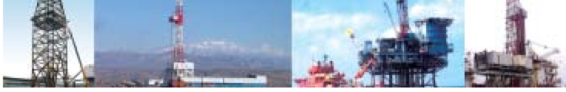
Stock Code: 196 (incorporated in the Cayman Islands with limited liability)

2008 INTERIM REPORT

宏華集團有限公司
HONGHUA GROUP LIMITED

CONTENTS



Financial Highlights

Operating results

	Six months ended 30 June		
	2008	2007	
	RMB'000	RMB'000	Change
Revenue	**1,502,861**	1,222,056	23.0%
Profit from operations	**214,293**	272,845	–21.5%
Profit before taxation	**150,873**	262,272	–42.5%
Profit attributable to equity shareholders of the Company	**125,945**	185,891	–32.2%
Figures per share			
Basic earnings per share (RMB cents)	**4.16**	7.44	–44.1%
Special dividend declared (HKD cents per share)	**10**	—	NA

Financial status

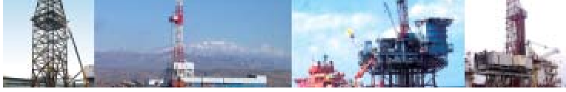
	30 June 2008	31 December 2007	
	RMB'000	RMB'000	Change
Total non-current assets	**899,816**	794,951	13.2%
Total current assets	**5,744,484**	3,136,002	83.2%
Total assets	**6,644,300**	3,930,953	69.0%
Total current liabilities	**2,109,070**	2,555,556	–17.5%
Total non-current liabilities	**19,951**	19,686	1.3%
Total liabilities	**2,129,021**	2,575,242	–17.3%
Total equity	**4,515,279**	1,355,711	233.1%

Financial Highlights

Financial ratios

	Six months ended 30 June		
	2008	2007	Change
Gross Margin	**29.7%**	32.6%	–2.9%
Net Margin	**8.4%**	15.2%	–6.8%

	30 June 2008	31 December 2007	Change
Return on Average Asset	**2.4%**	19.1%	–16.7%
Return on Average Equity	**4.4%**	73.3%	–68.9%
Current Ratio	**2.72**	1.23	1.49
Quick Ratio	**2.03**	0.82	1.21
Total Debt/Total Asset	**12.3%**	22.2%	–9.9%



Corporate Information

BOARD OF DIRECTORS

Executive Directors

Zhang Mi *(Chairman)*
Ren Jie
Liu Zhi

Non-executive Directors

He Sean Xing
Siegfried Meissner
Xiang Qingsheng

Independent Non-executive Directors

Chen Guoming
Liu Xiaofeng
Liu Yinchun
Qi Daqing
Tai Kwok Leung, Alexander
Wang Chunlin
Wang Li

BOARD COMMITTEE

Audit Committee

Qi Daqing *(Committee Chairman)*
Chen Guoming
Liu Xiaofeng
Liu Yinchun
Tai Kwok Leung, Alexander
Wang Chunlin
Wang Li

Corporate Governance Committee

Liu Xiaofeng *(Committee Chairman)*
Chen Guoming
Liu Yinchun
Qi Daqing
Tai Kwok Leung, Alexander
Wang Chunlin
Wang Li

Remuneration Committee

He Sean Xing *(Committee Chairman)*
Zhang Mi
Qi Daqing

Strategic Investment And Risk Control Committee

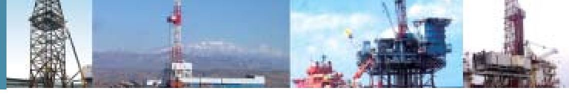
Zhang Mi (*Committee Chairman*)
Liu Zhi
Ren Jie
Xiang Qingsheng
He Sean Xing

JOINT COMPANY SECRETARIES

Liu Gangqiang
Corinna Leung

QUALIFIED ACCOUNTANT

Lu Hong *(FCCA, HKICPA, CICPA)*



Corporate Information

PRINCIPAL BANKERS

Bank of China, Guanghan Sub-branch
Agricultural Bank of China,
Guanghan Sub-branch
China Citic Bank, Chengdu Branch
China Merchants Bank,
Jin Guan Cheng Sub-branch, Chengdu Branch
Industrial and Commercial Bank of China,
Guanghan Sub-branch
China Minsheng Bank branch in Chengdu

AUDITOR

KPMG
Certified Public Accountants

COMPLIANCE ADVISER

CCB International Capital Limited

REGISTERED OFFICE

Clifton House, 75 Fort Street,
PO Box 1350, Grand Cayman
KY1-1108

HEAD OFFICE

99 East Road, Information Park,
Jinniu District
Chengdu, Sichuan 610036
PRC

PLACE OF BUSINESS IN HONG KONG

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Central, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Appleby Trust (Cayman) Ltd.
Clifton House, 75 Fort Street,
PO Box 1350, Grand Cayman,
KY1-1108, Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong
Investor Services Limited
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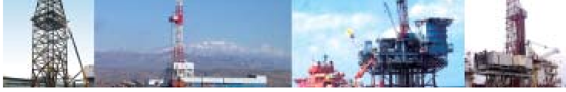
17th Floor Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

STOCK CODE

The Stock Exchange of Hong Kong Limited: 0196

WEBSITE:

http://www.hh-gltd.com



Corporate Overview

Honghua Group Limited (the "Company"), which is incorporated in the Cayman Islands, manufactures drilling rigs, rig parts and components, and offers drilling-related training as well as after-sales support services to its customers, mainly through its subsidiaries, and associates, including Sichuan Honghua Petroleum Equipment Co., Ltd., Chengdu Hongtian Electric Drive Engineering Co., Ltd., Sichuan Honghua Youxin Petroleum Machinery Co., Ltd. and Honghua International Co., Ltd., all incorporated in China, Honghua America, LLC incorporated in the USA, Honghua Golden Coast Equipment FZE incorporated in Dubai (UAE), and Egyptian Petroleum HH Rig Manufacturing Shareholder Co. incorporated in Cairo (Egypt).

As the principal subsidiary of Honghua Group Limited, Sichuan Honghua Petroleum Equipment Co., Ltd. was established in 1997. At the early stage of growth, we were only a small land rig manufacturer in China. During the past ten years, we have achieved significant progress and become a growing large scaled corporate group with standardized operation mode engaging in the oil exploration around the world. The Group's listing on the main board of the Stock Exchange of Hong Kong Limited on 7 March 2008 marked its first step to accessing the international capital market and provided capital for the Group's long-term healthy development. On 30 June 2008, the Group had net assets amounted to RMB4,515 million, sales income amounted to RMB1,503 million, profit attributable to equity shareholders amounted to RMB126 million and the total market capitalization of the Group amounted to HK$11,167 million.

At present, our diverse lines of drilling rig products range from heavy 9,000-meter depth drilling rigs to light 1,000-meter depth drilling rigs and offshore drilling modules. We are one of the leading developers of land rig technologies in China. We have a wide range of patented technologies and proprietary designs which enhance the function and performance of our rigs, and have a team headed by leading Chinese experts in the oil and gas equipment industry. We have a diversified global marketing network comprising three overseas affiliates in Houston, Texas (USA), Cairo (Egypt) and Dubai (UAE), and our distribution networks in other key drilling rig markets, such as Russia and Indonesia.

Looking forward, we will continue to actively take advantage of the extensive business opportunities brought about from the favorable macroeconomic environment and the industry development cycle, and will also consistently stick to our strategies formulated for the purpose of improvement of our production capacity, extension of our global marketing networks, research and development of new products and technological innovation, and expansion of our business into the offshore drilling rigs market through acquisitions, joint ventures or business alliance, in order to generate greater return for our equity shareholders.

Management Discussion and Analysis

INDUSTRY REVIEW

In recent years, the rapid global development of the drilling platform industry has persistently driven up the demand for drilling rig products. In the past five years (2002–2007), the compound annual growth rate ("CAGR") representing a compound of capital expenditure on drilling industry and the number of drilling wells reached 22% and 11%, respectively.

With the rate of global economic development, it is expected that the world's reliance on oil will continue for the next 20 to 30 years or beyond. According to a forecast by the International Energy Agency, worldwide crude oil expenditure will continue to rise. It estimated that demand will reach 118 million barrels per day in 2030, as compared to 84 million barrels per day in 2005, representing a CAGR of 1.4%. The global demand for oil exploitation remained strong. Recently, the United States, China and Russia introduced policies to promote oil exploration and production. As a result, these policies have propelled the demand of drilling rigs in the North American market, where land drilling rigs constitute a relatively large proportion as well as the important emerging markets, such as China and Russia.

BUSINESS REVIEW

Operations Review

Honghua Group is a leading manufacturer of land drilling rigs in China, with a focus on production and sales of land drilling rigs and related rig parts and components; as well as the provision of technical support services to customers. In addition to drilling rigs, we also offer rig parts and components used for newly-built and refurbished drilling rigs to customers, allowing us to become a one-stop solution provider. By using an offshore drilling module approach, we are also engaged in the production and sales of parts and components for offshore rigs.

The operation of projectors for training purpose

Prior to procurement of drilling equipment, it is the usual practice for both domestic and foreign oil companies at the beginning of the year, or at the end of the previous year, to develop a budget for the annual capital expenditure used on exploration, exploitation and production. As the production lead time for drilling rigs is normally between six to nine months, the Group's revenue for the provision of drilling rigs and rig parts and components is usually recognised in the second half of the year. During the Period, the earthquakes in Sichuan adversely affected transportation arrangements which resulted in a delay in the delivery of drilling rigs.

Land Drilling Rigs Business

During the Period, revenue from sales of land drilling rigs amounted to approximately RMB1,362 million, representing an increase of approximately 26.9% as compared to approximately RMB1,073 million in the corresponding period last year, contributing approximately 90.6% to total revenue of the Group.

Management Discussion and Analysis

Products of the Group comprise digitally-controlled land rigs and conventional land rigs. During the Period, total sales of drilling rigs amounted to 31 units, among which 17 units were digitally-controlled land rigs, a decrease of 13 units as compared to the corresponding period last year, and 14 units were conventional land rigs, an increase of 2 units as compared to the corresponding period last year. This was mainly due to the sales decrease in the North American market.

The Group's drilling rig products have already reached a drilling capability of 9,000 metres. During the Period, the Group sold 1 unit of 9,000 metre heavy drilling rig, 11 units of 7,000 metre heavy drilling rigs and 11 units of 5,000-metre mid-level drilling rigs. The sales volume for 4,000-metre mid-level drilling rigs, and 2,000-metre light drilling rigs were 6 and 2 units respectively.

During the Period, the Group proactively expanded exports, resulting in a slight drop in revenue contribution from China to 12.0%. The Group sold 9 units of drilling rigs to the domestic market during the Period, representing a decrease of 14 units as compared to 23 units in the corresponding period last year. Exports represented 88.0% contribution to the Group's total revenue. The Group mainly

Acceptance ceremony for the first exported 9000 metres drilling rig in China

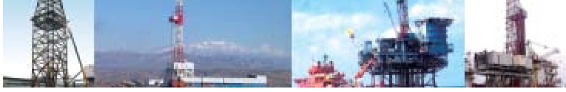
focused on exporting to the Russian market. The Group sold 12 units of drilling rigs to Russia as compared to 3 units in the corresponding period last year. The sales volumes in other markets were evenly distributed, among which 2 units of drilling rigs were sold to the North American market, 2 units of drilling rigs were sold to the South East Asian market and 6 units of drilling rigs were sold to the South Asian market.

Basketball match to share the Olympic spirit

Rig Parts and Components Business

During the Period, revenue from sales of rig parts and components amounted to RMB141 million, representing a decrease of approximately 5.4% as compared to RMB149 million in the same period of 2007, contributing approximately 9.4% to the total revenue of the Group.

Our products include mud pumps and other parts and components. During the Period, sales of mud pumps amounted to 32 units, representing a fall of 28 units as compared to 60 units in the corresponding period last year. Revenue from sales of mud pump products amounted to RMB29 million, representing a decrease of RMB41 million as compared to the corresponding period last year. The decline was mainly due to the decrease in the number of mud pumps sales contracts and the slight decline in the selling price of mud pumps. Sales of other parts and components achieved



Management Discussion and Analysis

stable growth. During the Period, revenue from sales of other parts and components amounted to RMB112 million, representing an increase of RMB34 million as compared to the corresponding period last year.

Production, Research and Development and Services

The Group is proactively expanding its production capacity. During the Period, the Group's capital expenditure on infrastructure developments, such as factory expansion and equipment purchasing, amounted to RMB81 million, representing an increase of RMB54 million as compared to the corresponding period last year.

During the Period, the Group successfully developed and exported a 9,000 metre digitally-controlled land rig. This demonstrated that the Group has reached a new technology level within the drilling rig industry and enhanced its core competitiveness. At the same time, the Group is accelerating the research and development process on land-made offshore equipment mobile system, 12,000 metre drilling rigs, slidetrack rigs, continuous pipe rigs and so on. For the supply of rig parts and components, the Group is focused on research for high valued added rig parts and components. This further enriched our product portfolio and improved product line, enhancing our leading position in technology in the industry. Meanwhile, the Group obtained 8 technology patents for oil equipment production. As at 30 June 2008, the Group has a total of 15 technology patents for oil equipment production.

Trailer drilling rig sold to the Middle Eastern market

Management Discussion and Analysis

The Group's products are well received by both domestic and international clients, not only due to the high quality and competitive price of the products, but also due to the engineering services provided by the Group. The Group uses educational drilling rigs for employee training and demonstration to clients. The Group has optimized the process of pre-sale installation and testing, and will also send an experienced engineering team to drilling sites for post-sale technical support and services. This raises clients' satisfaction towards the Group, building an important foundation to further expand into the international market.

MARKET EXPANSION

In terms of international market expansion, Russia has become one of the Group's main focus markets since 2006. During the Period, the Group's products achieved good sales results in the Russian market. The sale of drilling rigs increased from 3 to 12 units during the Period, as compared to the corresponding period last year. The total sale to Russia contributed 56.0% to the Group's export revenue. Honghua International Co., Ltd., a subsidiary of the Group, has set up a representative office in Uzbekistan on 12 August 2008. This representative office is responsible for product promotion, contact and consultation, technology support, market research and so on. The Group is also actively expanding into the South American, African, Middle Eastern and South East Asian markets. This can better position the Group to capture the upgrade and replacement demand of global land drilling rigs.

