HONGHUA GROUP LIMITED
宏華集團有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code: 196

HONG HUA

Annual Report 2008

CONTENTS

Financial Highlights

	2008 RMB'000	2007 RMB'000	Changes
Operating results			
Revenue	**4,737,532**	3,164,022	49.7%
Profit from operations	**736,875**	727,975	1.2%
Profit before taxation	**655,506**	684,516	(4.2%)
Profit attributable to equity shareholders of the Company	**511,974**	583,235	(12.2%)
Figures per share			
Earnings per share — Basic and diluted (RMB cents)	**16.2**	23.3	(30.5%)
Special dividends declared and paid per share during the year	**HK$0.10**	—	N/A
Final dividends proposed after the balance sheet date per share	**HK$0.06**	—	N/A
Financial position			
Total non-current assets	**946,480**	794,951	19.1%
Total current assets	**6,837,443**	3,136,002	118.0%
Total assets	**7,783,923**	3,930,953	98.0%
Total current liabilities	**3,232,425**	2,555,556	26.5%
Total non-current liabilities	**24,090**	19,686	22.4%
Total liabilities	**3,256,515**	2,575,242	26.5%
Total equity	**4,527,408**	1,355,711	234.0%
Key financial ratios*			
Gross margin	**28.6%**	34.1%	(5.5%)
Net margin	**10.8%**	18.4%	(7.6%)
Return on average assets	**8.7%**	19.1%	(10.4%)
Return on average equity	**17.9%**	73.3%	(55.4%)
Current ratio	**2.12**	1.23	0.89
Quick ratio	**1.49**	0.82	0.67
Total debts/Total assets	**20.2%**	22.2%	(2.0%)

* Earnings exclude minority interests
Equity excludes minority interests

Corporate Information

BOARD OF DIRECTORS

Executive Directors
Zhang Mi *(Chairman)*
Ren Jie
Liu Zhi

Non-executive Directors
He Sean Xing
Siegfried Meissner
Xiang Qingsheng

Independent Non-executive Directors
Chen Guoming
Liu Xiaofeng
Liu Yinchun
Qi Daqing
Tai Kwok Leung, Alexander
Wang Li
Shi Xingquan

SECRETARY OF THE BOARD OF DIRECTORS

Liu Gangqiang

BOARD COMMITTEE

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

Corporate Governance Committee
Liu Xiaofeng *(Committee Chairman)*
Chen Guoming
Liu Yinchun
Qi Daqing
Tai Kwok Leung, Alexander
Wang Li
Shi Xingquan

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

Strategic Investment and Risk Control Committee
Zhang Mi *(Committee Chairman)*
Ren Jie
Liu Zhi
He Sean Xing
Xiang Qingsheng
Wang Li

JOINT COMPANY SECRETARIES

Liu Gangqiang
Corinna Leung

QUALIFIED ACCOUNTANT

Lu Hong *(FCCA, HKICPA, CICPA)*

LEGAL ADVISORS

as to Hong Kong law
Arculli Fong & Ng
in association with King & Wood, PRC Lawyers

as to U.S. law
Latham & Watkins LLP

as to PRC law
King & Wood

as to Cayman Islands law
Appleby

Corporate Information

PRINCIPAL BANKERS
Bank of China Limited
Agricultural Bank of China
China Merchants Bank Co., Ltd
Industrial and Commercial Bank of China Limited
China Construction Bank Corporation
Hong Kong and Shanghai Banking Corporation Limited

AUDITOR
KPMG
Certified Public Accountants

COMPLIANCE ADVISER
CCB International Capital Limited

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

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

PLACE OF BUSINESS IN HONG KONG
Room 908, Hutchison House,
Central, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
Appleby Trust (Cayman) Ltd.
Clifton House,
75 Fort Street, PO Box 1350,
Grand Cayman, KY1-1108,
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
Computershare Hong Kong Investor Services Limited
Shops 1712–1716,
17th Floor Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

STOCK CODE
The Stock Exchange of Hong Kong Limited: 0196

WEBSITE:
http:// www.hh-gltd.com

Chairman's Statement

Zhangmi
Chairman

In 2008, the Group strategically penetrated deeper into emerging markets, continued to rigorously develop high value-added products, and achieved sound business growth.

Dear Shareholders,

On behalf of the Board, I am pleased to announce the annual results for the year ended 31 December 2008 (the "Year").

During the Year, the Group's revenue increased from approximately RMB3,164 million to approximately RMB4,738 million, representing a growth of 49.7% as compared to 2007. Leveraging on its competitive advantages of producing high value-to-performance products and having effective operation management, the Group achieved robust growth despite the challenges in 2008. During the Year, gross profit and profit attributable to Shareholders amounted to RMB1,356 million and RMB512 million respectively, representing an increase of 25.5% and a decrease of 12.2% as compared to 2007. The Board recommends a final dividend of HK$6 cents per Share.

MARKET OVERVIEW

2008 has been an extraordinary year for the oil and energy resource industry. Global oil price began to surge in the beginning of 2008 and reached an historical peak of nearly US$150 per barrel on 11 July 2008. However, influenced by the global economic downturn brought by the subprime crisis, oil price decreased rapidly in the second half of 2008. Despite the fall of oil price and the global financial crisis bringing uncertainty and short term adjustments to the industry, oil exploration and capital expenditure will maintain stable in the long run. Recently, high energy consumption countries such as China and the U.S. have been proactively seeking to increase its strategic oil reserves while the oil price is relatively low; proving that the expenditure on oil exploration remains stable. The《World Energy Outlook 2008》released by the International Energy Agency in

Chairman's Statement

November 2008 states that in order to avert an oil crisis, and to cope with the increasing gap between supply and demand of oil, there is a need to invest heavily in the crude oil production industry, to update the basic infrastructure and to improve the oil extraction ability of existing facilities over the next 20 years. Therefore, the Group believes that the short term fluctuation of oil prices will not affect the development of the oil exploration industry in the long run.

As domestic and foreign oil companies have formulated their capital expenditure plans for exploration and production at the end of 2008 or the beginning of 2009, this has brought forth a certain impact to oil equipment manufacturing enterprises in the short term. The number of existing land rigs globally in 2009 may decline to some extent. As such, the decreasing demand for global land rigs is temporary, which will not affect the long term development of the industry. Once the global economy recovers, the oil industry is expected to recuperate relatively faster than other industries and the demand of drilling equipment will increase accordingly.

BUSINESS DEVELOPMENT

Despite the complex operating environment in 2008, through improving the Group's production and operational practices, enhancing management efforts, as well as improving product quality and performance, it is encouraging that the Group's revenue and profitability increased steadily amid the difficulties. During the Year, the Group sold 94 units of drilling rigs, 120 units of mud pumps and a number of related parts and components of rigs.

During the Year, the Group continued to penetrate into the international market. Apart from achieving remarkable results in the Russian market, the Group has proactively expanding into the Middle East, South America, Africa and Southeast Asia, aiming to achieve coverage in all major oil producing countries and regions, and in the process of capturing the demand for upgrade and renewal drilling rigs worldwide.

Research and development is the key to the Group's development. During the Year, the Group successfully produced and exported a 9,000 meter digitally-controlled drilling rig. In order to cope with the unique regional landscape in different oil fields, the Group also speeded up the rate of development of 12,000 meter drilling rigs, high speed transferring rigs, continuous pipe rigs and slidetrack rigs. Regarding the emerging market of Russia, which is the focus of development for the Group during the Year, research has been intensified to improve the quality and performance of low-temperature tolerant DBS rigs. In order to enrich our product line and fully utilize the Group's competitive advantage brought by higher self-made parts and components to reduce cost, the Group has successfully developed top drives and began to develop drawworks, electronic device, anti-explosion device and integrator etc. The Group believes the strategy to focus on the development of low cost to high performance products to meet various market demands is effective for penetrating into the international market.

CORPORATE GOVERNANCE

Apart from achieving steady business growth, the Group also strived to enhance internal controls through constant review and revision of procedures in accordance with the Listing Rules, resulting in strengthened internal audit procedures which enhance operation efficiency and effectiveness while conforming with legal regulations, ensuring the protection of rights of shareholders. The Group has also established the strategic investment and risk control committee directly report to the Board which is responsible for evaluation, approval and supervision of large-scale investment projects as well as management of associated risks.

Chairman's Statement

Olympics Torch Relay in Guang Han City, Sichuan Province, PRC

PROSPECT

Due to the financial turmoil and complex economic situations in 2008, the global economy, headed by the U.S., suffered a major impact. The Chinese economy, however, remained relatively stable when compared with other countries and as a result, its economic position was elevated. For the oil drilling equipment industry, the Group had relatively lower impact than other peers in the West.

On 7 March 2008, the Group successfully listed on the Main Board of the Stock Exchange and raised sufficient capital for the Group's sustainable development. In the future, the recovery in growth momentum at the oil industry will definitely bring huge demand for renewal and replacement of drilling equipments. Leveraging on its superior production capacity of 150 units, the Group is able to capture opportunities arising from the land drilling market.

In addition, offshore production will become the main source for surging oil production in the future. Offshore drilling activities reached its peak in the 1980s. However, the second phase of oil exploration and renewal of offshore rigs will begin in the coming decade. As the global manufacturing industry shifts to China, the chance is high that these offshore drilling equipments will also be made in China, representing an important opportunity for the Group. In 2009, leveraging on the construction of offshore equipment production base, The Group is well positioned to enter into the offshore sector with its established production capacity and state-of-art technology.

ACKNOWLEDGEMENT

On behalf of the employees of the Group, I would like to express my gratitude to all Shareholders, customers and business partners. Furthermore, I would also like to take this opportunity to sincerely thank the Board, the management team and employees for their strenuous contributions to the Group. I believe, all members of the Group will dedicate their best efforts to enhance the Group's market leadership and bring maximum returns to shareholders.

Zhang Mi
Chairman
Hong Kong, 14 April 2009

Management Discussion and Analysis

Management Discussion and Analysis

trailer drilling rig sold to the Middle Eastern market

MARKET OVERVIEW

2008 has been a challenging year for most industries worldwide. The global oil drilling industry experienced two extreme situations. In the first half of 2008, due to the surging oil price, the growth rate of capital expenditure ("CAPEX") on oil exploration was expected to exceed 22%, the 5 year compound annual growth rate ("CAGR") of CAPEX on oil drilling between 2002 and 2007. In the second half of 2008, due to the plunge in oil price caused by the widespread impact of the financial turmoil, together with the credit crunch and liquidity issues within the industry, the global CAPEX on oil drilling decreased. As a result, the oil drilling equipment industry was affected to a certain extent.

Facing the unpredictable market environment, the Group implemented strategic planning and worked proactively to overcome the market fluctuations. Meanwhile, the Group enhanced its operation management and achieved stable operating performance. In addition, the Group enriched its product mix and strengthened international marketing strategies by further penetrating into emerging markets such as the Middle East, South America and Russia. As a result, the Group enhanced its ability to respond to the complex market environment.

BUSINESS REVIEW

Operations Review

The Group is a leading manufacturer of land drilling rigs in China, with a focus on production and sales of land drilling rigs and related rig parts and components. Furthermore, the Group provides technical support services to its customers. Apart from drilling rigs, the Group also offers rig parts and components used for newly-built and refurbished drilling rigs to its customers, allowing the Group to become a one-stop solutions provider. The Group also adopts offshore drilling modules to produce and sell rig parts and components.

Land Drilling Rigs Business

During the year ended 31 December 2008 (the "Year"), the Group's revenue from sales of land drilling rigs amounted to approximately RMB4,360 million, representing a remarkable increase of approximately 57.2% as compared to approximately RMB2,774

Management Discussion and Analysis

5,000 meter digitally-controlled VFD rig sold to the domestic market

million in 2007, and contributing approximately 92.0% to the revenue of the Group.

The Group's products comprise of digitally-controlled land rigs and conventional land rigs. During the Year, total sales volume of drilling rigs amounted to 94 units, including 57 units of digitally-controlled land rigs and 37 units of conventional land rigs, and was comparable to the sales volume in 2007.

The Group's drilling rig products range from 1,000-meter light drilling rigs to 9,000-meter heavy drilling rigs. The global drilling industry is moving towards deeper and more complex drilling operations, leading to market demand focusing on drilling rigs with higher depth ratings and more functions. During the Year, the Group sold 1 unit of 9,000-meter heavy drilling rig, 41 units of 7,000-meter heavy drilling rigs and 38 units of 5,000-meter mid-level drilling rigs. The sales volumes for 1,000-meter, 2,000-meter, 4,000-meter light and mid-level drilling rigs were 1, 5 and 8 units respectively.

During the Year, the Group's domestic sales volume of drilling rigs amounted to 23 units, representing a decrease of 26 units as compared to 49 units in 2007. This was mainly attributable to the discovery of new oil fields in Hebei and Sichuan provinces etc., leading to a corresponding increase in demand of drilling rigs in 2007. There was no such demand during the Year. The Group proactively increased its export of drilling rigs, with a focus on the European and Central Asian markets. Drilling rigs sold to these markets increased to 45 units during the Year from 19 units in 2007. The Middle Eastern and South Asian markets also grew rapidly, drilling rigs sold to these markets increased to 7 units and 11 units respectively in 2008, from 2 units and 3 units in 2007. Sales volume to other emerging markets such as Southeast Asia and Africa remained stable, 5 and 6 units were sold during the Year and 2007 respectively. The 9,000-meter drilling rig sold to Indonesia was China's first ultra-depth rig exported to a foreign market. 3 units of drilling rigs were sold to the North American market as the demand from a major customer decreased in that region.

Rig Parts and Components Business

During the Year, the Group recorded approximately RMB378 million from sales of rig parts and components, and was relatively stable as compared to approximately RMB390 million in 2007.

The drilling rig parts and components segment comprised of sales of mud pumps and other parts and components. During the Year, the Group's sales volume of mud pumps amounted to 120 units, representing a fall of 12 units as compared to 132 units in 2007. During the Year, sales of parts and components amounted to RMB264 million, representing an increase of RMB40 million as compared to 2007.

Market Expansion

In order to capture the global demand for upgrade and renewal of drilling rigs, the Group strategically intensified its development of the European and the Central Asian markets. During the Year, the Group increased market penetration through its "sales advancement" strategy, resulting in a remarkable increase of market share internationally, maintaining stability in the Group's drilling rig overall sales volume despite the decrease of domestic sales volume as compared to 2007. The Group set up a representative office in Uzbekistan and established a subsidiary in Russia, which were responsible for

Management Discussion and Analysis

marketing, communications, technical support, market research as well as post-sales service. As a result of the successful implementation of this strategy, customers were benefited and the Group achieved a breakthrough in the operating results in the European and the Central Asian markets. During the Year, sales volume of drilling rigs to European and Central Asian markets increased to 45 units from 19 units in 2007, accounting for approximately 59% of the Group's revenue. In addition, the Group proactively developed the South Asian and Southeast Asian markets, and established representative offices in India, Indonesia and Pakistan. The Group's subsidiary located in Jebel Ali Free Zone, Dubai, the United Arab Emirates, was responsible for sales in the Middle East.

Production, Research and Development and Service

The Group's three production facilities are located in Guanghan, Chengdu, the PRC and Houston, the USA. During the Year, the Group proactively expanded its production capacity. Various investment projects in the Guanghan plant were completed, including new welding workshop, surface refurbishing workshop and an 80,000 square meter assembling test center. During the Year, investment in plant expansion, procurement and construction of infrastructure totaled approximately RMB155 million, representing an increase of approximately RMB20 million as compared to 2007.

During the Year, the Group successfully produced and exported a 9,000 meter digitally-controlled drilling rig, being the Group's milestone of its technology achievement in land rig construction. The Group believes that successful research and development can enhance its competitive advantages. For continuous pipe rigs, the Group completed the design for major components which strengthened the foundation for further development. The Group also designed drilling operating system, downstream device and other parts and components, realizing the implementation of an automatic drilling platform. The Group completed the design for the crown block, derrick substructure, and drawworks of 12,000-meter drilling rig which consolidate its foundation for the development of ultra-depth drilling rigs. The Group also successfully developed VFD top drives which improved the performance of conventional top drives. Meanwhile, the Group continued to improve the performance of offshore drilling modules and offshore tower derrick.

