8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong
February 25, 2008

The Directors
Honghua Group Limited
Credit Suisse (Hong Kong) Limited
Morgan Stanley Asia Limited

Dear Sirs,

Introduction

We set out below our report on the combined financial information relating to Honghua Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), including the combined income statements, combined statements of changes in equity and combined statements of cash flows of the Group for each of the years ended December 31, 2004, 2005 and 2006 and the eight months ended August 31, 2007 (the "relevant period") and the combined balance sheets of the Group as at December 31, 2004, 2005 and 2006 and August 31, 2007 together with a summary of significant accounting policies and other explanatory notes thereto (the "Financial Information") for inclusion in the Prospectus of the Company dated February 25, 2008 (the "Prospectus").

The Company was incorporated in the Cayman Islands on June 15, 2007 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation (the "Reorganisation") as detailed in the section headed "Company History and Reorganization" in the Prospectus, which was completed on October 16, 2007, the Company became the holding company of the subsidiaries now comprising the Group, details of which are set out in Section A below. The Company has not carried on any business since the date of its incorporation saves for the Reorganisation.

As at the date of this report, no audited financial statements have been prepared for the companies comprising the Group, except for Sichuan Honghua Petroleum Equipment Co., Ltd. ("Honghua Company"), Chengdu Hongtian Electric Drive Engineering Co., Ltd., ("Hongtian Company"), Sichuan Honghua Youxin Petroleum Machinery Co., Ltd, ("Youxin Company"), Honghua International Co., Ltd. ("Honghua International"), as they are either incorporated shortly or dormant before August 31, 2007 or are investment holding companies and have not carried on any business since their respective dates of incorporation or are not subject to statutory audit requirements under the relevant rules and regulations in their jurisdictions of incorporation. We have, however, reviewed all significant transactions of these companies from their respective dates of incorporation to August 31, 2007 for the purpose of this report.

The statutory financial statements of the aforesaid entities which were prepared in accordance with the relevant accounting rules and regulations applicable to enterprises in the People's Republic of China ("PRC"), were audited during the relevant period by the respective statutory auditors as indicated below:

Name of company	Financial period	Auditors
Honghua Company	December 31, 2004, 2005 and 2006	(北京五聯方圓會計師事務所有限公司)
Hongtian Company	December 31, 2004 December 31, 2005 December 31, 2006	(四川興誠信聯合會計師事務所) (中天運會計師事務所有限公司四川分所) (北京五聯方圓會計師事務所有限公司)
Youxin Company	December 31, 2004 and 2005 December 31, 2006	(四川蜀源會計師事務所有限公司) (北京五聯方圓會計師事務所有限公司)
Honghua International	December 31, 2004, 2005 and 2006	(北京五聯方圓會計師事務所有限公司)

Basis of preparation

The Financial Information has been prepared by the directors of the Company based on the audited financial statements or, where appropriate, unaudited management accounts of the companies now comprising the Group, on the basis set out in Section A below, after making such adjustments as are appropriate (the "Underlying Financial Information"). Adjustments have been made, for the purpose of this report, to restate the Underlying Financial Information to conform with International Financial Reporting Standards ("IFRSs") promulgated by the International Accounting Standards Board and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). IFRSs include International Accounting Standards and Interpretations.

Respective responsibilities of directors and reporting accountants

The directors of the Company are responsible for the preparation and true and fair presentation of the Financial Information in accordance with IFRSs. The responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of Financial Information that is free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

It is our responsibility to form an independent opinion, based on our audit, on the Financial Information.

Basis of opinion

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have carried out appropriate audit procedures in respect of the Financial Information for the relevant period in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and we have carried out such additional procedures as we considered necessary in accordance with Auditing Guideline "Prospectuses and the Reporting Accountant" (Statement 3.340) issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the Financial Information is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Information. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Financial Information, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the Financial Information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Financial Information. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

We have not audited any financial statements of the companies comprising the Group in respect of any period subsequent to August 31, 2007.

Opinion

In our opinion, for the purposes of this report and on the basis of presentation set out in Section A below, all adjustments considered necessary have been made and the Financial Information gives a true and fair view of the Group's combined results, combined statements of changes in equity and combined statement of cash flows for the relevant period and of the Group's combined state of affairs as at December 31, 2004, 2005 and 2006 and August 31, 2007.

Comparative financial information

For the purpose of this report, we have also reviewed the unaudited financial information of the Group including the combined income statement, combined statement of changes in equity and combined statement of cash flows for the eight months ended August, 31 2006, together with the notes thereon (the "August 31, 2006 Corresponding Information"), for which the directors are responsible, in accordance with Statement of Auditing Standard 700 "Engagements to review interim financial reports" issued by the HKICPA. A review consists principally of making inquiries of group management and applying analytical procedures to the August 31, 2006 Corresponding Information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the August 31, 2006 Corresponding Information.

On the basis of our review of the August 31, 2006 Corresponding Information which does not constitute an audit, for the purpose of this report, we are not aware of any material modifications that should be made to the unaudited financial information presented for the eight months ended August 31, 2006.

A BASIS OF PRESENTATION

The combined income statements, combined statements of changes in equity and combined statements of cash flows of the Group as set out in Section B include the results of operations of the companies comprising the Group on the basis that the Company, for the purpose of this report, is regarded as a continuing entity and that the Reorganisation had been completed as at the beginning of the relevant period and that the business of the Group had been conducted by the Company throughout the relevant period as they are related to entities under common control. A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses ultimately are controlled by the same party or parties both before and after the business combination, and that control is not transitory.

All material intra-group transactions and balances have been eliminated on combination.

As at the date of this report, the Company had direct or indirect interests in the following subsidiaries, all of which are private companies, particulars of which are set out below:

Name of company	Place and date of establishment	Issued and fully paid-up/ registered capital	Attributable equity interest Direct	Attributable equity interest Indirect	Principal activities
Asia Harbour International Ltd. (“Asia Harbour”) (宏海國際有限公司) (note i)	Hong Kong, July 8, 2006	US$1	100%		Investment holding
Sichuan Honghua Petroleum Equipment Co., Ltd. (“Honghua Company”) (四川宏華石油設備有限公司) (notes i, ii, iii)	The PRC, December 31, 1997	RMB72,000,000		100%	Manufacturing of petroleum equipment
Chengdu Hongtian Electronic Drive Engineering Co., Ltd. (“Hongtian Company”) (成都宏天電傳工程有限公司) (notes i, ii, iv)	The PRC, June 6, 2001	RMB7,000,000		80%	Manufacturing of panel of drilling rig
Sichuan Honghua Youxin Petroleum Machinery Co., Ltd .(“Youxin Company”) (四川宏華友信石油機械有限公司) (notes i, ii, iv)	The PRC, August 7, 1998	RMB5,880,000		80%	Manufacturing of parts of drilling rigs
Honghua International Co., Ltd. (“Honghua International”) (四川宏華國際科貿有限公司) (notes i, ii, v)	The PRC, January 14, 2004	RMB3,200,000		80%	Trading of drilling rigs and related parts
Honghua America LLC (“Honghua America”) (note v, vi)	United States of America, October 11, 2004	US$800,000		80%	Trading of drilling rigs and related parts
Honghua Golden Coast Equipment FZE (“Golden Coast Company”) (宏華金海岸設備有限公司) (note i)	United Arab Emirates, November 23, 2006	AED1,000,000		80%	Not yet commenced business
Lucky Wish International Ltd. (“Lucky Wish”) (泓運國際有限公司) (note i)	BVI, February 2, 2005	US$1		80%	Trading of parts of drilling rigs

Notes:

(i) These entities are limited liability companies.

(ii) The official names of these companies are in Chinese. The English translation of the company name is for reference only.

(iii) As part of the Reorganisation, Honghua Company was transformed from domestic enterprise to wholly-owned foreign enterprise.

(iv) Hongtian Company and Youxin Company (formerly known as Guanghan Youxin Co., Ltd. (廣漢市友信有限責任公司)) were special purpose entities ("SPEs") established by the Group for the purpose of manufacturing certain core components of drilling rigs. The Group does not have any direct or indirect shareholdings in these entities. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE. SPEs controlled by the Group were established under terms that impose strict limitations on the decision-making powers of the SPEs' management and that result in the Group receiving all of the benefits related to the SPEs' operations and net assets. The financial statements of Hongtian Company and Youxin Company were combined into the Group's financial statements line by line. Owing to the fact that Honghua Company has no equity interest in the Hongtian Company and Youxin Company, the shareholders' interest were treated as minority interest.

The Group acquired an 80% equity interest of each of Hongtian Company and Youxin Company on July 18, 2006 and thereafter, Hongtian Company and Youxin Company legally became subsidiaries of the Group. The relevant assets and liabilities of the Hongtian Company and Youxin Company acquired by the Group have been recognised at historical cost.

For the purpose of this report, the results of Hongtian Company and Youxin Company for the relevant period have been included in the Group's combined income statements, combined statements of changes in equity and combined cash flow statements for the relevant period. The state of affairs of Hongtian Company and Youxin Company as at December 31, 2004, 2005 and 2006 and August 31, 2007 have been included in the Group's combined balance sheets at the respective dates. The interests of equity shareholders in SPEs (prior to the acquisition of equity interest) are presented as minority interests in the Group's combined financial statements.

(v) The Group acquired additional equity interests from minority equity holders of Honghua America and Honghua International to increase its equity interests to 80% with effective from September 5, 2006 and July 18, 2006, respectively. Honghua America and Honghua International became subsidiaries of the Group.

Because the ultimate equity holders controlled the aforesaid entities acquired by the Group before the Reorganisation and continue to control the companies comprising the Group after the Reorganisation, the Financial Information has been prepared as a reorganisation of businesses under common control. Accordingly, the relevant assets and liabilities of the aforesaid entities acquired by the Group have been recognized at historical cost.

For the purpose of this report, the results of Honghua America and Honghua International for the relevant period have been included in the Group's combined income statements, combined statements of changes in equity and combined cash flow statements for the relevant period. The state of affairs of Honghua America and Honghua International as at December 31, 2004, 2005 and 2006 and August 31, 2007 have been included in the Group's combined balance sheets at the respective dates.

(vi) Honghua America (formerly known as New Continental Equipment Co., Ltd. (美國新大陸設備有限公司)) was established as a limited partnership in the State of Texas, United States of America. It was converted into a limited liability company on December 19, 2006.

