, top engineering technicians and researchers. During the Period, the Group conducted a total of 283 training courses, covering management and development, professional skills, legal knowledge, operation efficiency and product knowledge, aiming to improve employee skills and enhance working efficiency.

Note: Receivables include trade receivables, long-term receivables and bills receivable.

Prospects

In the second half of 2012, despite the slowdown of the effect on the world economy by the debt crises in Europe, the USA and other countries, the outlook is not optimistic, but the overall development trend of the oil and gas industry is good. In particular, Americas, Africa and other emerging markets will usher in a peak period of oil and gas exploration and development in the next few years, effectively driving the demand for land-based oil drilling equipment and services.

The Group will grasp the development trend of the oil and gas industry. On one hand, we will continue to implement the strategy of "localization" and establish joint ventures in Russia and Venezuela to further improve global market distribution; on the other hand, we will continue to implement the "market diversification" sales strategy to strengthen macro brand building and product promotion efforts in order to actively expand into emerging markets, increase global market share and consolidate the Group's leading position in the global land-based equipment manufacturing industry in order to lay the foundation for sustained and stable growth of the Group's results. At the same time, the Group will place innovation and R&D in a more prominent position and strive to create value through innovation, further promote high-end and high value-added products and achieve sales breakthroughs of new products.

Since onshore conventional oil and gas resources are limited, it is expected that more than 70% of oil and gas production will come from the ocean. More than 60% of existing offshore platforms have been used more than 25 years; the offshore equipment market in the future will usher in a new peak period of upgrading. The Group will capture the opportunity of the development of the offshore oil and gas industry, and plans to begin construction of the "Honghai Crane" in the second half of the year. Meanwhile, the Group will continue to strengthen the technical innovation and development of the offshore platform and strive to bring profits to the Group as soon as possible.

With the continuous expansion of the domestic and foreign oil service market, the Group will maintain the efficient functioning of existing projects, and actively develop high quality projects, expanding the scope of oil and gas services, as well as gradually develop the mud services, directional drilling services, fracturing acidification and other diversified services in order to improve the competitiveness and profitability of the Group in the industry. In the second half of the year, the Group plans to invest more rigs, and aims to put a total of 11 rigs into production and form 11 oil and gas service teams for the initial realization of economies of scale.

In the face of the domestic and foreign unconventional oil and gas development boom, the Group will continue to work on the development and marketing of related products in order to reach commercial sales within the year. In addition, we will continue to actively looking for partners and hope to promote the "To establish substation and electricity transmission network ahead; to exploit gas by using gas; to use gas fired power-gen and power grid; to pursue flow process operations; to realize large-scale industrial production" shale gas development solutions and ideas in China and North America. At the same time, the Group will continue to focus on tendering and exploration and development of unconventional oil and gas blocks to seek cooperation opportunities.

Looking forward for the whole year, the Group will endeavor to promote the revenue of core businesses, while expanding offshore engineering equipment, oil and gas engineering services, development of unconventional oil and gas and other businesses. We will continue to implement the concept of "Creative Manufacturing" to create value and enhance the overall competitiveness of the Group to achieve sustainable and stable development and create greater shareholder returns.

FINANCIAL REVIEW

During the Period, the Group's gross profit and profit attributable to shareholders of the Company amounted to RMB741 million and RMB210 million respectively, while gross profit and profit attributable to shareholders of the Company in the same period last year amounted to RMB330 million and RMB53 million respectively. Gross profit margin and net profit margin amounted to approximated 37.6% and 10.6% respectively. During the Period, the increase in the Group's gross profit and profit attributable to shareholders of the Company was due to significant growth in sales revenue and increase in gross profit margin.