The Group continued to expand its research team. As at 31 December 2008, the total number of research professionals from the Chengdu and Guanghan research centers was 309. Costs of research and development totaled approximately RMB31 million, representing 0.64% of the Group's revenue. The Group's research and development team has successfully applied 29 patents, among which, 10 patents are awaiting approval from the State

the Russian customers visit

digitally-controlled system

Management Discussion and Analysis

the new workshop and assembling center

Intellectual Property Office. In the future, the Group will continue to put efforts in diversifying its products and focusing on the development of high-value-added products.

The Group uses training drilling rigs, electric simulator, hydraulic pressure simulator and integrated hydraulic pressure system for employee training programmes and demonstrations to clients. The Group has optimized the process of pre-sale installation and testing, and will also send an experienced engineering team to drilling sites for post-sale technical support and service. The Group's premium service raises clients' satisfaction and builds an important foundation to get further access in the international market.

Prospects

The world's economic development will continue to rely on oil energy in the coming years. For a period of time, oil exploitation will decline due to the decreasing oil price and impact from the financial crisis. As a result, the demand for oil drilling equipment in different regions will be influenced to a different extent.

However, according to the World Energy Outlook released by International Energy Agency, the financial turmoil should not hinder the investment of oil companies as it is long-term in nature. It is predicted by International Energy Agency that global oil demand will increase from 85 million barrels per day in 2007 to 106 million barrels per day in 2030. The increase in CAPEX on oil exploration in the past five years (from 2002 to 2007) is not able to offset the impact of insufficient investment in the past twenty years or to meet the global oil demand once the economy recovers. Thus, from a long-term perspective, the CAPEX on oil exploration and production is expected to increase robustly.

On the other hand, the oil production rate is declining as oil fields become mature. Without timely investment, the production volume will decrease one-third faster than normal. As a result, increased investment in the upstream segment is needed (including both investments in existing and new oil fields) to offset the current decreasing oil production, while meeting increasing demand. According to the World Energy Outlook 2008, the increasing investment in the

Management Discussion and Analysis

completion and delivery ceremony for Schlumberger 1,500 HP VFD fast moving rig

upstream segment is expected to persist. Assuming stable costs, the capital expenditure on oil exploration and production will increase 9% annually in the coming five years reaching US$600 billion (nominal), an increase of more than 50% as compared to US$390 billion (nominal) in 2007.

Therefore, in the long-term, the exploration activities will remain robust for the global oil and gas industry, and market demand for new drilling rigs and renewal of existing rigs is also expected to maintain at a high level.

In 2009, management will implement cost control initiatives, continue to intensify research and development, adapt to different market needs by enriching product mix, so as to achieve sustainable development and continue to explore international market, especially in emerging markets such as the Middle East, South America and Russia. A low-cost production base, economies of scale brought by capacity expansion and high value-to-performance products help the Group to expand its global sales network, enhance competitiveness and capture demand once the market recuperates. Meanwhile, the Group is cautiously and prudently seeking for strategic alliances and mergers and acquisitions opportunities to optimize product mix and improve technological level; further strengthening its market leadership in the land drilling sector as well as being poised to enter into the offshore market.

Looking forward, realising the vision of the Group to develop an offshore drilling platform will unveil a new era for the Group in 2009. The Group will take advantage of relatively low cost resources during the economic downturn, complete the site selection and commence building infrastructure facilities in a timely manner. Having the ability to produce in-house offshore drilling modules, state-of-art land-made

special purpose vehicle for earthquake relief from Honghua Company

Management Discussion and Analysis

offshore equipment, a global marketing network and full support from strategic investors create a unique competitive edge. This allows the Group's venture into the offshore drilling rig market to proceed at a stable and healthy pace. In addition, the Group is endeavored to capture business opportunities arising from the transition of the offshore drilling equipment industry to developing countries to propel its further business development.

Financial Review

During the Year, the Group's gross profit and profit attributable to equity shareholders of the Company amounted to approximately RMB1,356 million and RMB512 million respectively, representing an increase of 25.5% and a decrease of 12.2% respectively as compared to 2007. Gross margin and net margin amounted to approximately 28.6% and 10.8% respectively. During the Year, the increase in net margin and the decrease in profit attributable to equity shareholders of the Company was due to the development of emerging markets, increased raw material prices, the appreciation of RMB, the increase in expense and income tax rate.

Revenue

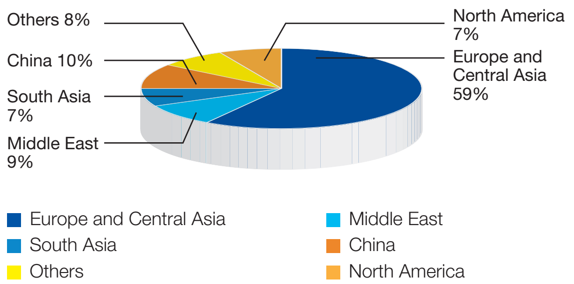
During the Year, the Group's revenue amounted to approximately RMB4,738 million, representing an increase of approximately RMB1,574 million and 49.7% as compared to approximately RMB3,164 million in 2007. The increase was mainly attributable to the increase in sales of high-function drilling rigs with higher profit margins. While the sales volume of drilling rigs remained at 94 units, the Group's turnover recorded a remarkable increase.

During the Year, sales by geographical areas were as follows: Revenue from exports amounted to approximately RMB4,266 million, representing an increase of approximately 117.8% as compared to 2007, and accounted for approximately 90.0% of the Group's total revenue. The increase was mainly attributable to the Group's achievement in the European and the Central Asian markets. Sales to the Middle Eastern and South Asian markets increased rapidly as compared to 2007 due to effective marketing effort. Other markets maintained a stable growth. Exports revenue from North American market decreased due to a fall in the demand from a major customer. The decrease in sales to the domestic market was mainly attributable to the discovery of new oil fields in Hebei and Sichuan provinces etc., leading to a corresponding increase in demand of drilling rigs in 2007. There was no such demand during the Year.

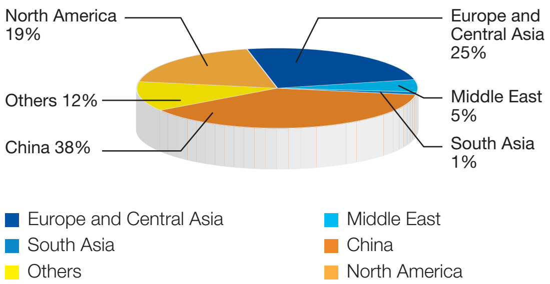
Management Discussion and Analysis

Sales by Geographical Areas

Sales Revenue in 2008



Sales Revenue in 2007



During the Year, sales by product categories are as follows:

	For the year ended 31 December 2008			For the year ended 31 December 2007			**2008 VS 2007**	
RMB'000	**Revenue**	**%**	**Quantity (Unit)**	Revenue	%	Quantity (Unit)	**Change**	**Change (%)**
Digitally-controlled Rigs	**3,395,962**	**72%**	**57**	2,232,015	71%	57	1,163,947	52.1%
Conventional Rigs	**963,958**	**20%**	**37**	542,246	17%	37	421,712	77.8%
Subtotal	**4,359,920**	**92%**	**94**	2,774,261	88%	94	1,585,659	57.2%
Mud Pumps	**113,732**	**2%**	**120**	166,009	5%	132	(52,277)	(31.5%)
Other Parts and Components	**263,880**	**6%**		223,752	7%		40,128	17.9%
Subtotal	**377,612**	**8%**	**120**	389,761	12%	132	(12,149)	(3.1%)
Total	**4,737,532**	**100%**	**214**	3,164,022	100%	226	1,573,510	49.7%

Revenue from drilling rigs increased 57.2% as compared to 2007. Among which, digitally-controlled rigs and conventional rigs increased 52.1% and 77.8% respectively. The increase was mainly attributable to the increase in sales of high-function drilling rigs with higher average price. During the Year, the average selling price amounted to RMB46 million whereas it was only RMB30 million in 2007.

During the Year, sales of parts and components decreased 3.1% as compared to 2007. Among which, sales of mud pumps and parts and components decreased 31.5% and increased 17.9% respectively as compared to 2007. The decrease was mainly due to the decrease in sales volume of mud pumps to 120 units from 132 units in 2007. Meanwhile, purchase orders for mud pumps with less complex configuration

Management Discussion and Analysis

were received and the selling price decreased to RMB0.95 million during the Year from RMB1.26 million in 2007.

Cost of Sales

During the Year, the Group's cost of sales amounted to approximately RMB3,382 million, representing an increase of approximately RMB1,298 million or approximately 62.3% as compared to 2007. The increase was mainly attributable to the corresponding increase of the Group's sales revenue.

Gross Profit and Gross Margin

During the Year, the Group's gross profit was approximately RMB1,356 million, representing an increase of approximately 25.5% as compared to 2007. Among which, gross profit for drilling rigs amounted to approximately RMB1,236 million, representing an increase of 30.7% as compared to 2007. Gross profit for digitally-controlled rigs and conventional rigs amounted to approximately RMB997 million and approximately RMB239 million respectively, representing an increase of 31.6% and 26.9% as compared to 2007 respectively. Gross profit for parts and components amounted to approximately RMB120 million, representing a decrease of 10.9% as compared to 2007.

During the Year, the gross margin was approximately 28.6%, representing a decrease of approximately 5.5 percentage points as compared to 34.1% in 2007.

Gross margin for drilling rigs was 28.3%, representing a decrease of 5.8 percentage points as compared to 34.1% in 2007. Among which, gross margin for digitally-controlled rigs was 29.3%, representing a decrease of 4.6 percentage points as compared to 33.9% during 2007; gross margin for traditional rigs was 24.8%, representing a decrease of 10.0 percentage points as compared to 34.8% during 2007. This was mainly attributable to the increasing orders with higher graded configuration and imported materials. In addition, the appreciation of RMB led to a decrease in revenue from US dollar denominated sales, while increased raw materials prices resulted in higher production costs.

Gross margin for parts and components was 31.8%, representing a decrease of 2.8 percentage points as compared to 34.6% during 2007. Among which, gross margin for mud pumps was 40.8%, representing an increase of 4.2 percentage points as compared to 36.6% during 2007. This was mainly attributable to the increased sales volume of mud pumps and higher selling price. Gross margin for export of mud pumps was also higher than that of the domestic market. Gross margin for other parts and components was 29.5%, representing a decrease of 4.3 percentage points as compared to 33.8% during 2007.

Other Net Operating Expenses and Other Net Income

During the Year, the Group's other net operating expense amounted to approximately RMB1.60 million which represented the net amount of other operating revenue of RMB5.4 million (2007: RMB23 million) and other operating expenses of RMB7 million (2007: RMB0.8 million). The decrease of other operating revenue of RMB17.6 million as compared to 2007 was mainly attributable to an one-off revenue of RMB13 million received from Egyptian Petroleum Honghua Rig Manufacturing Shareholder Co. for the transfer of technical knowledge from Honghua Company in 2007. Furthermore, there was a decrease in revenue from maintenance services. Other net income amounted to approximately RMB14 million, representing a decrease of approximately RMB9 million or approximately 39.2% as compared to 2007. The decrease was mainly attributable to the donation made to the "5.12" earthquake victims during the Year.

Expenses in the Period

During the Year, the Group's selling expenses amounted to approximately RMB370 million, representing an increase of approximately RMB160 million or approximately 76.2% as compared to

Management Discussion and Analysis

RMB210 million in 2007. The increase was mainly attributable to the increase in transportation costs. Transportation costs amounted to RMB259 million, representing an increase of 105.6% as compared to RMB126 million in 2007. The increase in transportation costs was mainly attributable to the corresponding increase in export sales, especially sales to the Russian market which recorded a remarkable increase. The Group paid for a majority of the costs of transporting drilling rigs from its production base to Russia.

During the Year, the Group's general and administrative expenses amounted to approximately RMB261 million, representing an increase of approximately RMB74 million or approximately 39.6% as compared to RMB187 million in 2007. The increase was mainly attributable to the increase in labor costs and amortisation of intangible assets. The increase in labor costs was due to the equity-settled share based payment expenses in relation to the share option scheme, leading to an increase in general and administrative expenses of RMB38 million, and the amortisation of intangible assets of RMB12 million.

During the Year, the Group's net financing cost amounted to approximately RMB89 million, representing an increase of approximately RMB39 million or approximately 78.0% as compared to RMB50 million in 2007. The increase was mainly attributable to increased exports and the appreciation of the RMB. The exchange loss increased to RMB67 million during the Year from RMB14 million in 2007. Net interest expenses decreased from RMB32 million for the year 2007 to RMB14 million for the year was due to the funds raised from the initial public offering ("IPO").

Share of Profit from a Jointly-controlled Entity

During the Year, the Group's share of profit from a jointly-controlled entity amounted to approximately RMB7.33 million, representing an increase of approximately RMB0.86 million as compared to approximately RMB6.47 million in 2007. This was mainly attributable to the increase of sales revenue.

Profit before Taxation

During the Year, profit before taxation of the Group amounted to approximately RMB656 million, representing a decrease of approximately RMB29 million or approximately 4.2% as compared to RMB685 million in 2007. Stable profit before taxation was a combination of significant increase of gross profit and selling and general and administrative expenses.

Income Tax Expense

During the Year, the Group's income tax expense amounted to approximately RMB116 million, representing an increase of approximately RMB48 million or approximately 70.6% as compared to RMB68 million in 2007. During the Year, the effective tax rate was approximately 17.6%, representing an increase of 9.9% as compared to 2007. Honghua Company, a subsidiary of the Group, was exempt from the PRC enterprise income tax last year. According to the agreement of related authority, Honghua Company was taxed at 50% of the prevailing tax rate. As a result, the income tax rate increased to 12.5% in 2008 from 3% in 2007.

Profit for the Year

During the Year, the Group's profit for the Year amounted to approximately RMB540 million, representing a decrease of approximately RMB77 million or approximately 12.5% as compared to RMB617 million in 2007. Net profit margin was approximately 10.8%, representing a decrease of approximately 7.6 percentage points as compared to 18.4% in 2007. The decrease was mainly due to the decrease in gross margin as well as the increase in expenses and effective income tax rate.

Management Discussion and Analysis

EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION ("EBITDA") AND EBITDA MARGIN

During the Year, EBITDA was approximately RMB791 million, representing an increase of approximately RMB33 million or 4.4% as compared to RMB758 million in 2007. The increase was due to the higher increase in gross profit than those expenses. EBITDA margin was approximately 16.7%, representing a decrease of 7.3 percentage points as compared to 24.0% in 2007. This was due to the decrease in gross profit margin and increase in selling expenses and the expenses in relation to the equity-settled share based payment.

Dividend

Special dividends of HK$0.1 per share which amounting to RMB287,671,000 were declared after the interim period. Pursuant to the prospectus of the Company dated 25 February 2008, the Group proposed that the annual dividends for 2008 be not less than 20% of the earnings attributable to equity shareholders of the Company. The Board declared final dividends of HK$0.06 per share.

Source of Capital and Borrowings

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

As at 31 December 2008, the Group's borrowings amounted to approximately RMB1,575 million, representing an increase of approximately RMB704 million as compared to the balance as at 31 December 2007. Among which, borrowings repayable within one year amounted to approximately RMB1,561 million, representing an increase of approximately RMB705 million as compared to the balance as at 31 December 2007.

Deposit and Cash Flow

As at 31 December 2008, the Group's cash and cash equivalents amounted to approximately RMB1,467 million, representing an increase of approximately RMB1,272 million as compared to the balance as at 31 December 2007.

During the Year, the Group's operating cash outflow amounted to approximately RMB405 million. Investment cash outflow amounted to approximately RMB1,169 million which was mainly attributable to the purchase of fixed assets and acquisition for land use right. Cash inflow from financing activities amounted to approximately RMB2,846 million which was mainly attributable to IPO proceeds, bank borrowings and dividend payment.