B FINANCIAL INFORMATION

1 Combined Income Statements

	Section C Note	Year ended 31 December			Eight months ended 31 August	
		2004	2005	2006	2006	2007
					(unaudited)	
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	3	539,265	501,570	2,335,948	842,830	1,518,647
Cost of sales		(440,028)	(392,993)	(1,558,121)	(598,405)	(1,019,110)
Gross profit		99,237	108,577	777,827	244,425	499,537
Other operating revenue	4	2,214	3,187	4,620	2,412	4,501
Other operating expenses	4	(572)	(648)	(917)	(84)	(101)
Selling expenses		(17,818)	(22,971)	(84,176)	(41,276)	(111,488)
General and administrative expenses		(29,039)	(42,436)	(110,185)	(40,079)	(89,352)
Other net income	4	440	1,427	3,085	830	2,388
Profit from operations		54,462	47,136	590,254	166,228	305,485
Net financing costs	5(a)	(3,858)	(4,132)	(23,141)	(6,012)	(12,432)
Profit before taxation	5	50,604	43,004	567,113	160,216	293,053
Income tax expense	6(a)	(10,488)	(10,749)	(103,203)	(60,797)	(54,724)
Profit for the year/period		40,116	32,255	463,910	99,419	238,329
Attributable to:						
Equity shareholders of the Company		32,168	18,454	412,814	66,599	201,095
Minority interests		7,948	13,801	51,096	32,820	37,234
Profit for the year/period		40,116	32,255	463,910	99,419	238,329
Dividends declared during the year/ period	9	2,164	1,638	19,533	19,533	—
Earnings per share	10					
—basic (RMB)		0.013	0.007	0.165	0.027	0.080

The accompanying notes form part of the Financial Information.

2 Combined Balance Sheets

	Section C Note	As at 31 December 2004	2005	2006	As at August 31, 2007
		RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets					
Fixed assets					
—Property, plant and equipment	11	52,118	96,640	210,418	239,601
—Interest in leasehold land held for own use under operating leases	11	10,429	15,732	24,616	36,189
—Freehold land	11	—	6,506	6,295	6,059
		62,547	118,878	241,329	281,849
Deposit paid for acquisition of leasehold land		—	11,066	21,171	41,140
Construction in progress	12	13,756	13,740	11,071	16,323
Deferred tax asset	21	1,410	2,950	13,088	22,318
Interest in a jointly controlled entity	22	—	—	—	45,091
Total non-current assets		77,713	146,634	286,659	406,721
Current assets					
Inventories	13	80,138	298,617	690,391	1,183,810
Trade and other receivables	14	183,039	337,647	869,374	1,373,461
Amount due from related companies	27(b)	1,831	4,269	1,998	92,165
Restricted bank deposit	15	—	—	107,875	—
Pledged bank deposits	16	15,104	88,207	67,746	198,845
Cash and cash equivalents	17	26,013	293,982	158,351	212,788
Total current assets		306,125	1,022,722	1,895,735	3,061,069
Total assets		383,838	1,169,356	2,182,394	3,467,790
Current liabilities					
Interest-bearing borrowings	18	54,900	31,184	345,000	758,550
Amount due to related companies	27(b)	7,128	7,380	54,859	295,646
Loan from ultimate holding company	27(b)	—	—	262,656	411,632
Loan from shareholders of the holding company	27(b)	—	—	—	76,850
Trade and other payables	19	211,413	981,517	1,091,647	1,279,155
Current taxation		3,866	4,429	64,623	40,891
Total current liabilities		277,307	1,024,510	1,818,785	2,862,724
Net current assets/ (liabilities)		28,818	(1,788)	76,950	198,345
Total assets less current liabilities		106,531	144,846	363,609	605,066
Non-current liabilities					
Interest-bearing borrowings	18	—	—	21,299	18,512
Deferred tax liability	21	—	—	4,259	4,104
Total non-current liabilities		—	—	25,558	22,616
Total liabilities		277,307	1,024,510	1,844,343	2,885,340
Equity					
Share capital	23	21,011	21,011	—	—
Reserves	24	63,510	80,326	303,613	510,778
Total equity attributable to equity holders of the Company		84,521	101,337	303,613	510,778
Minority interests		22,010	43,509	34,438	71,672
Total equity		106,531	144,846	338,051	582,450
Total liabilities and equity		383,838	1,169,356	2,182,394	3,467,790

The accompanying notes form part of the Financial Information.

3 Combined Statements of Changes in Equity

	Section C Note	Share capital	Share premium	Other Reserve	Statutory reserve	Exchange reserve	Retained profits	Sub-total	Minority interests	Total equity
		Attributable to equity shareholders of the Company								
		RMB'000 (Note 22)	RMB'000	RMB'000 (Note 23d)	RMB'000 (Note 23a)	RMB'000 (Note 23b)	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2004		21,011	—	—	11,945	—	21,561	54,517	13,662	68,179
Profit for the year		—	—	—	—	—	32,168	32,168	7,948	40,116
Capital injection by minority interests		—	—	—	—	—	—	—	400	400
Dividend paid during the year	9	—	—	—	—	—	(2,164)	(2,164)	—	(2,164)
Appropriation to statutory reserve		—	—	—	4,477	—	(4,477)	—	—	—
At December 31, 2004		21,011	—	—	16,422	—	47,088	84,521	22,010	106,531
At January 1, 2005		21,011	—	—	16,422	—	47,088	84,521	22,010	106,531
Profit for the year		—	—	—	—	—	18,454	18,454	13,801	32,255
Capital injection by minority interests		—	—	—	—	—	—	—	7,698	7,698
Appropriation to statutory reserve		—	—	—	7,964	—	(7,964)	—	—	—
Dividend paid during the year	9	—	—	—	—	—	(1,638)	(1,638)	—	(1,638)
At December 31, 2005		21,011	—	—	24,386	—	55,940	101,337	43,509	144,846
At January 1, 2006		21,011	—	—	24,386	—	55,940	101,337	43,509	144,846
Profit for the year		—	—	—	—	—	412,814	412,814	51,096	463,910
Acquisition of minority interest	24(d)	—	—	10,762	—	—	—	10,762	(60,167)	(49,405)
Capital reduction	23(a)	(12,941)	—	—	(9,340)	—	(64,850)	(87,131)	—	(87,131)
Dividend paid during the year	9	—	—	—	—	—	(19,533)	(19,533)	—	(19,533)
Appropriation to statutory reserve		—	—	—	62,852	—	(62,852)	—	—	—
Capital injection	23(b)	10,680	29,470	—	—	—	—	40,150	—	40,150
Exchange difference		—	—	—	—	(28)	—	(28)	—	(28)
Arising from reorganisation	23(c)	(18,750)	—	(136,008)	—	—	—	(154,758)	—	(154,758)
At December 31, 2006		—*	29,470	(125,246)	77,898	(28)	321,519	303,613	34,438	338,051
At January 1, 2007		—*	29,470	(125,246)	77,898	(28)	321,519	303,613	34,438	338,051
Profit for the period		—	—	—	—	—	201,095	201,095	37,234	238,329
Exchange difference		—	—	7,801	—	(1,731)	—	6,070	—	6,070
At August 31, 2007		—*	29,470	(117,445)	77,898	(1,759)	522,614	510,778	71,672	582,450
(Unaudited)										
At January 1, 2006		21,011	—	—	24,386	—	55,940	101,337	43,509	144,846
Profit for the period		—	—	—	—	—	66,599	66,599	32,820	99,419
Acquisition of minority interests in SPE		—	—	17,808	—	—	—	17,808	(55,590)	(37,782)
Acquisition of minority interests in HHI		—	—	(7,045)	—	—	—	(7,045)	(4,577)	(11,622)
Capital reduction	23(a)	(12,941)	—	—	(9,340)	—	(64,850)	(87,131)	—	(87,131)
Dividend				—	—	—	(19,533)	(19,533)	—	(19,533)
Capital injection		10,680	29,470	—	—	—	—	40,150	—	40,150
Exchange difference		—	—	—	—	(12)	—	(12)	—	(12)
At August 31, 2006		18,750	29,470	10,763	15,046	(12)	38,156	112,173	16,162	128,335

* Denotes share capital of US$1.

The accompanying notes form part of the Financial Information.

4 Combined Statements of Cash Flows

	Section C Note	Year ended 31 December			Eight months ended 31 August	
		2004	2005	2006	2006	2007
					(unaudited)	
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Operating activities						
Profit before taxation		50,604	43,004	567,113	160,216	293,053
Adjustments for:						
—Depreciation		4,440	8,100	13,892	8,006	14,895
—Amortisation of leasehold land		225	233	396	220	546
—Interest income		(446)	(256)	(2,356)	(1,279)	(2,936)
—Interest expense		4,084	2,217	9,130	2,396	19,092
—Loss on disposal of fixed assets		1	1,959	169	168	1,105
—Loss on disposal of construction in progress		93	301	—	—	—
—Disposed to staff as staff benefit		—	—	3,775	—	—
—Unrealized foreign exchange loss		—	112	1,250	238	7,490
Operating profit before change in working capital		59,001	55,670	593,369	169,965	333,245
Increase in inventories		(458)	(218,479)	(391,774)	(387,340)	(493,419)
(Increase)/decrease in trade and other receivables		(6,950)	(154,608)	(531,727)	(149,502)	(504,087)
(Increase)/decrease in amounts due from related parties		(4,022)	(2,438)	2,271	(12,403)	(90,167)
(Increase)/decrease in restricted bank deposits		—	—	(107,875)	—	107,875
Decrease/(increase) in pledged deposits		991	(73,103)	20,461	(5,145)	(131,099)
(Decrease)/increase in trade and other payables		(10,902)	770,104	110,130	119,951	184,293
(Decrease)/increase in amounts due to related parties		(4,408)	252	47,479	7,814	240,787
Cash generated from/ (used in) operations		33,252	377,398	(257,666)	(256,660)	(352,572)
Income tax paid		(9,215)	(11,726)	(48,888)	(37,438)	(87,846)
Net cash generated from/(used in) operating activities		24,037	365,672	(306,554)	(294,098)	(440,418)
Investing activities						
Payment for addition of fixed assets		(12,986)	(30,000)	(82,688)	(53,567)	(27,980)
Proceeds from disposal of fixed assets		35	53	3,398	100	1,131
Payment for construction in progress		(11,006)	(31,535)	(50,717)	(27,687)	(24,768)
Deposit placed for acquisition of leasehold land		—	(11,066)	(10,105)	—	(19,968)
Payment for leasehold land		(775)	(5,536)	(9,280)	(1,385)	(12,119)
Acquisition of minority interests		—	—	(49,410)	(49,410)	—
Capital contribution of a jointly controlled entity		—	—	—	—	(45,091)
Interest received		446	256	2,356	1,279	2,936
Net cash used in investing activities		(24,286)	(77,828)	(196,446)	(130,670)	(125,859)
Financing activities						
Proceeds from bank loans		2,031	29,184	388,455	317,917	809,550
Repayment of bank loans		(17,315)	(52,900)	(67,083)	(23,303)	(400,827)
Proceeds from a loan from a financial institution		—	—	13,743	632	2,042
Payment for repurchase of shares	23(a)	—	—	(87,131)	(87,131)	—
Proceed from shareholders loan		—	—	—	—	76,850
Dividends paid		(2,164)	(1,638)	(19,533)	(11,736)	—
Interest paid		(4,084)	(2,217)	(9,130)	(2,396)	(15,877)
Loan from ultimate holding company		—	—	262,656	—	148,976
Appropriations to shareholders		—	—	(154,758)	—	—
Issue of share capital		—	—	40,150	40,150	—
Proceeds from capital injection by minority interest shareholders		—	7,696	—	—	—
Net cash (used in)/ generated from financing activities		(21,532)	(19,875)	367,369	234,133	620,714
Net (decrease)/ increase in cash and cash equivalents		(21,781)	267,969	(135,631)	(190,635)	54,437
Cash and cash equivalents at 1 January		47,794	26,013	293,982	293,982	158,351
Cash and cash equivalents at 31 December/ 31 August	17	26,013	293,982	158,351	103,347	212,788

The accompanying notes form part of the Financial Information.