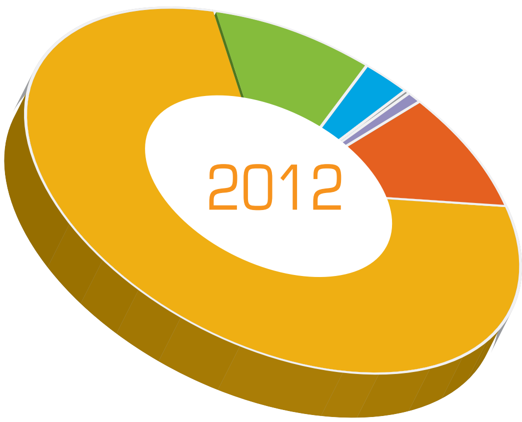
Revenue

During the Period, the Group's revenue amounted to approximately RMB1,969 million, representing an increase of RMB674 million or 52.0% as compared to the same period last year. Revenue growth was due to the Group's active market development. The number of rig sales during the Period increased to 22 units from 19 units in the same period last year.

The Group's revenue by geographical segment during the Period: The Group's export revenue amounted to approximately RMB1,779 million, accounting for approximately 90.4% of total revenue, representing an increase of RMB567 million as compared to the same period last year. Among which, there was a substantial increase in revenue from the Americans market, drilling rig sales increased to 15 units as compared to 4 units in the same period last year; domestic sales also saw growth, 4 drilling rigs were sold during the Period, while 1 unit was sold in the same period last year. In addition, diminished demand led to a significant decrease in income in the European and Central Asian, South and Southeast Asian, and Middle Eastern markets as compared to the same period last year, drilling rig sales dropped from 5 units, 5 units and 3 units respectively in the same period last year to 1 unit each.

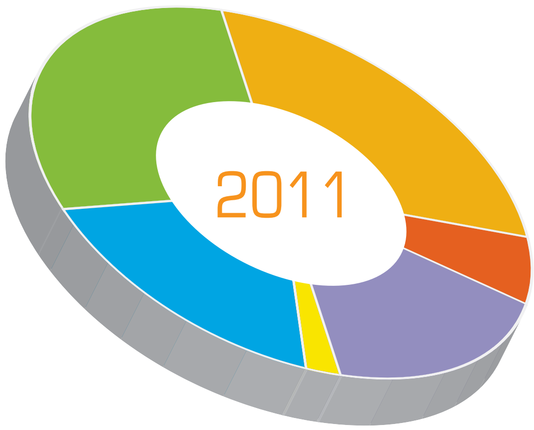
Revenue by Geographical Areas

For the six months ended 30 June 2012



Europe and Central Asia	10.2%	Middle-East	0.7%
South Asia and South East Asia	2.7%	PRC	9.6%
Other Regions	0.4%	Americas	76.4%

For the six months ended 30 June 2011



Europe and Central Asia	29.3%	Middle-East	17.6%
South Asia and South East Asia	18.2%	PRC	6.4%
Other Regions	2.4%	Americas	26.1%

The Group actively explores markets in different regions, and the revenues from different regions are affected by the local oil and gas exploration activities.

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

Revenue by product categories	For the six months ended 30 June 2012			For the six months ended 30 June 2011			2012.1-6 vs 2011.1-6	
	Revenue	Proportion	Quantity	Revenue	Proportion	Quantity	Change	Change
	RMB'000	(%)	(unit)	*RMB'000*	(%)	(unit)	*RMB'000*	(%)
Digitally-controlled rigs	1,361,307	69.1%	17	846,419	65.3%	15	514,888	60.8%
Conventional rigs	248,912	12.6%	5	61,035	4.7%	4	187,877	307.8%
Subtotal	1,610,219	81.7%	22	907,454	70.1%	19	702,765	77.4%
Mud pump	28,835	1.5%	26	69,305	5.3%	68	(40,470)	–58.4%
Other parts and component	316,953	16.1%		318,531	24.6%		(1,578)	–0.5%
Subtotal	345,788	17.6%	26	387,836	29.9%	68	(42,048)	–10.8%
Offshore Rigs and parts and components	13,323	0.7%		—	0.0%		13,323	
Total	1,969,330	100.0%		1,295,290	100.0%		674,040	52.0%

The Group's products are divided into drilling rigs, rig parts and components and offshore drilling rigs and parts.