Assets Structure and Changes Thereof

As at 31 December 2008, the Group's total assets amounted to approximately RMB7,784 million, representing an increase of approximately RMB3,853 million or approximately 98.0% as compared to the balance as at 31 December 2007; among which, current assets amounted to approximately RMB6,837 million, mainly consisted of IPO proceeds, trade receivables and inventories, accounting for approximately 87.8% of total assets; non-current assets amounted to approximately RMB947 million, representing an increase of approximately RMB152 million as compared to the balance as at 31 December 2007.

Liabilities

As at 31 December 2008, the Group's total liabilities amounted to approximately RMB3,256 million, representing an increase of approximately RMB681 million as compared to the balance as at 31 December 2007; among which, current liabilities amounted to approximately RMB3,232 million, accounting for

Management Discussion and Analysis

approximately 99.3% of total liabilities; non-current liabilities amounted to approximately RMB24 million, accounting for approximately 0.7% of total liabilities. The increase of liabilities was mainly attributable to the increase of procurement cost following the increase of sales revenue. As at 31 December 2008, the Group's gearing ratio is approximately 41.8%.

Total Equity

As at 31 December 2008, total equity amounted to approximately RMB4,527 million, representing an increase of approximately RMB3,172 million as compared to the balance as at 31 December 2007; total equity attributable to equity shareholders of the Company amounted to approximately RMB4,434 million, representing an increase of approximately RMB3,147 million as compared to the balance as at 31 December 2007. Minority interests totaled approximately RMB93 million, representing an increase of approximately RMB25 million as compared to the balance as at 31 December 2007; net assets value reached approximately RMB1.40 per share representing an increase of RMB0.86 per share as compared to that as at 31 December 2007. During the Year, the Group's earnings per share was approximately RMB16.2 cents, representing a decrease of RMB7.1 cents as compared to 2007.

Turnover Days

During the Year, the average inventory turnover days had a slight increase from 151 days to 166 days. This was mainly attributable to the remarkable increase of inventories as at the year end as compared to 2007.

During the Year, the Group proactively managed the cash flow, as a result, it maintained stable financial ratios. The Group prudently monitored recoverability of its trade receivables, kept a close eye on the financial condition of its customers and intensified cash collections. The average turnover days of trade receivables was 105 days and remained relatively stable as compared to 101 days last year. The average turnover days of trade payables was 88 days, representing a decrease as compared to 107 days in 2007. This was mainly attributable to part of the listing proceeds being used as working capital and for day to day expenses.

Contingent Liabilities and Pledge

Details of contingent liabilities are set out in note 36 to the financial statements of 2008 annual report. As at 31 December 2008, the Group has pledged bank deposits of approximately RMB259 million, representing a decrease of approximately RMB2 million as compared to the balance as at 31 December 2007.

Capital Expenditure, Major Investment and Capital Commitments

During the Year, capital expenditure of the Group on infrastructure and technical improvements amounted to approximately RMB155 million, representing an increase of approximately RMB20 million as compared to 2007. This was mainly due to the investment in expanding production base, purchase of equipments and other infrastructure developments, to better capture the surging demand in the oil drilling industry in coming years.

As at 31 December 2008, the Group had capital commitments of approximately RMB803 million, which will be used for the construction of offshore drilling platform located in the coastal regions of Eastern China.

Foreign Currency Risk

The Group owns certain foreign currency deposits. As at 31 December 2008, the Group's foreign currency deposits were equivalent to approximately RMB184 million, trade and other receivables in foreign currency were equivalent to approximately RMB1,283 million. Exports business and assets denominated in foreign currencies exposed the Group to exchange rate risk.

Management Discussion and Analysis

Use of Proceeds from the Initial Public Offerings

The net proceeds after the deduction of issuing expenses from the initial public offering was approximately HK$2,958 million. In order to strengthen the Group's operation, the Group adjusted the use of capital, the adjusted use of capital is as follows:

Proceeds of HK$1,275 million to be used for offshore project and none of the proceeds has incurred; proceeds of HK$592 million to be used for potential acquisitions and none of the proceeds has incurred; proceeds of HK$354 million to be used for production capacity expansion and R&D expenses, among which HK$190 million has incurred; proceeds of HK$737 million to be used for working capital and operating expense and HK$237 million has incurred.

Employee Remuneration and Benefit

During the Year, the average number of the Group's employees was 3,487. The total remuneration and benefit amounted to approximately RMB278 million, representing an increase of RMB94 million or approximately 51.4% as compared to 2007. The Group provided competitive remuneration and benefit to its employees, and determined employee's individual remuneration based on his/her job duties, work performance and individual capability. The Group strives to maintain a people-oriented principle and fully develop the potential of the staff. Along with offering a broad platform to fulfill one's value as well as providing training opportunity with diverse, specific and level-categorized bases, the Group intends to enhance the value of the staff.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Zhang Mi (張弭先生), aged 52, has been Chairman of the Company and an Executive Director since June, 2007. He is also President of the Company. Positions held by Mr. Zhang in the Company's subsidiaries are set forth in the table below.

Subsidiary	**Position**	**Term of Office**
Asia Harbour	Director	Since 18 August 2006
Honghua Company	Chairman, and General Manager	Since 31 December 1997
HH Egyptian Company	Director	Since 26 April 2007
Honghua America	Chairman	Since 11 October 2004
Honghua International	Chairman	Since 13 January 2004
Newco (H.K.) Limited	Director	Since 15 April 2008
Sichuan Hongcheng Business Trading Ltd.	Director	Since 16 April 2008
Sichuan Honglian Industrial Co., Ltd.	Director	Since 28 April 2008

Mr. Zhang graduated from the Sichuan Petroleum Administration Vocational University in 1982, with a diploma in machinery manufacture, design and equipment. He graduated from the Party Institute of Sichuan Provincial Committee Correspondence College in 1998, with a degree in Economics and Management. In 2004 he then obtained a senior engineer qualification granted by the Committee for Evaluation of Senior Technical Positions of the China National Petroleum Corp.. He has been receiving special subsidies granted by the State Council of the PRC government since February 2007, for his significant contribution to the development of machinery engineering in the PRC.

Mr. Zhang is particularly involved in enhancing the company's technological innovation. Mr. Zhang is responsible for the development of the ZJ70LC drilling rig, which was one of the major ultra-deep drilling rigs used in China. He is also responsible for the development of the digitally-controlled VFD rig (DBS), the first of its kind in China. The DBS has been included in the State Critical Technological Equipment Innovation Research Project (國家重大技術裝備創新研製項目), the State Key New Products (國家重點新產品) and the National Torch Plan Project (國家級火炬計劃項目). In 2005, Mr. Zhang was awarded the Sichuan Province Prize for Outstanding Talent in Innovation (四川省第三屆傑出創新人才獎), by the Sichuan Provincial Party Committee and the Sichuan Provincial People's Government. In 2007, he was granted the May 1 Labor Medal of Sichuan Province (四川省五一勞動獎章) by the Sichuan Provincial Federation of Trade Unions in 2007.

Mr. Ren Jie (任杰先生), aged 42, has been an Executive Director of the Company since 18 January 2008. He is also a Vice-president of the Company. In 1990, Mr. Ren earned a Bachelor's degree in mining machinery from Southwest Petroleum University, located in Sichuan Province, specializing in petroleum and natural gas. In 1995, Mr. Ren obtained an engineering qualification, granted by the China National Petroleum Corp., Sichuan Petroleum Administration. In November 2007, he also became a member of the 5th Edition Committee of the Oil Field Equipment Journal. Mr. Ren is employed as an engineer by Honghua Company.

In the early stages of Honghua Company, Mr. Ren successfully designed a rotary table transmission unit, a drawworks bevel gear box, and universal shaft equipment for the ZJ70LC drilling rigs, which contributed greatly to the development of the Company. Mr. Ren, together with his research and development team, also successfully

Biographical Details of Directors and Senior Management

developed a set of digitally-controlled VFD rigs, after the development of the first digitally controlled VFD rig (DBS).

Positions held by Mr. Ren in the Company's subsidiaries are set forth in the table below.

Subsidiary	**Position**	**Term of Office**
Asia Harbour	Director	Since 18 August 2006
Honghua Company	Director and	Since 31 December 1997
	Deputy General Manager	From 1 March 2003 until 30 April 2008
Youxin Company	Director	Since 8 December 2006
Honghua International	Director and	Since 13 January 2004
	General Manager	Since 24 April 2008
Newco (H.K.) Limited	Director	Since 22 June 2008
Russia Honghua Co., Ltd	Director	Since 26 June 2008
Honghua America	Director	Since 10 October 2008

Mr. Liu Zhi (劉智先生), aged 45, has been an Executive Director of the Company since 26 May 2008. He is also a Vice-president of the Company. In 2008, Mr. Liu was in charge of management of Quality Department, Technical Centre of Research of Drilling Equipment, Materials Supply Department and Sale Department of Honghua Company. Mr. Liu graduated from Southwest Petroleum University in 2003, with a Master degree in oil and gas storage and transportation. He was an engineer and a head of workshop of South-Sichuan Mining Area of Sichuan Petroleum Bureau since 1981 to 1994. Mr. Liu was the factory director of Guanghan Petroleum Machinery Main Factory of Sichuan Petroleum Administration from 1994 to 2000. Mr. Liu has contributed to the expansion of Honghua Group's markets inside and outside of China.

Positions held by Mr. Liu in the Company's subsidiaries are set forth in the table below.

Subsidiary	**Position**	**Term of Office**
HH Egyptian Company	Director	Since 26 April 2007
Honghua Company	Director and	From 17 August 2006 until 8 March 2007
		Since 26 May 2008
	Deputy General Manager	Since 1 January 2001
	Managing Deputy General Manager	Since 27 April 2008
Honghua International	Director and	Since 13 January 2004
	General Manager	From 6 January 2004 until 23 April 2008
Hongtian Company	Director	Since 8 December 2006

Biographical Details of Directors and Senior Management

NON-EXECUTIVE DIRECTORS

Mr. Xiang Qingsheng (相慶生先生), aged 62, has been a Non-executive Director of the Company since 18 January 2008. He has been a Director of Asia Harbour since March 2007. Since July 2007, he has been a Director of Honghua Company. From 2004 to May 2008, he was a Director and General Manager of China Ocean Oilfields Services (Hong Kong) Ltd. (COOS). Since 2004, Mr. Xiang Qingsheng has been a Director of China Nanshan Development (Group) Incorporation, a Vice-chairman of Nanhai West Oil Oilfield Service (Shen Zhen) Co., Ltd., and a Director of CNOOC Insurance Limited. Mr. Xiang graduated at Sinkiang Karamay Petroleum School majoring in Oil Exploitation Geology in September 1968 and at Guangdong South China Normal University majoring in English in 1986. He obtained a senior economist qualification from CNOOC in 1997.

Mr. He Sean Xing (何欣先生), aged 44, has been a Non-executive Director of the Company since 18 January 2008. He has been a Director of Honghua Company since March, 2007. He has been a Director of Asia Harbour since 6 December 2006. He has been a Director of Anshine International Group (incorporated in the Cayman Islands) since 10 September 2006. He has been a Director of Informax Optical Technology Corporation since May 2002. He has been a Director of eBIS Co., Ltd., since 28 May 2003. He is also a Managing Director of Carlyle Funds. Mr. He graduated from Zhejiang University in 1985, with a Bachelor's degree in structural engineering, and in 1991 he received a Master's degree in engineering from Carleton University (Canada). In 1994, he earned an MBA from the Schulich School of Business, York University (Canada). In 1997, Mr. He qualified as an American Chartered Financial Analyst (CFA).

Mr. Siegfried Meissner, aged 56, has been a Non-executive Director of the Company since 26 May 2008. Mr. Meissner graduated from the Technical University of Clausthal-Zellerfeld, Germany as Dipl. Berging., specialized in drilling, reservoir and production engineering in 1982. Mr Meissner has joined Nabors Group since 1993 and has been a President of Nabors International Management Limited since December 2004.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Liu Xiaofeng (劉曉峰先生), aged 46, has been an Independent Non-executive Director of the Company since 18 January 2008. He is currently a Managing Director of DBS Asia Capital, and an Independent Non-executive Director of CNPC (Hong Kong) Limited and Haier Electronics Group Co., Ltd., both of which are publicly-listed companies on the Stock Exchange. He has over 14 years of experience in corporate finance and has worked with various international financial institutions since 1993, including NM Rothschild & Sons, JP Morgan, and DBS. Mr. Liu obtained a Master's degree and a Ph.D. from the Faculty of Economics, University of Cambridge in 1988 and 1993 respectively, a Master of Science degree in Development Studies from the University of Bath, England, in 1987, and a Bachelor of Economics degree from Sichuan Finance University (Southwest University of Finance and Economics, China) in 1983.

Mr. Qi Daqing (齊大慶先生), aged 45, has been an Independent Non-executive Director of the Company since 18 January 2008. Mr. Qi is a Professor of Accounting and Associate Dean at Cheung Kong Graduate School of Business (CKGSB). He taught at the School of Accounting, The Chinese University of Hong Kong, from 1996 to 2002. His research interests primarily focus on financial reporting and strategy execution. He has published many articles in accounting and finance journals, and he has extensive executive training and consulting experience in accounting and corporate finance.

Biographical Details of Directors and Senior Management

His clients include:

Type of client	Name of client	Duration of service
Government:	Shanghai Municipal Government	2000–2001
	Ministry of Information Industries of PRC	1998–2000
Private Sector:	Huawei Technologies Co., Ltd.	2006
	Lenovo Group Limited	2004–2005
	Digital China Holdings Limited	2004
	Siemens Ltd., China	2002
	China Telecommunications Corporation	2001
	Nokia (China) Investment Co., Ltd.	1999–2001

He received his Ph.D. in Accounting from Michigan State University in 1996, his MBA from the University of Hawaii at Manoa in 1992, and his Bachelor's degrees in Biophysics and International Journalism from Fudan University in 1985 and 1987, respectively. Mr. Qi is not a certified public accountant; he became a member of the American Accounting Association in 1996. With over ten years of experience as a Professor of Accounting, a Ph.D. in Accounting, an MBA and extensive executive training and consulting experience in accounting and corporate finance, Mr. Qi's experience means that he has the requisite expertise as required by the Listing Rules. Therefore, whilst Mr. Qi does not hold formal accounting professional qualifications, he meets the criteria for accounting and related financial management expertise as required by Rule 3.10(2) of the Listing Rules.

Mr. Qi is currently an Independent Non-executive Director and Chairman of the Audit Committee of Sohu (a NASDAQ listed company), Focus Media Holding Limited (a NASDAQ listed company) and Sino Media Holding Limited. He is also an Independent Director, member of the Audit Committee and Chairman of the remuneration of Committee of China Vanke Co., Ltd. He is directly involved in the formulation of accounting policies and audit processes.

Mr. Tai Kwok Leung, Alexander (戴國良先生), aged 51, has been an Independent Non-executive Director of the Company since 18 January 2008. Mr. Tai graduated from Victoria University of Wellington in New Zealand with a degree in Bachelor of Commerce and Administration in 1982 and became an associate member of the Hong Kong Institute of Certified Public Accountants in 1983. Mr. Tai has extensive accounting, corporate finance and investment experience in Hong Kong and overseas. Mr. Tai is a shareholder and an Executive Director of Access Capital Limited, a licensed corporation under the SFO to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities. Mr. Tai currently is an Independent Non-executive Director of Luk Fook Holdings (International) Limited.

Mr. Liu Yinchun (劉銀春先生), aged 62, has been an Independent Non-executive Director of the Company since 18 January 2008. Mr Liu served as Director of East China Oil Bureau from 2002 to 2007. Mr. Liu graduated from Beijing Geosciences College (now known as China University of Geosciences) in 1969. He has extensive experience in oil drilling and business management. In 1997, he served as the deputy director and Chief Engineer of East China Oil and Geology Bureau from 1996 to 2002. He was awarded Senior Engineer at professor level and has been receiving special subsidies granted by the State Council of the PRC government (政府特殊津貼) since February 1998, for his significant contribution to the development of engineering technology in China.