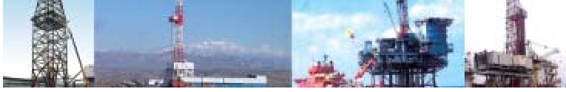
Digitally-controlled manufacturing Center

PROSPECTS

The strong demand for oil has led to the increase of global exploitation activities, as a result, the demand for drilling rigs is increasing. From 2002 to 2007, the land rigs which are in operation increased from 3,013 units to 4,951 units globally, representing a CAGR of 10.4%. It is expected that from 2008 to 2012, the number of operational land rigs will increase from 5,104 units to 5,869 units globally, representing a CAGR of 3.55%, and annual demand for new built land rigs is estimated to increase from 388 units to 439 units.

As drilling activities increase, many drilling rigs which are currently in operation will enter into the maintenance and renewal stage. Land rigs are aiming to achieve the objectives of "deeper, more difficult and denser". In the coming years, China and Russia will be in the leading position of global land rig demand. We foresee the demand of new land rigs by China and Russia will reach approximately 80% of global demand by the end of 2010.

In order to satisfy the enormous market demand, the Group plans to spend 12% of the funds raised from the Initial Public Offering to expand production capacity and research and development of new land rigs equipment and components. The Group



Management Discussion and Analysis

Donation ceremony for the construction of a new school

foresees that upon the completion of the capacity expansion program, annual production can reach 150 units of land rigs, 500 units of mud pumps and 20 units of top drives at the end of 2008.

At the same time, in order to further increase the market share in Russia, the Group is planning to set up a subsidiary in Moscow to provide sales and post-sale services at the end of 2008. This will further consolidate the Group's components supply distribution network.

Looking forward, realizing the dream of Honghua Group — offshore drilling platform, this will unveil a new era for the Group in 2008. The site selection for the production base for offshore drilling equipment production will be finished in the second half of 2008, and the Group will commence building infrastructure facilities. Having the ability to produce in-house offshore drilling modules, state-of-art land-made offshore equipment, a global marketing network and full support from strategic investors create a unique competitive edge. This allows the Group's venture into the offshore drilling rig market to proceed at a stable and healthy pace.

Looking ahead, the Group will strive to capture the enormous business opportunities brought upon by the growing global demand of drilling rig equipment in emerging markets. The Group will continue to expand its worldwide distribution network, enhance products lines, as well as put further research and development efforts into new and high value added parts and components. This will continuously enhance the Group's production efficiency, leading to better cost control capacity and enhanced profitability. At the same time, building upon the solid foundation with existing partners, the Group will continue to prudently seek strategic alliance, joint-venture or merger and acquisition opportunities, further improving the Group's oil exploration and exploitation equipment portfolio, therefore consolidating Honghua's leading position in the drilling rig market.

Honghua Group's successful development and achievements have been helped in large by support from the Chinese government and the society in general. In order to give back to the society, management and employees of the Group have been actively donating to the areas affected by the 512 earthquakes, and also supporting reconstruction work. In addition, the Group and dozens of shareholders of the Group have committed to donate more than RMB10 million for the purpose of building a Guanghan Honghua Foreign Language School. This can contribute to the reconstruction of schools in affected areas. The Group will fulfill its commitment to be an enterprise with sound corporate and social responsibilities. We will strive to make a significant contribution to oil exploitation industry in the future.

FINANCIAL REVIEW

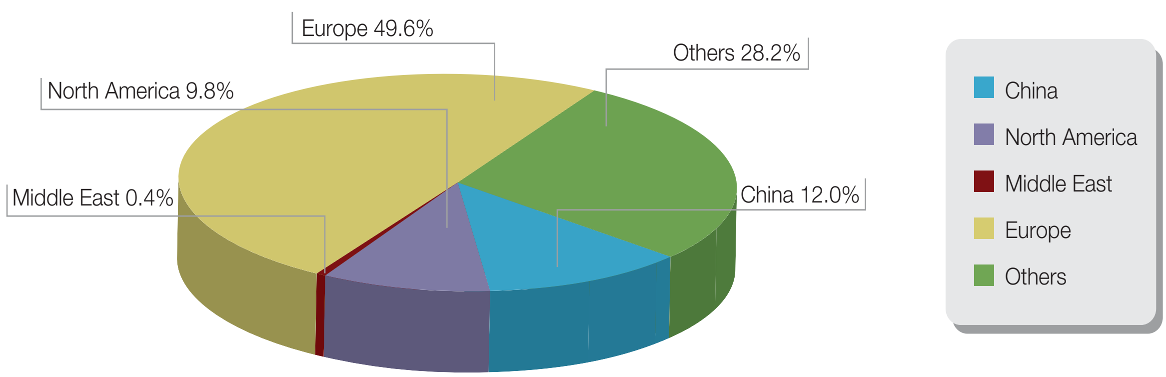
Revenue

During the Period, our revenue amounted to RMB1,503 million, representing an increase of 23.0% as compared to RMB1,222 million in the corresponding period last year. The increase was mainly attributable to the increased sales of drilling rigs, particularly driven by the Russian, South Asian and South East Asian markets.

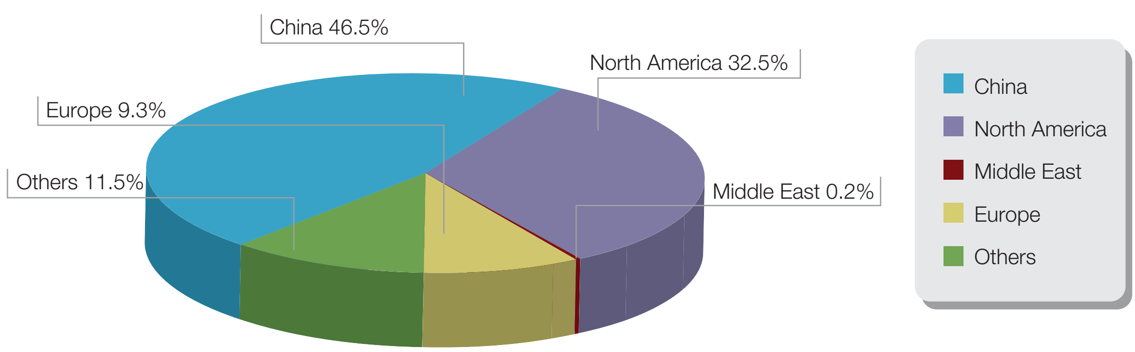
Management Discussion and Analysis

During the Period, sales by geographical areas were as follows. Revenue from export of the Group amounted to approximately RMB1,323 million, representing an increase of 102.4% as compared to the corresponding period last year, and accounted for 88.0% of the total revenue of the Group. Sales from the European market grew rapidly. This was mainly due to the demand for new drilling rigs in Europe and our Group's achievement in the market expansion to Russia. During the Period, the Middle Eastern market showed a steady growth, while other markets, such as the South Asian and South East Asian markets, have shown promising growth potentials, as compared to the same period last year.

For the period ended 30 June 2008

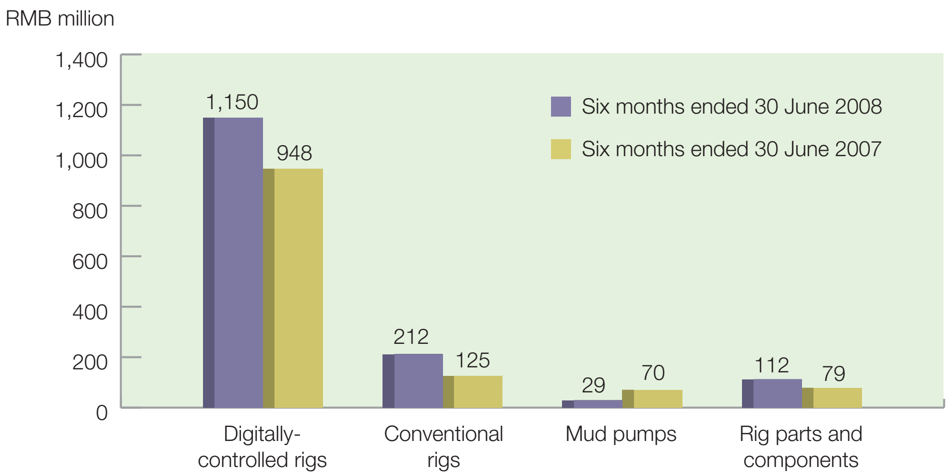


For the period ended 30 June 2007



Management Discussion and Analysis

During the Period, sales by product categories of drilling rigs and rig parts and components amounted to approximately RMB1,362 million and RMB141 million as compared to RMB1,073 million and RMB149 million respectively in the corresponding period last year, representing an increase of 26.9% and a decrease of 5.4%. Drilling rigs include digitally-controlled rigs and conventional rigs, where sales of digitally-controlled rigs and conventional rigs were approximately RMB1,150 million and RMB212 million respectively. The increase of drilling rigs was mainly attributable to the sales growth of digitally-controlled rigs. The decrease of parts and components was mainly due to the decline in sales of mud pumps to RMB29 million during the Period as compared to RMB70 million in the corresponding period last year.



Cost of Sales

During the Period, the Group's cost of sales amounted to approximately RMB1,057 million, representing an increase of approximately RMB233 million or 28.3% as compared to the corresponding period last year. The increase was mainly attributable to the corresponding increase of the Group's revenue and the increase in the costs of raw materials.

Gross Profit and Gross Margin

During the Period, the Group's gross profit recorded approximately RMB446 million, representing an increase of 11.9% as compared to the corresponding period last year. Gross profit from drilling rigs amounted to approximately RMB403 million, representing an increase of 15.3% as compared to the same period last year. Among which, gross profit from digitally-controlled rigs and conventional rigs were RMB342 million and RMB61 million respectively, representing an increase of 7.5% and 95.2% as compared to the corresponding period last year. Gross profit from rig parts and components amounted to approximately RMB43 million, representing a decrease of 14.6% as compared to the same period last year.

During the Period, the Group's overall gross margin was 29.7%, representing a decrease of 2.9 percentage points as compared to 32.6% in the corresponding period last year. The Gross margin of drilling rigs was approximately 29.6%,

Management Discussion and Analysis

representing a decrease of 2.8 percentage points as compared to the corresponding period last year. During the Period, cost of raw materials continuously increased, while the RMB also appreciated at a fast pace. As a result, the Group's sales, which are dominated in US dollars, suffered adversely. The Group maintained a stable overall gross margin, which was attributable to the effective measures on the adjustments on the selling prices and the partial production costs as well as the impacts from the fluctuation of exchange rate transferred to customers. Gross margins of digitally-controlled rigs and conventional rigs were 29.7% and 28.8% respectively, representing a decrease of 3.8 percentage points and an increase of 3.8% percentage points as compared to the corresponding period last year. Gross margin of rig parts and components was 30.3%, representing a decrease of 3.3 percentage points as compared to the same period last year. The margin decrease in rig parts and components was mainly due to the competitiveness in the rig parts and components market and the selling price adjustments in mud pumps.

Other Net Operating Revenue and Other Net Income

During the Period, the Group's other net operating revenue amounted to approximately RMB1.01 million, representing a decrease of approximately RMB1.70 million or 62.9% as compared to the corresponding period last year. Other net income amounted to approximately RMB4.72 million, representing an increase of RMB1.35 million or 40.0% as compared to the corresponding period last year. The increase was mainly attributable to the net change of the increase in government subsidy to the research and development and the donation to Sichuan earthquake.

Expenses in the Period

During the Period, the Group's selling expenses amounted to approximately RMB124 million, representing an increase of RMB52 million or 72.9% as compared to the corresponding period of the previous year. Transportation costs significantly grew by RMB45 million as compared to the corresponding period in 2007. The increase in transportation costs was mainly attributable to the increased sales to Russia. During the Period, sales to the Russian market accounted for 49.3% (approximately RMB741 million) of the Group's total revenue as compared to 9.3% (approximately RMB114 million) in the corresponding period last year. The Group was responsible for the related transportation cost, which was proportional to the increase of sales.

During the Period, the Group's general and administration expenses amounted to approximately RMB113 million, representing an increase of RMB53 million or 89.3% as compared to the corresponding period last year. The increase was mainly attributable to the related expenses for providing share options to employees and the increase in labour costs and research and development expenses.

During the Period, the Group's net financing cost amounted to approximately RMB74 million, representing an increase of RMB64 million or 602.2% as compared to the corresponding period last year. The increase was mainly attributable to the growth of net interest expenses, driven by the increased borrowings and interests rate, and the greater exchange loss. The greater exchange loss was mainly due to the decreased amount of RMB equivalents to the receivables denominated in foreign currencies, caused by the RMB appreciation.

Management Discussion and Analysis

Share of Profits from a Jointly-controlled Entity

During the Period, the Group's share of profits from a jointly-controlled entity amounted to approximately RMB11 million, which was mainly attributable to the sales of drilling rigs.

Profit before Taxation

During the Period, profit before taxation of the Group amounted to approximately RMB151 million, representing a decrease of RMB111 million or approximately 42.5% as compared to the corresponding period last year.

Income Tax Expenses

During the Period, the Group's income tax expenses amounted to approximately RMB25 million, representing a decrease of RMB17 million or approximately 39.9% as compared to the corresponding period last year. The decrease was mainly attributable to the fall in profit before taxation. During the Period, the effective tax rate was 16.5%, which was on a par with approximately 15.8% in the corresponding period last year. Sichuan Honghua Petroleum Equipment Co. Ltd. ("Honghua Company"), a subsidiary of the Group, was exempt from the PRC enterprise income tax last year. According to the agreement of related authority, Honghua Company was taxed at 50% of the prevailing tax rate.

Profit for the Period

During the Period, the Group's profit amounted to approximately RMB126 million, representing a decrease of RMB95 million or 43.0% as compared to the corresponding period last year. Among which, earnings attributable to equity shareholders of the company were approximately RMB126 million, while net loss of minority interest was approximately RMB37,000.

Net profit margin is 8.4%, representing a decrease of 6.8 percentage points as compared to the corresponding period last year. The decrease was mainly attributable to the rising expenses during the Period.

Dividend

Pursuant to the prospectus dated 25 February 2008, the Group proposed that the annual dividends for 2008 be not less than 20% of the earnings attributable to equity shareholders of the company. No interim dividend was declared for the six months ended 30 June 2008. The Board declared a special dividend after the interim period of Hong Kong Dollars 10 cents per share.