C NOTES ON THE FINANCIAL INFORMATION

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The Financial Information set out in this report has been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board ("IASB"). The Financial Information also complies with the disclosure requirements of the Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The Group did not prepare any combined financial statements previously. This is the Group's first IFRS Financial Information and IFRS 1 has been applied.

The IASB issued a number of new and revised IFRSs that are effective or available for early adoption for accounting periods beginning on or after January 1, 2004. For the purposes of preparing this Financial Information, the Group has adopted all these new and revised IFRSs to the relevant period, except for any new standards or interpretations that are not yet effective for the relevant period. The new and revised accounting standards and interpretations issued but not yet effective for the accounting period beginning on March 1, 2007 are set out in note 31.

(b) Basis of preparation of the Financial Information

The Financial Information comprises the Company and its subsidiaries.

The Financial Information is presented in Renminbi ("RMB"), rounded to the nearest thousand. It is presented on the historical cost basis. Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("functional currency").

The preparation of the Financial Information in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the Financial Information and estimates with a significant risk of material adjustment in the next year are discussed in note 29.

The accounting policies set out below have been applied consistently to all periods presented.

(c) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

Financial statements of a subsidiary are included in the Financial Information from the date that control commences until the date that control ceases. Merger accounting is adopted for common control combinations in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the combined balance sheets and combined statements of changes in equity within equity, separately from equity attributable to equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the combined income statements as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Transactions with minority shareholders of the Group are at book value and classified as equity transactions. Accordingly, when the Group acquires minority interests of its subsidiaries, the difference between the amounts of consideration and carrying values of minority interests are recognized as reserve movement.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

(d) Jointly controlled entities

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or company and other parties, where the contractual arrangement establishes that the Group or company and one or more of the other parties share joint control over the economic activity of the entity.

An investment in a jointly controlled entity is accounted for in the combined financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the jointly controlled entity's net assets, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale)

The combined income statement includes the Group's share of the post-acquisition, post-tax results of the jointly controlled entities for the year, including any impairment loss on goodwill relating to the investment in jointly controlled entities recognised for the year.

When the Group's share of losses exceeds its interest in the jointly controlled entity, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the jointly controlled entity. For this purpose, the Group's interest in the jointly controlled entity is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the jointly controlled entity.

Unrealised profits and losses resulting from transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interest in the jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

(e) Business combinations involving entities under common control

The combined Financial Information incorporate the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling interest.

The combined income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the combined Financial Information are presented as if the entities or businesses had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

(f) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is charged immediately to profit or loss, except where the derivatives quality for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

(g) Fixed assets and depreciation

Fixed assets are stated in the combined balance sheet at cost less accumulated depreciation and impairment losses (see note 1(k)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement combined income on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of fixed assets, less their estimated residual values, if any, using the straight line method over their estimated useful lives as follows:

—Freehold land	Not depreciated
—Buildings held for own use	20 - 35 years
—Plant and machinery	5 - 10 years
—Fixtures, fittings and equipment	5 - 10 years
—Motor vehicles	5 - 6 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

(h) Construction in progress

Construction in progress represents property, plant and equipment under construction and equipment pending installation, and is stated at cost less impairment losses (see note 1(k)). Cost comprises direct costs of construction. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all of the activities necessary to prepare the assets for their intended use are complete.

No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use.

(i) Lease prepayments

Lease prepayments represent cost of land use rights paid to the PRC's governmental authorities. Land use rights are carried at cost less accumulated amortisation and impairment loss (see note 1(k)). Amortisation is charged to income statement on a straight-line basis over the respective periods of the rights.

(j) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to income statement in equal instalments over the accounting periods covered by the lease terms, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in income statement as an integral part of the aggregate net lease payments made.

(k) Impairment of assets

(i) Impairment of trade and other receivables

Trade and other receivables that are carried at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

- For trade and other receivables carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- construction in progress;

- Interest in jointly controlled entities;
- lease prepayments; and
- freehold land

If any such indication exists, the asset's recoverable amount is estimated.

- Calculation of recoverable amount

  The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

  An impairment loss is recognised in the income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

- Reversals of impairment losses

  An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

  A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(l) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(m) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 1(k)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 1(k)).

(n) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(o) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(p) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(q) Employee benefits

(i) Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Contributions to appropriate local defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in the income statement as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

(r) Income tax

(i) Income tax for the year/period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

(ii) Current tax is the expected tax payable on the taxable income for the year/period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from differences which arose on initial recognition of assets and liabilities, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognized. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(s) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(t) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in income statement as follows:

(i) Sale of goods

Revenue is recognised when the customer has accepted the related risks and rewards of ownership. Revenue excludes value-added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iii) Government grants

Government grants are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are initially recognised as deferred income and subsequently recognised as revenue in profit or loss on a systematic basis over the useful life of the related asset.

(iv) Rendering of repairing services

Revenue is recognised when the service has been rendered.

(u) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of operations outside the PRC are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Renminbi at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

On disposal of an operation outside the PRC, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

(v) Borrowing costs

Borrowing costs are expensed in the profit or loss in the period in which they are incurred.

(w) Research and development

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised as an expense in the period in which it is as incurred.

(x) Warranty costs

Provision for warranty costs is based on historical trends in product defect rates and the expected material and labour costs to provide warranty services. In case of new products, expert opinions and industry data are also taken into consideration in estimating the product warranty accruals. Provision is only made where a warranty claim is probable.

(y) Dividends

Dividends are recognised as a liability in the period in which they are declared.

(z) Related parties

For the purposes of the Financial Information, a party is considered to be related to the Group if

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making finance and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(iv) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(v) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(aa) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, cash and cash equivalents, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

2 SEGMENT REPORTING

Segment information is presented in the Financial Information in respect of the Group's business segments, which are the primary basis of segment reporting. The business segment reporting format reflects the Group's management and internal reporting structure.

Inter-segment pricing is determined on an arm's length basis.

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly cash and cash equivalents, interest-bearing loans, borrowings and expenses and corporate assets and expenses.

Inter-segment transactions were eliminated up on combination. The inter-segment transactions mainly represented the sales of parts and components, between group companies.

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

	Year ended December 31, 2004			
	Drilling rigs	Parts and components	Eliminations	Combined
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	468,783	153,631	(83,149)	539,265
Cost of sales	(400,101)	(122,567)	82,640	(440,028)
Other income and expenses	(33,724)	(13,133)	—	(46,857)
Segment result	34,958	17,931	(509)	52,380
Unallocated				2,082
Net financing costs				(3,858)
Income tax				(10,488)
Profit for the year				40,116

	Year ended December 31, 2004			
	Drilling rigs	Parts and components	Eliminations	Combined
	RMB'000	RMB'000	RMB'000	RMB'000
Segment assets	241,469	94,743	(20,631)	315,581
Unallocated assets				68,257
Total assets				383,838
Segment liabilities	232,376	44,113	(20,631)	255,858
Unallocated liabilities				21,449
Total liabilities				277,307
Capital expenditure	12,812	3,590	—	16,402
Depreciation and amortisation	2,691	813	—	3,504
Non-cash expenses other than depreciation and amortisation	71	23	—	94

	Year ended December 31, 2005			
	Drilling rigs	Parts and components	Eliminations	Combined
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	433,976	206,776	(139,182)	501,570
Cost of sales	(345,620)	(181,942)	134,569	(392,993)
Other income and expenses	(42,995)	(22,412)	—	(65,407)
Segment result	45,361	2,422	(4,613)	43,170
Unallocated				3,966
Net financing costs				(4,132)
Income tax				(10,749)
Profit for the year				32,255

	Year ended December 31, 2005			
	Drilling rigs	Parts and components	Eliminations	Combined
	RMB'000	RMB'000	RMB'000	RMB'000
Segment assets	690,856	179,456	(130,060)	740,252
Unallocated assets				429,104
Total assets				1,169,356
Segment liabilities	938,970	182,988	(130,060)	991,898
Unallocated liabilities				32,612
Total liabilities				1,024,510
Capital expenditure	23,338	14,948	—	38,286
Depreciation and amortisation	4,873	1,634	—	6,507
Non-cash expenses other than depreciation and amortisation	1,871	892	—	2,763

	Year ended December 31, 2006			
	Drilling rigs	Parts and components	Eliminations	Combined
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	2,037,272	605,273	(306,597)	2,335,948
Cost of sales	(1,362,421)	(490,936)	295,236	(1,558,121)
Other income and expenses	(138,423)	(52,163)	—	(190,586)
Segment result	536,428	62,174	(11,361)	587,241
Unallocated				3,013
Net financing costs				(23,141)
Income tax				(103,203)
Profit for the year				463,910
Segment assets	1,480,684	295,628	(199,457)	1,576,855
Unallocated assets				605,539
Total assets				2,182,394
Segment liabilities	923,611	266,539	(199,457)	990,693
Unallocated liabilities				853,650
Total liabilities				1,844,343
Capital expenditure	66,037	65,687	—	131,724
Depreciation and amortisation	9,026	2,306	—	11,332
Non-cash expenses other than depreciation and amortisation	5,285	1,541	—	6,826

	Eight months ended August 31, 2007			
	Drilling rigs	Parts and components	Eliminations	Combined
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	1,253,349	762,468	(497,170)	1,518,647
Cost of sales	(997,801)	(494,756)	473,447	(1,019,110)
Other income and expenses	(134,265)	(66,575)	—	(200,840)
Segment result	121,283	201,137	(23,723)	298,697
Unallocated				6,788
Net financing costs				(12,432)
Income tax				(54,724)
Profit for the period				238,329
Segment assets	1,854,925	2,286,275	(1,349,210)	2,791,990
Unallocated assets				675,800
Total assets				3,467,790
Segment liabilities	1,430,183	1,550,310	(1,349,210)	1,631,283
Unallocated liabilities				1,254,057
Total liabilities				2,885,340
Capital expenditure	41,545	13,361	—	54,906
Depreciation and amortisation	(7,555)	(3,636)	—	(11,191)
Non-cash expenses other than depreciation and amortisation	5,195	3,161	—	8,356

	Eight months ended August 31, 2006 (unaudited)			
	Drilling rigs	Parts and components	Eliminations	Combined
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	718,432	386,975	(262,577)	842,830
Cost of sales	(532,445)	(309,398)	243,438	(598,405)
Other income and expenses	(51,455)	(29,900)	—	(81,355)
Segment result	134,532	47,677	(19,139)	163,070
Unallocated				3,158
Net financing costs				(6,012)
Income tax				(60,797)
Profit for the period				99,419
Capital expenditure	25,991	30,069	—	56,060
Depreciation and amortisation	(5,002)	(1,637)	—	(6,639)
Non-cash expenses other than depreciation and amortisation	875	472	—	1,347

Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of the customers. Segment assets are based on the geographical location of the assets.