Biographical Details of Directors and Senior Management

Mr. Chen Guoming (陳國明先生), aged 46, has been an Independent Non-executive Director of the Company since 18 January 2008. In 1982, Mr. Chen graduated from the Mechanical Department of the East China Petroleum Institute with a Bachelor's Degree, and then worked as an assistant engineer in the Lanzhou General Machinery Plant from 1982 to 1983. He earned his Master's degree in 1986, from the Beijing Graduate School of East China Petroleum Institute. He then worked as a teacher in this Institute and was promoted to Associate Professor and then Professor in 1992 and 1995, respectively. He was a visiting scholar at the University of California, Berkeley, from 1996 to 1997. He obtained his Ph.D. degree in 1999, and was promoted to Ph.D. candidate supervisor in 2000. He is now a Professor and a Ph.D. candidate supervisor in the Department of Mechanical and Electrical Engineering, China University of Petroleum. Currently, Mr. Chen is the Chief of Shandong Key Laboratory of Petroleum Mechanical Engineering and the Research Office of the Offshore Petroleum Engineering; a member of the Quality & Reliability Committee of China Petroleum Society, the Offshore Engineering Committee of China Naval Architects and Marine Engineers' Society and China Mechanical Engineering Society; and a member of the Editorial Committee of the Journal of Petroleum Science, the Journal of Oil Mining Field Machinery and the Journal of China University of Petroleum (Natural Science Edition). He has been receiving special subsidies granted by the State Council of the PRC government (政府特殊津貼) since August 2005, for his significant contribution to the development of higher education in China, and was awarded the National Labor Day Medal in 2007.

Mr. Wang Li (王礫先生), aged 38, has been an Independent Non-executive Director of the Company since 18 January 2008. Mr. Wang graduated from China University of Political Science and Law in 1992 with a Bachelor's Degree in Civil Law and in 2001 received a Master's Degree in International Law from Napier University Edinburgh. Mr. Wang also studied law in international business and international electronic business at Asia Economy Management College of the University of California in 1996. Mr. Wang specializes in legal services in finance, stock exchange, real estate and international business. His clients include, among others, Bank of China (Chengdu branch), Citigroup Global Markets Asia Ltd and Construction Bank of China (International Division of Sichuan Branch). Mr. Wang is a Director of the Sichuan Lawyers Association and a Lawyer Partner of Guangdong Jindi Law Firm Sichuan Office.

Mr. Shi Xingquan (史興全先生), aged 67, is a senior engineer in professor level. Mr. Shi graduated from the North-eastern Petroleum College in 1965 and is a well-known petroleum engineering expert. Mr. Shi has been appointed as the vice president of PetroChina Company Limited from 1999 until 2003. Mr. Shi was awarded the National Technology Advancement Award (First Prize) by the National Science and Technology Council of the PRC in 1997. In 2003, Mr. Shi was awarded the National Scientific and Technological Progress Award (First Prize) by State Council of the PRC. Mr. Shi was also granted the Middle-aged and Young Experts of the State with Outstanding Contribution by Ministry of Personnel of the PRC.

SENIOR MANAGEMENT

Mr. Luo Qiping (羅啓平先生), aged 45, has been a Vice-president of the Company since 18 January 2008. He has respectively been a Deputy General Manager of Honghua Company since June 2007. In 2008, Mr. Luo was in charge of production system of Honghua Company, including Control Centre and three plants and responsible for preparing to construct new assembly workshop and surface processing workshop. He was a Director of Honghua International from 13 January 2004 to 19 May 2008. From 1989 to 1993, he studied at the No. 2 Heavy Machinery Plant Vocational University (now "Sichuan college of Architectural Technology") majoring in machinery manufacture and design, and obtained an engineering qualification from the Personnel Bureau of Sichuan Province, in September

Biographical Details of Directors and Senior Management

1997. He joined Honghua Company as an engineer in 1999. Prior to joining Honghua Company, he worked as a assistant engineer and then an engineer in Dongfang Petro Chemical General Equipment Factory (東方石化通用設備總廠) from 1982 to 1999. Mr. Luo has extensive experience in production management. He passed an examination in ISO9000:2000 Quality Management System Requirements and Internal Auditing Skills in April 2001 and awarded by Det Norske Veritas ("DNV") certificate of training.

Mr. Zhang Cong (張聰先生), age 53, has been a Vice-president of the Company since 27 April 2008, and has been the Chairman and General Manager of Hongtian Company since June 2001. Mr. Zhang was one of the initial founders of Hongtian Company. Mr. Zhang has helped Hongtian Company to sell DBS digital VFD system to major oil fields in China and a large number of products to the overseas market. In December 2006, Mr. Zhang was awarded "The Fourth session Excellent Start in Undertaking Entrepreneur of Chengdu". Mr. Zhang was a cadre in South-Sichuan Mining Area of Sichuan Petroleum Bureau from September 1985 to September 1994 and was Manager and Director of Luzhou Huayou Compressed Gas Co., Ltd. from September 1994 to June 2001. Mr. Zhang graduated from Sichuan Radio TV University, majoring in electronic technology and is a qualified engineer.

Mr. Zhao Ping (趙平先生), age 52, has been a Vice-president of the Company since 27 April 2008. Mr. Zhao was one of the initial founders of Youxin Company, and has been the Chairman and General Manager of Youxin Company since 2000. Mr. Zhao established the corporate operation system and improved the construction of regulations of Youxin Company. From 1972 to 1999, Mr Zhao worked in South-Sichuan Mining Area of Sichuan Petroleum Bureau. He was the head of Quality Management Office from 1993, and Director of Workshop No. 1 from 1994 to 1996, and was the deputy factory director. Mr. Zhao graduated from Machinery Department of Southwest Petroleum University, majoring in Petroleum and Minerals Machinery and is a qualified engineer.

Mr. Liu Gangqiang (劉剛强先生), aged 39, has been the secretary of the Board of Directors and a joint Company secretary of the Company since 21 January 2008. He has been the secretary of the Board of Honghua Company since March 2004. He is mainly responsible for capital operation, securities market related affairs, corporate finance, financial information management, internal audit and supervision affairs, capital market compliance and production operations legal affairs, intellectual property protection, investor and shareholder relations, government and regulatory authority coordination, and day-to-day administration of the Board of Directors etc.

From February 2003 to September 2003, he conducted research on the development of state-owned enterprises, in the Work Technology Center of the Sichuan State-Owned Enterprise Supervisory Committee. From October 2000 to September 2003, he was an assistant General Manager of Sichuan Aerospace High-tech Co., Ltd., and General Manager of Aerospace Network Communications System Engineering Co., Ltd. From September 1997 to October 2000, he served as an economist in Sichuan Trust & Investment Co., Ltd., and was engaged in securities analysis, investment financing, capital planning, asset management and legal affairs. From September 1991 to May 1994, he was a technician at Beijing Yanshan Petroleum & Chemicals Co., Ltd. Mr. Liu graduated from Chengdu Science and Technology University (now Sichuan University), with a Bachelor's degree in high polymer material and engineering, in 1991. He earned a Master's degree in Economics from Southwest University of Finance and Economics in 1997. In 2003, he received a Ph.D. in Economics from Southwest University of Finance and Economics.

Biographical Details of Directors and Senior Management

Ms. Corinna Leung (梁慧嫻女士), aged 41, has been a joint Company secretaries of the Company since 21 January 2008. She is a senior manager of the Corporate Services Department of Tricor Services Limited. She is an associate with the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries. She provides corporate services to companies that are listed on the Main Board, Growth Enterprise Market of the Stock Exchange and private companies.

Ms. Lu Hong (魯紅女士), aged 39, was appointed financial controller of Honghua Company in May 2007, and has been the financial controller and the qualified accountant of the Company since June, 2007. Mr. Liu Zhi was responsible for financial and accounting management before Ms. Lu joined the Group in May 2007. After Ms. Lu joined the Company, Mr. Liu Zhi became responsible for the Company's financial and accounting work concerning manufacturing and operations, and Ms. Lu was responsible for the financial and accounting work concerning the Listing. Upon the Company's Listing, Ms. Lu had been responsible for all the financial and accounting work of the Company and its subsidiaries. Ms. Lu was the company secretary, qualified accountant and assistant financial controller of Guangdong Nanyue Logistics Co., Ltd., a company listed on the Stock Exchange, from February, 2005, to December, 2006. She is a Certified Public Accountant in China, a Certified Public Accountant in Hong Kong, and has obtained a fellowship from the Association of Chartered Certified Accountants (FCCA). Ms. Lu graduated from China University of Geosciences, Beijing, with a Master's degree in 1994.

Corporate Governance Report

The Board is pleased to present this Corporate Governance Report in the Group's annual report for the year ended 31 December 2008.

The Company's corporate governance policies and practices are applied and implemented in the manners as stated in the following Corporate Governance Report:-

CORPORATE GOVERNANCE PRACTICES OF THE COMPANY

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

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

The Board believes that good corporate governance practices are increasingly important for maintaining and promoting Shareholder value and investor confidence.

The Company has applied the principles as set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Listing Rules.

The CG Code sets out the principles of good corporate governance and two levels of corporate governance practices:

(a) Code provisions which listed issuers are expected to comply with or to give considered reasons for any deviation; and

(b) Recommended best practices for guidance only, which listed issuers are encouraged to comply with or give considered reasons for deviation.

The Company's corporate governance practices are based on the principles, code provisions and certain recommended best practices as set out in the CG Code.

The Company has complied with most of the code provisions set out in the CG Code throughout the year ended 31 December 2008, save for certain deviations from the code provisions in respect of separation of roles of Chairman and President (Chief Executive Officer), details of which will be explained below.

The Company reviews its corporate governance practices regularly to ensure compliance with the CG Code.

The Company is committed to enhance its corporate governance practices appropriate to the conduct and growth of its business and to review its corporate governance practices from time to time to ensure they comply with the statutory and professional standards and align with the latest developments.

Corporate Governance Report

THE BOARD OF DIRECTORS

Responsibilities

The Board is responsible for the leadership and control of the Company and oversees the Group's businesses, strategic decisions and performances. The senior management was delegated the authority and responsibilities by the Board for the day-to-day management and operations of the Group. In addition, the Board has also established Board committees and has delegated to these Board committees various responsibilities set out in their terms of reference.

All Directors have carried out their duties in good faith and in compliance with the standards of applicable laws and regulations, and act in the interests of the Company and its Shareholders at all times.

Board Composition

The Board currently comprises 13 members, consisting of 3 Executive Directors, 3 Non-executive Directors and 7 Independent Non-executive Directors.

The Company has met the recommended best practice under the CG Code for the Board to have at least one-third of its members comprising Independent Non-executive Directors.

The Board comprises the following directors:

Executive Directors:

Zhang Mi	*(Chairman and President (Chief Executive Officer, "CEO"), Member of Remuneration Committee and Chairman of Strategic Investment and Risk Control Committee)*
Ren Jie	*(Vice-President and Member of Strategic Investment and Risk Control Committee)*
Liu Zhi	*(Vice-President and Member of Strategic Investment and Risk Control Committee)*

Non-executive Directors:

Siegfried Meissner	
Xiang Qingsheng	*(Member of Strategic Investment and Risk Control Committee)*
He Sean Xing	*(Chairman of Remuneration Committee and Member of Strategic Investment and Risk Control Committee)*

Corporate Governance Report

Independent Non-executive Directors:

Qi Daqing	*(Chairman of Audit Committee and member of Remuneration Committee and Corporate Governance Committee)*
Liu Xiaofeng	*(Member of Audit Committee and Chairman of Corporate Governance Committee)*
Chen Guoming	*(Member of Audit Committee and Corporate Governance Committee)*
Liu Yinchun	*(Member of Audit Committee and Corporate Governance Committee)*
Wang Li	*(Member of Audit Committee, Corporate Governance Committee and Strategic Investment and Risk Control Committee)*
Tai Kwok Leung, Alexander	*(Member of Audit Committee and Corporate Governance Committee)*
Wang Chunlin	*(Member of Audit Committee and Corporate Governance Committee) (Resigned with effect from 13 February 2009)*
Shi Xingquan	*(Member of Audit Committee and Corporate Governance Committee) (Appointed with effect from 14 April 2009)*

None of the members of the Board is related to one another.

During the year ended 31 December 2008, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors with at least one Independent Non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received the written annual confirmation from each Independent Non-executive Director of his independence pursuant to the requirements of the Listing Rules. The Company considers all Independent Non-executive Directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

The Non-executive Directors bring a wide range of business and financial expertise, experiences and independent judgment to the Board. Through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all Non-executive Directors make various contributions to the effective direction of the Company.

All Directors, including Non-executive Directors and Independent Non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. Independent Non-executive Directors are invited to serve on the Audit, Remuneration, Corporate Governance and Strategic Investment and Risk Control Committees of the Company.

Corporate Governance Report

Chairman and President (Chief Executive Officer "CEO")

Provision A.2.1 of the CG Code stipulates that the roles of Chairman and CEO should be separated and should not be performed by the same individual.

Mr Zhang Mi is the Chairman and President (CEO) of the Company. He is one of the founders of the Group and possesses with knowledge and experience of the industry and the related industries. The Board believes that vesting the roles of both Chairman and President (CEO) in the same person provides the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies.

The Board is of the view that it is in the best interests of the Group to have the 2 roles performed by the same person so that the Board can have the benefit of a chairman who is knowledgeable about the business of the Group and is most capable to guide discussions and brief the Board in a timely manner on pertinent issues and developments to facilitate open dialogue between the Board and the management.

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

Appointment and Re-election of Directors

Each of the Directors of the Company is engaged on a service contract for a term of 3 years except for Mr. Shi Xingquan who was newly appointed and has not entered into any service contract with the Company. The appointment may be terminated by not less than 3 months' written notice, except for Mr. Siegfried Meissner whose appointment may be terminated by not less than 1 month's written notice.

In accordance with the Articles of Association, all Directors of the Company are subject to retirement by rotation at least once every three years and any new Director appointed to fill a casual vacancy or as an addition to the Board shall submit himself/herself for re-election by Shareholders at the first general meeting after appointment.

The procedures and process of appointment, re-election and removal of Directors are laid down in the Articles of Association.

The Board reviews its own structure, size and composition regularly to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company. Where vacancies on the Board exist, the Board will carry out the selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, the Company's needs and other relevant statutory requirements and regulations.

Mr Liu Zhi and Mr Siegfried Meissner, having been appointed as Executive Director and Non-executive Director respectively during the year, have retired and being eligible, offered themselves for re-election at the annual general meeting of the Company held on 27 June 2008.

In addition, Mr Zhang Mi, Mr He Sean Xing, Mr Chen Guoming, Mr Qi Daqing and Mr Shi Xingquan will retire by rotation and being eligible, offer themselves for re-election at 2009 annual general meeting.

Corporate Governance Report

The Board recommended the re-appointment of the Directors standing for re-election at the next forthcoming annual general meeting of the Company.

The Company's circular for the 2009 annual general meeting shall contain detailed information of the Directors standing for re-election.

Training, Induction and Continuing Development for Directors

Each newly appointed Director would receive a comprehensive, formal and tailor-made induction on the first occasion of his/her appointment, so as to ensure that he/she has adequate understanding of the business and operations and governance of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

The Directors are continually updated with legal and regulatory developments, and the business and market changes to facilitate the discharge of their responsibilities. Continuing briefings and professional development to Directors will be arranged whenever necessary.

Board Meetings

Board Practices and Conduct of Meetings

Annual meeting schedules and draft agenda of each meeting are normally made available to Directors in advance.

Notices of regular Board meetings are served to all Directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information is sent to all Directors at least 3 days before each Board meeting or committee meeting to keep the Directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the senior management whenever necessary.

The senior management would attend all regular Board meetings and where necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major and other major aspects of the Company.

The Company Secretary is responsible to take and keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to Directors for comment within a reasonable time after each meeting and the final version is open for directors' inspection.