Sources of Capital and Borrowings

The Group's principal sources of capital include listing proceeds, cash from operations, bank borrowings and capital injection from investors. Raw materials purchasing and other operational expenses, acquisition of land use rights and other fixed assets as well as settlement of interest and loan constitute the demand of the Group for cash. Part of the listing proceeds are placed as 3 month fixed deposits.

As at 30 June 2008, the Group's borrowings amounted to approximately RMB820 million, representing a decrease of approximately RMB52 million as compared to the beginning of 2008. Among which, borrowings repayable within one year amounted to approximately RMB805 million, representing a decrease of RMB51 million as compared to the beginning of 2008.

Management Discussion and Analysis

Deposit and Cash Flow

At the end of the Period, the Group's cash and cash equivalents amounted to approximately RMB1,072 million, representing an increase of approximately RMB877 million as compared to the beginning of 2008. During the Period, the Group's operating cash outflow amounted to approximately RMB1,158 million, including RMB1,536 million which was placed as time deposits with original maturity more than three months; the investment cash outflow amounted to approximately RMB93 million; cash inflow from financing activities amounted to approximately RMB2,129 million.

Asset Structure and Changes Thereof

At the end of the Period, the Group's total assets amounted to approximately RMB6,644 million, representing an increase of RMB2,713 million or approximately 69.0% as compared to the beginning of 2008. Among which, current assets amounted to approximately RMB5,744 million, which were mainly inventories, trade and other receivables, listing proceeds and bank deposits and accounted for approximately 86.5% of total assets; non-current assets amounted to approximately RMB900 million, accounting for approximately 13.5% of total assets.

Liabilities

At the end of the Period, the Group's total liabilities amounted to approximately RMB2,129 million, representing an increase of approximately RMB446 million as compared to the beginning of 2008. Among which, current liabilities amounted to approximately RMB2,109 million, accounting for approximately 99.1% of total liabilities; non-current liabilities amounted to approximately RMB20 million, accounting for approximately 0.9% of total liabilities. At the end of the Period, the Group's gearing ratio is approximately 12.3%.

Total Equity

At the end of the Period, total equity amounted to RMB4,515 million, representing an increase of RMB3,160 million as compared to the beginning of 2008. Total equity attributable to equity shareholders of the company amounted to approximately RMB4,452 million, representing an increase of RMB3,164 million as compared to the beginning of 2008; minority interests totaled approximately RMB64 million, representing a decrease of RMB5 million as compared to the beginning of 2008. Net asset value reached approximately RMB1.34 per share. During the Period, the Group's earnings per share were approximately 4.16 cents.

Turnover

During the Period, the average days of inventories increased to 188 days from 216 days in the corresponding period in 2007. This was mainly attributable to the earlier purchase of raw materials to manage the production costs, the increase in product lines, the delay in product delivery caused by the earthquakes, and the inventories planned to be delivered in the second half of 2008.

The Group proactively managed the cash flow, as a result, it maintained stable financial ratios. The Group prudently monitored recoverability of its account receivables, observed the financial condition of its customers and intensified cash collections. The average days of trade receivables maintained relatively stable and increased to 119 days during the Period from 108 days in the corresponding period last year. During the Period, the average days of trade payables increased to 130 days from 137 days in the corresponding period last year.

Management Discussion and Analysis

Contingent Liabilities and Pledge

At the end of the Period, details of contingent liabilities are set out in note 21 to the interim financial report. The Group have pledged bank deposits of RMB241 million, representing a decrease of RMB20 million as compared to the beginning of 2008.

Capital Expenditure, Major Investment and Capital Commitments

During the Period, capital expenditure of the Group on infrastructure and technical improvements amounted to RMB81 million, representing an increase of RMB54 million as compared to the corresponding period last year. This was mainly due to the investment in expanding production base, purchase of equipments and other infrastructure developments, to better capture the surging demand in the oil drilling industry in coming years.

At the end of the Period, the Group had capital commitments of RMB965 million, which will be used for expanding the Group's production capacity.

Foreign Currency Risk

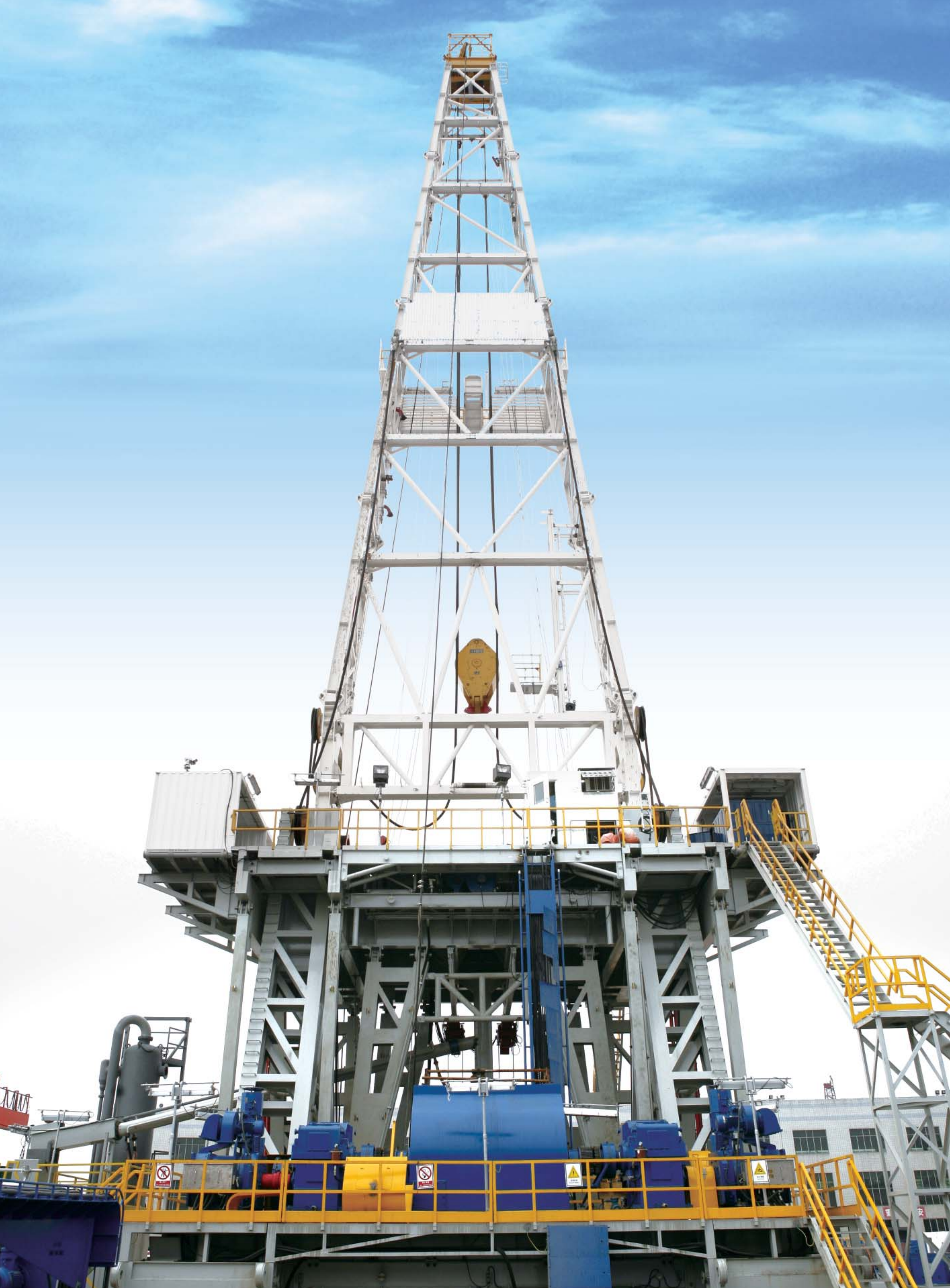
The Group owns certain foreign currency deposits. At the end of the Period, the Group's foreign currency deposits were equivalent to RMB748 million, trade receivables and other receivables in foreign currency were equivalent to RMB711 million. Exports and foreign currencies settled business exposed the Group to exchange risk.

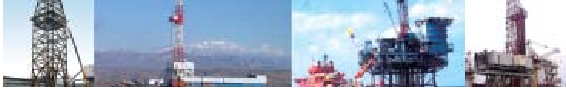
Use of Proceeds from the Initial Public Offering

The net proceeds after the reduction of the related expenses from the initial public offering was HK$2,958 million. The Group used the net proceeds as stated in the 'Use of Proceeds' section in its prospectus dated 25 February 2008. As at 30 June 2008, the use of net proceeds is as follows: proceeds of HK$1,775 million to be used for the offshore project, none has 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 R&D expenses, among which HK$81 million has incurred; proceeds of HK$237 million to be used and has incurred as working capital and day to day expenses.

Employee Remuneration and Benefit

During the Period, the average number of the Group's employees were 3,505. The total remuneration and benefit amounted to RMB101 million, representing an increase of RMB35 million or approximately 52.1% as compared to the corresponding period last year. The Group provided competitive remuneration and benefit to its employees, and determined employee's individual remuneration based on his job duties, work performance and individual capability. The Group strives to maintain its outstanding corporate culture, implement a people-oriented principle and build up a broad stage for the employee to fulfill one's value under the Group's systematic training and its employee skill enhancement plans.





Corporate Governance Report

1. OVERVIEW OF CORPORATE GOVERNANCE

The Group is committed to achieving high standards of corporate governance to safeguard the interests of shareholders and to enhancing corporate value and accountability.

The Group strives to attain and maintain high standards of corporate governance to enhance shareholder value and safeguard shareholder interests. The Group's corporate governance principles emphasize a quality Board, effective internal control and accountability to shareholders.

The Company has applied the principles as set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") ("Listing Rules").

2. CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with all the major code provisions as set out in the CG Code throughout this Reporting Period except the vesting of roles of both Chairman and President (Chief Executive Officer).

3. CHAIRMAN AND CHIEF EXECUTIVE OFFICER

CG Code provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual.

Mr. Zhang Mi is the Chairman and President (Chief Executive Officer) of the Company. The Board believes that vesting the roles of both Chairman and President (Chief Executive Officer) in the same person provides the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies.

The Company will continue to review the effectiveness of the Group's corporate governance structure and consider whether any changes, including the separation of roles of Chairman and President (Chief Executive Officer) are necessary.

4. MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Model Code throughout the Reporting Period.

The Company has also established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

Corporate Governance Report

5. INDEPENDENT NON-EXECUTIVE DIRECTORS

The Board of Directors of the Company has been, at any time, in compliance with Rule 3.10(1) of the Listing Rules, which requires a company to maintain at least three independent non-executive directors in the Board of Directors, and with Rule 3.10(2) of the Listing Rules, which requires one of those independent non-executive directors to be specialized in accounting or relevant financial management.

6. AUDIT COMMITTEE

The Company has established an audit committee in compliance with the Rules 3.21 and 3.22 of the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Company and provide advice and comments to the Board of Directors.

The Audit Committee comprises all the seven independent non-executive directors, namely Qi Daqing (Chairman), Liu Xiaofeng, Chen Guoming, Liu Yinchun, Wang Li, Tai Kwok Leung Alexander and Wang Chunlin including four independent non-executive directors with the appropriate professional qualifications and accounting and related financial management expertise.

The Audit Committee has reviewed the unaudited financial reports for the six months ended 30 June 2008 of the Company and the Group.

Report of the Directors

The Board of the Company is pleased to present its reviewed interim report for the six months ended 30 June 2008.

SPECIAL DIVIDEND

No interim dividend was declared for the six months ended 30 June 2008. A special dividend was declared after the interim period of Hong Kong Dollars 10 cents per share.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 2 October 2008 to Monday, 6 October 2008, both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the above special dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar and transfer office, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Tuesday, 30 September 2008. The Company will pay special dividend to those shareholders who are entitled to receive such dividend payment around 17 October 2008.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

At 30 June 2008, the interests and short positions of each Director and Chief Executive in the shares and underlying shares of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept by the Company under Section 352 of Part XV of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules were as follows:

a) Ordinary Shares of HK$0.1 each of the Company

	Long/Short position	Nature of interest	Number of shares held	% of the issued share capital of the Company
Mr. Zhang Mi	Long	Personal interest, corporate interest and settlor of a discretionary trust	1,618,176,837(1)(4)	48.54%
Mr. Ren Jie	Long	Personal interest, corporate interest and settlor of a discretionary trust	1,618,176,837(2)(4)	48.54%
Mr. Liu Zhi	Long	Corporate interest and settlor of a discretionary trust	1,618,176,837(3)(4)	48.54%

Report of the Directors

(1) Zhang Mi individually owns 280,000 Shares. Zhang Mi is a member of the Concert Group. He is the settlor of a discretionary trust, The ZYL Family Trust, whose trustee, through Wealth Afflux Limited, holds the entire issued share capital of Ally Smooth Investments Limited, which in turn is the beneficial owner of 36% of the issued share capital of Ample Chance International Limited, which in turn is the beneficial owner of the entire issued share capital of Ally Giant Limited which holds 1,617,727,837 Shares. Ren Jie, another member of the Concert Group, individually owns 169,000 Shares.

(2) Ren Jie individually owns 169,000 Shares. Ren Jie is a member of the Concert Group. He is the settlor of a discretionary trust, The RJDJ Victory Trust, whose trustee, through Mowbray Worldwide Limited, holds approximately 41.34% of the issued share capital of Charm Moral International Limited, which in turn is the beneficial owner of approximately 19.09% of the issued share capital of Ample Chance International Limited, which in turn is the beneficial owner of the entire issued share capital of Ally Giant Limited which holds 1,617,727,837 Shares. Zhang Mi, another member of the Concert Group, individually owns 280,000 Shares.

(3) Liu Zhi is a member of the Concert Group. He is the settlor of a discretionary trust, The LZWM Family Trust, whose trustee, through Ecotech Enterprises Corporation, holds approximately 29.33% of the issued share capital of Charm Moral International Limited, which in turn is the beneficial owner of approximately 19.09% of the issued share capital of Ample Chance International Limited, which in turn is the beneficial owner of the entire issued share capital of Ally Giant Limited which holds 1,617,727,837 Shares. Zhang Mi and Ren Jie, the other two members of the Concert Group, collectively hold 449,000 Shares.