	Year ended December 31, 2004					
	PRC	North America	Middle East	Europe	Others	Combined
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers	524,256	1,658	—	—	13,351	539,265
Segment assets	383,838	—	—	—	—	383,838
Segment liabilities	277,307	—	—	—	—	277,307
Capital expenditure	24,767	—	—	—	—	24,767

	Year ended December 31, 2005					
	PRC	North America	Middle East	Europe	Others	Combined
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers	343,417	141,084	—	15,444	1,625	501,570
Segment assets	1,115,661	51,242	—	—	2,453	1,169,356
Segment liabilities	995,321	29,162	—	—	27	1,024,510
Capital expenditure	59,768	7,303	—	—	—	67,071

	Year ended December 31, 2006					
	PRC	North America	Middle East	Europe	Others	Combined
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers	386,099	1,665,572	261,733	8,580	13,964	2,335,948
Segment assets	1,995,236	87,770	2,066	—	97,322	2,182,394
Segment liabilities	1,540,529	37,595	—	—	266,219	1,844,343
Capital expenditure	112,479	30,206	—	—	—	142,685

	Eight months ended August 31, 2007					
	PRC	North America	Middle East	Europe	Others	Combined
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers . . .	688,733	515,980	1,081	97,013	215,840	1,518,647
Segment assets	2,591,273	184,007	2,844	—	689,666	3,467,790
Segment liabilities	2,137,570	154,832	2,642	—	590,296	2,885,340
Capital expenditures	61,035	3,491	341	—	—	64,867

	Eight months ended August 31, 2006 (unaudited)					
	PRC	North America	Middle East	Europe	Others	Combined
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers . . .	163,499	671,930	—	7,099	302	842,830
Segment assets	1,532,778	63,643	—	—	25,037	1,621,458
Segment liabilities	1,438,369	34,215	—	—	20,540	1,493,124
Capital expenditures	48,935	19,436	—	—	—	68,371

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.

	Years ended 31 December			Eight months ended 31 August	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	(unaudited) RMB'000	RMB'000
Sale of drilling rigs	468,783	433,976	2,037,272	718,432	1,253,349
Sale of parts and components	70,482	67,594	298,676	124,398	265,298
	539,265	501,570	2,335,948	842,830	1,518,647

4 OTHER OPERATING REVENUE, OTHER OPERATING EXPENSES AND OTHER NET INCOME

	Years ended 31 December			Eight months ended 31 August	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	(unaudited) RMB'000	RMB'000
Other operating revenue					
Rendering of repairing services	2,201	3,161	4,526	2,355	4,490
Others	13	26	94	57	11
	2,214	3,187	4,620	2,412	4,501
Other operating expenses					
Others	572	648	917	84	101
Other net income					
Government grants	—	3,179	2,252	—	3,817
Donations	(20)	—	(460)	(220)	(165)
Loss on disposal of fixed assets	(1)	(1,959)	(169)	(168)	(1,105)
Loss on disposal of construction in progress	(93)	(301)	—	—	—
Others	554	508	1,462	1,218	(159)
	440	1,427	3,085	830	2,388

5 PROFIT BEFORE TAXATION

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

	Years ended 31 December			Eight months ended 31 August	
	2004	2005	2006	2006	2007
				(unaudited)	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
(a) Net financing costs					
Exchange loss, net	40	1,720	15,359	4,402	(4,692)
Interest income	(446)	(256)	(2,356)	(1,279)	(2,936)
Interest expense	4,084	2,217	9,130	2,396	19,092
Banks charges	180	451	1,008	493	968
	3,858	4,132	23,141	6,012	12,432
(b) Staff costs					
Contributions to defined contribution retirement plan	708	1,485	3,159	1,825	5,306
Salaries, wages and other benefits	33,365	45,371	113,799	45,820	82,404
	34,073	46,856	116,958	47,645	87,710
(c) Other items					
Depreciation					
—assets held for use under operating leases	225	233	396	220	546
—other assets	4,440	8,100	13,892	8,006	14,895
Impairment losses of trade and other receivables	—	394	1,637	—	—
Auditors' remuneration	148	251	2,042	1,585	2,676
Operating lease charges: minimum lease payments	95	440	490	535	687
(Written back)/ provision for product warranty	(4,238)	(1,331)	11,826	3,741	5,736
Research and development costs *	1,172	5,233	16,208	8,230	14,069

* The amounts included staff costs of employees in the Research and Development Department, which are included in the total staff costs as disclosed in note 5(b).

6 INCOME TAX

(a) Taxation in the combined income statements

	Years ended 31 December			Eight months ended 31 August	
	2004	2005	2006	2006	2007
				(unaudited)	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Current tax					
Provision for the year/period	11,898	12,289	104,503	60,797	63,954
Under-provision in respect of prior years	—	—	601	—	—
Current tax — Overseas					
Provision for the year/period	—	—	3,978	—	—
Deferred tax					
Origination and reversal of temporary differences	(1,410)	(1,540)	(5,879)	—	(9,230)
	10,488	10,749	103,203	60,797	54,724

(b) Taxation in the combined income statements represents:

(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 during the relevant period.

(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 exempted from payment of Cayman Islands income tax.

(iii) British Virgin Islands

Pursuant to the rule 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 is charged at the appropriate current rates of taxation ruling in the relevant state. The applicable tax rate for the relevant period was 26%.

(v) United Arab Emirates

Golden Coast Company 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

For the year ended 2004 and 2005

Pursuant to the approvals obtained from the relevant PRC tax authorities, Honghua Company will be recognised as established in the western regions of PRC with principal revenue of over 70% being accounted for by encouraged business activities. Honghua Company was entitled to a preferential income tax rate of 15% in the years 2004 and 2005.

For the period from January to September 2006

Honghua Company was subject to an income tax rate of 33% as it failed to make an application for a reduced rate.

For the period from October to December 2006 and for the eight months ended August 31, 2007

On September 15, 2006, Honghua Company changed from being a domestic enterprise to a wholly owned foreign invested enterprise, and was entitled to tax concessions from October 1, 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) is exempt from national income tax in the PRC and the profit for each of the subsequent three financial years is taxed at 50% of the prevailing tax rates set by the relevant authorities. All income earned since October 1, 2006 to December 31, 2006 and for the year ended December 31, 2007 are exempt from national income tax. Honghua Company was still subject to a local income tax at rate of 3%. The income tax for the period from January 1, 2008 to December 31, 2010 is discussed below.

(b) Hongtian Company and Youxin Company

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

(c) Honghua International

Honghua International was newly established as a domestic enterprises in 2004 engaging in overseas trading and was exempt from enterprise income tax for the year 2004 under Caishuizi 1994 No.1.

Pursuant to the income tax rules and regulations of the PRC, the income tax rate applicable to Honghua International is 33% with effect from the year 2005.

(d) Changes to the PRC tax legislation

On March 16, 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 will take effect on January 1, 2008. For Honghua Company, upon the end of the tax relief period on December 31, 2010, the PRC Enterprise Income Tax will be adjusted to the standard rate of 25%.

The State Council of the PRC passed an implementation guidance note ("Implementation Guidance") on December 26, 2007, which sets out details of how existing preferential income tax rates will be adjusted to the standard rate of 25%. According to the Implementation Guidance, Honghua Company, which is eligible for 100% or 50% relief from PRC Enterprise Income Tax, will continue to enjoy a preferential rate of income tax rate until the New Tax Law comes into force, after which, the 25% standard rate will apply.

Pursuant to the Notice on the Implementation Rules for Grandfathering Relief under the New Tax Law ("Notice 39") issued by The State Council on December 26, 2007, effective from January 1, 2008, the existing preferential income tax policy pertaining to enterprises established in western regions of PRC will continue to be effective until December 31, 2010. According to Notice 39, Honghua Company can still enjoy its tax holiday relief for a 5-year transitional period. The tax rate applicable to Honghua Company is subject to approval by the tax authority.

The existing preferential tax policy pertaining to the development of western China shall continue to be effective. Subject to approval by the relevant PRC tax authorities, the preferential income tax rate applicable to Hongtian Company and Youxin Company shall continue to be effective. The enactment of the New Tax Law is not expected to have any financial effect on the amounts accrued in the combined balance sheet in respect of current tax recoverable or payable.

Honghua International is currently subject to PRC enterprise income tax at a rate of 33%. As a result of the New Tax Law, it is expected that the income tax rate applicable to Honghua International will be reduced from 33% to 25% from January 1, 2008. The new tax rate of 25% has been applied in the measurement of this subsidiary's deferred tax assets and liabilities as at August 31, 2007, which is expected to be utilised subsequent to January 1, 2008.

Further under the New Tax Law, from January 1, 2008, 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% on various types of passive income such as dividends derived from sources within the PRC. The Group has already commenced an assessment on the impact of the New Tax Law regarding this withholding tax but is not yet in a position to state whether the New Tax Law will have a significant impact on the Group's results of operations and financial position.

(c) Reconciliation between tax expense and accounting profit at applicable tax rates:

	Years ended 31 December			**Eight months ended 31 August**	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	**RMB'000**	**RMB'000**	**(unaudited) RMB'000**	**RMB'000**
Profit before taxation	50,604	43,004	567,113	160,216	293,053
Notional tax on profit before tax, calculated at the rates applicable to profits in the countries concerned	7,260	7,647	149,663	40,418	91,654
Tax effect of non-deductible expenses	3,228	3,102	23,109	20,379	8,005
Effect on deferred tax balances resulting from a change in tax rate	—	—	—	—	706
Under-provision in prior years	—	—	601	—	—
Tax concessions	—	—	(70,170)	—	(45,641)
Income tax expense	10,488	10,749	103,203	60,797	54,724

7 DIRECTORS' REMUNERATION

Details of directors' remuneration are set out below:

Year ended December 31, 2004

	Fees	Basic salaries, allowances and other benefits	Contributions to retirement benefit scheme	Bonuses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
Zhang Mi	—	279	6	—	285
Ren Jie	—	197	4	—	201
Zhang Xu	—	168	5	—	173
Total	—	644	15	—	659

Year ended December 31, 2005

	Fees	Basic salaries, allowances and other benefits	Contributions to retirement benefit scheme	Bonuses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Zhang Mi	—	301	9	329	639
Ren Jie	—	204	6	215	425
Zhang Xu	—	149	6	107	262
Total	—	654	21	651	1,326

Year ended December 31, 2006

	Fees	Basic salaries, allowances and other benefits	Contributions to retirement benefit scheme	Bonuses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Zhang Mi	—	538	12	665	1,215
Ren Jie	—	350	8	440	798
Zhang Xu	—	211	9	126	346
Total	—	1,099	29	1,231	2,359

Eight months ended August 31, 2007

	Fees	Basic salaries, allowances and other benefits	Contributions to retirement benefit scheme	Bonuses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Zhang Mi	—	500	10	—	510
Ren Jie	—	210	7	—	217
Zhang Xu	—	150	8	—	158
Total	—	860	25	—	885

Eight months ended August 31, 2006 (unaudited)

	Fees	Basic salaries, allowances and other benefits	Contributions to retirement benefit scheme	Bonuses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Zhang Mi	—	338	8	—	346
Ren Jie	—	233	6	—	239
Zhang Xu	—	120	6	—	126
Total	—	691	20	—	711

During the relevant period, no amount was paid or payable to the directors or any of the highest paid individuals set out in note 8 below as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the relevant period.