The Company's Articles of Association contains provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

Corporate Governance Report

Directors' Attendance Records

During the year ended 31 December 2008, four regular Board meetings were held at approximately quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

The attendance records of each Director at the meetings of the Board, Remuneration Committee, Audit Committee, Corporate Governance Committee and Strategic Investment and Risk Control Committee during the year ended 31 December 2008 are set out below:

	Attendance/Number of Meetings						
Name of Directors	**Board**	**Committee of the Board**	**Directors' Resolutions**	**Remuneration Committee**	**Audit Committee**	**Corporate Governance Committee**	**Strategic Investment and Risk Control Committee**
Zhang Mi	09/09	02/02	03/03	01/01	–	–	01/01
Ren Jie	09/09	02/02	02/02	–	–	–	01/01
Zhang Xu *(resigned with effect from 26 May 2008)*	02/02	–	–	–	–	–	–
Wang Yaoxin *(resigned with effect from 26 May 2008)*	02/02	–	–	–	–	–	–
Xiang Qingsheng	09/09	–	02/02	–	–	–	01/01
He Sean Xing	06/09	–	02/02	01/01	–	–	01/01
Qi Daqing	07/09	–	02/02	01/01	02/02	02/02	–
Liu Xiaofeng	08/09	–	02/02	–	02/02	02/02	–
Chen Guoming	07/09	–	02/02	–	02/02	02/02	–
Liu Yinchun	08/09	–	02/02	–	02/02	02/02	–
Wang Li	08/09	–	02/02	–	01/02	02/02	01/01
Tai Kwok Leung, Alexander	09/09	–	02/02	–	02/02	02/02	–
Wang Chunlin *(resigned with effect from 13 February 2009)*	08/09	–	02/02	–	02/02	02/02	–
Liu Zhi *(appointed with effect from 26 May 2008)*	06/07	–	02/02	–	–	–	01/01
Siegfried Meissner *(appointed with effect from 26 May 2008)*	02/07	–	02/02	–	–	–	–

Note: The first set of Directors' Resolutions was passed on 18 January 2008 and by that time, Mr Zhang Mi was the sole director of the Company.

Corporate Governance Report

Model Code for Securities Transactions

The Company has adopted its own code of conduct regarding Directors' dealings in the Company's securities (the "Company's Code") on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Company's Code throughout the year ended 31 December 2008.

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

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

DELEGATION BY THE BOARD

The Board reserves for its decisions all major matters of the Company, including: the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters.

All Directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are complied with. Each Director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the President (Chief Executive Officer) and the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers.

The Board has established 4 committees, namely, the Remuneration Committee, Audit Committee, Corporate Governance Committee and Strategic Investment and Risk Control Committee for overseeing particular aspects of the Company's affairs. Most of the Board committees of the Company are established with defined written terms of reference which are available to Shareholders upon request.

The Board also has the full support of the Chief Executive Officer and the senior management to discharge its responsibilities.

Corporate Governance Report

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Remuneration Committee

The Remuneration Committee comprises 3 members, namely Mr He Sean Xing (Chairman), Mr Zhang Mi and Mr Qi Daqing, the majority of them are Non-executive Directors.

The primary objectives of the Remuneration Committee include:-

- To make recommendations on the establishment of procedures for developing remuneration policy and structure of the Directors and the senior management, such policy shall ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration;
- To make recommendations on the remuneration packages of the Non-executive Directors to the Board;
- To review and approve the remuneration packages of the Executive Directors and the senior management by reference to the performance of the individual and the Company as well as market practice and conditions; and
- To review and approve the compensation arrangements for the Executive Directors and the senior management in connection with (i) any loss or termination of their office or appointment and (ii) any dismissal or removal of directors for misconduct to ensure such arrangements are determined in accordance with contractual terms and that such compensation is reasonable and appropriate.

The Remuneration Committee normally meets at least once a year for reviewing the remuneration policy and structure and determination of the annual remuneration packages of the Executive Directors and the senior management and other related matters.

The Remuneration Committee held a meeting in April 2008 during the year ended 31 December 2008 and the attendance records are set out under "Directors' Attendance Records" on page 33.

ACCOUNTABILITY AND AUDIT

Directors' Responsibilities for Financial Reporting in Respect of Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2008.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The Management provides such explanation and information to the Board so as to enable the Board to make an informed assessment of the financial information and position of the Company, and to approve the financial statements accordingly.

Corporate Governance Report

Internal Controls

During the year under review, the Board, through the Audit Committee, has conducted a review of the effectiveness of the internal control system of the Company including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

The Board is responsible for maintaining an adequate internal control system to safeguard Shareholder investments and Company assets and with the support of the Audit Committee, reviewing the effectiveness of such system on an annual basis.

The internal control system of the Group is designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks and to safeguard assets of the Group. The senior management shall review and evaluate the control process and monitor any risk factors on a regular basis and report to the Audit Committee on any findings and measures to address the variances and identified risks.

During the year under review, the Company engaged external professional auditors to initiate an independent review covering the financial, operational, compliance and risk management aspects of the finance and major operational functions for the Group. Report from external professional auditors were presented to and reviewed by the Audit Committee.

Audit Committee

The Audit Committee comprises 7 Independent Non-executive Directors, namely, Qi Daqing (Chairman), Liu Xiaofeng, Chen Guoming, Liu Yinchun, Wang Li, Tai Kwok Leung, Alexander and Shi Xingquan (who has been appointed with effect from 14 April 2009 to replace Wang Chunlin who has resigned with effect from 13 February 2009) including 4 Independent Non-executive Directors who possess the appropriate professional qualifications or accounting or related financial management expertise.

The main duties of the Audit Committee include the following:

- To review the financial statements and reports and consider any significant or unusual items raised by staff responsible for the accounting and financial reporting function or external auditors before submission to the Board.

- To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.

- To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

The Audit Committee provides supervision on the internal controls system of the Group and reports to the Board on any material issues and makes recommendations to the Board.

Corporate Governance Report

During the year under review, the Audit Committee has reviewed the Group's annual results and annual report for the year ended 31 December 2008, the financial reporting and compliance procedures, the report from the management on the Company's internal control and risk management review and processes and the re-appointment of the external auditors.

The Audit Committee held two meetings during the year ended 31 December 2008 and the attendance records are set out under "Directors' Attendance Records" on page 33.

Corporate Governance Committee

The Corporate Governance Committee comprises all the seven Independent Non-executive Directors, namely Liu Xiaofeng (Chairman), Qi Daqing, Chen Guoming, Liu Yinchun, Wang Li, Tai Kwok Leung, Alexander and Shi Xingquan (who has been appointed with effect from 14 April 2009 to replace Wang Chunlin who has resigned with effect from 13 February 2009).

The main duties of the Corporate Governance Committee include the following:

- To review the compliance of the corporate governance issues of the Company pursuant to the Listing Rules and other applicable rules and regulations.

- To review the corporate governance report to be included in the annual report and interim report of the Company.

- To review the corporate governance policy and practices of the Company.

The Corporate Governance Committee normally meets at least twice a year for reviewing the compliance of the corporate governance issues, the corporate governance report and the corporate governance policy. The Corporate Governance Committee held 2 meetings in April and September 2008 for the year ended 31 December 2008 and the attendance records are set out under "Directors' Attendance Records" on page 33.

Strategic Investment and Risk Control Committee

The Strategic Investment and Risk Control Committee was formed by Zhang Mi (Chairman), Liu Zhi, Ren Jie, Xiang Qingsheng, He Sean Xing and Wang Li.

The main duties of the Strategic Investment and Risk Control Committee include the following:

- To review the investment strategies of the Company.

- To review the risk control of the Company.

- To recommend investment strategies and risk control policy and practices to the Board.

Corporate Governance Report

The Strategic Investment and Risk Control Committee normally meets at least once a year for reviewing the investment and risk control issues. The Strategic Investment and Risk Control Committee held a meeting in November 2008 for the year ended 31 December 2008 and the attendance records are set out under "Directors' Attendance Records" on page 33.

External Auditors and Auditors' Remuneration

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" on page 57.

During the year ended 31 December 2008, the remuneration paid to the Company's auditors, Messrs KPMG, is set out below:

Category of services	**Fee paid/payable (in HK Dollars)**
Audit service	3,500,000
Non-audit service	
— Reviewing interim financial information	1,000,000
— Proceeding of continuing connected transactions	50,000
— Reviewing tax information	13,000
Total	4,563,000

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The general meetings of the Company provide a forum for communication between the Board and the Shareholders. The Chairman of the Board as well as chairmen of the Remuneration Committee Audit Committee and Corporate Governance Committee or, in their absence, other members of the respective committees normally attend the annual general meeting and other relevant Shareholders' meetings to answer questions at the Shareholders' meetings.

To promote effective communication, the Company maintains a website at http://www.hh-gltd.com, where up-to-date information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are available for public access. Investors may write directly to the Company at its principal place of business in Hong Kong or via email to bso@hhcp.com.cn for any inquiries.

SHAREHOLDER RIGHTS

To safeguard the Shareholders' interests and rights, separate resolutions are proposed at Shareholders' meetings on each substantial issue, including the election of individual Directors.

All resolutions put forward at a Shareholder meeting will be taken by poll pursuant to the Listing Rules and the poll results will be posted on the websites of the Company and of the Stock Exchange after the Shareholders' meeting.

Report of the Directors

The Board is pleased to present this annual report, together with the audited consolidated financial statements of the Group for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The Group principally engages in research, design, manufacture, setting and sale of land rigs and related parts and components. Meanwhile it also provides technical support services for clients. During the Year, the nature of principal activities of the Group has no substantial change.

RESULTS AND DISTRIBUTION

The results of the Group for the year ended 31 December 2008 are set out in the Financial Statements on pages 59 to 132 of this annual report.

The Board recommended payment of final dividends of Hong Kong Dollars 6 cents per Share for the year ended 31 December 2008.

SHARE CAPITAL

Changes in the share capital of the Company during the year are set out in Note 29 to the Financial Statements.

PRE-EMPTIVE RIGHT

There is no provision of pre-emptive right under the Articles of Association and the laws of the Cayman Islands stipulating that the Company shall offer new shares to existing Shareholders in proportion.

Report of the Directors

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

The Company repurchased a total of 110,672,000 shares on the Stock Exchange at about an aggregate consideration (including related tax and other expenses) of HK$142,569,000 from listing and up to 31 December 2008. Details of the repurchases are as follows:

Month of repurchases	Total number of Shares repurchased	Highest price paid per share (HK$)	Lowest price paid per share (HK$)	Aggregate consideration (including related tax and other expenses) (HK$'000)
September 2008	53,304,000	1.45	1.06	70,312
October 2008	51,200,000	1.56	1.07	64,766
November 2008	6,168,000	1.30	1.15	7,491
Total	110,672,000			142,569

All the Shares repurchased were subsequently cancelled. The issued share capital of the Company has been reduced by the nominal value of the Share repurchased. The repurchase of the Company's Shares were effected by the Board pursuant to the repurchase mandate granted to it and were made for the benefit of its Shareholders by enhancing the earnings per share of the Company.

Save as disclosed above, the Company had not redeemed, and neither the Company nor any of its subsidiaries had purchased or sold any of the shares of the Company from listing to 31 December 2008.

RESERVES

As of 31 December 2008, the Group has a total of approximately RMB4,135 million worth of reserve. Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity in the Financial Statements.

SUBSIDIARIES

Details of the Company's subsidiaries as of 31 December 2008 are set out in Note 26 to the Financial Statements.

SIGNIFICANT CONTRACT

No contract of significance was entered into between the Company and its any subsidiaries and the Controlling Shareholders.

Report of the Directors

DIRECTORS

The Directors of the Company during the year and as of the date of this annual report are:

Executive Directors

Mr. Zhang Mi[2,4]	(Chairman)
Mr. Ren Jie[4]	(Appointed on 18 January 2008)
Mr. Liu Zhi[4]	(Appointed on 26 May 2008)
Mr. Zhang Xu	(Appointed on 18 January 2008 and resigned on 26 May 2008)

Non-Executive Directors

Mr. He Sean Xing[2,4]	(Appointed on 18 January 2008)
Mr. Xiang Qingsheng[4]	(Appointed on 18 January 2008)
Mr. Siegfried Meissner	(Appointed on 26 May 2008)
Mr. Wang Yaoxin	(Appointed on 18 January 2008 and resigned on 26 May 2008)

Independent non-executive Directors

Mr. Qi Daqing[1,2,3]	(Appointed on 18 January 2008)
Mr. Liu Xiaofeng[1,3]	(Appointed on 18 January 2008)
Mr. Chen Guoming[1,3]	(Appointed on 18 January 2008)
Mr. Liu Yinchun[1,3]	(Appointed on 18 January 2008)
Mr. Wang Li[1,3,4]	(Appointed on 18 January 2008)
Mr. Tai Kwok Leung, Alexander[1,3]	(Appointed on 18 January 2008)
Mr. Wang Chunlin[1,3]	(Appointed on 18 January 2008 and resigned on 13 February 2009)
Mr. Shi Xingquan[1,3]	(Appointed on 14 April 2009)

Notes:

1. Audit Committee Members
2. Remuneration Committee Members
3. Corporate Governance Committee Members
4. Strategic Investment and Risk Control Committee

In accordance with the Articles of Association, one third of the Directors (or closest to but not less than one third if the number of Directors is not three or a multiple of three) shall retire from office by rotation at each annual general meeting and each Director is required to retire at least once every three years and any director appointed by the board shall hold office only until the next general meeting and shall then be eligible for re-election at the meeting. Zhang Mi, He Sean Xing, Chen Guoming, Qi Daqing, Shi Xingquan will retire from office by rotation at the forthcoming annual general meeting and will be eligible for re-election.

According to the independent guidelines under the Listing Rules, the Company has received the annual confirmation of their independence from each independent Non-executive Director, and the Company still considers such directors as independent.

Report of the Directors

DIRECTORS' SERVICE CONTRACTS

Each of the directors of the Company is engaged on a service contract for a term of 3 years except for Mr. Shi Xingquan who was newly appointed and has not entered into any service contract with the Company. The appointment may be terminated by not less than 3 months' written notice, except for Mr. Siegfried Meissner whose appointment may be terminated by not less than 1 month's written notice. The directors shall retire by rotation and be eligible for re-election subject to the Articles of Association of the Company.

None of the Directors has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

Directors' interests in Contracts

Save as disclosed under the following "Continuing connected transactions", none of the Directors directly or indirectly had any material interest in the contracts of significance in relation to the Group's business to which the Company or its holding company or any of its subsidiaries was a party at the end of the year or at any time during the Year.

Remuneration for Directors and Senior Management

For the year ended 31 December 2008, details of remuneration for the Directors and Senior Management are set out in Notes 9 and 10 to the Financial Statements.

Report of the Directors

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

At 31 December 2008, the interests and short positions of each Director and Chief Executive in the Shares and underlying Shares of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept by the Company under Section 352 of Part XV of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules were as follows:

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

	Long/Short position	Nature of interest	Number of Shares held	% of the issued share capital of the Company
Mr. Zhang Mi	Long	Personal interest, corporate interest and settlor of a discretionary trust	1,625,824,837(1)(4)	50.45%
Mr. Ren Jie	Long	Personal interest, corporate interest and settlor of a discretionary trust	1,625,824,837(2)(4)	50.45%
Mr. Liu Zhi	Long	Corporate interest and settlor of a discretionary trust	1,625,824,837(3)(4)	50.45%

(1) Zhang Mi individually owns 280,000 Shares. Zhang Mi is a member of the Concert Group. He is the settlor of a discretionary trust, The ZYL Family Trust, whose trustee owns 3,000,000 Shares and, through Wealth Afflux Limited, holds the entire issued share capital of Ally Smooth Investments Limited, which in turn is the beneficial owner of 36% of the issued share capital of Ample Chance International Limited, which in turn is the beneficial owner of the entire issued share capital of Ally Giant Limited which holds 1,617,727,837 Shares.

Ren Jie, another member of the Concert Group, owns 169,000 Shares individually. He is the settlor of a discretionary trust, The RJDJ Victory Trust, whose trustee owns 1,000,000 Shares. The Trustee of a discretionary trust, The LZWM Family Trust, whose settlor is Liu Zhi, another member of the Concert Group, owns 1,070,000 Shares. The Trustee of a discretionary trust, The FBX Family Trust, whose settlor is Fan Bing, another member of the Concert Group, owns 693,000 Shares. The other members of The Concert Group own an aggregate of 1,885,000 Shares.