(4) Concert Group is defined in the prospectus of the Company dated 25 February 2008.

b) Share Options of the Company

	Long/Short position	Number of options held — Personal interest	Number of options held — Interest of the Concert Group
Mr. Zhang Mi	Long	9,900,000	15,676,000
Mr. Ren Jie	Long	3,100,000	22,476,000
Mr. Liu Zhi	Long	2,800,000	22,776,000

Saved as disclosed above, on 30 June 2008, none of the Directors and Chief Executives (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for shares (or warrants or debentures, if applicable) of the Company and its associated corporations required to be disclosed pursuant to the SFO.

SUBSTANTIAL SHAREHOLDERS' INTERESTS OR/AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

The register of substantial shareholders required to be kept under section 336 of Part XV of the SFO shows that, at 30 June 2008, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors and Chief Executives of the Company.

Report of the Directors

Name	Long/ Short position	Number of shares held: Personal interest	Corporate interest	Corporate interest and settlor of a discretionary trust	Interest of the Concert Group	Total	% of the issued share capital of the Company
Ally Giant Limited	Long	1,617,727,837	NIL	NIL	26,025,000	1,643,752,837[1]	49.31%
Ample Chance International Limited	Long	NIL	1,617,727,837	NIL	26,025,000	1,643,752,837[2]	49.31%
Wealth Afflux Limited	Long	NIL	1,617,727,837	NIL	26,025,000	1,643,752,837[3]	49.31%
Ally Smooth Investments Limited	Long	NIL	1,617,727,837	NIL	26,025,000	1,643,752,837[3]	49.31%
Equity Trustee Limited	Long	NIL	NIL	(trustee of a discretionary trust) 1,617,727,837	NIL	1,617,727,837[3][5][6][9][10][14][20][22]	48.53%
Charm Moral International Limited	Long	NIL	1,617,727,837	NIL	26,025,000	1,643,752,837[4]	49.31%
Mowbray Worldwide Limited	Long	NIL	1,617,727,837	NIL	26,025,000	1,643,752,837[5]	49.31%
Ecotech Enterprises Corporation	Long	NIL	1,617,727,837	NIL	26,025,000	1,643,752,837[6]	49.31%
Mr. Zheng Yong	Long	1,390,000	1,617,727,837	NIL	24,635,000	1,643,752,837[7]	49.31%
Beauty Clear Holdings Limited	Long	NIL	1,617,727,837	NIL	26,025,000	1,643,752,837[8]	49.31%
Mr. Zuo Huixian	Long	1,060,000	NIL	1,617,727,837	24,965,000	1,643,752,837[9]	49.31%
Vast & Fast Corporation	Long	NIL	1,617,727,837	NIL	26,025,000	1,643,752,837[9]	49.31%
Mr. Zhang Xu	Long	1,191,000	NIL	1,617,727,837	24,834,000	1,643,752,837[10]	49.31%
Cavendish Global Corporation	Long	NIL	1,617,727,837	NIL	26,025,000	1,643,752,837[10]	49.31%
Mr. Wang Jiangyang	Long	640,000	1,617,727,837	NIL	25,385,000	1,643,752,837[11]	49.31%
Mr. Chen Jun	Long	540,000	1,617,727,837	NIL	25,485,000	1,643,752,837[12]	49.31%
Believe Power International Limited	Long	NIL	1,617,727,837	NIL	26,025,000	1,643,752,837[13]	49.31%
Mr. Fan Bing	Long	1,175,000	NIL	1,617,727,837	24,850,000	1,643,752,837[14]	49.31%
Brondesbury Enterprises Limited	Long	NIL	1,617,727,837	NIL	26,025,000	1,643,356,837[14]	49.31%
Mr. Zhang Yanyong	Long	1,000,000	1,617,727,837	NIL	25,025,000	1,643,752,837[15]	49.31%
Mr. Ao Pei	Long	440,000	1,617,727,837	NIL	25,585,000	1,643,752,837[16]	49.31%

Report of the Directors

Name	Long/ Short position	Number of shares held: Personal interest	Corporate interest	Corporate interest and settlor of a discretionary trust	Interest of the Concert Group	Total	% of the issued share capital of the Company
Mr. Tian Diyong	Long	355,000	1,617,727,837	NIL	25,670,000	1,643,752,837[17]	49.31%
Mr. Shen Dingjian	Long	175,000	1,617,727,837	NIL	25,850,000	1,643,752,837[18]	49.31%
Benefit Way International Limited	Long	NIL	1,617,727,837	NIL	26,025,000	1,643,752,837[19]	49.31%
Mr. Liu Xuetian (deceased)	Long	NIL	NIL	1,617,727,837	26,025,000	1,643,752,837[20]	49.31%
Dobson Global Inc.	Long	NIL	1,617,727,837	NIL	26,025,000	1,643,752,837[20]	49.31%
Ms. Qu Yihong	Long	NIL	1,617,727,837	NIL	26,025,000	1,643,752,837[21]	49.31%
Mr. Liu Ying	Long	NIL	1,617,727,837	NIL	26,025,000	1,643,752,837[21]	49.31%
Mr. Zhou Bing	Long	750,000	NIL	1,617,727,837	25,275,000	1,643,752,837[22]	49.31%
Darius Enterprises Limited	Long	NIL	1,617,727,837	NIL	26,025,000	1,643,752,837[22]	49.31%
Ms. Lu Lan	Long	345,000	1,617,727,837	NIL	25,680,000	1,643,752,837[23]	49.31%
Mr. Tian Yu	Long	240,000	1,617,727,837	NIL	25,785,000	1,643,752,837[24]	49.31%
Mr. Li Hanqiang	Long	215,000	1,617,727,837	NIL	25,810,000	1,643,752,837[25]	49.31%
Mr. Liu Yingguo	Long	125,000	1,617,727,837	NIL	25,900,000	1,643,752,837[26]	49.31%
Ms. Liu Lulu	Long	135,000	1,617,727,837	NIL	25,890,000	1,643,752,837[27]	49.31%
China Ocean Oilfields Services (Hong Kong) Limited	Long	174,425,609	NIL	NIL	NIL	174,425,609[28]	5.23%
China National Offshore Oil Corporation	Long	NIL	174,425,609	NIL	NIL	174,425,609[28]	5.23%
Nabors Drilling International II Limited	Long	450,000,000	NIL	NIL	NIL	450,000,000[29]	13.5%
Nabors International Management Limited	Long	NIL	450,000,000	NIL	NIL	450,000,000[29]	13.5%
Nabors Global Holdings Limited	Long	NIL	450,000,000	NIL	NIL	450,000,000[29]	13.5%
Nabors Industries Ltd.	Long	NIL	450,000,000	NIL	NIL	450,000,000[29]	13.5%

Report of the Directors

(1) Ally Giant Limited is wholly-owned by Ample Chance International Limited and holds 1,617,727,837 Shares.

(2) Ample Chance International Limited is owned approximately 36% by Ally Smooth Investments Limited, approximately 19.09% by Charm Moral International Limited, approximately 18.51% by Beauty Clear Holdings Limited, approximately 12.71% by Believe Power International Limited, approximately 10.50% by Benefit Way International Limited and approximately 3.19% by a corporation.

(3) The entire issued share capital of Ally Smooth Investments Limited is owned by Wealth Afflux Limited, which in turn is held by Equity Trustee Limited as trustee of The ZYL Family Trust. The ZYL Family Trust is a discretionary trust established by Zhang Mi as settlor, with Equity Trustee Limited as trustee. The beneficiaries under The ZYL Family Trust are Zhang Mi and his family members. Zhang Mi is a member of the Concert Group.

(4) Charm Moral International Limited is owned approximately 41.34% by Mowbray Worldwide Limited, approximately 29.33% by Ecotech Enterprises Corporation and approximately 29.33% by Zheng Yong.

(5) Approximately 41.34% of the issued share capital of Charm Moral International Limited is owned by Mowbray Worldwide Limited, which in turn is held by Equity Trustee Limited as trustee of The RJDJ Victory Trust. The RJDJ Victory Trust is a discretionary trust established by Ren Jie as settlor, with Equity Trustee Limited as trustee. The beneficiaries under The RJDJ Victory Trust are Ren Jie and his family members. Ren Jie is a member of the Concert Group.

(6) Approximately 29.33% of the issued share capital of Charm Moral International Limited is held by Ecotech Enterprises Corporation, which in turn is held by Equity Trustee Limited as trustee of The LZWM Family Trust. The LZWM Family Trust is a discretionary trust, established by Liu Zhi as settlor, with Equity Trustee Limited as trustee. The beneficiaries under The LZWM Family Trust are Liu Zhi and his family members. Liu Zhi is a member of the Concert Group.

(7) Zheng Yong is the beneficial owner of approximately 29.33% of the issued share capital of Charm Moral International Limited, which is in turn the beneficial owner of 19.09% of the issued share capital of Ample Chance International Limited. Zheng Yong is a member of the Concert Group.

(8) Beauty Clear Holdings Limited is owned approximately 23.63% by Vast & Fast Corporation, approximately 22.77% by Cavendish Global Corporation, approximately 5.76% by Wang Jiangyang, approximately 5.10% by Chen Jun, and a total of approximately 42.74% by 3 other shareholders.

(9) Approximately 23.63% of the issued share capital of Beauty Clear Holdings Limited is owned by Vast & Fast Corporation, which in turn is held by Equity Trustee Limited as trustee of The ZHH Family Trust. The ZHH Family Trust is a discretionary trust, established by Zuo Huixian as settlor, with Equity Trustee Limited as trustee. The beneficiaries under The ZHH Family Trust are Zuo Huixian and his family members. Zuo Huixian is a member of the Concert Group.

(10) Approximately 22.77% of the issued share capital of Beauty Clear Holdings Limited is held by Cavendish Global Corporation, which in turn is held by Equity Trustee Limited as trustee of The Hong Xu Family Trust. The Hong Xu Family Trust is a discretionary trust, established by Zhang Xu as settlor, with Equity Trustee Limited as trustee. The beneficiaries under The Hong Xu Family Trust are Zhang Xu and his family members. Zhang Xu is a member of the Concert Group.

(11) Wang Jiangyang is the beneficial owner of approximately 5.76% of the issued share capital of Beauty Clear Holdings Limited, which in turn is the beneficial owner of approximately 18.51% of the issued share capital of Ample Chance International Limited. Wang Jiangyang is a member of the Concert Group.

(12) Chen Jun is the beneficial owner of approximately 5.10% of the issued share capital of Beauty Clear Holdings Limited, which in turn is the beneficial owner of approximately 18.51% of the issued share capital of Ample Chance International Limited. Chen Jun is a member of the Concert Group.

(13) Believe Power International Limited is owned approximately 32.72% by Brondesbury Enterprises Limited, approximately 29.16% by Zhang Yanyong, approximately 5.53% by Ao Pei, approximately 2.85% by Tian Diyong, approximately 2.24% by Shen Dingjian, and a total of approximately 27.50% by 4 other shareholders.

(14) Approximately 32.72% of the issued share capital of Believe Power International Limited is held by Brondesbury Enterprises Limited, which in turn is held by Equity Trustee Limited as trustee of The FBX Family Trust. The FBX Family Trust is a discretionary trust, established by Fan Bing as settlor, with Equity Trustee Limited as trustee. The beneficiaries under The FBX Family Trust are Fan Bing and his family members. Fan Bing is a member of the Concert Group.

(15) Zhang Yanyong is the beneficial owner of approximately 29.16% of the issued share capital of Believe Power International Limited, which in turn is the beneficial owner of approximately 12.71% of the issued share capital of Ample Chance International Limited. Zhang Yanyong is a member of the Concert Group.

Report of the Directors

(16) Ao Pei is the beneficial owner of approximately 5.53% of the issued share capital of Believe Power International Limited, which in turn is the beneficial owner of approximately 12.71% of the issued share capital of Ample Chance International Limited. Ao Pei is a member of the Concert Group.

(17) Tian Diyong is the beneficial owner of approximately 2.85% of the issued share capital of Believe Power International Limited, which in turn is the beneficial owner of approximately 12.71% of the issued share capital of Ample Chance International Limited. Tian Diyong is a member of the Concert Group.

(18) Shen Dingjian is the beneficial owner of approximately 2.24% of the issued share capital of Believe Power International Limited, which in turn is the beneficial owner of approximately 12.71% of the issued share capital of Ample Chance International Limited. Shen Dingjian is a member of the Concert Group.

(19) Benefit Way International Limited is owned approximately 35.57% by Dobson Global Inc., approximately 19.36% by Darius Enterprises Limited, approximately 6.49% by Lu Lan, approximately 3.91% by Tian Yu, approximately 3.50% by Li Hanqiang, approximately 1.52% by Liu Yingguo, approximately 1.22% by Liu Lulu and approximately 28.43% by 6 other shareholders.

(20) Approximately 35.57% of the issued share capital of Benefit Way International Limited is held by Dobson Global Inc., which in turn is held by Equity Trustee Limited as trustee of The LXYY Family Trust. The LXYY Family Trust is a discretionary trust, established by Liu Xuetian (deceased) as settlor, with Equity Trustee Limited as trustee. The beneficiaries under The LXYY Family Trust are Liu Xuetian (deceased) and his family members. Liu Xuetian (deceased) was a member of the Concert Group and passed away on 23 January 2008.

(21) Qu Yihong and Liu Ying, family members of Liu Xuetian (deceased), are deemed to be interested in 1,617,727,837 Shares as directors of Dobson Global Inc.

(22) Approximately 19.36% of the issued share capital of Benefit Way International Limited is held by Darius Enterprises Limited, which in turn is held by Equity Trustee Limited as trustee of The Fang Zhou Family Trust. The Fang Zhou Family Trust is a discretionary trust, established by Zhou Bing as settlor, with Equity Trustee Limited as trustee. The beneficiaries under The Fang Zhou Family Trust are Zhou Bing and his family members. Zhou Bing is a member of the Concert Group.

(23) Lu Lan is the beneficial owner of approximately 6.49% of the issued share capital of Benefit Way International Limited, which in turn is the beneficial owner of approximately 10.50% of the issued share capital of Ample Chance International Limited. Lu Lan is a member of the Concert Group.

(24) Tian Yu is the beneficial owner of approximately 3.91% of the issued share capital of Benefit Way International Limited, which in turn is the beneficial owner of approximately 10.50% of the issued share capital of Ample Chance International Limited. Tian Yu is a member of the Concert Group.