8 INDIVIDUAL WITH HIGHEST EMOLUMENTS

The five highest paid individuals of the Group include two, two, two, three and two directors during the years ended December 31, 2004, 2005 and 2006 and the eight months ended August 31, 2006 and 2007 whose emoluments are disclosed in note 7. Details of remuneration paid to the remaining highest individuals of the Group are as follows:

	Years ended 31 December			Eight months ended 31 August	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	(unaudited) RMB'000	RMB'000
Basic salaries, allowances and benefits in kind	433	462	819	341	684
Discretionary bonuses	349	983	3,316	—	—
Retirement scheme contributions	4	5	5	4	—
Other benefits	—	—	—	—	—
	786	1,450	4,140	345	684

The emoluments of these individuals are within the following band:

	Year ended 31 December			Eight months ended 31 August	
	2004	2005	2006	2006	2007
RMB Nil to RMB1,000,000	3	3	2	2	3
RMB1,000,000 to RMB2,000,000	—	—	—	—	—
RMB2,000,000 to RMB3,000,000	—	—	1	—	—

9 DIVIDENDS

	Years ended 31 December			Eight months ended 31 August	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	(unaudited) RMB'000	RMB'000
Final dividend declared during the year	2,164	1,638	19,533	19,533	—

Pursuant to the resolutions passed at the Board meeting on February 20, 2004, April 1, 2005, and August 16, 2006 dividends of RMB2,164,000, RMB1,638,000 and RMB19,533,000 were declared by Honghua Company to its then respective equity holders.

The directors consider the dividend payments made during the relevant period are not indicative of the future dividend policy of the Group.

10 EARNINGS PER SHARE

The calculation of basic earnings per share for the relevant period is based on the net profit attributable to equity shareholders of the Company for each of the years ended December 31, 2004, 2005 and 2006 and the eight months ended August 31, 2007 and on the number of shares in issue as at the date of this report as if the shares were outstanding throughout the entire relevant period.

There were no dilutive potential ordinary shares during the relevant period and, therefore, diluted earnings per share are not presented.

11 FIXED ASSETS

	Freehold land	Interests in leasehold land held for own use under operating leases	Buildings held for own use carried at cost	Plant and machinery	Fixtures, fittings and equipments	Motor vehicles	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:							
At January 1, 2004	—	7,876	21,419	9,842	7,926	5,385	52,448
Additions	—	775	6	7,297	3,535	2,148	13,761
Transfer from construction in progress (note 12)	—	2,708	3,675	1,092	—	—	7,475
Disposals	—	—	—	(2)	(70)	(60)	(132)
At December 31, 2004	—	11,359	25,100	18,229	11,391	7,473	73,552
At January 1, 2005	—	11,359	25,100	18,229	11,391	7,473	73,552
Additions	6,607	5,536	457	10,584	7,383	4,969	35,536
Transfer from construction in progress (note 12)		—	14,656	14,875	1,719	—	31,250
Disposals		—	(2,343)	(18)	(81)	(44)	(2,486)
Exchange difference	(101)	—	—	—	(4)	(7)	(112)
At December 31, 2005	6,506	16,895	37,870	43,670	20,408	12,391	137,740
At January 1, 2006	6,506	16,895	37,870	43,670	20,408	12,391	137,740
Additions	—	9,280	23,404	27,759	24,317	7,208	91,968
Transfer from construction in progress (note 12)	—	—	49,371	240	—	—	49,611
Disposals	—	—	(3,736)	(122)	(116)	(475)	(4,449)
Exchange difference	(211)	—	(873)	(43)	(114)	(57)	(1,298)
At December 31, 2006	6,295	26,175	106,036	71,504	44,495	19,067	273,572
At January 1, 2007	6,295	26,175	106,036	71,504	44,495	19,067	273,572
Additions	—	12,119	182	7,308	15,323	5,167	40,099
Transfer from construction in progress	—	—	19,066	—	450	—	19,516
Disposals	—	—	—	(25)	(2,118)	(289)	(2,432)
Exchange difference	(236)	—	(965)	(48)	(126)	(63)	(1,438)
At August 31, 2007	6,059	38,294	124,319	78,739	58,024	23,882	329,317
Accumulated depreciation:							
At January 1, 2004	—	(705)	(2,141)	(699)	(1,862)	(1,029)	(6,436)
Charge for the year	—	(225)	(1,053)	(1,081)	(1,586)	(720)	(4,665)
Written back on disposal	—	—	—	2	62	32	96
At December 31, 2004	—	(930)	(3,194)	(1,778)	(3,386)	(1,717)	(11,005)
At January 1, 2005	—	(930)	(3,194)	(1,778)	(3,386)	(1,717)	(11,005)
Charge for the year	—	(233)	(1,584)	(3,223)	(2,314)	(979)	(8,333)
Written back on disposal	—	—	421	10	43	—	474
Exchange difference	—	—	—	—	1	1	2
At December 31, 2005	—	(1,163)	(4,357)	(4,991)	(5,656)	(2,695)	(18,862)
At January 1, 2006	—	(1,163)	(4,357)	(4,991)	(5,656)	(2,695)	(18,862)
Charge for the year	—	(396)	(2,548)	(5,728)	(3,952)	(1,664)	(14,288)
Written back on disposal	—	—	298	115	101	368	882
Exchange difference	—	—	7	1	11	6	25
At December 31, 2006	—	(1,559)	(6,600)	(10,603)	(9,496)	(3,985)	(32,243)
At January 1, 2007	—	(1,559)	(6,600)	(10,603)	(9,496)	(3,985)	(32,243)
Charge for the period	—	(546)	(3,752)	(3,766)	(5,366)	(2,011)	(15,441)
Written back on disposals	—	—	—	20	2	174	196
Exchange difference	—	—	8	1	5	6	20
At August 31, 2007	—	(2,105)	(10,344)	(14,348)	(14,855)	(5,816)	(47,468)
Net book value:							
At December 31, 2004	—	10,429	21,906	16,451	8,005	5,756	62,547
At December 31, 2005	6,506	15,732	33,513	38,679	14,752	9,696	118,878
At December 31, 2006	6,295	24,616	99,436	60,901	34,999	15,082	241,329
At August 31, 2007	6,059	36,189	113,975	64,391	43,169	18,066	281,849

12 CONSTRUCTION IN PROGRESS

	As at 31 December			As at August 31,
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January	10,318	13,756	13,740	11,071
Additions	11,006	31,535	50,717	24,768
Disposals	(93)	(301)	(3,775)	—
Transferred to fixed assets (note 11)	(7,475)	(31,250)	(49,611)	(19,516)
Balance at 31 December	13,756	13,740	11,071	16,323

Construction in progress comprises costs incurred on buildings and plant and equipment not yet completed at the respective balance sheet dates.

13 INVENTORIES

(a) Inventories in the combined balance sheets comprise:

	As at 31 December			As at August 31,
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	42,801	135,076	241,395	286,489
Work in progress	22,022	115,935	188,667	348,387
Goods in transit	1,125	38,505	41,688	136,031
Finished goods	14,190	9,101	218,641	412,903
	80,138	298,617	690,391	1,183,810

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

	Years ended 31 December			Eight months ended
	2004	2005	2006	31 August
	RMB'000	RMB'000	RMB'000	RMB'000
Carrying amount of inventories sold	437,441	379,488	1,542,970	1,019,110
Write down of inventories	604	11,165	8,168	31,183
	438,045	390,653	1,551,138	1,050,293

14 TRADE AND OTHER RECEIVABLES

	As at 31 December			As at August 31,
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	146,250	175,492	564,687	1,014,937
Bills receivable	—	1,966	12,550	4,000
Less: allowance for doubtful debts (note 14(b))	(1,520)	(1,914)	(3,551)	(3,551)
	144,730	175,544	573,686	1,015,386
Value-added-tax receivable	—	19,605	54,046	107,064
Other receivables	6,870	14,801	64,958	52,194
Prepayments	31,439	127,697	176,684	198,817
	183,039	337,647	869,374	1,373,461

Other receivables include advances to staff and insurance prepayments.

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

Included in trade and other receivables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	As at 31 December			As at August 31,
	2004	2005	2006	2007
	'000	'000	'000	'000
United States dollars	US$ —	US$ 3,764	US$ 43,031	US$ 72,736
UAE Dirham	AED—	AED —	AED —	AED 15

(a) ***Ageing analysis***

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

	As at 31 December			As at August 31,
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Current	56,093	142,222	545,874	383,291
Less than 1 month past due	3,804	3,499	649	192,257
1 to 3 months past due	63,681	19,703	17,957	367,959
More than 3 months but less than 12 months past due	21,152	10,120	9,206	71,879
	144,730	175,544	573,686	1,015,386

The Group normally grants an average credit period of 30 to 90 days from the date of billing to its trade customers. Despite some of the accounts receivables being settled after the credit period, management expects that the balances are recoverable within one year; therefore, these balances are classified as current assets.

(b) ***Impairment of trade and bills receivable***

Impairment loss in respect of trade 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 and bills receivable directly (see note 1(k)).

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

	Years ended 31 December			Eight months ended August 31,
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January	1,520	1,520	1,914	3,551
Impairment loss recognised	—	394	1,637	—
At 31 December / 31 August	1,520	1,914	3,551	3,551

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

15 RESTRICTED BANK DEPOSIT

As part of the financial covenants to the convertible note holder of Ally Giant Limited, an intermediate holding company, the Group agreed to set up an escrow account, whereby the escrow fund is restrictive in usage. The restricted deposit can only be released upon the receipt of a written notice from the representative of the convertible note holder. The restricted bank deposit was released by end of June 2007.

16 PLEDGED BANK DEPOSITS

The deposits are pledged to banks as security against certain banking facilities granted to the Group (See note 18).