(2) Ren Jie individually owns 169,000 Shares. Ren Jie is a member of the Concert Group. He is the settlor of a discretionary trust, The RJDJ Victory Trust, whose trustee owns 1,000,000 Shares and, through Mowbray Worldwide Limited, holds approximately

Report of the Directors

41.34% of the issued share capital of Charm Moral International Limited, which in turn is the beneficial owner of approximately 19.09% of the issued share capital of Ample Chance International Limited, which in turn is the beneficial owner of the entire issued share capital of Ally Giant Limited which holds 1,617,727,837 Shares. Zhang Mi, another member of the Concert Group, individually owns 280,000 Shares. He is the settlor of a discretionary trust, The ZYL Family Trust, whose trustee owns 3,000,000 Shares. The trustee of a discretionary trust, The LZWM Family Trust, whose settlor is Liu Zhi, another member of the Concert Group, owns 1,070,000 Shares. The trustee of a discretionary trust, The FBX Family Trust, whose settlor is Fan Bing, another member of the Concert Group, owns 693,000 Shares.The other members of the Concert Group own an aggregate of 1,885,000 Shares.

(3) Liu Zhi is a member of the Concert Group. He is the settlor of a discretionary trust, The LZWM Family Trust, whose trustee owns 1,070,000 Shares and, through Ecotech Enterprises Corporation, holds approximately 29.33% of the issued share capital of Charm Moral International Limited, which in turn is the beneficial owner of approximately 19.09% of the issued share capital of Ample Chance International Limited, which in turn is the beneficial owner of the entire issued share capital of Ally Giant Limited which holds 1,617,727,837 Shares. Zhang Mi and Ren Jie, the other two members of the Concert Group, own an aggregate of 449,000 Shares. The trustees of the two discretionary trusts, whose settlors are Zhang Mi and Ren Jie respectively, own an aggregate of 4,000,000 Shares. The trustee of a discretionary trust, The FBX Family Trust, whose settlor is Fan Bing, another member of the Concert Group, owns 693,000 Shares. The other members of he Concert Group own an aggregate of 1,885,000 Shares.

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

b) Share options of the Company

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

Saved as disclosed above, on 31 December 2008, none of the Directors and Chief Executives (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for Shares (or warrants or debentures, if applicable) of the Company and its associated corporations required to be disclosed pursuant to the SFO.

Report of the Directors

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

The register of substantial shareholders required to be kept under section 336 of Part XV of the SFO shows that, at 31 December 2008, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors and Chief Executives of the Company.

		Number of shares held						
		Personal interest						
Name	Long/ Short position	Share option	Share interest	Corporate interest	Corporate interest and settlor of a discretionary trust	Interest of the Concert Group	Total	% of the issued share capital of the Company
Ally Giant Limited	Long	NIL	1,617,727,837	NIL	NIL	33,673,000	1,651,400,837[1]	51.24%
Ample Chance International Limited	Long	NIL	NIL	1,617,727,837	NIL	33,673,000	1,651,400,837[2]	51.24%
Wealth Afflux Limited	Long	NIL	NIL	1,617,727,837	NIL	33,673,000	1,651,400,837[3]	51.24%
Ally Smooth Investments Limited	Long	NIL	NIL	1,617,727,837	NIL	33,673,000	1,651,400,837[3]	51.24%
Equity Trustee Limited	Long	NIL	NIL	NIL	1,623,490,837	NIL	1,623,490,837 [3][5][6][9][10][14][20][22]	50.38%
Charm Moral International Limited	Long	NIL	NIL	1,617,727,837	NIL	33,673,000	1,651,400,837[4]	51.24%
Mowbray Worldwide Limited	Long	NIL	NIL	1,617,727,837	NIL	33,673,000	1,651,400,837[5]	51.24%
Ecotech Enterprises Corporation	Long	NIL	NIL	1,617,727,837	NIL	33,673,000	1,651,400,837[6]	51.24%
Mr. Zheng Yong	Long	1,390,000	NIL	1,617,727,837	NIL	32,283,000	1,651,400,837[7]	51.24%
Beauty Clear Holdings Limited	Long	NIL	NIL	1,617,727,837	NIL	33,673,000	1,651,400,837[8]	51.24%
Mr. Zuo Huixian	Long	1,060,000	NIL	NIL	1,617,727,837	32,613,000	1,651,400,837[9]	51.24%
Vast & Fast Corporation	Long	NIL	NIL	1,617,727,837	NIL	33,673,000	1,651,400,837[9]	51.24%
Mr. Zhang Xu	Long	1,191,000	NIL	NIL	1,617,727,837	32,482,000	1,651,400,837[10]	51.24%
Cavendish Global Corporation	Long	NIL	NIL	1,617,727,837	NIL	33,673,000	1,651,400,837[10]	51.24%
Mr. Wang Jiangyang	Long	640,000	1,785,000	1,617,727,837	NIL	31,248,000	1,651,400,837[11]	51.24%
Mr. Chen Jun	Long	540,000	NIL	1,617,727,837	NIL	33,133,000	1,651,400,837[12]	51.24%
Believe Power International Limited	Long	NIL	NIL	1,617,727,837	NIL	33,673,000	1,651,400,837[13]	51.24%
Mr. Fan Bing	Long	1,175,000	NIL	NIL	1,618,420,837	31,805,000	1,651,400,837[14]	51.24%
Brondesbury Enterprises Limited	Long	NIL	NIL	1,617,727,837	NIL	33,673,000	1,651,400,837[14]	51.24%
Mr. Zhang Yanyong	Long	1,000,000	100,000	1,617,727,837	NIL	32,573,000	1,651,400,837[15]	51.24%
Mr. Ao Pei	Long	440,000	NIL	1,617,727,837	NIL	33,233,000	1,651,400,837[16]	51.24%
Mr. Tian Diyong	Long	355,000	NIL	1,617,727,837	NIL	33,318,000	1,651,400,837[17]	51.24%
Mr. Shen Dingjian	Long	175,000	NIL	1,617,727,837	NIL	33,498,000	1,651,400,837[18]	51.24%
Benefit Way International Limited	Long	NIL	NIL	1,617,727,837	NIL	33,673,000	1,651,400,837[19]	51.24%
Mr. Liu Xuetian (deceased)	Long	NIL	NIL	NIL	1,617,727,837	33,673,000	1,651,400,837[20]	51.24%
Dobson Global Inc.	Long	NIL	NIL	1,617,727,837	NIL	33,673,000	1,651,400,837[20]	51.24%
Ms. Qu Yihong	Long	NIL	NIL	1,617,727,837	NIL	33,673,000	1,651,400,837[21]	51.24%
Ms. Liu Ying	Long	NIL	NIL	1,617,727,837	NIL	33,673,000	1,651,400,837[21]	51.24%
Mr. Zhou Bing	Long	750,000	NIL	NIL	1,617,727,837	32,923,000	1,651,400,837[22]	51.24%
Darius Enterprises Limited	Long	NIL	NIL	1,617,727,837	NIL	33,673,000	1,651,400,837[22]	51.24%
Ms. Lv Lan	Long	345,000	NIL	1,617,727,837	NIL	33,328,000	1,651,400,837[23]	51.24%
Mr. Tian Yu	Long	240,000	NIL	1,617,727,837	NIL	33,433,000	1,651,400,837[24]	51.24%
Mr. Li Hanqiang	Long	215,000	NIL	1,617,727,837	NIL	33,458,000	1,651,400,837[25]	51.24%
Mr. Liu Yingguo	Long	125,000	NIL	1,617,727,837	NIL	33,548,000	1,651,400,837[26]	51.24%
Ms. Liu Lulu	Long	135,000	NIL	1,617,727,837	NIL	33,538,000	1,651,400,837[27]	51.24%
China Ocean Oilfields Services (Hong Kong) Limited	Long	NIL	174,425,609	NIL	NIL	NIL	174,425,609[28]	5.41%
China National Offshore Oil Corporation	Long	NIL	NIL	174,425,609	NIL	NIL	174,425,609[28]	5.41%

Report of the Directors

Name	Long/ Short position	Number of shares held: Personal interest: Share option	Share interest	Corporate interest	Corporate interest and settlor of a discretionary trust	Interest of the Concert Group	Total	% of the issued share capital of the Company
Nabors Drilling International II Limited	Long	NIL	450,000,000	NIL	NIL	NIL	450,000,000(29)	13.96%
Nabors International Management Limited	Long	NIL	NIL	450,000,000	NIL	NIL	450,000,000(29)	13.96%
Nabors Global Holdings Limited	Long	NIL	NIL	450,000,000	NIL	NIL	450,000,000(29)	13.96%
Nabors Industries Ltd.	Long	NIL	NIL	450,000,000	NIL	NIL	450,000,000(29)	13.96%

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

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

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

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

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

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

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

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

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

Report of the Directors

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

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

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

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

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

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

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

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

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

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

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

Report of the Directors

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

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

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

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

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

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

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

(28) China Ocean Oilfields Services (Hong Kong) Limited holds 174,425,609 Shares. The issued share capital of China Ocean Oilfields Services (Hong Kong) Limited was beneficially owned approximately 98.8% by China National Offshore Oil Corporation and approximately 1.20% by Overseas Oil & Gas Corporation Limited.

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

Save as disclosed above, to the best of the Directors and the Chief Executives of the Company's knowledge, as at 31 December 2008, none of the persons, other than the Directors or the Chief Executives of the Company, had interests or short positions in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or recorded in the register as required under Section 336 of the SFO.

SHARE OPTION SCHEME

(A) Pre-IPO Share Option Scheme

The main terms of pre-IPO share option scheme have been approved by resolution in writing by all Shareholders on 21 January 2008. As at the date of this report, a total of 270 in total qualified participants have been conditionally granted share options which may subscribe for an aggregate of 60,000,000 shares at exercise price of offer price of HK$3.83, representing approximately 2.4% of issued share capital of the Company immediately after the completion of the global offering. At 31 December 2008, each option grantee subject to pre-IPO share option scheme has not exercised the options held by him and 195,000 options were lapsed during the Year.

Each option granted under the pre-IPO share option scheme is exercisable within a period of five years commencing from 7 March 2008 (the "Listing Date") and the vesting period is ten years from the Listing Date. Under the pre-IPO share option scheme, as at 31 December 2008, 20% of the total number of options granted to each grantee (if not cancelled) or 12,000,000 options can be exercised.

No further options were granted under pre-IPO share option scheme after the date of listing of the Company on the Stock Exchange.

(B) Share Option Scheme after Listing

Upon conditional approval by resolution in writing by all Shareholders of the Company on 21 January 2008, the Company adopted a share option scheme ("Share Option Scheme").

Purpose

The Company operates the Share Option Scheme for the purpose of providing incentive and rewards to participants for their contribution to the success of the Group's operation and/or enabling the Group to recruit or retain high calibre employees and attract people for the Group.

The Share Option Scheme may provide the participants with opportunity of holding the Shares of the Company individually, and (a) facilitate the participants to use their best effort to improve their performance and effectiveness; and (b) attract and retain participants who are significant to long term development and profitability of the Group.

Participants

(a) any Executive Director, employee or proposed employee (whether full time or part time) of any member of the Group; (b) any Non-executive Directors (including Independent Non-executive Director) of any member of the Group; (c) any supplier of goods or services to any member of the Group; (d)

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any customer of any member of the Group; (e) any advisor, consultant, any person or entity with professional or other services who provides research, development or other technical support to any member of the Group; (f) any shareholder of any member of the Group or any holder of any security issued by any member of the Group; (g) any joint venture, business or strategic alliance partner of any member of the Group; (h) discretionary trust whose discretionary objects are as follows: any Executive Director, employee or prospective employee (whether full time or part time) and any Non-executive Director (including Independent Non-executive Director) of any member of the Group, any supplier of goods or services to any member of the Group, any customer of any member of the Group, any advisor, consultant, any person or entity with professional or other services who provides research, development or other technical support to any member of the Group, any shareholder of any member of the Group or any holder of any security issued by any member of the Group and any joint venture, business or strategic alliance partner of any member of the Group.

Maximum entitlement of each participant

The maximum number of Shares issued and to be issued upon exercise of the share options (including those already exercised and outstanding share options) granted to each eligible participant under the Share Option Scheme in any 12-month period (until date of grant of share options) is limited to 1% of the Shares of the Company in issue. Any further grant of share options in excess of this limit is subject to Shareholders' approval in a general meeting but the participant and its associates must abstain from voting at the meeting. In this case, the Company must despatch a circular to Shareholders, containing the identity of the participants, numbers of share options to be granted by the participant and related terms (and share options previously granted to this participant) and all other data as required by the Listing Rules. The numbers and terms of the share options to be granted to this participant (including exercise price) must be determined before approval by the Shareholders. In calculating the subscription price, the date on which Board meeting is held for proposing further grant of share options is deemed as date of grant.

The period in which Shares must be subscribed for under share options

Share option may be exercised at any time within ten years from the date of grant of share options as determined by the Board of Directors, but is subject to early termination provisions of the terms of Share Option Scheme.

Amounts to be paid on acceptance of option

Grantee of share option must pay HK$1.00 to the Company upon acceptance of share option offer.

Basis of determining the exercise price

The subscription price of the share option granted under Share Option Scheme is solely determined and notified to the participants by the Board of Directors, but not less than the highest of (i) the closing price

Report of the Directors

of the Company's Shares as stated in the daily quotations sheet of the Stock Exchange on the date of the grant; (ii) the average closing price of the Company's Shares as stated in the Stock Exchange's daily quotations sheet for the five trading days immediately preceding the date of the grant; and (iii) the nominal value of the Company's Shares as at date of grant.

Condition and Termination of the Share Option

Share Option Scheme is conditional on the Listing Committee of the Stock Exchange granting approval of the listing of, and permission to deal in, the Shares which may fall to be issued pursuant to the exercise of options granted under the Share Option Scheme. The Company (by virtue of resolutions of general meeting) or the Board may at any time terminate the operation of Share Option Scheme, under which circumstance, there will be no new share options to be granted, but the options granted before the termination will continue to be effective and enforceable subject to the provisions of Share Option Scheme.

No share option has been granted by the Company under the Share Option Scheme during the current Year.

CONTINUING CONNECTED TRANSACTIONS

During the year, the Group has the following continuing connected transactions. For items 1 and 2, disclosure by way of announcement and independent Shareholders' approval have been made and obtained in compliance with the requirements of Chapter 14A of the Listing Rules and for item 3, waivers from strict compliance under Rule 14A.42(3) of the Listing Rules have been granted by the Stock Exchange.

1. Sales framework agreement entered into with Nabors Group

Nabors Group comprises Nabors Industries and its subsidiaries. Nabors Group, through Nabors International, holds approximately 13.96% equity interest in the Company and hence is a connected person of the Company under Chapter 14A of the Listing Rules.

In order to expand the business with the Nabors Group, the Company entered into a sales framework agreement dated 31 August 2008 with Nabors Industries, with a term commencing from 31 August 2008 and ending on 31 December 2010 or when the Nabors Group and its associates ceased to be connected persons of the Company (whichever is the earlier), pursuant to which the Group shall sell to the Nabors Group certain types of drilling rigs and workover rigs from 450HP to 3,000HP and their parts and components, and similar products to be developed in line with the future market needs, and provision by the Group to the Nabors Group of the after-sales services. The approved annual caps of the Products and Services (as defined in the sales framework agreement) shall not exceed US$200 million, US$250 million and US$300 million for each of the three years ending 31 December 2010 respectively.

Report of the Directors

The sales framework agreement is entered into in the ordinary and usual course of business and is on normal commercial terms with the following pricing mechanism and terms:

(i) by reference to the prevailing market price of the same or substantially similar products or services, taking into account of the price of the same or substantially similar products or services with comparable order quantity and quality offered by other manufacturers, and on terms no less favorable than the general market price and terms;

(ii) if there are not sufficient comparable transactions in (i) above, on terms no less favourable to the Group than those offered by the Group to independent third parties with comparable credit worthiness in respect of the same or substantially similar products or services with comparable quantity; and

(iii) if both (i) and (ii) above are not applicable, by reference to the average gross margin for similar products or services sold by the Group, taking into account of the price and terms of the same or substantially similar products or services offered to the Nabors Group in the past three years, and on terms no less favourable to the Group than those offered to the Group by independent third parties.