(25) Li Hanqiang is the beneficial owner of approximately 3.50% of the issued share capital of Benefit Way International Limited, which in turn is the beneficial owner of approximately 10.50% of the issued share capital of Ample Chance International Limited. Li Hanqiang is a member of the Concert Group.

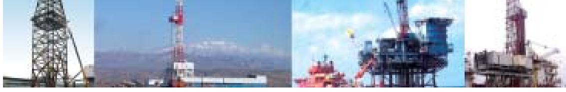
(26) Liu Yingguo is the beneficial owner of approximately 1.52% of the issued share capital of Benefit Way International Limited, which in turn is the beneficial owner of approximately 10.50% of the issued share capital of Ample Chance International Limited. Liu Yingguo is a member of the Concert Group.

(27) Liu Lulu is the beneficial owner of approximately 1.22% of the issued share capital of Benefit Way International Limited, which in turn is the beneficial owner of approximately 10.50% of the issued share capital of Ample Chance International Limited. Liu Lulu is a member of the Concert Group.

(28) China Ocean Oilfields Services (Hong Kong) Limited holds 174,425,609 Shares. The issued share capital of China Ocean Oilfields Services (Hong Kong) Limited was beneficially owned approximately 98.8% by China National Offshore Oil Corporation and approximately 1.2% by Overseas Oil & Gas Corporation Limited.

(29) Nabors Drilling International II Limited holds 450,000,000 Shares. The entire issued share capital of Nabors Drilling International II Limited was owned by Nabors International Management Limited. Nabors International Management Limited is wholly owned by Nabors Global Holdings Limited which is in turn wholly owned by Nabors Industries Ltd.

Save as disclosed above, to the best of the Directors and the Chief Executives of the Company' knowledge, as at 30th June, 2008, none of the persons, other than the Directors or the Chief Executives of the Company, had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or recorded in the register as required under Section 336 of the SFO.



Report of the Directors

SHARE OPTION SCHEME

The main terms of Pre-IPO share option scheme have been approved by resolution in writing by all shareholders on 21 January 2008. Up to the reporting period, 270 in total qualified participants have been conditionally granted options which may subscribe for an aggregate of 60,000,000 shares at exercise price of offer price of HK$3.83, representing approximately 2.4% of issued share capital of the Company immediately after the completion of global offering. Each of option grantees subject to pre-IPO share option scheme have not exercised the options held by him.

Upon conditional approval by resolution in writing by all shareholders of the Company on 21 January 2008 and by a resolution of the Board on 21 January 2008, the Company adopted a share option scheme. As at the date of reporting, there were no share options which have been granted.

PURCHASE, SALE AND REPURCHASE OF THE LISTED SECURITIES OF THE COMPANY

The Company did not purchase, sell and repurchase any of its shares during the six months ended 30 June 2008.

FOREIGN EXCHANGE EXPOSURES

The Group has certain deposits denominated in foreign currencies. At the end of the period, the Group had deposits denominated in foreign currencies equivalent to approximately RMB748 million, and trade receivables and other receivables receivables denominated in foreign currencies of approximately RMB711 million. The Group is exposed to foreign exchange risk arising from its export sales and other sales made in foreign currencies.

CONTINGENT LIABILITIES AND PLEDGE

Details of contingent liabilities of the Group at the end of the period were set out in note 21 to the financial statements of this interim report. The Group had pledged bank deposits of approximately RMB241 million, representing a decrease of approximately RMB20 million as compared to the beginning of the period.

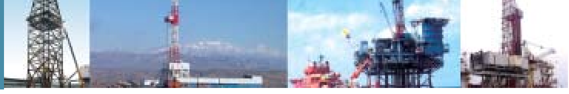
AUDIT COMMITTEE

The Audit Committee of the Company comprises all independent non-executive directors with written terms of reference in compliance with the Listing Rules. The Audit Committee is responsible for reviewing and supervising financial reporting process and internal control system and offers advice and recommendations to the Board. The Audit Committee shall meet at least twice a year and review the internal auditors' opinion, internal control, risk management and financial reporting. The interim result for the year ended 30 June 2008 have been reviewed by the Audit Committee and KPMG, the Company's auditors.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

Since listing, the Company has at all times complied with the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Listing Rules, except for the following deviations:

As set out in Provision A.2.1 of the CG Code, the roles of Chairman and President (Chief Executive Officer) should be separated and should not be performed by the same individual. Mr. Zhang Mi was appointed the Chairman of the Board and President (Chief Executive Officer) of the Company.



Report of the Directors

As Mr. Zhang Mi is one of the founder of the Group and possesses rich knowledge and experience of the industry and the related industries, therefore, the Board believes that vesting the roles of both Chairman and President (Chief Executive Officer) in the same person provides the Company with strong and consistent leadership, allows for effective and efficient planning and implementation of business decisions and strategies, and ensures the shareholders' benefits as a whole. In addition, the balance between the power and responsibilities is achieved through the cooperation of the Board and the Committees.

The Company will continue to review the effectiveness of the Group's corporate governance structure and consider whether any changes, including the separation of roles of Chairman and President (Chief Executive Officer) are necessary.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF THE GROUP

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules. After specific enquiry made by the Company, all of the Directors confirmed that they have complied with the required standard set out in the Model Code and the code of conduct regarding the Directors' securities transactions during the reporting period.

By order of the Board of
Honghua Group Limited
Zhang Mi
Chairman

PRC, 16 September 2008

Independent Review Report

To the Board of Directors of Honghua Group Limited
(incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial report set out on pages 31 to 64 which comprises the consolidated balance sheet of Honghua Group Limited as at 30 June 2008 and the related consolidated income statement, consolidated statement of changes in equity and condensed consolidated cash flow statement for the six months period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard ("IAS") 34, "Interim financial reporting" adopted by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with IAS 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review 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. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2008 is not prepared, in all material respects, in accordance with IAS 34 "Interim financial reporting".

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

16 September 2008

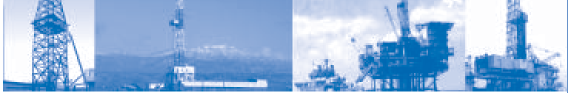
Consolidated Income Statement

For the six months ended 30 June 2008 — unaudited

(Expressed in Renminbi)

		Six months ended 30 June	
		2008	2007
	Note	**RMB'000**	RMB'000
Revenue	3	**1,502,861**	1,222,056
Cost of sales		**(1,057,218)**	(823,838)
Gross profit		**445,643**	398,218
Other operating revenue	4	**1,637**	2,768
Other operating expenses		**(631)**	(59)
Selling expenses		**(123,733)**	(71,576)
General and administrative expenses		**(113,339)**	(59,874)
Other net income	4	**4,716**	3,368
Profit from operations		**214,293**	272,845
Net finance costs	5(a)	**(74,242)**	(10,573)
Share of profits from a jointly controlled entity		**10,822**	—
Profit before taxation	5	**150,873**	262,272
Income tax expenses	6	**(24,965)**	(41,564)
Profit for the period		**125,908**	220,708
Attributable to:			
Equity shareholders of the company		**125,945**	185,891
Minority interests		**(37)**	34,817
Profit for the period		**125,908**	220,708
Earnings per share — basic (RMB cent)	8	**4.16**	7.44

The accompanying notes form part of this interim financial report.



Consolidated Balance Sheet

At 30 June 2008 — unaudited

(Expressed in Renminbi)

	Note	**30 June 2008 RMB'000**	31 December 2007 RMB'000 (Audited)
Non-current assets			
Fixed assets			
— Property, plant and equipment		**286,104**	259,453
— Interests in leasehold land held for own use under operating leases		**55,123**	54,830
— Freehold land		**5,530**	5,880
	9	**346,757**	320,163
Deposit paid for acquisition of leasehold land		**57,612**	28,513
Construction in progress		**75,293**	38,741
Intangible assets	10	**367,371**	389,691
Interest in a jointly controlled entity		**46,917**	6,006
Deferred tax assets		**5,866**	11,837
Total non-current assets		**899,816**	794,951
Current assets			
Inventories	11	**1,468,745**	1,031,768
Trade and other receivables	12	**1,408,585**	1,606,960
Amounts due from related companies	20(a)	**4,715**	40,798
Amount due from immediate holding company	20(a)	**13,118**	—
Pledged bank deposits	13	**241,167**	261,109
Time deposits		**1,535,713**	—
Cash and cash equivalents		**1,072,441**	195,367
Total current assets		**5,744,484**	3,136,002
Total assets		**6,644,300**	3,930,953
Current liabilities			
Interest-bearing borrowings	14	**805,368**	856,059
Amounts due to related companies	20(a)	**89,757**	46,490
Loan from immediate holding company	20(a)	**—**	405,488
Loans from shareholders of the ultimate holding company	20(a)	**—**	76,850
Trade and other payables	15	**1,195,833**	1,136,892
Current taxation		**18,112**	33,777
Total current liabilities		**2,109,070**	2,555,556

Consolidated Balance Sheet

At 30 June 2008 — unaudited

(Expressed in Renminbi)

	Note	**30 June 2008 RMB'000**	31 December 2007 RMB'000 (Audited)
Net current assets		**3,635,414**	580,446
Total assets less current liabilities		**4,535,230**	1,375,397
Non-current liabilities			
Interest-bearing borrowings	14	**14,612**	15,703
Deferred tax liabilities		**5,339**	3,983
Total non-current liabilities		**19,951**	19,686
Total liabilities		**2,129,021**	2,575,242
Equity			
Share capital	16	**309,232**	233,155
Reserves	18	**4,142,432**	1,054,348
Total equity attributable to equity shareholders of the company		**4,451,664**	1,287,503
Minority interests		**63,615**	68,208
Total equity		**4,515,279**	1,355,711
Total liabilities and equity		**6,644,300**	3,930,953

The accompanying notes form part of this interim financial report.

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2008 — unaudited

(Expressed in Renminbi)

	Attributable to equity shareholders of the company									
	Share capital	Share premium	Other reserve	Capital reserve	Statutory reserve	Exchange reserve	Retained profits	Subtotal	Minority interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Note	(Note 16)	(Note 18(e))	(Note 18(c))	(Note 18(d))	(Note 18(a))	(Note 18(b))				
At 1 January 2008	233,155	–	60,760	–	140,662	10,936	841,990	1,287,503	68,208	1,355,711
Shares issued under placing and public offering, net of issuing expenses	76,077	2,623,896	–	–	–	–	–	2,699,973	–	2,699,973
Waiver of loan from immediate holding company	–	–	–	398,710	–	–	–	398,710	–	398,710
Dividends to minority shareholders	–	–	–	–	–	–	–	–	(4,556)	(4,556)
Equity settled share-based transactions	–	–	–	23,979	–	–	–	23,979	–	23,979
Exchange differences on translation of financial statements of operations outside the PRC	–	–	–	–	–	(84,446)	–	(84,446)	–	(84,446)
Profit/(loss) for the period	–	–	–	–	–	–	125,945	125,945	(37)	125,908
At 30 June 2008	309,232	2,623,896	60,760	422,689	140,662	(73,510)	967,935	4,451,664	63,615	4,515,279
At 1 January 2007	–	29,470	(125,246)	–	77,898	(28)	321,519	303,613	34,438	338,051
Exchange differences on translation of financial statements of operations outside the PRC	–	–	–	–	–	410	–	410	–	410
Profit for the period	–	–	–	–	–	–	185,891	185,891	34,817	220,708
At 30 June 2007	–	29,470	(125,246)	–	77,898	382	507,410	489,914	69,255	559,169

The accompanying notes form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2008 — unaudited

(Expressed in Renminbi)

	Note	Six months ended 30 June **2008** **RMB'000**	 2007 RMB'000
Cash used in operations (Note)		**(1,125,422)**	(44,915)
Tax paid		**(33,065)**	(80,729)
Net cash used in operating activities		**(1,158,487)**	(125,644)
Net cash used in investing activities		**(93,427)**	(94,471)
Net cash generated from financing activities		**2,128,988**	359,166
Net increase in cash and cash equivalents		**877,074**	139,051
Cash and cash equivalents at 1 January		**195,367**	158,351
Cash and cash equivalents at 30 June		**1,072,441**	297,402

Note:

Included in "Cash used in operations", were time deposits amounting to RMB1,535,713,494 with original maturity more than three months for the six months ended 30 June 2008 (2007: Nil).

The accompanying notes form part of this interim financial report.

Notes to the Condensed Consolidated Interim Financial Report

(Expressed in Renminbi)

1 BASIS OF PRESENTATION AND PREPARATION

(a) General Information

Honghua Group Limited (the "company") was incorporated in the Cayman Islands on 15 June 2007 as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands.

The interim financial report for the six months ended 30 June 2008 comprise the company and its subsidiaries (collectively referred to as the "Group") and the Group's interest in a jointly controlled entity.

(b) Group Reorganisation

The companies comprising the Group underwent reorganisation (the "reorganisation") which involved a series of equity transactions in connection with the company's acquisition of equity interest in Sichuan Honghua Petroleum Equipment Co., Ltd ("Honghua Company") and its subsidiaries, to rationalise the Group's structure in preparation for the listing of the company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Details of the reorganisation are set out in the prospectus of the company dated 25 February 2008 ("Prospectus"). The company's shares were listed on the Stock Exchange on 7 March 2008 (the "listing date").

The Group is regarded as a continuing entity resulting from the reorganisation under common control. The interim financial report has been prepared on the basis that the company was the holding company of the Group for both periods presented, rather than from the date of the reorganisation. Accordingly, the consolidated results of the Group for the periods ended 30 June 2007 and 2008 include the results of the company and its subsidiaries since their respective dates of incorporation or at the date that common control was established, if later, as if the current group structure had been in existence throughout the two periods presented.

(c) Basis of Preparation

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with the 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 ("HKICPA"). KPMG's independent review report to the Board of Directors is included on page 30.

Notes to the Condensed Consolidated Interim Financial Report

(Expressed in Renminbi)

1 BASIS OF PRESENTATION AND PREPARATION (continued)

(c) Basis of Preparation (continued)

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 16 September 2008.

The interim financial report has also been prepared in accordance with the same accounting policies adopted by the Group in the 2007 annual financial statements.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

In preparing this interim financial report, the significant judgements made by management in applying the Group's accounting policies and key sources of estimation uncertainty were the same as those that applied to the 2007 annual financial statements.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2007 annual financial statements. The condensed consolidated interim financial statements and notes thereto do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs").