17 CASH AND CASH EQUIVALENTS

	As at 31 December			As at August 31,
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Cash at bank	25,962	293,489	157,796	211,641
Cash in hand	51	493	555	1,147
	26,013	293,982	158,351	212,788

As at December 31, 2004, 2005 and 2006 and August 31, 2007, deposits that were placed with banks in the PRC and included in the cash and cash equivalents above amounted to RMB26,013,232, RMB279,549,322 and RMB83,383,002 and RMB182,466,506 respectively. Remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

Included in cash and cash equivalents in the combined balance sheets are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	As at 31 December			As at August 31,
	2004	2005	2006	2007
	'000	'000	'000	'000
United States dollars	US$ 8	US$ 22,116	US$ 8,350	US$ 9,929
Euro	EUR—	EUR —	EUR —	EUR 276
UAE Dirham	AED—	AED —	AED —	AED 116

18 INTEREST-BEARING BORROWINGS

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

	As at 31 December			As at August 31,
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans				
—secured	—	5,000	72,556	27,729
—unsecured	54,900	26,184	280,000	733,550
Loan from a financial institution	—	—	13,743	15,783
Total	54,900	31,184	366,299	777,062

The bank loans were repayable as follows:

	As at 31 December			As at August 31,
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	54,900	31,184	345,000	758,550
After 1 year but within 2 years	—	—	4,685	—
After 2 years but within 5 years	—	—	—	—
After 5 years	—	—	2,871	2,729
	—	—	7,556	2,729
Total	54,900	31,184	352,556	761,279

The loan from a financial institution was repayable as follows:

	As at 31 December			As at August 31,
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	—	—	—	—
After 1 year but within 2 years	—	—	—	—
After 2 years but within 5 years	—	—	13,743	13,153
After 5 years	—	—	—	2,630
	—	—	13,743	15,783
Total	—	—	13,743	15,783

Included in the interest-bearing borrowings is the following amount denominated in a currency other than the functional currency of the entity to which they relate:

	As at 31 December			As at August 31,
	2004	2005	2006	2007
	'000	'000	'000	'000
United States dollars	US$—	US$—	US$2,718	US$2,463

Bank loans of certain subsidiaries amounted to RMB5,000,000, RMB72,556,000 and RMB25,000,000 as of December 31, 2005 and 2006 and August 31, 2007 respectively were secured by their leasehold land with an aggregate carrying value of RMB 5,284,000, RMB24,540,000 and RMB22,500,000 as of December 31, 2005, 2006 and August 31, 2007.

The bank loans as at December 31, 2004, 2005 and 2006 and August 31, 2007 bear interest at 4.80% to 7.96%, 4.80% to 9.68%, 5.28% to 9.68% and 4.86% to 9.38% per annum respectively.

The loan from a financial institution as at December 31, 2006 and August 31, 2007 amounted to RMB13,743,000 and RMB16,026,000 respectively were secured by the equipment with an aggregate carrying value of RMB48,345,485 and RMB117,965,042.

The loan from a financial institution as at December 31, 2006 and August 31, 2007 bears interest at 6.50% per annum.

19 TRADE AND OTHER PAYABLES

	As at 31 December			As at August 31,
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	106,651	101,412	408,152	610,192
Bills payables	25,008	98,329	82,147	99,225
Receipts in advance	43,516	740,924	485,266	459,094
Other payables	36,238	40,852	116,082	110,644
	211,413	981,517	1,091,647	1,279,155

Bills payable as at December 31, 2004, 2005 and 2006 and at August 31, 2007 were secured by pledged bank deposits as disclosed in note 16.

An ageing analysis of the trade and bills payables is as follows:

	As at 31 December			As at August 31,
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Within 3 months	93,749	162,032	379,263	480,066
3 months to 6 months	11,503	7,020	48,569	98,639
6 months to 1 year	11,907	9,072	31,547	104,806
Over 1 year	14,500	21,617	30,920	25,906
	131,659	199,741	490,299	709,417

Included in trade and other payables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	As at 31 December			As at August 31,
	2004	2005	2006	2007
	'000	'000	'000	'000
Euro	EUR—	EUR —	EUR —	EUR —
UAE Dirhem	AED—	AED —	AED —	AED 78
United States dollars	US$ —	US$ 1,668	US$ 15,952	US$ 46,301

20 EMPLOYEE RETIREMENT BENEFITS

Defined contribution retirement plans

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiaries now comprising the Group participate in a defined contribution retirement benefit scheme (the "Scheme") organised by the PRC municipal government authority in Sichuan province whereby the Group is required to make contributions to the Scheme at the rate of 20% of the eligible employees' salaries. The local government authority is responsible for the entire pension obligations payable to retired employees.

The Group has no other material obligation for the payment of pension benefits associated with the Scheme beyond the annual contributions described above.

21 DEFERRED TAXATION

The components of deferred tax assets/(liabilities) recognised in the combined balance sheets and the movements during the year are as follows:

	Write down of inventories	Provision for product warranty	Insurance premium paid*	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax arising from:				
At January 1, 2004	—	1,330	—	1,330
Credited/(charged) to profit or loss	715	(635)	—	80
At December 31, 2004	715	695	—	1,410
At January 1, 2005	715	695	—	1,410
Credited/(charged) to profit or loss	1,739	(199)	—	1,540
At December 31, 2005	2,454	496	—	2,950
At January 1, 2006	2,454	496	—	2,950
Credited/(charged) to profit or loss	5,642	4,496	(4,259)	5,879
At December 31, 2006	8,096	4,992	(4,259)	8,829
At January 1, 2007	8,096	4,992	(4,259)	8,829
Credited to profit and loss	7,796	1,434	—	9,230
Exchange difference	—	—	155	155
At August 31, 2007	15,892	6,426	(4,104)	18,214

* An insurance policy was arranged to cover certain business uncertainties, including standard risks associated with doing business in the United States, including potential loss of significant customers, market price volatility, loss of key employees, change of US federal laws, strikes, civil unrest, terrorism, unexpected shipping changes, and changes in immigration laws. However, the insurance premiums paid are refundable under the terms as set forth in the insurance policy. The refund received is subject to US income tax and therefore, the related tax effect is treated as a deferred tax liability.

	As at 31 December			As at August 31
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Represented by:				
Deferred tax asset	1,410	2,950	13,088	22,318
Deferred tax liability	—	—	(4,259)	(4,104)
	1,410	2,950	8,829	18,214

There were no significant unrecognised deferred tax assets and liabilities as at December 31, 2004, 2005, 2006 and August 31, 2007.

22 INTEREST IN A JOINTLY CONTROLLED ENTITY

	As at 31 December			As at August 31,
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Share of net assets	—	—	—	45,091

Details of the Group's interest in the jointly controlled equity are as follows:

Name of company	Place and date of establishment	Issued and fully paid-up/ registered capital	Attributable equity interest Direct	Attributable equity interest Indirect	Principal activities
Egyptian Petroleum HH Rigs Manufacturing Co.	Egypt, April 24, 2007	US$12,000,000	—	50%	Manufacture and sale of drilling rig parts and components

Summary financial information on the jointly controlled entity — Group's effective interest

	As at 31 December			As at August 31
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets	—	—	—	6,401
Current assets	—	—	—	101,967
Current liabilities	—	—	—	(4,098)
Non-current liabilities	—	—	—	(59,179)
Net assets	—	—	—	(45,091)
Income	—	—	—	—
Expenses	—	—	—	(114)
Profit for the year/period	—	—	—	—
	—	—	—	(114)

23 SHARE CAPITAL

Share capital in the combined balance sheets as at December 31, 2004 and 2005 represents the registered issued share capital of Honghua Company comprising RMB21,011,100. Share capital in the Group's combined balance sheets as at December 31, 2006 represents the issued capital of Asia Harbour comprising 1 share of US$1 each. Share capital in the Group's combined balance sheets as at August 31, 2007 represents the issued capital of the company, comprising 1 share of US$1 each.

(a) Capital reduction

On January 7, 2006, a shareholders' resolution was passed to reduce the registered capital of Honghua Company, from RMB21,011,100 to RMB13,944,485. Further to the said shareholders' resolution, Honghua Company entered into an equity repurchase agreement with the then 11 individual shareholders, on January 12, 2006, pursuant to which Honghua Company repurchased all equity interests held by these shareholders at a consideration of RMB55,203,000 which was determined with reference to a valuer's report of the net asset value of Honghua Company as of June 30 2005, issued by Beijing Zhongkehua Certified Public Accountants Co., Ltd (北京中科華會計師事務所有限公司) plus a premium of approximately 57.27%.

On April 25, 2006, shareholders' resolutions were passed to reduce the registered capital of Honghua Company, from RMB13,944,485 to RMB8,070,305, to further consolidate the control and ownership of the Concert Group in Honghua Company. Further to the said shareholders' resolution, Honghua Company entered into an equity buy-out agreement with Huasheng Oil Company, Deng Meng and Yuan Guiqi, on May 22, 2006, pursuant to which Honghua Company repurchased all of the equity interests held by Huasheng Oil Company, Deng Meng and Yuan Guiqi (i.e., approximately 24.615%, 8.755% and 8.755% equity interests, respectively) in Honghua Company, at a consideration of RMB31,928,000, which was determined with reference to a valuation report of the net asset value of Honghua Company as of March 31, 2006, issued by Beijing Zhongkehua Certified Public Accountants Co., Ltd (北京中科華會計師事務所有限公司).

The difference between the share capital redeemed and the consideration was debited to the retained profits and surplus reserve.

(b) Capital injection

On August 17, 2006, the equity holders of Honghua Company injected capital amounting to RMB10,680,000 to the entity. The capital was issued at a consideration of RMB40,150,000. The difference between the consideration and capital injected represents the share premium.

(c) Reorganisation

(i) On September 15, 2006, Asia Harbour acquired all the capital of Honghua Company from the Controlling Shareholders for a consideration of RMB154,758,000. The difference between the historical carrying value of the shares acquired and the acquisition consideration is treated as an equity movement, and recorded in "Other reserve".

On the even date, Asia Harbour injected capital amounting to RMB53,250,000 to Honghua Company. The capital was issued at par.

As a result of the acquisition, Honghua Company became a wholly-owned subsidiary of Asia Harbour. Accordingly, this was reflected as a reduction of capital in the combined statements of changes in equity for the year ended December 31, 2006.

(ii) The Company acquired the entire interest of the subsidiaries, including Asia Harbour and Honghua Company and became the holding company on October 16, 2007.

Share capital in the combined balance sheets as at August 31, 2007 represents the issued capital of the Company comprising 1 share of HK$1 each.

24 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 Company, 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 which are dealt with in accordance with the accounting policies as set out in note 1(u).

(c) Distributable reserve

The Company was incorporated on June 15, 2007 and has not carried out any business since the date of its incorporation. Accordingly, there was no reserve available for distribution to shareholders as at August 31, 2007.

On the basis set out in Section A above, the aggregate amount of distributable reserves at December 31, 2004, 2005 and 2006 and August 31, 2007 of the companies comprising the Group were RMB47,088,000, RMB55,940,000 and RMB196,273,000 and RMB405,169,000 respectively.

(d) Other reserve

The other reserve of the Group represents 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.

(i) On July 16, 2006, the Group acquired additional equity interest from the minority equity holders of Honghua International, a company under common control by the Controlling Shareholders, for RMB7,045,000. The difference between the carrying value and acquisition consideration is treated as an equity movement and recorded in "Other reserve".