During the Period, revenue from drilling rigs and parts, components and others were RMB1,610 million and RMB346 million respectively, representing an increase of 77.4% and decrease of 10.8% as compared to RMB907 million and RMB388 million in the same period last year. Offshore drilling rigs and parts revenue amounted to approximately RMB13 million, mainly attributable to the Group's sales of offshore drilling parts, which was zero at the same period last year.

Drilling rigs comprised of digitally-controlled land rigs and conventional land rigs, revenue from which amounted to RMB1,361 million and RMB249 million respectively during the Period. The increase in revenue from drilling rigs was mainly due to the increase in sales volume of drilling rigs from 19 units in the same period last year to 22 units during the Period, while the average unit price increase to RMB73 million during the Period from RMB48 million in the same period last year.

Drilling rig parts and components and other revenue decreased. This was mainly attributable to the order will be delivered in the second half. Mud pump sales during the Period decreased to 26 units from 68 units as compared to the same period last year. In addition, Gansu Hongteng has begun sales of fracturing trucks, enriching the Group's product portfolio.

Cost of Sales

During the Period, the Group's cost of sales amounted to approximately RMB1,228 million, representing an increase of approximately 27.3% or RMB263 million as compared to the same period last year, mainly due to a rebound in sales.

Gross Profit and Gross Margin

During the Period, the Group's gross profit amounted to approximately RMB741 million, representing an increase of RMB411 million as compared to the same period last year. Among which, gross profit from drilling rigs amounted to approximately RMB686 million, representing an increase of 200.7% as compared to the same period last year; drilling rig and parts and components and other gross profit amounted to approximately RMB62 million, representing a decrease of 39.4% as compared to the same period last year;

During the Period, the Group's overall gross profit margin was 37.6%, representing an increase of 12.1 percentage points as compared to 25.5% in the same period last year. This was mainly attributable to the Group's active market development during the Period, the relative depreciation of the Renminbi against the US dollar and economies of scale due to the increased production.

Expenses in the Period

During the Period, the Group's selling expenses amounted to approximately RMB244 million, representing an increase of RMB168 million or 221.1% as compared to RMB76 million in the same period last year. This was mainly attributable to increased transportation costs brought on by the increased sales revenue and an increase in costs related to the Group's active market exploration.

During the Period, the Group's general and administration expenses amounted to approximately RMB209 million, representing an increase of RMB37 million or 21.5% as compared to RMB172 million in the same period last year. Based on the Group's customers' ability to pay, a provision of approximately RMB29 million for bad debts was made. This amount was RMB14 million in the same period last year. The Group is actively requesting the settlement of trade receivables for which provisions have already been made. Meanwhile, general and administration expenses reasonably increased accordingly with the increase of revenue.

During the Period, the Group's net financing income amounted to approximately RMB10 million as compared to net financing expenses of RMB6 million in the same period last year. The increase in net finance income was mainly attributable to an increase in interest income brought by continuous improvement in operating cashflow and enhancement of treasury management. The Group recorded a net exchange gain of approximately RMB3 million during the Period, while there was a net exchange loss of approximately RMB2 million in the same period last year, which was mainly attributable to the relative depreciation of the Renminbi against the US dollar.

Share of Loss from Jointly Controlled Entities

During the Period, the Group's share of loss from jointly controlled entities amounted to approximately RMB6 million, representing an increase of RMB1 million as compared to share of loss of RMB5 million in the same period last year.

Share of Profit from an Associate

During the Period, the Group's share of profit from an associate amounted to approximately RMB4 million as compared to a profit of RMB2 million in the same period last year.

Profit before Taxation

During the Period, profit before taxation of the Group amounted to approximately RMB278 million, representing an increase of RMB203 million as compared to the same period last year. The increase was mainly attributable to the significant increase in revenue and gross profit.