The interim financial report is presented in Renminbi ("RMB"), rounded to the nearest thousand, on the historical cost basis.

The IASB has issued a number of new and revised IFRSs that are first effective or available for early adoption for accounting periods beginning on or after 1 January 2008. The Board of Directors has determined the accounting policies expected to be adopted in the preparation of the Group's annual financial statements for the year ending 31 December 2008, on the basis of IFRSs currently in use. The adoption of these new and revised IFRSs did not result in significant changes to the Group's accounting policies applied in these financial statements for the periods presented.

IFRSs that will be effective or are available for voluntary early adoption in the annual financial statements for the year ending 31 December 2008 may be affected by the issue of additional interpretation(s) or other changes announced by the IASB subsequent to the date of issuance of this interim financial report. Therefore the policies that will be applied in the Group's annual financial statements cannot be determined with certainty at the date of issuance of this interim financial report.

Notes to the Condensed Consolidated Interim Financial Report

(Expressed in Renminbi)

1 BASIS OF PRESENTATION AND PREPARATION (continued)

(c) Basis of Preparation (continued)

The financial information relating to the financial year ended 31 December 2007 that is included in this interim financial report as being previously reported information does not constitute the company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2007 are available from the company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 27 April 2008.

2 SEGMENT REPORTING

Segment information is presented in respect of the Group's business segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting. Inter-segment pricing is determined on an arm's length basis.

Business Segments

The Group consists of the following main business segments:

Drilling rigs — Manufacture and sale of drilling rigs

Parts and components — Manufacture and sale of parts and components of drilling rigs

	Period ended 30 June 2008			
	Drilling rigs RMB'000	Parts and components RMB'000	Eliminations RMB'000	Total RMB'000
Revenue	1,361,932	514,401	(373,472)	1,502,861
Cost of sales	(958,952)	(431,358)	333,092	(1,057,218)
Other income and expenses	(172,296)	(59,079)	—	(231,375)
Segment result	230,684	23,964	(40,380)	214,268
Unallocated				25
Net finance costs				(74,242)
Share of profits from a jointly controlled entity				10,822
Income tax expenses				(24,965)
Profit for the period				125,908

Notes to the Condensed Consolidated Interim Financial Report

(Expressed in Renminbi)

2 SEGMENT REPORTING (continued)

Business Segments (continued)

	Period ended 30 June 2007			
	Drilling rigs RMB'000	Parts and components RMB'000	Eliminations RMB'000	Total RMB'000
Revenue	1,073,373	760,174	(611,491)	1,222,056
Cost of sales	(724,003)	(557,163)	457,328	(823,838)
Other income and expenses	(69,637)	(57,794)	—	(127,431)
Segment result	279,733	145,217	(154,163)	270,787
Unallocated				2,058
Net finance costs				(10,573)
Income tax expenses				(41,564)
Profit for the period				220,708

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.

Notes to the Condensed Consolidated Interim Financial Report

(Expressed in Renminbi)

3 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	
	2008	2007
	RMB'000	RMB'000
Sale of drilling rigs	**1,361,932**	1,073,373
Sale of parts and components	**140,929**	148,683
	1,502,861	1,222,056

4 OTHER OPERATING REVENUE AND OTHER NET INCOME

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
Other operating revenue		
Rendering of repairing services	**1,245**	2,416
Others	**392**	352
	1,637	2,768
Other net income		
Government grants	**6,646**	3,817
Loss on disposals of fixed assets	**(3)**	(329)
Others	**(1,927)**	(120)
	4,716	3,368

Notes to the Condensed Consolidated Interim Financial Report

(Expressed in Renminbi)

5 PROFIT BEFORE TAXATION

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

		Six months ended 30 June	
		2008	2007
		RMB'000	RMB'000
(a)	**Net finance costs**		
	Exchange loss/(gain), net	**55,719**	(1,305)
	Interest income	**(17,218)**	(2,795)
	Interest on bank borrowings wholly repayable within five years	**32,309**	13,859
	Bank charges	**3,432**	814
		74,242	10,573
(b)	**Other items**		
	Amortisation and depreciation		
	— assets held for use under operating leases	**760**	402
	— other assets	**15,534**	11,091
	Operating lease charges in respect of properties	**1,522**	541
	Provision for product warranty	**3,472**	8,225
	Research and development costs (note)	**13,309**	9,646

Note: Research and development costs included staff costs of employees in the Research and Development Department.

Notes to the Condensed Consolidated Interim Financial Report

(Expressed in Renminbi)

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
Current tax — the People's Republic of China ("PRC") enterprise income tax		
Provision for the period	**18,111**	49,312
Over-provision in respect of prior years	**(711)**	—
	17,400	49,312
Deferred tax		
Origination and reversal of temporary differences	**7,565**	(7,748)
	24,965	41,564

(i) Hong Kong Profits Tax

No provision for Hong Kong Profits Tax has been made as the Group did not have assessable profits subject to Hong Kong Profits Tax for the period (2007: Nil).

(ii) Cayman Islands

The company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly, is exempt from the payment of the Cayman Islands income tax.

(iii) British Virgin Islands

Pursuant to the rules and regulations of the British Virgin Islands, the Group is not subject to any tax in the British Virgin Islands.

(iv) United States of America

Taxation for Honghua America, LLC. is charged at the appropriate current rates of taxation ruling in the relevant state.

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT (continued)

(a) Taxation in the consolidated income statement represents: (continued)

(v) United Arab Emirates

Honghua Golden Coast Equipment FZE is not subject to income tax in accordance with the relevant United Arab Emirates income tax laws and regulations.

(vi) PRC Enterprise Income Tax

In accordance with the relevant PRC income tax laws and regulations, the applicable income tax rates of the company's subsidiaries are as follows:

(a) 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 national 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.

All income earned from 1 January 2007 to 30 June 2007 are exempt from national income tax. Honghua Company was still subject to a local income tax at a rate of 3%.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("New Tax Law") which took effect on 1 January 2008 and the income tax rate was reduced from 33% to 25%. The State Council of the PRC passed an implementation guidance note on 26 December 2007, which sets out details of how existing preferential income tax rates will be adjusted to the standard rate of 25%.

All income earned from 1 January 2008 to 30 June 2008 are subject to 50% of the prevailing tax rate of 25%.

Notes to the Condensed Consolidated Interim Financial Report

(Expressed in Renminbi)

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT (continued)

(a) Taxation in the consolidated income statement represents: *(continued)*

(vi) PRC Enterprise Income Tax (continued)

(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%.

(c) Honghua International Co., Ltd ("Honghua International")

Pursuant to the income tax rules and regulations of the PRC, the income tax rate applicable to Honghua International is 25% (2007: 33%).

(d) Sichuan Honglian Industrial Co., Ltd and Sichuan Hongcheng Business Trading Co., Ltd

Sichuan Honglian Industrial Co., Ltd and Sichuan Hongcheng Business Trading Co., Ltd were incorporated on 30 April 2008 and 25 April 2008 respectively. There were no assessable profits for the period ended 30 June 2008.

(b) Withholding Tax

Further under the New Tax Law, from 1 January 2008 onwards, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business in the PRC but whose relevant income is not effectively connected with the establishment or a place of business in the PRC, will be subject to withholding tax at the rate of 10% (unless reduced by treaty) on various types of passive income such as dividends derived from sources in the PRC. As the Group's foreign-invested enterprise is directly held by a Hong Kong incorporated company, a rate of 5% is applicable to the calculation of this withholding tax. The Caishui (2008) No. 1 approved by the Minister of Finance and State Administration of Tax on 22 February 2008 exempts the dividend distribution out of pre-2008 retained earnings of foreign investment enterprises from withholding tax. Accordingly, the retained profits as at 31 December 2007 in the Group's foreign-invested enterprises' books and records will not be subject to 5% withholding tax on future distribution. Deferred tax liabilities have been provided for in this regard based on the expected dividends to be distributed from the company's subsidiaries in the PRC in the foreseeable future in respect of the profits generated after 31 December 2007.

Notes to the Condensed Consolidated Interim Financial Report

(Expressed in Renminbi)

7 DIVIDENDS

	2008 RMB'000	2007 RMB'000
Special dividend declared after the interim period of Hong Kong Dollars ("HKD") 10 cents per share (2007: HKD nil)	**290,236**	—

The special dividend has not been recognised as a liability at the balance sheet date.

8 EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2008 is based on the profit attributable to equity holders of the company for the period and the weighted average number of ordinary shares of 3,031,152,527.

Pursuant to a group reorganisation on 16 October 2007, the company acquired all shareholdings of Asia Harbour International Limited and become the holding company of the Group. As at 16 October 2007, the company has issued 2,500,000,000 shares at par value of HK$0.1 each. The calculation of basic earnings per share for the six months ended 30 June 2007 is based on the profit attributable to equity shareholders of the company for the period and on the assumption that 2,500,000,000 shares in issue as at the date the company became the holding company of the Group were outstanding throughout the entire period.

The diluted earnings per share for the six months ended 30 June 2008 and 2007 are the same as the basic earnings per share and there were no potential dilutive ordinary shares outstanding during that period.

Notes to the Condensed Consolidated Interim Financial Report

(Expressed in Renminbi)

9 FIXED ASSETS

	2008 RMB'000	2007 RMB'000
Net book value, at 1 January	**320,163**	241,329
Additions	**45,009**	28,722
Transfer from construction in progress	**—**	12,728
Disposals (net carrying amount)	**(16)**	(2,231)
Amortisation and depreciation charge for the period	**(16,294)**	(11,493)
Exchange difference	**(2,105)**	(964)
Net book value, at 30 June	**346,757**	268,091

Included in fixed assets were interests in leasehold land held for own use under operating leases, which represent prepayments for land use rights in the PRC with a medium-term lease period.

10 INTANGIBLE ASSETS

	2008 RMB'000	2007 RMB'000
Net book value, at 1 January	**389,691**	—
Exchange difference	**(22,320)**	—
Net book value, at 30 June	**367,371**	—

The amortization of intangible assets had not commenced as they were not available for use as at the balance sheet date.

Notes to the Condensed Consolidated Interim Financial Report

(Expressed in Renminbi)

11 INVENTORIES

	30 June 2008 RMB'000	31 December 2007 RMB'000 (Audited)
Raw materials	**387,449**	244,290
Work in progress	**478,555**	369,477
Finished goods	**279,134**	368,868
Goods in transit	**323,607**	49,133
	1,468,745	1,031,768

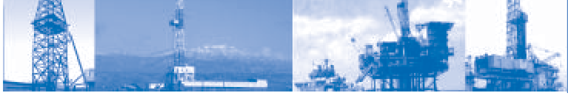
An analysis of the amount of inventories recognised as an expense is as follows:

	Six months ended 30 June	
	2008 RMB'000	2007 RMB'000
Carrying amount of inventories sold	**1,072,939**	790,220
Write-down of inventories	**3,524**	25,393
Reversal of write-down of inventories	**(22,717)**	—
	1,053,746	815,613

12 TRADE AND OTHER RECEIVABLES

	30 June 2008 RMB'000	31 December 2007 RMB'000 (Audited)
Trade receivables	**735,418**	1,113,964
Bills receivable	**63,202**	57,663
Less: allowance for doubtful debts (note 12(b))	**(3,312)**	(3,312)
Sub-total	**795,308**	1,168,315
Value-added tax receivable	**123,243**	129,372
Other receivables	**84,284**	55,944
Prepayments	**405,750**	253,329
	1,408,585	1,606,960

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



Notes to the Condensed Consolidated Interim Financial Report

(Expressed in Renminbi)

12 TRADE AND OTHER RECEIVABLES (continued)

(a) 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 2008 RMB'000	31 December 2007 RMB'000 (Audited)
Current	**472,853**	964,933
Less than 1 month past due	**61,761**	78,828
1 to 3 months past due	**197,615**	80,515
More than 3 months but less than 12 months past due	**63,079**	44,039
	795,308	1,168,315

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

(b) Impairment of trade receivables and bills receivable

Impairment losses in respect of trade receivables and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables and bills receivable directly.

The movement in the allowance for doubtful debts during the period/year, including both specific loss components, is as follows:

	2008 RMB'000	2007 RMB'000 (Audited)
At 1 January	**3,312**	3,551
Write-back of provision for impairment losses	**–**	(239)
At 30 June/31 December (note 12)	**3,312**	3,312

The individually impaired receivables relate to customers that are in financial difficulties and management assesses the recoverability is remote. Consequently, specific allowances for doubtful debts were recognised. The Group does not hold any collateral over these balances.

Notes to the Condensed Consolidated Interim Financial Report

(Expressed in Renminbi)

12 TRADE AND OTHER RECEIVABLES (continued)

(c) Trade receivables that are not impaired

Receivables that were neither past due nor impaired (disclosed as current on the table given in note 12(a)) relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired (as shown in the table in note 12(a)) relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has been no history of default and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

13 PLEDGED BANK DEPOSITS

Bank deposits have been pledged to banks as security for certain banking facilities (see note 14).

14 INTEREST-BEARING BORROWINGS

The bank loans and the loan from a financial institution were secured as follows:

	30 June 2008 RMB'000	31 December 2007 RMB'000 (Audited)
Bank loans		
— secured	**90,576**	25,384
— unsecured	**715,000**	831,059
	805,576	856,443
Loan from a financial institution — secured	**14,404**	15,319
Total	**819,980**	871,762

Notes to the Condensed Consolidated Interim Financial Report

(Expressed in Renminbi)

14 INTEREST-BEARING BORROWINGS (continued)

The bank loans were repayable as follows:

	30 June 2008 RMB'000	31 December 2007 RMB'000 (Audited)
Within 1 year	**805,368**	856,059
After 1 year but within 2 years	**—**	—
After 2 years but within 5 years	**14,612**	15,703
Total	**819,980**	871,762

Bank loans of certain subsidiaries amounting to RMB90,576,021 as of 30 June 2008 (31 December 2007: RMB25,384,349) are secured by their leasehold land with an aggregate carrying value of RMB75,074,754 as of 30 June 2008 (31 December 2007: RMB18,176,926).

The bank loans as at 30 June 2008 bear interest at 5.35% to 9.25% per annum (31 December 2007 5.30% to 9.25%).

The loan from a financial institution as at 30 June 2008 amounting to RMB14,404,110 (31 December 2007: RMB15,318,660) is secured by the equipment and inventories with an aggregate carrying value of RMB177,943,772 (31 December 2007: RMB155,449,093).