(ii) On July 18, 2006, Honghua Company acquired a 80% equity interest of each of Hongtian Company and Youxin Company, SPEs of Honghua Company, and Hongtian Company and Youxin Company legally became subsidiaries of the Group. The relevant assets and liabilities of the SPEs acquired by the Group have been recognised at historical cost. The difference between the historical carrying value of the shares acquired and the acquisition consideration is treated as an equity movement, and recorded in "Other reserve".

25 FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Board has established a credit policy under which credit evaluations are performed on all customers requiring credit. These receivables are due within 30 to 90 days from the date of billing.

Debtors with balance that are more than 24 months overdue are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

At the balance sheet date, the Group has a certain concentration of credit risk 18% and 64%, 16% and 60%, 52% and 76%, 45% and 77% of the total trade receivables was due from the Group's largest customer and top five largest customers respectively as of December 31, 2004, 2005 and 2006 and August 31, 2007.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of combined balance sheets. The Group does not provide any guarantee which would expose the Group to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other trade receivable are set out in note 14.

(b) ***Liquidity risk***

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surplus and the raising of loans to cover expected cash demands, subjected to approval by the Company's Board when the borrowings exceed certain predetermined levels of authority.

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily marketable securities and adequate committed lines of funding from major financial institutes to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the balance sheet date during which contractual payments, presented on an undiscounted basis, are due to be made. These payments include, among others, interest payments computed using contractual rates (for fixed rate instruments) under the Group's non-derivative financial liabilities which are due to be paid.

	As at 31 December										As at 31 August			
	2004			2005			2006				2007			
	Carrying amount	Total undiscounted cash flow	Within 1 year or on demand	Carrying amount	Total undiscounted cash flow	Within 1 year or on demand	Carrying amount	Total undiscounted cash flow	Within 1 year or on demand	More than 1 year	Carrying amount	Total undiscounted cash flow	Within 1 year or on demand	More than 1 year
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade and other payables	211,413	(211,413)	(211,413)	981,517	(981,517)	(981,517)	1,091,647	(1,091,647)	(1,091,647)	—	1,279,155	(1,279,155)	(1,279,155)	—
Interest-bearing borrowings	54,900	(58,386)	(58,386)	31,184	(33,442)	(33,442)	366,299	(393,698)	(370,806)	(22,892)	777,062	(832,389)	(812,559)	(19,830)
Amount due to related companies	7,128	(7,128)	(7,128)	7,380	(7,380)	(7,380)	54,869	(54,869)	(54,869)	—	295,646	(295,646)	(295,646)	—
Loan from ultimate holding company	—	—	—	—	—	—	262,656	(262,656)	(262,656)	—	411,632	(411,632)	(411,632)	—
Loan from shareholders ...	—	—	—	—	—	—	—	—	—	—	76,850	(76,850)	(76,850)	—
	273,441	(276,927)	(276,927)	1,020,081	(1,022,339)	(1,022,339)	1,775,471	(1,802,870)	(1,779,978)	(22,892)	2,840,345	(2,895,672)	(2,875,842)	(19,830)

(c) ***Interest rate risk***

The interest rates and maturity information of the Group's bank loans and loans from a financial institution are disclosed in note 18. The Group's policy is to manage its interest rate risk to ensure there are no undue exposure to significant interest rate movements and rates are approximately fixed. The Group does not account for any fixed rate financial liabilities at fair value through profit or loss, and the Group does not use derivative financial instruments to hedge its debt obligations. Therefore, a change in interest rates at the balance sheet date would not affect profit or loss.

Effective interest rates and repricing analysis

In respect of income-earning financial assets and interest-bearing borrowings, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice or the maturity dates, if earlier.

	Year ended December 31, 2004			
	Effective interest rate	Total	Within one year	More than one year and less than five years
	%	RMB'000	RMB'000	RMB'000
Repricing dates for assets which reprice before maturity				
Pledged bank deposit	2.02%-2.27%	15,104	15,104	—
Cash and cash equivalents	0.72%-1.15%	26,013	26,013	—
		41,117	41,117	—
Repricing dates for liabilities which do not reprice before maturity				
Interest-bearing borrowings	4.80%-7.96%	54,900	54,900	—

	Year ended December 31, 2005			
	Effective interest rate	Total	Within one year	More than one year and less than five years
	%	RMB'000	RMB'000	RMB'000
Repricing dates for assets which reprice before maturity				
Pledged bank deposit	2.02%-2.27%	88,207	88,207	—
Cash and cash equivalents	0.72%-1.15%	293,982	293,982	—
		382,189	382,189	—
Repricing dates for liabilities which do not reprice before maturity				
Interest-bearing borrowings	4.80%-9.68%	31,184	31,184	—

	Year ended December 31, 2006			
	Effective interest rate	Total	Within one year	More than one year and less than five years
	%	RMB'000	RMB'000	RMB'000
Repricing dates for assets which reprice before maturity				
Restricted bank deposit	0.72%-2.50%	107,875	107,875	
Pledged bank deposit	2.02%-2.27%	67,746	67,746	—
Cash and cash equivalents	0.72%-1.15%	158,351	158,351	—
		333,972	333,972	—
Repricing dates for liabilities which do not reprice before maturity				
Interest-bearing borrowings	5.28%-9.68%	366,299	345,000	21,299

	Eight months ended August 31, 2007			
	Effective interest rate	Total	Within one year	More than one year and less than five years
	%	RMB'000	RMB'000	RMB'000
Repricing dates for assets which reprice before maturity				
Restricted bank deposit	0.72%-2.5%	—	—	—
Pledged bank deposit	2.02%-2.27%	198,845	198,845	—
Cash and cash equivalents	0.72%-1.15%	212,788	212,788	—
		411,633	411,633	—
Repricing dates for liabilities which do not reprice before maturity				
Interest-bearing borrowings	4.86%-9.38%	777,062	758,550	18,512

Fair value sensitivity analysis for fixed rate borrowings

The Group does not account for any fixed rate borrowings at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

(d) Foreign currency risk

The Group is exposed to foreign currency risk through sales and purchases that are denominated in United States Dollars ("US$"). The movements of US$ will affect the revenue and costs of some production materials, spare parts and equipment purchases. The Group minimize the currency risk by receiving deposits from customers.

The Group's investments in certain companies incorporated outside China also expose the Group to foreign currency risk resulting from fluctuation of US$.

Renminbi is not freely convertible into foreign currencies. All foreign exchange transactions involving Renminbi must take place through the People's Bank of China or other institutions authorised to buy and sell foreign exchange. The exchange rate adopted for the foreign exchange transactions are the rates of exchange quoted by the People's Bank of China that are determined largely by supply and demand. Changes in exchange rate affect the RMB value of sales proceeds of products that are denominated in foreign currencies. In addition, an appreciation of RMB against US$ may have the effect of rendering exports from the Group in China more expensive and less competitive than products from other countries

The following table details the Group's exposure at the balance sheet date to currency risk arising from forecast transactions or recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

	As at 31 December			As at 31 August		
	2004	2005	2006	2007		
	US$'000	US$'000	US$'000	US$'000	EUR'000	AED
Cash and cash equivalents	8	22,116	8,350	9,929	276	116
Trade and other receivables	—	3,764	43,031	72,736	—	15
Interest bearing borrowings	—	—	(1,750)	(2,463)	—	—
Trade and other payables	—	(1,668)	(15,952)	(46,301)	—	(78)
Gross balance sheet exposure	8	24,212	33,679	33,901	276	53

The Group is not subject to currency risk on the forecasted transactions as the Group does not hedge its foreign currency risk.

The Group is only subject to foreign currency risk associated with its trade and other receivables, trade and other payables which denominated in US$.

The following significant exchange rates applied during the relevant period:

	Average rate				Reporting date mid-spot rate			
	Years ended 31 December			Eight months ended August 31	Years ended 31 December			Eight months ended August 31,
	2004	2005	2006	2007	2004	2005	2006	2007
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
US$1	8.2765	8.1950	7.9730	7.6577	8.2765	8.0700	7.8087	7.5157
EUR1	—	—	—	10.2512	—	—	—	10.3068
AED1	—	—	—	2.0838	—	—	—	2.0590

Sensitivity analysis

A 10 percent strengthening of the RMB against the following currencies at December 31 2004, 2005, 2006 and August 31 2007 would have increased (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis throughout the relevant period.

	Years ended 31 December			Eight months ended August 31,
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Profit or (loss)				
United States dollars	(6)	(17,763)	(23,221)	(23,163)
Euro	—	—	—	(268)
UAE Dirham	—	—	—	(468)
	(6)	(17,763)	(23,221)	(23,899)

A 10 percent weakening of the RMB against the above currencies at December 31, 2004, 2005, 2006 and August 31 2007 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(e) Fair values

The carrying amounts of significant financial assets and liabilities approximate their respective fair values as at December 31, 2004, 2006 and 2006 and August 31, 2007.

The following methods and assumptions were used to estimate the fair value for each of following classes of financial assets and liabilities:

(i) Cash and cash equivalents, restricted bank deposits, pledged deposits, trade and other receivables and trade and other payables.

The carrying values of these financial assets and liabilities approximate their fair value because of their short maturities.

(ii) Interest-bearing borrowings

The carrying amounts of interest-bearing borrowings approximate their fair value because the borrowing rates were similar to rates currently available for bank loans with similar terms and maturity.

The amount due from/to related companies, loan from ultimate holding company and loan from shareholders are interest-free and have no fixed repayment terms. Given these terms, it is not meaningful to disclose fair values.

(f) Business risk

The Group's revenue is generated entirely from the sale of drilling rigs and related parts and components. The revenue from the sale of drilling rigs and related parts and components used in the oil and gas exploration and production industry is dependent on the exploration and development capital expenditures of oil and gas producers, which in turn is largely dependent on current prices of, and future trends in, global oil and gas prices. The demand for oil and gas exploration and development related services and the number of worldwide active rigs increase and decrease with fluctuations in the price of oil and gas. Given the Group's heavy reliance on the customers in the oil and gas drilling industry, the Group's revenue could be highly sensitive to fluctuations in global oil and gas prices.

(g) Capital management

The Group's policy is to maintain a strong capital base so as to maintain creditor and market confidence and to sustain future development of the business. The Group defines the capital of the Group as the total shareholders' equity.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

26 COMMITMENTS

Capital commitments

Capital commitments outstanding at December 31 2004, 2005 and 2006 and the eight months ended August 31 2007 not provided for in the Financial Information were as follows:

	As at 31 December			As at August 31, 2007
	2004	**2005**	**2006**	
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Contracted for	—	14,804	293,275	171,507
Authorised but not contracted for	—	—	38,820	202,960
	—	14,804	332,095	374,467

27 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the related party information disclosed elsewhere in the Financial Information, the Group entered into the following material related party transactions.