Income Tax Expenses

During the Period, the Group's income tax expense amounted to approximately RMB62 million as compared to the income tax expense of approximately RMB15 million in the same period last year. The increase was mainly attributable to the growth in the Group's profit before taxation.

Profit for the Period

During the Period, the Group's profit amounted to approximately RMB216 million, as compared to a profit of approximately RMB60 million in the same period last year. Among which, profit attributable to equity shareholders of the Company was approximately RMB210 million, while earnings attributable to non-controlling interests was approximately RMB6 million. During the Period, net profit margin was 10.6%, as compared to a net profit margin of 4.1% in the same period last year, which was mainly attributable to the significant increase in gross profit due to the marked increase in revenue during the Period.

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

During the Period, EBITDA amounted to RMB329 million, as compared to approximately RMB130 million in the same period last year, which was mainly attributable to the marked increase in operating profit brought on by the significant increase in revenue. The EBITDA margin was 16.7%, as compared to 10.1% in the same period last year, which was mainly attributable to the increase of gross margin brought on by the significant increase in sales revenue and a marked decrease of the general and administrative expenses ratio as compared to the same period last year.

Dividend

For the period ended at 30 June 2012, 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 2012, the Group's bank borrowings amounted to approximately RMB873 million, representing a decrease of approximately RMB7 million as compared to 31 December 2011. Among which, borrowings repayable within one year amounted to approximately RMB473 million, representing a decrease of RMB27 million as compared to 31 December 2011.

Deposit and Cash Flow

As at 30 June 2012, the Group's cash and cash equivalents amounted to approximately RMB1,982 million, representing an increase of approximately RMB1,130 million as compared to 31 December 2011.

During the Period, due to an improvement in the Group's debt collection, net operating cash inflow from operations amounted to approximately RMB1,299 million; net cash inflow from investing activities amounted to approximately RMB21 million, which was due to the sale of other financial assets during the period; net cash outflow from financing activities amounted to approximately RMB193 million, which was mainly for the payment of dividends and to repurchase shares for the share award scheme; and net cash inflow due to the effect of foreign exchange changes amounted to approximately RMB3 million.

Assets Structure and Changes Thereof

As at 30 June 2012, the Group's total assets amounted to approximately RMB8,762 million, representing an increase of approximately RMB2,070 million or 30.9% as compared to 31 December 2011. Among which, current assets amounted to approximately RMB6,203 million, accounting for approximately 70.8% of total assets, which were mainly listing proceeds, inventories and trade receivables. Non-current assets amounted to approximately RMB2,560 million, accounting for approximately 29.2% of total assets.

Liabilities

As at 30 June 2012, the Group's total liabilities amounted to approximately RMB4,493 million, representing an increase of approximately RMB1,975 million as compared to 31 December 2011. Among which, current liabilities amounted to approximately RMB4,067 million, accounting for approximately 90.5% of total liabilities. Non-current liabilities amounted to approximately RMB425 million, accounting for approximately 9.5% of total liabilities. As at 30 June 2012, the Group's gearing ratio was approximately 51.3%, representing an increase of 13.7 percentage points as compared to 31 December 2011 and was mainly attributable to advanced payments from customers.

Equity

As at 30 June 2012, total equity amounted to RMB4,270 million, representing an increase of RMB95 million as compared to 31 December 2011. Total equity attributable to equity shareholders of the Company amounted to approximately RMB4,133 million, representing an increase of RMB75 million as compared to 31 December 2011. Non-controlling interests totaled to approximately RMB137 million, representing an increase of RMB20 million as compared to 31 December 2011. Net asset value reached approximately RMB1.29 per share. During the Period, the Group's earnings per share was approximately RMB6.53 cents, representing an increase of RMB4.89 cents as compared to RMB1.64 cents in the same period last year.