The loan from a financial institution as at 30 June 2008 bears interest at 6.50% per annum (31 December 2007: 6.50% per annum).

Notes to the Condensed Consolidated Interim Financial Report

(Expressed in Renminbi)

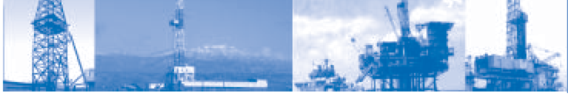
15 TRADE AND OTHER PAYABLES

	30 June 2008 RMB'000	31 December 2007 RMB'000 (Audited)
Trade payables	**586,027**	600,089
Bills payable	**259,438**	135,890
Receipts in advance	**250,328**	226,368
Other payables	**100,040**	174,545
	1,195,833	1,136,892

Bills payable as at 30 June 2008 and at 31 December 2007 were secured by pledged bank deposits (see note 13).

Included in trade and other payables are trade and bills payable with the following ageing analysis as of the balance sheet date:

	30 June 2008 RMB'000	31 December 2007 RMB'000 (Audited)
Within 3 months	**609,554**	535,768
3 months to 6 months	**159,531**	107,873
6 months to 1 year	**46,562**	63,294
Over 1 year	**29,818**	29,044
	845,465	735,979



Notes to the Condensed Consolidated Interim Financial Report

(Expressed in Renminbi)

16 SHARE CAPITAL

(a) Details of the movements in capital of the Group are set out on page 34.

(b) Authorised and Issued Share Capital

	30 June 2008	
	Number of shares	**'000**
Authorised:		
Ordinary shares of HK$0.1 each	**10,000,000,000**	**HK$1,000,000**
Equivalent to:		**RMB968,739**
		RMB'000
Ordinary shares, issued and fully paid:		
At 15 June 2007	1	—
Arising from the reorganisation	2,499,999,999	233,155
At 31 December 2007	2,500,000,000	233,155
At 1 January 2008	**2,500,000,000**	**233,155**
Issue of shares under public offering	**833,360,000**	**76,077**
At 30 June 2008	**3,333,360,000**	**309,232**

The company was incorporated in the Cayman Islands on 15 June 2007 with an authorised share capital of 3,800,000 shares of HK$0.1 each. One share of HK$0.1 was issued nil paid and allotted to Reid Services Limited and was transferred to Ally Giant on the same day.

On 16 October 2007, a shareholder's resolution was passed to increase the authorised share capital of the company, from HK$380,000, divided into 3,800,000 ordinary shares, with a par value of HK$0.10, to HK$1,000,000,000, divided into 10,000,000,000 ordinary shares with par value of HK$0.10.

Pursuant to the reorganisation, on 16 October 2007, the company entered into a sale and purchase agreement with, Ally Giant Limited, under which agreement the company acquired one ordinary share (at par value of HK$1.00) of Asia Harbour International Limited (being Asia Harbour International Limited's entire issued share capital) from Ally Giant Limited. The acquisition was satisfied by (i) crediting as fully paid the aggregate 1 nil paid share in the issued share capital of the company; and (ii) allotting and issuing 2,499,999,999 fully paid up shares to Ally Giant Limited.

Notes to the Condensed Consolidated Interim Financial Report

(Expressed in Renminbi)

16 SHARE CAPITAL (continued)

(c) Issue of Shares under Public Offering

On 7 March 2008, the company issued 833,360,000 shares with a par value of HK$0.10 each, at a price of HK$3.83 per share by way of an initial public offering to Hong Kong and overseas investors. Net proceeds from such issue amounted to RMB2,699,973,873 (after offsetting listing expenses of RMB213,790,765), out of which RMB76,077,434 and RMB2,623,896,439 were recorded in share capital and share premium respectively). Share capital in the Group's balance sheet as at 30 June 2008 represents the issued capital of the company, comprising 3,333,360,000 shares of HK$0.1 each.

17 EQUITY-SETTLED SHARE BASED PAYMENTS

(a) Pre-IPO Share Option Scheme

Pursuant to the shareholders' written resolution passed on 21 January 2008, the company adopted a pre-IPO share option scheme ("the Pre-IPO Option Scheme") whereby 3 directors and 267 employees of the company were given the rights to subscribe for shares in the company. The amount payable by the grantee of an option to the company on acceptance of the offer for the grant of an option is HK$1.00. The subscription price per share pursuant to the Pre-IPO Option Scheme is HK$3.83.

The maximum number of shares which may be issued upon exercise of all options granted under the Pre-IPO Option Scheme is 125,000,000 shares. 60,000,000 shares were granted on 21 January 2008.

Each 20% of options granted under the Pre-IPO Option Scheme will vest each year commencing from the listing date and the options are exercisable for a period of ten years. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Notes to the Condensed Consolidated Interim Financial Report

(Expressed in Renminbi)

17 EQUITY-SETTLED SHARE BASED PAYMENTS (continued)

(b) The terms and conditions of the grants that existed during the period are as follows, whereby all options are settled by physical delivery of shares:

	Number of options ('000 shares)	Vesting conditions	Contractual life of options
Options granted to directors: — on 21 January 2008	**14,191**	**One fifth annually starting immediately upon the date of listing of the company's shares**	**10 years**
Options granted to employees: — on 21 January 2008	**45,809**	**One fifth annually starting immediately upon the date of listing of the company's shares**	**10 years**
Total share options	**60,000**		

(c) The number and weighted average exercise prices of share options are as follows:

	2008 Exercise price	2008 Number of options ('000 shares)
Outstanding at the beginning of the period	**HK$—**	**—**
Granted during the period	**HK$3.83**	**60,000**
Outstanding at the end of the period	**HK$3.83**	**60,000**
Exercisable at the end of the period	**HK$3.83**	**12,000**

The options outstanding at 30 June 2008 had an exercise price of HK$3.83 and a weighted average remaining contractual life of 9.58 years. No options and rights were outstanding as at 31 December 2007.

Notes to the Condensed Consolidated Interim Financial Report

(Expressed in Renminbi)

17 EQUITY-SETTLED SHARE BASED PAYMENTS (continued)

(d) Fair Value of Share Options and Assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a Binomial Option Pricing Model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the Binomial Option Pricing Model.

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Changes in the subjective input assumptions could materially affect the fair value estimated.

Fair value of share options and assumptions

	2008
Fair value at measurement date	**HK$1.40**
Share price	**HK$3.83**
Exercise price	**HK$3.83**
Expected volatility (expressed as weighted average volatility used in the modelling under Binomial Lattice Model)	**44.9%**
Option life (expressed as weighted average life used in the modelling under Binomial Option Pricing Model)	**10 years**
Expected dividends	**20%**
Risk-free interest rate	**2.647%**

(e) Share Option Scheme

The company has also adopted a share option scheme ("the Share Option Scheme") for any eligible employee or director of the entities within the Group pursuant to the shareholders' written resolution passed on 21 January 2008.

The subscription price for the shares under the option to be granted will be determined by the company's Board of Directors and will be the highest of: (a) the nominal value of a share of the company on the date of grant of the option; (b) the closing price of the shares of the company as stated in the Stock Exchange's daily quotations sheets on the date of grant of the option; and (c) the average closing price of the shares of the company as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of the option.

Notes to the Condensed Consolidated Interim Financial Report

(Expressed in Renminbi)

17 EQUITY-SETTLED SHARE BASED PAYMENTS (continued)

(e) Share Option Scheme (continued)

The maximum number of shares that may be granted under the Share Option Scheme and other share option schemes shall not exceed 30% of the number of issued shares of the company from time to time. No option may be granted to any person such that the total number of shares of the company issued and to be issued upon exercise of all options granted and to be granted to each participant in any 12-month period up to the date of the latest grant exceeds 1% of the number of shares of the company in issue.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as determined by the Board of Directors of the company, which must not be more than 10 years from the date of the grant.

No share option has been granted under the Share Option Scheme during the current period.

18 RESERVES

(a) Statutory Reserve

Pursuant to applicable PRC regulations, PRC entity is required to appropriate 5% of its profit after tax (after offsetting prior year losses) to the reserve until such reserve reaches 50% of the registered capital. The transfer to the reserve must be made before distribution of dividends to shareholders. The statutory reserve can be utilised, upon approval by the relevant authorities, to offset accumulated losses or to increase registered capital of the PRC subsidiaries, provided that the balance after such issue is not less than 50% of its registered capital.

(b) Exchange Reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside the PRC.

(c) Other Reserve

The other reserve of the Group comprises the difference between the nominal value of share of the subsidiaries acquired over the nominal value of the shares issued by the company in exchange therefore and the contribution of technology licenses by Ally Giant Limited.

Notes to the Condensed Consolidated Interim Financial Report

(Expressed in Renminbi)

18 RESERVES (continued)

(d) Capital Reserve

Capital reserve represents the value of employee services in respect of share options granted under the Pre-IPO Options Scheme as set out in note 17 and waiver of debts by the immediate holding company.

(e) Share Premium

The application of the share premium account is governed by the Companies Law (Revised) of the Cayman Islands.

19 COMMITMENTS

Capital Commitments

As at 30 June 2008, capital commitments not provided for in the interim financial report were as follows:

	30 June 2008 RMB'000	31 December 2007 RMB'000 (Audited)
Contracted for	**70,653**	133,828
Authorised but not contracted for	**894,553**	113,340
	965,206	247,168

Notes to the Condensed Consolidated Interim Financial Report

(Expressed in Renminbi)

20 MATERIAL RELATED PARTY TRANSACTIONS

During the six months ended 30 June 2007 and 2008, in addition to the transactions and balances disclosed elsewhere in the interim financial report, transactions with the following parties are considered as related party transactions.

Name of party	Relationship
Guanghan Hongtai Business Trading Co. Ltd (廣漢市宏泰商貿有限公司) ("Hongtai Company")	Hongtai Company is a party which spouses of certain directors and management have equity interest.
Luzhou Changjiang Petroleum Engineering Equipment Co. Ltd (瀘州長江石油工程機械有限公司) ("Luzhou Changjiang Company")	Luzhou Changjiang Company is a party which the father-in-law of a director, Mr. Zhang Mi, has equity interest.
Chengdu Haitaike Electric Motor System L.L.C (成都海泰科電氣傳動系統有限責任公司) ("Haitaike Company")	Haitaike Company is a party which the brother of a director, Mr. Zhang Mi and a director of a subsidiary have equity interest.
Luzhou Tuojiang Hydraulic Pressure Equipment Company Limited (瀘州沱江液壓件有限公司) ("Luzhou Tuojiang Company")	Luzhou Tuojiang Company is a party which the sister's husband of the spouse of a director, Mr. Zhang Mi, has equity interest.
NCE Management, LP.	NCE Management, LP is a party which certain management of Honghua America have equity interest.
Luzhou City Jianming Decorating Design Company (瀘州劍鳴裝飾設計有限公司) ("Luzhou Jianming Company")	Luzhou Jianming Company is a party which the brother of the spouse of a director of a subsidiary is the legal representative.
Guanghan Huite Fluid Appendix Co. Ltd. (廣漢市惠特液壓附件有限公司) ("Guanghan Huite Company")	Guanghan Huite Company is a party which the brother of a director of a subsidiary has equity interest.

Notes to the Condensed Consolidated Interim Financial Report

(Expressed in Renminbi)

20 MATERIAL RELATED PARTY TRANSACTIONS (continued)

Name of party	Relationship
Chengdu Juzhong Technology Co., Ltd. (成都巨中科技有限公司) ("Chengdu Juzhong Company")	Chengdu Juzhong Company is a party which the brother-in-law and brother-in-law's wife of a director of a subsidiary have equity interest.
Honghua — Ural Equipment Manufacture Joint Stock Co., Ltd (宏華 — 烏拉爾機械製造股份公司) ("Honghua — Ural")	Honghua — Ural is jointly owned by several directors and management of the Group's subsidiaries and Russian investors. The interest in Honghua — Ural of several directors and management was disposed of on 15 November 2007. Honghua — Ural is no longer a related party of the Group after the disposal.
Izhdrill — Honghua Co., Ltd (伊日德利爾宏華股份有限公司) ("Izhdrill — Honghua")	Izhdrill — Honghua is a party which is owned by a senior management of a subsidiary and Russian investors. The interest in Izhdrill — Honghua of the senior management was disposed of on 11 October 2007. Izhdrill — Honghua is no longer a related party of the Group after the disposal.
Egyptian Petroleum Honghua Rig Manufacturing Shareholder Co. ("HH Egyptian Company")	HH Egyptian Company was incorporated in Egypt with limited liability on 24 April 2007 and is 50% owned by Asia Harbour.

Notes to the Condensed Consolidated Interim Financial Report

(Expressed in Renminbi)

20 MATERIAL RELATED PARTY TRANSACTIONS (continued)

Particulars of significant transactions between the Group and the above related parties during the relevant period are as follows:

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
Purchases of parts and components		
— Hongtai Company	**19,807**	23,734
— Luzhou Changjiang Company	**—**	9,243
— Haitaike Company	**—**	28,500
— Luzhou Tuojiang Company	**—**	2,288
— Chengdu Juzhong Company	**890**	666
	20,697	64,431
Decoration service received		
— Luzhou Jianming Company	**314**	577
Sub-contracting services received		
— Guanghan Huite Company	**550**	892
	864	1,469
Sale of drilling rigs, parts and components		
— HH Egyptian Company	**2,393**	—

The directors of the company are of the opinion that the above related party transactions were conducted on normal commercial terms and in the ordinary course of business.

Notes to the Condensed Consolidated Interim Financial Report

(Expressed in Renminbi)

20 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(a) Balances with Related Parties

As at the balance sheet date, the Group had the following balances with related parties:

	30 June 2008 RMB'000	31 December 2007 RMB'000 (Audited)
Amounts due from related companies		
— NCE Management, Inc.	**465**	—
— Haitaike Company	**—**	13,557
— Chengdu Juzhong Company	**—**	84
— HH Egyptian Company	**4,250**	27,157
	4,715	40,798
Amount due from immediate holding company	**13,118**	—
Loans from immediate holding company	**—**	405,488
Loans from shareholders of the ultimate holding company	**—**	76,850
Amounts due to related companies		
— Hongtai Company	**5,204**	9,694
— Luzhou Changjiang Company	**—**	12,903
— Luzhou Tuojiang Company	**—**	1,383
— Haitaike Company	**—**	19,280
— Luzhou Jianming Company	**313**	230
— Guanghan Huite Company	**492**	399
— HH Egyptian Company	**83,748**	2,601
	89,757	46,490

The balances with related parties are unsecured, interest-free and have no fixed repayment terms. There was no provision made against these amounts at 30 June 2008 (31 December 2007: Nil).