During the year, the total income received by the Group from the Nabors Group in respect of sales of the Products and Services amounted to approximately RMB82,389,108.

2. Purchases framework agreement entered into with Nabors Group

In order to expand the business with the Nabors Group, the Company entered into a purchases framework agreement dated 31 August 2008 with Nabors Industries, with a term commencing from 31 August 2008 and ending on 31 December 2010 or when the Nabors Group and its associates ceased to be connected persons of the Company (whichever is the earlier), pursuant to which the Group shall purchase from the Nabors Group rig parts and components which mainly consist of top drives and provision by the Nabors Group to the Group of the after-sales services. The approved annual caps of the Products and Services (as defined in the purchases framework agreement) shall not exceed US$20 million, US$40 million and US$40 million for each of the three years ending 31 December 2010 respectively.

The purchases framework agreement is entered into in the ordinary and usual course of business and is on normal commercial terms with the following pricing mechanism and terms:

(i) by reference to the prevailing market price of the same or substantially similar products or services, taking into account of the price of the same or substantially similar products or services with comparable order quantity and quality offered by other manufacturers, and on terms no less favourable than the general market price and terms;

Report of the Directors

(ii) if there are not sufficient comparable transactions in (i) above, on terms no less favourable to the Group than those offered to the Group by independent third parties in respect of the same or substantially similar products or services with comparable quantity; and

(iii) if both (i) and (ii) above are not applicable, by reference to the average price of similar products or services previously purchased by the Group, and on terms no less favourable to the Group than those offered to the Group by independent third parties.

During the year, the total purchases of the Products and Services made by the Group from the Nabors Group amounted to approximately RMB15,397,068.

3. Purchase framework agreement entered into with Hongtai Company

Hongtai Company is owned as to 73.125% by the spouses of the Concert Group, therefore Hongtai Company is a connected person of the Company according to Rule 14A.11(4) of the Listing Rules.

Honghua Company entered into a purchase framework agreement dated 15 February 2008 with Hongtai Company for a term commencing from 1 January 2007 and ending on 31 December 2009. The purchase framework agreement provides a framework for the purchase by the Group of paint, tools, welding materials and worker-protection items from Hongtai Company. The parties confirmed that the aggregate annual purchases until 31 December 2007 did not exceed RMB50,000,000 and the Board expects that the aggregate annual purchases for each of the two years ended 31 December 2008 and 2009 will reach RMB30,000,000 and RMB30,000,000 respectively.

During the year, the total purchases made by the Group from Hongtai Company amounted to approximately RMB26,113,120.

All Independent Non-executive Directors have reviewed the continuing connected transactions and confirmed that these transactions have been entered into:

(1) in the ordinary and usual course of the business of the Group;

(2) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and

(3) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

Report of the Directors

The auditor has confirmed that the above continuing connected transactions:

(1) have been approved by the Board;

(2) are in accordance with the pricing policies of the Group;

(3) are entered into in accordance with the terms of the relevant agreements governing such transactions; and

(4) have not exceeded their respective caps as set out respectively in the prospectus of the Company dated 25 February 2008 and the previous announcement.

BANK LOANS

Details of our bank loans and other borrowings are set out in Note 21 to the Financial Statements.

USE OF PROCEEDS FROM INITIAL PUBLIC OFFERINGS

On 7 March 2008, the Company issued 833,360,000 ordinary shares at a price of HK$3.83 per Share on the main board of the Stock Exchange, raising a net capital (total capital net of underwriting fee and payables for Global Offering) of approximately HK$2.958 billion. In order to enhance operation flexibility of the Group, the Company changed the intended use of the net proceeds from IPO (the details are set out in the announcement published on 26 November 2008). Therefore, as of 31 December 2008, the intended use of the net proceeds and the usage status are as follows:

(1) Proceeds of HK$1,275 million to be used for construction of an offshore equipment manufacturing base in the eastern coastal area of China. This part of fund has not been utilized.

(2) Proceeds of HK$592 million to be used for acquisition. This part of fund has not been utilized.

(3) Proceeds of HK$354 million to be used for expansion of production capacity, and research and development, among which HK$190 million has been utilized.

(4) Proceeds of HK$737 million to be used for working capital and current expenditure, among which HK$237 million has been utilized.

As of 31 December 2008, we deposited the part of net proceeds which has not been immediately used for above-mentioned purposes as fixed or demand deposits.

Report of the Directors

FINANCIAL SUMMARY

Our financial summary for the past five years are set out in the section headed "Five-Year Financial Highlights" of this annual report.

STAFF RETIREMENT AND BENEFIT SCHEME

Details of the staff retirement and benefit scheme are set out in Notes 7(b) & 23 to the Financial Statements.

FIXED ASSETS

Details of the changes of the fixed assets of the Group are set out in Note 14 to the Financial Statements.

MAJOR CUSTOMERS AND SUPPLIERS

1. During the Year, the Group's five largest customers in total accounted for approximately 64.8% of revenue, and the largest customer was Clusseter Ltd (Cyprus) (塞浦路斯克魯斯特有限公司), accounting for approximately 34.7% of revenue. The others in descending proportions were Eriell Corporation S.R.O., Well Drilling Company LTD, ETA Star Holding L.L.C., and Carbonic International Trading LTD, which accounting for approximately 15.0%, 6.2%, 5.6% and 3.3% respectively.

2. During the Year, the Group's five largest suppliers accounted for approximately 34.2% of total purchases and the largest supplier was Caterpillar S.A.R.L. Singapore Branch, which accounted for approximately 13.6% of total purchases, and the second largest supplier was National Oilwell Varco L.P., which accounted for approximately 8.5% of total purchases. The others in descending proportions were respectively Chengdu Zhongyeda Co. Ltd., Lonergan Commercial Inc and Grand Rig International Limited (格蘭瑞克國際有限公司), which account for approximately 5.7%, 3.9% and 2.5% respectively.

3. None of the Directors of the Company, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the above suppliers or customers.

ENTRUST DEPOSITS AND ENTRUST LOANS

As at 31 December 2008, the Company has no entrust deposits or entrust loans being placed with commercial banks or non-commercial banks and other finance institutions.

Report of the Directors

TAXATION POLICY

The details of the Group's applicable income taxation policy and payment of income tax are set out in Note 8 to the Financial Statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the Latest Practical Date before the issue of this report, the Company has maintained sufficient public float since the Listing Date.

Auditor

A resolution to renew the appointment of KPMG as auditor of the Company will be proposed at the annual general meeting of the Company.

Qualified Accountant

The Company engages a qualified accountant who is responsible for supervising the financial reporting procedures and internal control of the Company.

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

Hong Kong, 14 April 2009

Independent Auditor's Report

To the shareholders of Honghua Group Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Honghua Group Limited (the "Company") set out on pages 59 to 132, which comprise the consolidated and Company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are 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.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, 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 statements in order to design audit procedures that are appropriate

Independent Auditor's Report

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 statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of Hong Kong Companies Ordinance.

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

14 April 2009

Consolidated Income Statement

For the year ended 31 December 2008 (Expressed in Renminbi)

	Note	2008 RMB'000	2007 RMB'000
Revenue	5	**4,737,532**	3,164,022
Cost of sales		**(3,381,730)**	(2,083,888)
Gross profit		**1,355,802**	1,080,134
Other operating revenue	6	**5,375**	22,999
Other operating expenses		**(6,970)**	(768)
Selling expenses		**(369,787)**	(210,319)
General and administrative expenses		**(261,207)**	(186,546)
Other net income	6	**13,662**	22,475
Profit from operations		**736,875**	727,975
Net financing costs	7(a)	**(88,701)**	(49,927)
Share of profit from a jointly controlled entity		**7,332**	6,468
Profit before taxation	7	**655,506**	684,516
Income tax expenses	8(a)	**(115,560)**	(67,511)
Profit for the year		**539,946**	617,005
Attributable to:			
Equity shareholders of the Company	11	**511,974**	583,235
Minority interests		**27,972**	33,770
Profit for the year		**539,946**	617,005
Dividends			
Special dividends declared during the year	12	**287,671**	—
Earnings per share			
— Basic and diluted (RMB)	13	**0.162**	0.233

The notes on pages 67 to 132 form part of these financial statements.

Consolidated Balance Sheet

At 31 December 2008 (Expressed in Renminbi)

	Note	2008 RMB'000	2007 RMB'000
Non-current assets			
Fixed assets			
— Property, plant and equipment	14	**375,169**	259,453
— Interests in leasehold land held for own use under operating leases	14	**53,461**	54,830
— Freehold land	14	**5,509**	5,880
		434,139	320,163
Deposit paid for acquisition of leasehold land		**90,108**	28,513
Construction in progress	15	**40,369**	38,741
Intangible assets	16	**356,216**	389,691
Interest in a jointly controlled entity	28	**9,604**	6,006
Deferred tax assets	25(b)	**16,044**	11,837
Total non-current assets		**946,480**	794,951
Current assets			
Inventories	17	**2,033,488**	1,031,768
Trade and other receivables	18	**2,045,069**	1,606,960
Amounts due from related companies	33(b)	**34,018**	40,798
Amount due from immediate holding company	33(b)	**8**	—
Amount due from ultimate holding company	33(b)	**42**	—
Pledged bank deposits	19	**259,099**	261,109
Time deposits		**998,356**	—
Cash and cash equivalents	20	**1,467,363**	195,367
Total current assets		**6,837,443**	3,136,002
Total assets		**7,783,923**	3,930,953

Consolidated Balance Sheet

At 31 December 2008 (Expressed in Renminbi)

	Note	2008 RMB'000	2007 RMB'000
Current liabilities			
Interest-bearing borrowings	21	**1,561,000**	856,059
Amounts due to related companies	33(b)	**21,376**	46,490
Loan from immediate holding company	33(b)	**–**	405,488
Loans from shareholders of the holding company	33(b)	**–**	76,850
Trade and other payables	22	**1,572,970**	1,136,892
Current taxation	25(a)	**77,079**	33,777
Total current liabilities		**3,232,425**	2,555,556
Net current assets		**3,605,018**	580,446
Total assets less current liabilities		**4,551,498**	1,375,397
Non-current liabilities			
Interest-bearing borrowings	21	**14,401**	15,703
Deferred tax liabilities	25(b)	**9,689**	3,983
Total non-current liabilities		**24,090**	19,686
Total liabilities		**3,256,515**	2,575,242

Consolidated Balance Sheet

At 31 December 2008 (Expressed in Renminbi)

	Note	2008 RMB'000	2007 RMB'000
Equity			
Share capital	29	**299,495**	233,155
Reserves	30	**4,134,887**	1,054,348
Total equity attributable to equity shareholders of the Company		**4,434,382**	1,287,503
Minority interests		**93,026**	68,208
Total equity		**4,527,408**	1,355,711
Total liabilities and equity		**7,783,923**	3,930,953

Approved and authorised for issue by the board of directors on 14 April 2009.

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) Directors
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The notes on pages 67 to 132 form part of these financial statements.

Balance Sheet

At 31 December 2008 (Expressed in Renminbi)

	Note	2008 RMB'000	2007 RMB'000
Non-current assets			
Intangible assets	16	**356,216**	389,691
Investment in a subsidiary	26	**2,691,301**	233,155
Total non-current assets		**3,047,517**	622,846
Current assets			
Trade and other receivables		**84**	—
Amounts due from related companies		**16**	—
Amount due from a subsidiary	27	**8,086**	46
Cash and cash equivalents	20	**50,241**	—
Total current assets		**58,427**	46
Total assets		**3,105,944**	622,892
Current liabilities			
Trade and other payables	22	**7,948**	2,517
Total current liabilities		**7,948**	2,517
Net current assets/(liabilities)		**50,479**	(2,471)
Total assets less current liabilities		**3,097,996**	620,375
Total liabilities		**7,948**	2,517
Equity			
Share capital	29	**299,495**	233,155
Reserves	30(g)	**2,798,501**	387,220
Total equity		**3,097,996**	620,375
Total liabilities and equity		**3,105,944**	622,892

Approved and authorised for issue by the board of directors on 14 April 2009.

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The notes on pages 67 to 132 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008 (Expressed in Renminbi)

		Attributable to equity shareholders of the Company									
		Share capital	Share premium	Other reserve	Capital reserve	Statutory reserve	Exchange reserve	Retained profits	Sub-total	Minority interests	Total equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	Note	(note 29)	(note 30(f))	(note 30(d))	(note 30(e))	(note 30(a))	(note 30(b))				
At 1 January 2008		**233,155**	**–**	**60,760**	**–**	**140,662**	**10,936**	**841,990**	**1,287,503**	**68,208**	**1,355,711**
Shares issued under placing and public offering, net of issuing expenses	29(b)(ii)	**76,077**	**2,623,896**	**–**	**–**	**–**	**–**	**–**	**2,699,973**	**–**	**2,699,973**
Waiver of loan from immediate holding company		**–**	**–**	**–**	**398,710**	**–**	**–**	**–**	**398,710**	**–**	**398,710**
Dividends to minority shareholders		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(4,556)**	**(4,556)**
Special dividends declared and paid	12	**–**	**–**	**–**	**–**	**–**	**–**	**(287,671)**	**(287,671)**	**–**	**(287,671)**
Repurchase of own shares	29(b)(iii)	**(9,737)**	**(115,694)**	**–**	**–**	**–**	**–**	**–**	**(125,431)**	**–**	**(125,431)**
Acquisition of minority interests		**–**	**–**	**(1,402)**	**–**	**–**	**–**	**–**	**(1,402)**	**1,402**	**–**
Equity-settled share based transactions		**–**	**–**	**–**	**38,086**	**–**	**–**	**–**	**38,086**	**–**	**38,086**
Exchange difference on translation of financial statements of operations outside the PRC		**–**	**–**	**–**	**–**	**–**	**(87,360)**	**–**	**(87,360)**	**–**	**(87,360)**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**511,974**	**511,974**	**27,972**	**539,946**
Appropriation to statutory reserve		**–**	**–**	**–**	**–**	**58,828**	**–**	**(58,828)**	**–**	**–**	**–**
At 31 December 2008		**299,495**	**2,508,202**	**59,358**	**436,796**	**199,490**	**(76,424)**	**1,007,465**	**4,434,382**	**93,026**	**4,527,408**
At 1 January 2007		* –	29,470	(125,246)	–	77,898	(28)	321,519	303,613	34,438	338,051
Shares issued for Group reorganisation	29(b)(i)	233,155	(29,470)	(203,685)	–	–	–	–	–	–	–
Intangible assets contributed from holding company	30(d)(i)	–	–	389,691	–	–	–	–	389,691	–	389,691
Exchange difference on translation of financial statements of operations outside the PRC		–	–	–	–	–	10,964	–	10,964	–	10,964
Profit for the year		–	–	–	–	–	–	583,235	583,235	33,770	617,005
Appropriation to statutory reserve		–	–	–	–	62,764	–	(62,764)	–	–	–
At 31 December 2007		233,155	–	60,760	–	140,662	10,936	841,990	1,287,503	68,208	1,355,711

* Denotes share capital of HK$1.