Provisions, Contingent Liabilities and Pledge

As at 30 June, 2012 the Group's provisions mainly comprise of disputes with 64 natural persons. According to advice from the Group's PRC legal counsel, these 64 original investors have yet to be registered as shareholders of Honghua Company with the PRC government, as such, according to PRC law, they do not possess the legal requirements to be viewed as shareholders of the Honghua Company. As at 30 June 2012, the Group has made provisions for the above legal claim of RMB31,686,000 in view of the first instance judgment received on 18 April 2012. Honghua Company has filed an appeal to the Sichuan Higher People's Court pursuant to the applicable law on 3 May 2012. The hearing is arranged by the court to be held on 12 September 2012. Pursuant to the deed of indemnity in respect of dispute and risk dated 15 February 2008, the Company has the right to claim from the Indemnifiers (as defined therein) the same amount of loss suffered from the legal claim. Accordingly, receivables from the Indemnifiers of the same amount and the corresponding credit to capital reserve (net of tax) have been recognised in the financial statements.

As at 30 June 2012, the Group's contingent liabilities mainly comprise of disputes with regional former sales agents and former employees. Pursuant to the legal advices of the Group's external consultants, the management considered that these claims are not likely to cause damage to the Group's economic interests. Therefore, no compensation provision is made for these claims and sufficient provision in legal costs in respect to these claims has been made.

As at 30 June 2012, Honghua Holdings Limited ("Honghua Holdings") has issued a guarantee to Chengdu Investment Holding Group Co., Ltd., a controlling shareholder of Chengdu Jinkong Financial Leasing Co., Ltd. and provided financial guarantee in respect of a banking facility granted to Chengdu Jinkong. The guarantee has been discharged on 8 August 2012 along with the repayment of the loan by Chengdu Jinkong.

The Group has pledged bank deposits of approximately RMB255 million, representing an increase of approximately RMB190 million as compared with that at 31 December 2011.

Capital Expenditure, Major Investment and Capital Commitments

During the Period, capital expenditure of the Group on infrastructure and technical improvements amounted to approximately RMB427 million, representing an increase of approximately RMB154 million as compared to the same period last year. This was mainly due to the development of offshore construction projects and deployment of drilling rigs for oil & gas engineering services.

As at 30 June 2012, the Group had capital commitments of approximately RMB1,448 million, which will be used for the construction of Jiangsu Qidong offshore manufacturing base and expansion of the Group's business as well as its production capacity.

Foreign Currency Risk

The Group has certain foreign currency deposits. As at 30 June 2012, the Group's foreign currency deposits were equivalent to approximately RMB922 million, trade receivables and other receivables denominated in foreign currency were equivalent to approximately RMB335 million. Exports and foreign currencies settled business exposed the Group to exchange risk. The Group has managed to mitigate the exchange risks through entering into forward exchange rate swap contracts and price adjustment during contract negotiation in consideration of future exchange rate circumstances.

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. To enhance the Group's operating capacity, the Group has adjusted the use of some of the proceeds. As at 30 June 2012, the use of the net proceeds was as follows: proceeds of HK$975 million to be used for the offshore project, among which all has been incurred; proceeds of HK$592 million to be used for the enlargement of oil and gas exploration, provision of products and services, oil and gas engineering services and oil and gas resources exploration, as well as other businesses which can create profitability for the Group, among which HK$393 million has been incurred; proceeds of HK$354 million to be used for production capacity expansion and research and development expenses, among which all has been incurred; proceeds of HK$1,037 million to be used as working capital and day to day expenses, all has been incurred.

Employee Remuneration and Benefits

During the Period, the average number of the Group's employees was 4,144. The total remuneration and benefits amounted to approximately RMB201 million, representing an increase of RMB39 million or approximately 24.1% as compared to the same period last year. It was mainly attributable to 147 additional personnel were employed during the Period.