During the relevant period, the directors are of the view that the following companies are related parties of the Group:

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 has 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.
Chendu 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 has 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	NCE Management is a party which certain management of Honghua America has equity interest.
Luzhou City Jianming Decorating Design Company (瀘州市劍鳴裝飾設計公司) ("Luzhou Jianming Company")	Luzhou Jianming Company is a party which the brother of the spouse of a director of the Group's 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 the Group's subsidiary has equity interest.
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 the Group's subsidiary has 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 the company of several directors and management was disposed of on November 15, 2007.
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 management of the Group's subsidiary and Russian investors. The interest in the Company of a senior management was disposed of on October 11, 2007.
Egyptian Petroleum Honghua Rig Manufacturing Shareholder Co. ("HH Egyptian Company")	HH Egyptian Company is a corporate incorporated in Egypt with limited liability on April 24, 2007, and is 50% owned by Asia Harbour.

(a) ***Recurring transactions***

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

	Years ended 31 December			Eight months ended 31 August	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Purchases of parts and components of drilling rigs					
—Hongtai Company	6,395	11,983	34,393	25,233	27,698
—Lushou Changjiang Company	6,642	12,578	19,219	8,531	18,029
—Haitaike Company	—	—	32,507	—	24,359
—Luzhou Tuojiang Company	1,600	1,141	2,904	1,635	2,738
—Chengdu Juzhong Company	—	—	850	—	666
	14,637	25,702	89,873	35,399	73,490
Decoration services received					
—Luzhou Jianming Company	126	148	898	280	674
Sub-contracting services received					
—Guanghan Huite Company	195	511	1,266	569	1,045
	321	659	2,164	849	1,719
Sale of drilling rigs, parts and components					
—Honghua-Ural	—	—	667	—	—
—Izhdrill-Honghua	—	—	—	—	92,212

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. The directors have confirmed that the above transactions will continue in the future after the listing of the Company's shares on the Stock Exchange.

(b) ***Balances with related parties***

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

	As at 31 December			As at August 31, 2007
	2004	2005	2006	
	RMB'000	RMB'000	RMB'000	RMB'000
Amounts due from related companies				
—Hongtai Company	1,831	1,831	1,960	—
—NCE management	—	—	38	—
—Haitaike Company	—	1,998	—	17,207
—Luzhou Tuojiang Company	—	440	—	9
—Izhdrill-Honghua	—	—	—	74,895
Others	—	—	—	54
	1,831	4,269	1,998	92,165
Loan from ultimate holding company	—	—	262,656	411,632
Loan from shareholders	—	—	—	76,850
Amounts due to related companies				
—Hongtai Company	2,520	1,390	9,516	10,738
—Luzhou Changjiang Company	3,751	5,825	3,374	11,096
—Luzhou Tuojiang Company	857	—	1,180	512
—Haitaike Company	—	165	25,025	26,450
—Luzhou City Jianming Decorating Design Company	—	—	—	380
—Guanghan Huite Company	—	—	—	901
—Honghua-Ural	—	—	15,764	29,472
—Izhdrill-Honghua	—	—	—	96,946
—HH Egyptian Company	—	—	—	119,151
	7,128	7,380	54,859	295,646

The balances with related parties are unsecured, interest free and are expected to be recovered/repaid within one year. There was no provision made against these amounts at December 31, 2004, 2005, 2006 and August 31, 2007.

28 ULTIMATE HOLDING COMPANY

The Directors consider the ultimate holding company of the Company as at December 31, 2006 to be Ample Chance, which is incorporated in the BVI. This entity does not produce financial statements available for public use.

29 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in condition and assumptions are factors to be considered when reviewing the Financial Information. The principal accounting policies are set forth in note 1. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the Financial Information.

(a) Impairments

If circumstances indicate that the carrying value of an asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in profit or loss. The carrying amounts of assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount.

The recoverable amount is the greater of the fair value less costs to sell and the value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sale volume, sales revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sale volume, revenue and amount of operating costs.

(b) Write down of inventories

The Group determines the write-down for obsolescence of inventories. These estimates are made with reference to aged inventories analyses, projections of expected future saleability of goods and management experience and judgement. Based on this review, write down of inventories will be made when the carrying amounts of inventories decline below their estimated net realisable value. Due to changes in market conditions, actual saleability of goods may be different from estimation and profit or loss could be affected by differences in this estimation.

(c) Depreciation and amortisation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. Intangible assets are amortised on a straight-line basis over the estimated useful lives. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation and amortisation expenses to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation and amortisation expenses for future periods are adjusted if there are significant changes from previous estimates.

(d) Warranty provision

The Group makes provisions under the warranties it gives on sale of its drilling rigs taking into account the Group's recent claim experience. Any increase or decrease in the provision would affect profit or loss in future years.

30 CONTINGENT LIABILITIES

Dispute with 64 natural persons

As of December 31 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 January 7, 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 January 12, 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 April 26, 2006. As of the Latest Practical Date, 664 of the 728 original investors has 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.

On December 12, 2007, the Company learned that 57 out of the 64 initiated legal proceedings at the Intermediate Peoples' Court of Chengdu City, Sichuan Province (Action No.: (2008) Cheng Min Chu Zi No.53)) on December 11, 2007. 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 Chuanjun (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.

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 Inc, Dobson Global Inc, Darius Enterprises Limited, Believe Power International Limited, Benefit Way International Limited, Birdview Limited and the Existing Shareholders of the Company have executed a deed of indemnity in respect of dispute and risk dated February 15, 2008 in favour of the Group under which they agree to jointly and severally indemnify any 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 original 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 Group does not consider a provision in legal costs in respect of the dispute is required.

31 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE RELEVANT PERIOD

Up to the date of issue of this Accountants' Report, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the relevant period and which have not been adopted in this Accountants' Report.

Of these developments, the following relate to matters that may be relevant to the Group's operations and financial statements:

		Effective for accounting periods beginning on or after
IFRS 8	Operating Segments	January 1, 2009
IAS 23 (revised)	Borrowing costs	January 1, 2009
IFRIC 11	IFRS 2-Group and treasury share transactions	March 1, 2007
IFRIC 12	Service Concession Arrangements	January 1, 2008
IFRIC 13	Customer loyalty programmes	July 1, 2008
IFRIC 14	IAS 19-The limit on a defined benefit asset, minimum funding requirements and their interaction	January 1, 2008

The directors have confirmed that the Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

D BALANCE SHEET OF THE COMPANY

The Company was incorporated on June 15, 2007 with an authorised share capital of HK$380,000. The Company has not carried on any business since its date of incorporation.

One share was allotted and issued nil paid to Reid Services Limited, as subscriber on June 15, 2007 and was subsequently transferred to Ally Giant on June 15, 2007. On October 16, 2007, the Company acquired Asia Harbour from Ally Giant. In consideration of the said transfer, the Company credited the one nil paid share in the Company issued to Ally Giant, as fully paid; and allotted and issued 2,499,999,999 shares, credited as fully paid, to Ally Giant on August October 16, 2007. The Company became the holding company of the Group on October 16, 2007.

E SUBSEQUENT EVENTS

The Directors have confirmed that all material events which took place subsequent to August 31, 2007 are set out as follows:-

(a) Group reorganisation

The companies comprising the Group underwent a reorganisation to rationalise the Group's structure in preparation for the listing of the Company's shares on the Stock Exchange. Details of the Reorganisation are set out in the section headed "History and Corporate Structure" in the Prospectus. As a result of the Reorganisation, the Company became the holding company of the Group on October 16, 2007.

(b) Valuation of properties

For the purpose of the listing of the Company's shares on the Main Board of the Stock Exchange, the Group's properties were valued as at December 31, 2007 by Sallmanns (Far East) Limited, an independent firm of surveyors.

The valuation gave rise to a revaluation surplus of approximately RMB48,588,000 from the carrying amount of the relevant assets at that date. Such revaluation surplus will not be incorporated in the financial statements subsequently prepared for the year ended December 31, 2007. Details of the valuation are set out in Appendix IV to the Prospectus.

(c) Share option scheme

Pursuant to the written resolution of the shareholders of the Company passed on January 21, 2008, the Company has adopted the Pre-IPO Share Option Scheme and conditionally adopted the Share Option Scheme. The principal terms of the Share Option Schemes are set out in Appendix VII to the Prospectus.

(d) Disputes with Nabors

Honghua Company and Nabors International entered into a series of agreements by which the parties pursued a strategic business relationship, including in particular the confidentiality agreement dated April 24, 2005, the memorandum of agreement dated April 24, 2005, the master sales agreement dated May 18, 2005, heads of agreement dated August 9, 2005, the representative agreement dated November 7, 2005, and several purchase orders related thereto (collectively "the Previous Agreements").

Several disputes arose between the parties as to the performance of and/or understandings reached in and discussion relating to the Previous Agreements and the transactions contemplated thereunder. In June 2007, an arbitration was initiated between Nabors International and Honghua Company before the International Court of Arbitration of the International Chamber of Commerce (the "Arbitration") in which they had pending claims and counterclaims against one another. For the purpose of settling disputes amicably and moving forward to continue to build a strategic business relationship between them, Honghua Company and Nabors International entered into a settlement agreement (the "Settlement Agreement") on October 17, 2007. Under the Settlement Agreement, the parties agreed to release and discharge the other all causes of action, suits, claims, demand, liabilities and obligations arising out of or related to their commercial relationship and the Agreements.

As a resumption of the strategic business relationship, Ally Giant, the Company and Nabors International have entered into a Share Transfer Agreement on October 17, 2007. Pursuant to the Share Transfer Agreement, Ally Giant transferred an 18% of the issued share capital in the Company on a fully diluted basis, exclusive of any options granted or shares issued pursuant to the approved share option scheme or shares to be issued pursuant to the IPO, to Nabors International in consideration of license of the technology granted from Nabors Global to Honghua Company pursuant to the terms and conditions of a technology license agreement (the "Technology License Agreement") dated October 17, 2007 between Nabors Global and Honghua Company and the premises and promises, covenants and agreements contained in the Share Transfer Agreement. The share transfer was completed on October 17, 2007.

Directors consider that the technical know-how is an intangible asset to the Company as it provides economic benefits to the Group in future years. A valuation report will be issued by an independent valuer, Salimens to quantify the valuation of the intangibles.

Directors choose the cost model for the measurement of the technical know-how, and the technical know-how is amortised over a period of 10 years which reflect the pattern of consumption of the economic benefits.

As a result of the above share transfer, Nabors International became one of the Company's shareholders holding an aggregate of 18% of the issued share capital of the Company up to immediately before completion of the Global Offering and 13.5% immediately upon completion of the Global Offering assuming that the Over-allotment Option is not exercised. Ally Giant remained a shareholder of 64.7% of the issued share capital up to immediately before completion of the Global. Offering and 49% immediately upon completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

(e) Dispute with 64 natural persons

On December 12, 2007, the Company learned that 57 out of the 64 initiated legal proceedings at the Peoples Court of Chengdu City, Sichuan Province on December 11, 2007. Details of the legal proceedings have been set out in note 30.

F SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to August 31, 2007.

Yours faithfully,

Certified Public Accountants
Hong Kong