Notes to the Condensed Consolidated Interim Financial Report

(Expressed in Renminbi)

20 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(b) Key Management Personnel Remuneration

Remuneration for key management personnel of the Group, including amounts paid to the company's directors is as follows:

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
Basic salaries, allowances and other benefits in kind	**2,058**	1,166
Contributions to defined contribution retirement scheme	**32**	27
Discretionary bonuses	**10**	33
Share-based payment	**9,273**	—
	11,373	1,226

Total remuneration is included in "staff costs".

21 CONTINGENT LIABILITIES

Dispute with 64 Natural Persons

As of 31 December 2005, 728 employees of Oil Drilling Plant (the "original investors"), through 11 representatives, held collectively, 33.63% of Honghua Company's share capital. These 11 representatives were registered as shareholders of Honghua Company with the competent PRC government authority. On 7 January 2006, Honghua Company passed a shareholders' resolution to reduce its registered capital and buy-out equity interests from these 11 registered shareholders.

Honghua Company entered into a share purchase agreement with the 11 registered shareholders on 12 January 2006, under which, with the written consent of the 11 registered shareholders, it agreed to pay the share purchase price directly to the 728 original investors. The capital reduction process with the competent PRC government authority was completed on 26 April 2006. 664 of the 728 original investors have agreed to the buy-out arrangement and had accepted payment from Honghua Company. The remaining 64 investors, who, collectively, invested RMB651,385, claimed that they were still shareholders and refused to accept the buy-out arrangement and payment from Honghua Company.

Notes to the Condensed Consolidated Interim Financial Report

(Expressed in Renminbi)

21 CONTINGENT LIABILITIES (continued)

Dispute with 64 Natural Persons (continued)

On 11 December 2007, 57 out of the 64 initiated the legal proceedings at the Intermediate Peoples Court of Chengdu City, Sichuan Province (Action No.: (2008) Cheng Min Chu Zi No. 53). The 57 individuals joined as plaintiffs to the legal proceedings against Honghua Company as the 1st defendant. Asia Harbour as the 2nd defendant and 14 individuals including Shi Shuming (3rd defendant) Huang Dequan (4th defendant), Li Yan (5th defendant), Wang Yaoxin (6th defendant), Zhou Tao (7th defendant), Wang Wei (8th defendant), Chen Zhenghua (9th defendant), Yang Xuefeng (10th defendant), Yang Yuanchun (11th defendant), Ni Xiurong (12th defendant), Yu Zhenghua (13th defendant), Xing Manrong (14th defendant), Zhi Rongmu (15th defendant) and Liu Chuangjun (16th defendant) as the 3rd to 16th defendants. There are a total of 16 defendants.

The relief sought by the 57 plaintiffs include:

(1) An adjudication by the court that the 592,250 shares held by the 3rd to 16th defendants were actually owned by the 57 plaintiffs, and all the benefits and rights in such equity interests be restored to the 57 plaintiffs and the names of the 57 plaintiffs be entered into the register of members of Honghua Company;

(2) An adjudication by the court that Honghua Company be ordered to pay to the 57 plaintiffs a total sum of RMB296,125, being the 2003 dividends;

(3) An adjudication that the repurchase of the 592,250 shares of Honghua Company be declared null and void;

(4) An adjudication that Asia Harbour be jointly and severally liable for the above mentioned relief sought by the 57 plaintiffs and the consequential liabilities thereof, and that Asia Harbour together with Honghua Company be ordered to apply to the relevant Administration of Industry and Commerce to register the 57 plaintiffs as shareholders of Honghua Company; and

(5) An adjudication that all the defendants be jointly liable for the legal costs arising from these legal proceedings.

Notes to the Condensed Consolidated Interim Financial Report

(Expressed in Renminbi)

21 CONTINGENT LIABILITIES (continued)

Dispute with 64 Natural Persons (continued)

On 13 March 2008, Honghua Company received the Supplemental Statement on Amending, Adding Waiving the Statement of Claims (the "Supplemental Statement") submitted by the 57 plaintiffs. The plaintiffs added the following new claims:

An adjudication that the 1st defendant, 3rd to 16th defendants be jointly liable for the damages of shareholders' right and interests, calculated until the date when the judgment is executed in full, including shareholders' rights for 3,760,379 bonus shares calculated until 30 September 2007, pre-emptive rights, and dividend from 2004 to 2006 in a total amount of RMB1,510,237.50;

An adjudication that the 1st defendant, 3rd to 16th defendants be jointly liable for the damages and costs of RMB228,000 incurred by the plaintiffs arising from these legal proceedings; and

An adjudication that the merger and acquisition of Honghua Company by Asia Harbour be declared null and void and that Asia Harbour be jointly liable for all the claims against Honghua Company and other defendants.

Ally Giant Limited, Ample Chance International Limited, Wealth Afflux Limited, Mowbray Worldwide Limited, Ecotech Enterprises Corporation, Otama Company Limited, Vast & Fast Corporation, Cavendish Global Corporation, Airtech Investments Limited, Ally Smooth Investments Limited, Charm Moral International Limited, Beauty Clear Holding Limited, Brondesbury Enterprises Limited, Oriental Starz Limited, Tech Express Enterprises of Dobson Global Inc, Darius Enterprises Limited, Believe Power International Limited, Benefit Way International Limited, Birdview Limited and the shareholders of the above companies have executed a Deed of indemnity in respect of dispute and risk dated 15 February 2008 in favour of the Group under which they agree to jointly and severally indemnify and members of the Group for any potential damages that the company may suffer as a result of the legal proceedings initiated by the 57 plaintiffs.

The directors, based on the PRC legal advisor's opinion, considered that these 64 natural persons investors had never been properly registered as shareholders of Honghua Company with the competent PRC government authority, there is no legal basis under the PRC law for them to be regarded as shareholders of Honghua Company, and the directors consider that sufficient provision in legal costs in respect of the dispute has been made.

The original legal proceeding has been postponed due to the earthquake in the Sichuan Province on 12 May 2008. As a result, there is no development up to 30 June 2008.

Definitions

"Ally Smooth"	Ally Smooth Investments Limited (聯順投資有限公司), a company incorporated in the BVI with limited liability on July 5, 2006
"Ample Chance"	Ample Chance International Limited (宏機國際有限公司), a company incorporated in the BVI with limited liability on July 13, 2006
"Articles of Association"	the Articles of Association of the Company, approved at extraordinary shareholders' meetings of the Company on January 21, 2008
"Asia Harbour"	Asia Harbour International Limited (宏海國際有限公司), a company incorporated in Hong Kong with limited liability on July 8, 2006 and a wholly-owned subsidiary of the Company
"Beauty Clear"	Beauty Clear Holdings Limited (俊朗控股有限公司), a company incorporated in the BVI with limited liability on July 21, 2006
"Believe Power"	Believe Power International Limited (信力國際有限公司), a company incorporated in the BVI with limited liability on July 21, 2006
"Benefit Way"	Benefit Way International Limited (益通國際有限公司), a company incorporated in the BVI with limited liability on July 7, 2006
"Board of Directors" or "Board"	the Board of Directors of our Company
"BVI"	the British Virgin Islands
"Cayman Companies Law"	the Companies Law (2007 Revision) of the Cayman Islands
"Charm Moral"	Charm Moral International Limited (德美國際有限公司), a company incorporated in the BVI with limited liability on July 18, 2006
"CNOOC"	China National Offshore Oil Corporation (中國海洋石油總公司), a state-owned enterprise established in the PRC on February 15, 1982
"CNOOC Group"	CNOOC and its subsidiaries
"Companies Ordinance"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
"Company" or "our Company"	Honghua Group Limited, (宏華集團有限公司) an exempted company incorporated in the Cayman Islands with limited liability on June 15, 2007

Definitions

"Concert Group"	several shareholders of Honghua Company forming a concert group as set out in the "Company History and Reorganisation-Ownership Continuity and Control" section of this Prospectus, namely, Zhang Mi (張弭), Ren Jie (任杰), Liu Zhi (劉智), Zheng Yong (鄭勇), Zuo Huixian (左輝先), Zhang Xu (張旭), Wang Jiangyang (王江陽), Chen Jun (陳俊), Fan Bing (范兵), Zhang Yanyong (張彥永), Ao Pei (敖沛), Tian Diyong (田弟勇), Shen Dingjian (沈定建), Liu Xuetian (劉學田) (deceased), Zhou Bing (周兵), Lu Lan (呂蘭), Tian Yu (田雨), Li Hanqiang (李漢強), Liu Yingguo (劉映國), Liu Lulu (劉露璐), He Guangfu (何光福), Zhang Zongyou (張宗友) and Chen Zongliang (陳宗良), out of which He Guangfu (何光福), Zhang Zongyou (張宗友) and Chen Zongliang (陳宗良) transferred an aggregate of approximately 9.132% equity interests in Honghua Company to the other members of the Concert Group. The transfers were completed on February 17, 2006
"Controlling Shareholder(s)"	has the meaning ascribed thereto under the Listing Rules being, for the time being, Ally Giant, Ample Chance, Ally Smooth, Charm Moral, Beauty Clear, Believe Power, Benefit Way, Wealth Afflux Limited, Mowbray Worldwide Limited, Ecotech Enterprises Corporation, Vast & Fast Corporation, Cavendish Global Corporation, Brondesbury Enterprises Limited, Dobson Global Inc, Darius Enterprises Limited, Zhang Mi (張弭), Ren Jie (任杰), Liu Zhi (劉智), Zheng Yong (鄭勇), Zuo Huixian (左輝先), Zhang Xu (張旭), Wang Jiangyang (王江陽), Chen Jun (陳俊), Fan Bing (范兵), Zhang Yanyong (張彥永), Ao Pei (敖沛), Tian Diyong (田弟勇), Shen Dingjian (沈定建), Liu Xuetian (劉學田) (deceased), Zhou Bing (周兵), Lu Lan (呂蘭), Tian Yu (田雨), Li Hanqiang (李漢強), Liu Yingguo (劉映國) and Liu Lulu (劉露璐). Contracts executed by the Controlling Shareholders after Liu Xuetian's death were executed by his legal successors
"COOS"	China Ocean Oilfields Services (Hong Kong) Limited (中國近海石油服務（香港）有限公司), a company incorporated in Hong Kong with limited liability on April 2, 1982
"Golden Coast Company"	Honghua Golden Coast Equipment FZE (宏華金海岸設備有限公司), formerly known as Golden Coast Equipment FZE (金海岸設備公司), a company incorporated in the United Arab Emirates with limited liability on November 28, 2006 and a wholly-owned subsidiary of Honghua International
"Group" or "we" or "us"	the Company and its subsidiaries, and, for the period before the Company became the holding company for such subsidiaries, the entities which carried on the business of the Group

Definitions

"HH Egyptian Company"	Egyptian Petroleum HH Rig Manufacturing Shareholder Co., a company incorporated in Egypt with limited liability on April 24, 2007 and is held by Asia Harbour, Petroleum Projects and Technical Consultation Company, Engineering for the Petroleum and Process Industries Company and Tharwa Petroleum Company as to 50%, 25%, 10% and 15% respectively
"HK$" or "HK dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"Honghua America"	Honghua America, LLC, formerly known as New Continental Equipment Co., LLC and as New Continental Equipment Co., Ltd, a limited partnership formed in the State of Texas on October 11, 2004, and converted into a limited liability company on December 19, 2006, and a 80%-owned subsidiary of Honghua Company
"Honghua Company"	Sichuan Honghua Petroleum Equipment Co., Ltd. (四川宏華石油設備有限公司), formerly known as Chuanyou Guanghan Honghua Co., Ltd. (川油廣漢宏華有限公司), a limited liability company established in the PRC on December 31, 1997, and a wholly-owned subsidiary of Asia Harbour
"Honghua International"	Honghua International Co., Ltd. (四川宏華國際科貿有限公司), formerly known as Sichuan Honghua Trading Co., Ltd. (田川宏華貿易有限公司), a limited liability company established in the PRC on January 13, 2004, and an 80%-owned subsidiary of Honghua Company
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Hongtai Company"	Guanghan Hongtai Business Trading Co., Ltd (廣漢市宏泰商貿有限公司), a limited liability company established in the PRC on June 21, 2002
"Hongtian Company"	Chengdu Hongtian Electronic Drive Engineering Co., Ltd. (成都宏天電傳工程有限公司), a limited liability company established in the PRC on June 6, 2001, and an 80%-owned subsidiary of Honghua Company
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
"Nabors Global"	Nabors Global Holdings Limited, an exempted company organized under the laws of Bermuda on February 25, 2005
"Nabors Group"	Nabors Industries and its subsidiaries
"Nabors Industries"	Nabors Industries Ltd., an exempted company organized under the laws of Bermuda on December 11, 2001, whose shares are listed on the New York Stock Exchange

Definitions

"Nabors International"	Nabors Drilling International II Limited, an exempted company organized under the laws of Bermuda on March 12, 2003
"Nabors Management"	Nabors International Management Limited, an exempted company organized under the laws of Bermuda on December 23, 2004
"PRC" or "China"	the People's Republic of China and, except where the context requires and only for the purpose of this Prospectus, references in this Prospectus to the PRC or China do not apply to Taiwan or the Hong Kong and Macau Special Administrative Regions
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"Russia"	The Russian Federation
"Securities and Futures Commission" or "SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary shares issued by the Company, with a nominal value of HK$0.10 each
"Shareholder(s)"	holder(s) of our Share(s)
"sq.m."	square meters
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Substantial Shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"UAE"	the United Arab Emirates
"United States", "USA" or "U.S."	the United States of America, including its territories and possessions
"US$" or "U.S. dollars" or "USD"	United States dollars, the lawful currency of the United States
"Youxin Company"	Sichuan Honghua Youxin Petroleum Machinery Co., Ltd. (四川宏華友信石油機械有限公司), formerly known as Guanghan Youxin Co., Ltd. (廣漢市友信有限責任公司), a limited liability company established in the PRC on August 7, 1998, and an 80%-owned subsidiary of Honghua Company