The Group continuously optimised its organisational and workforce structure, as well as made adjustments to roles and responsibilities according to its human resources planning. The Group continued to take efficient measures in reducing staff costs and proactively introduced strategic talents. According to its remuneration policy, the Group offered remuneration based on employees' job duties and individual capability in order to establish a competitive and fair system. The Group also emphasised on team work and individual work performance, as well as clearly established rewards and penalties, and delivered the Group's organisation goals to the staff, allowing them to achieve them through team work. The Group strives to enhance the remuneration and benefits system, so as to achieve its goals and promote its teams to improve performance, and enhance the working ability, job satisfaction and sense of accomplishment of its employees.

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

Save for the trustee of the restricted share award scheme, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's Shares during the six months ended 30 June 2012.

AUDIT COMMITTEE

The Audit Committee comprises all the Independent Non-executive Directors with written terms of reference in compliance with the Listing Rules and the Former Code and the Revised Code (as defined below). The Audit Committee is primarily responsible for reviewing and supervising financial reporting process and internal control systems of the Group and providing advices and recommendations to the Board. The Audit Committee shall hold at least two meetings per 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 2012.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Stock Exchange has enhanced the Code on Corporate Governance Practices (the "Former Code") set out in Appendix 14 of the Listing Rules, where the revised code, namely Corporate Governance Code (the "Revised Code"), has become effective on 1 April 2012.

The Company has complied with the code provisions of the Former Code and the Revised Code throughout the respective periods from (i) 1 January 2012 to 31 March 2012; and (ii) 1 April 2012 to 30 June 2012, except for the deviations as mentioned below.

Based on the Code Provision A.2.1 of Corporate Governance Code, the roles of Chairman and President (Chief Executive) should be separate and should not be performed by the same individual.

However, Mr. Zhang Mi is the Chairman of the Board and President (Chief Executive) 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) 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) of the Company.

Based on the Code Provision A.6.7 of Corporate Governance Code, independent non-executive directors and non-executive directors should attend general meetings. Four independent non-executive directors and two non-executive directors were absent from last annual general meeting of the Company held in May 2012 due to their respective other important engagements at the relevant time.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a set of Code for Securities Trading, the strict level of which is no less than that of the Model Code. After the specific enquiry by the Company, all the Directors have confirmed that they have complied with the standards specified in both the Code for Securities Trading and the Model Code throughout the six months ended 30 June 2012.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2012

This announcement will be published on both the websites of the Company (www.hh-gltd.com) and the Stock Exchange (www.hkexnews.hk). The interim report of the Company for the six months ended 30 June 2012 will be dispatched to shareholders of the Company and published on the aforesaid websites in due course.

DEFINITION

"Audit Committee":	the audit committee of the Company
"Board":	the Board of Directors of the Company
"Code for Securities Trading":	code for securities trading adopted by the Company since 21 January 2008
"Company" or "Honghua Group":	Honghua Group Limited
"Directors":	directors of the Company
"Group":	the Company and its subsidiaries, its associate and its jointly controlled entities
"HK$" or "HK dollars":	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong":	the Hong Kong Special Administrative Region of the PRC
"Listing Rules":	the Rules Governing the Listing of Securities on The Stock Exchange (as amended from time to time)
"Model Code":	Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules
"Period":	the six months ended 30 June 2012
"PRC" or "China":	the People's Republic of China, unless the context requires otherwise, reference in this announcement of the PRC or China excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"RMB":	Renminbi, the lawful currency of the PRC

"same period last year":	the six months ended 30 June 2011
"Share(s)":	ordinary shares issued by the Company, with a nominal value of HK$0.10 each
"Stock Exchange":	The Stock Exchange of Hong Kong Limited
"US$":	United States of America dollars, the lawful currency of the United States of America

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 of the Company, business partners and investors for their continuous support.

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

Hong Kong, 28 August 2012

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. Siegfried Meissner and Mr. Huang Dongyang, as non-executive Directors, and Mr. Liu Xiaofeng, Mr. Qi Daqing, Mr. Tai Kwok Leung Alexander, Mr. Chen Guoming, Mr. Shi Xingquan and Mr. Guo Yanjun as independent non-executive Directors.