The notes on pages 67 to 132 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2008 (Expressed in Renminbi)

	Note	2008 RMB'000	2007 RMB'000
Operating activities			
Profit before taxation		**655,506**	684,516
Adjustments for:			
— Amortisation and depreciation			
— intangible assets		**12,423**	—
— assets held for use under operating leases		**1,636**	1,187
— other assets		**32,475**	22,601
— Realised gains on investments at fair value through profit or loss		**(3,280)**	—
— Interest income		**(52,023)**	(6,967)
— Interest expense		**66,138**	39,194
— Share of profit from a jointly controlled entity		**(7,332)**	(6,468)
— Loss/(gain) on disposals of fixed assets		**287**	(384)
— Equity-settled share based payment expenses		**38,086**	—
— Unrealised foreign exchange (gain)/loss		**(70,306)**	17,158
Operating profit before change in working capital		**673,610**	750,837
Increase in inventories		**(999,984)**	(297,980)
Increase in trade and other receivables		**(425,979)**	(737,586)
Decrease/(increase) in amounts due from related companies		**6,780**	(38,800)
Increase in amount due from immediate holding company		**(8)**	—
Increase in amount due from ultimate holding company		**(42)**	—
Decrease in restricted bank deposit		**—**	107,875
Decrease/(increase) in pledged bank deposits		**2,010**	(193,363)
Increase in trade and other payables		**434,086**	45,245
Decrease in amounts due to related companies		**(25,114)**	(8,369)
Cash used in operations		**(334,641)**	(372,141)
Income tax paid		**(70,287)**	(97,385)
Net cash used in operating activities		**(404,928)**	(469,526)

Consolidated Cash Flow Statement

For the year ended 31 December 2008 (Expressed in Renminbi)

	Note	**2008** **RMB'000**	2007 RMB'000
Investing activities			
Payment for addition of fixed assets (excluding interests in leasehold land)		**(74,544)**	(53,733)
Proceeds from disposal of fixed assets		**3,159**	3,064
Payment for construction in progress		**(80,589)**	(50,752)
Deposit paid for acquisition of leasehold land		**(61,595)**	(19,968)
Payment for leasehold land		**(267)**	(19,896)
Capital contribution to a jointly controlled entity		**—**	(45,091)
Interest received		**39,893**	6,967
Payment for purchase of investments at fair value through profit or loss		**(359,680)**	—
Proceeds from sale of investments at fair value through profit or loss		**362,960**	—
Placement of time deposits		**(998,356)**	—
Net cash used in investing activities		**(1,169,019)**	(179,409)
Financing activities			
Proceeds from issue of shares, net of issuing expenses		**2,699,973**	—
Proceeds from new bank loans		**1,798,051**	907,059
Repayment of bank loans		**(1,093,427)**	(403,172)
Proceeds from a loan from a financial institution		**—**	1,576
Payment for repurchase of shares		**(125,431)**	—
(Repayment of)/proceeds from shareholders loans		**(76,850)**	76,850
Special dividends paid		**(287,671)**	—
Dividends paid to minority shareholders		**(4,556)**	—
Interest paid		**(64,146)**	(39,194)
Loan from ultimate holding company		**—**	142,832
Net cash generated from financing activities		**2,845,943**	685,951
Net increase in cash and cash equivalents		**1,271,996**	37,016
Cash and cash equivalents at 1 January		**195,367**	158,351
Cash and cash equivalents at 31 December	20	**1,467,363**	195,367

Significant non-cash transactions:

During the year ended 31 December 2008, the immediate holding company of the Company waived the loan to Asia Harbour amounting to US$57,000,000 (equivalent to RMB398,710,000). The amount is recorded in "Capital Reserve".

The notes on pages 67 to 132 form part of these financial statements.

Notes to the Financial Statements

(Expressed in Renminbi)

1 GENERAL INFORMATION

Honghua Group Limited (the "Company") was incorporated in the Cayman Islands on 15 June 2007 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The consolidated financial statements for the year ended 31 December 2008 comprise the Company and its subsidiaries (collectively referred to as the "Group") and the Group's interests in a jointly controlled entity.

2 GROUP REORGANISATION

The companies comprising the Group underwent reorganisation (the "reorganisation") which involved a series of equity transactions in connection with the Company's acquisition of equity interest in Sichuan Honghua Petroleum Equipment Co., Ltd ("Honghua Company") and its subsidiaries, to rationalise the Group's structure in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in 2007. Details of the reorganisation are set out in prospectus of the Company dated 25 February 2008. The Company's shares were listed on the Stock Exchange on 7 March 2008.

The Group is regarded as a continuing group resulting from the reorganisation under common control. Accordingly, the consolidated financial statements for the year ended 31 December 2007 have been prepared on the basis that the Company was the holding company of the Group, rather than from the date of reorganisation. Accordingly, the consolidated results of the Group for the year ended 31 December 2007 include the results of the Company and its subsidiaries since their respective dates of incorporation or at the date that common control was established, if later, as if the current group structure had been in existence throughout the year.

3 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable 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") and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with 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.

Notes to the Financial Statements

(Expressed in Renminbi)

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Statement of compliance (continued)

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. The adoption of the new and revised IFRSs did not result in significant changes to the Group's accounting policies applied in these financial statements for the years presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 37).

(b) Basis of preparation of the financial statements

The financial statements are presented in Renminbi ("RMB"), rounded to the nearest thousand. 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"). Most of the companies comprising the Group are operating in the People's Republic of China (the "PRC") and their functional currency is RMB.

The measurement basis used in the preparation of the financial statements is the historical cost basis.

The preparation of financial statements 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 statements and estimates with a significant risk of material adjustment in the next year are discussed in note 35.

Notes to the Financial Statements

(Expressed in Renminbi)

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Subsidiaries and minority interests

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.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. 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.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet 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 income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 3(j)).

(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.

Notes to the Financial Statements

(Expressed in Renminbi)

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Jointly controlled entities (continued)

An investment in a jointly controlled entity is accounted for in the consolidated 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 income statement includes the Group's share of the post-acquisition, post-tax results of the jointly controlled entity 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 entity 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 the income statement.

(e) Fixed assets and depreciation

Fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 3(j)).

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 income statement on the date of retirement or disposal.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Fixed assets and depreciation (continued)

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.

(f) 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 3(j)). 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.

(g) Intangible assets

Intangible assets represent the technology licences granted by the holding company, they are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 3(j)).

Amortisation of intangible assets with finite useful lives is charged to the income statement on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

— Technology licences . . . . 10 years

Both the useful life and method of amortisation are reviewed annually.

Notes to the Financial Statements

(Expressed in Renminbi)

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) 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 losses (see note 3(j)). Amortisation is charged to the income statement on a straight-line basis over the respective periods of the rights.

(i) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the 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 the income statement as an integral part of the aggregate net lease payments made.

(j) Impairment of assets

(i) Impairment of trade and other receivables and other financial assets

Trade and other current receivables and other financial assets carried at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

Notes to the Financial Statements

(Expressed in Renminbi)

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Impairment of assets (continued)

(i) *Impairment of trade and other receivables and other financial assets (continued)*

If any such evidence exists 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. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

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 the income statement. 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.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, the recovery of which is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in the income statement.

Notes to the Financial Statements

(Expressed in Renminbi)

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Impairment of assets (continued)

(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;

— intangible assets;

— investment in subsidiary;

— 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.

Notes to the Financial Statements

(Expressed in Renminbi)

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

— *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.

(k) Inventories

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

Cost is calculated using the first-in first-out formula, except for certain components which the cost is calculated using the specific 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.

(l) 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 3(j)), 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 3(j)).

Notes to the Financial Statements

(Expressed in Renminbi)

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) 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 the income statement over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(n) 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.

(o) 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.

(p) Employee benefits

(i) Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement scheme 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 scheme 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.

(iii) The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in capital reserve within equity. The fair value is measured at the grant date using the binomial option price model, taking into account the terms and conditions under which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

Notes to the Financial Statements

(Expressed in Renminbi)

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Employee benefits (continued)

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On the vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(q) Income tax

Income tax for the year 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.

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

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 certain limited exceptions, 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 recognised. 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 utilised.

Notes to the Financial Statements

(Expressed in Renminbi)

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Income tax (continued)

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.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

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 Company or 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.

(r) 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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Provisions and contingent liabilities (continued)

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.

(s) 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 the consolidated income statement as follows:

(i) Sale of goods

Revenue from the sale of goods 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) Transfer of technical know-how

Revenue from the transfer of technical know-how is recognised when the right to use the technical know-how is transferred to the customer.

(iii) Interest income

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

(iv) 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 the income statement 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 the income statement on a systematic basis over the useful life of the related asset.

Notes to the Financial Statements

(Expressed in Renminbi)

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Revenue recognition (continued)

(v) Rendering of repairing services

Revenue is recognised when the service has been rendered.

(t) 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 the 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.

The results of operations outside the PRC are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the transaction dates. Balance sheet items are translated into RMB 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.

(u) Borrowing costs

Borrowing costs are expensed in the income statement in the period in which they are incurred.

(v) Research and development

Expenditure on research activities is recognised as an expense in the income statement 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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Research and development (continued)

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 incurred.

(w) 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.

(x) Dividends

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

(y) Related parties

For the purposes of the financial statements, 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 an associate of the Group or a joint venture in which the Group is a venturer;

(iv) 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;

(v) 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

(vi) 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.

Notes to the Financial Statements

(Expressed in Renminbi)

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(z) 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 year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise cash and cash equivalents, interest-bearing borrowings, loans from related parties, net financing costs and income tax expenses.

4 SEGMENT REPORTING

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

Business segments

The Group consists of the following main business segments:

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

Notes to the Financial Statements

(Expressed in Renminbi)

4 SEGMENT REPORTING (continued)

	Year ended 31 December 2008			
	Drilling rigs RMB'000	Parts and components RMB'000	Eliminations RMB'000	Total RMB'000
Revenue	4,359,920	1,635,698	(1,258,086)	4,737,532
Cost of sales	(3,124,184)	(1,329,608)	1,072,062	(3,381,730)
Other income and expenses	(502,372)	(127,171)	—	(629,543)
Segment result	733,364	178,919	(186,024)	726,259
Unallocated				10,616
Net financing costs				(88,701)
Share of profit from a jointly controlled entity				7,332
Income tax expenses				(115,560)
Profit for the year				539,946
Segment assets	3,698,482	1,389,674	(368,630)	4,719,526
Unallocated assets				3,064,397
Total assets				7,783,923
Segment liabilities	1,335,279	519,086	(368,630)	1,485,735
Unallocated liabilities				1,770,780
Total liabilities				3,256,515

	Drilling rigs RMB'000	Parts and components RMB'000	Unallocated RMB'000	Total RMB'000
Capital expenditure	79,653	71,154	4,593	155,400
Amortisation and depreciation	30,765	14,318	1,451	46,534

Notes to the Financial Statements

(Expressed in Renminbi)

4 SEGMENT REPORTING (continued)

	Year ended 31 December 2007			
	Drilling rigs RMB'000	Parts and components RMB'000	Eliminations RMB'000	Total RMB'000
Revenue	2,741,457	1,133,995	(711,430)	3,164,022
Cost of sales	(1,995,611)	(761,559)	673,282	(2,083,888)
Other income and expenses	(286,067)	(101,357)	—	(387,424)
Segment result	459,779	271,079	(38,148)	692,710
Unallocated				35,265
Net financing costs				(49,927)
Share of profit from a jointly controlled entity				6,468
Income tax expenses				(67,511)
Profit for the year				617,005
Segment assets	2,439,844	1,143,158	(481,231)	3,101,771
Unallocated assets				829,182
Total assets				3,930,953
Segment liabilities	1,331,291	301,733	(481,231)	1,151,793
Unallocated liabilities				1,423,449
Total liabilities				2,575,242

	Drilling rigs RMB'000	Parts and components RMB'000	Unallocated RMB'000	Total RMB'000
Capital expenditure	94,334	19,778	21,774	135,886
Amortisation and depreciation	11,792	3,678	8,318	23,788

Notes to the Financial Statements

(Expressed in Renminbi)

4 SEGMENT REPORTING (continued)

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 31 December 2008						
	PRC RMB'000	**North America RMB'000**	**Middle East RMB'000**	**Europe and Central Asia RMB'000**	**South Asia RMB'000**	**Others RMB'000**	**Total RMB'000**
Revenue from external customers	**471,519**	**322,021**	**417,321**	**2,816,936**	**326,914**	**382,821**	**4,737,532**
Segment assets	**4,468,261**	**170,175**	**6,065**	**216**	**—**	**74,809**	**4,719,526**
Segment liabilities	**1,443,996**	**38,985**	**2,754**	**—**	**—**	**—**	**1,485,735**
Capital expenditure	**153,766**	**1,018**	**565**	**51**	**—**	**—**	**155,400**

	Year ended 31 December 2007						
	PRC RMB'000	North America RMB'000	Middle East RMB'000	Europe and Central Asia RMB'000	South Asia RMB'000	Others RMB'000	Total RMB'000
Revenue from external customers	1,205,070	594,620	155,985	801,101	43,246	364,000	3,164,022
Segment assets	2,686,644	86,089	4,163	—	—	324,875	3,101,771
Segment liabilities	911,619	7,533	315	—	—	232,326	1,151,793
Capital expenditure	131,720	3,818	348	—	—	—	135,886

Notes to the Financial Statements

(Expressed in Renminbi)

5 REVENUE

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

	2008 RMB'000	2007 RMB'000
Sale of drilling rigs	**4,359,920**	2,774,261
Sale of parts and components	**377,612**	389,761
	4,737,532	3,164,022

6 OTHER OPERATING REVENUE AND OTHER NET INCOME

	2008 RMB'000	2007 RMB'000
Other operating revenue		
Transfer of technical know-how to a jointly controlled entity	**—**	12,975
Rendering of repairing services	**4,293**	9,276
Commission	**114**	—
Others	**968**	748
	5,375	22,999
Other net income		
Government grants	**10,648**	10,153
(Loss)/gain on disposal of fixed assets	**(287)**	384
Write-back of provision for compensation	**—**	13,246
Realised gains on investments at fair value through profit or loss	**3,280**	—
Others	**21**	(1,308)
	13,662	22,475

Notes to the Financial Statements

(Expressed in Renminbi)

7 PROFIT BEFORE TAXATION

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

	2008 RMB'000	2007 RMB'000
(a) Net financing costs		
Exchange loss, net	**67,175**	14,078
Interest income	**(52,023)**	(6,967)
Interest on interest-bearing borrowings wholly repayable within five years	**66,138**	39,194
Bank charges	**7,411**	3,622
	88,701	49,927
(b) Staff costs		
Contributions to defined contribution retirement scheme	**29,815**	10,399
Equity-settled share based payment expenses (note 24)	**38,086**	—
Salaries, wages and other benefits	**209,745**	173,035
	277,646	183,434
(c) Other items		
Amortisation and depreciation		
— assets held for use under operating leases	**1,636**	1,187
— other assets	**32,475**	22,601
— intangible assets	**12,423**	—
Impairment losses of trade and other receivables (note 18(b))	**247**	—
Write back of impairment losses of trade and other receivables (note 18(b))	**(2,154)**	(239)
Auditors' remuneration	**5,130**	3,518
Operating lease charges: properties	**3,227**	2,283
Provision for product warranty	**32,241**	20,779
Research and development costs *	**30,550**	27,387

* 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 7(b).

Notes to the Financial Statements

(Expressed in Renminbi)

8 INCOME TAX EXPENSES

(a) Taxation in the income statement

	2008 RMB'000	2007 RMB'000
Current tax — the PRC		
Provision for the year	**107,069**	66,260
Over-provision in respect of prior years	**(5,531)**	—
	101,538	66,260
Current tax — the United States of America		
Provision for the year	**12,177**	—
Deferred tax		
Origination and reversal of temporary differences (note 25(b))	**1,845**	1,251
	115,560	67,511

(b) Taxation in the income statement represents:

(i) Hong Kong

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

(ii) Cayman Islands

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

(iii) British Virgin Islands

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

8 INCOME TAX EXPENSES (continued)

(b) Taxation in the income statement represents: (continued)

(iv) United States of America

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

(v) United Arab Emirates

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

(vi) PRC

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

(a) Honghua Company

On 15 September 2006, Honghua Company changed from being a domestic enterprise to a wholly-owned foreign invested enterprise, and was entitled to tax concessions from 1 October 2006 whereby the profit for the first two financial years commencing on the profit-making year (after netting off tax losses carried forward from prior years) was exempt from national income tax in the PRC and the profit for each of the subsequent three financial years was taxed at 50% of the prevailing tax rates set by the relevant authorities.

All income earned from 1 January 2007 to 31 December 2007 are exempt from national income tax. Honghua Company was still subject to a local income tax at rate of 3%.

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

All income earned from 1 January 2008 to 31 December 2008 are subject to 50% of the prevailing tax rate of 25%.

Notes to the Financial Statements

(Expressed in Renminbi)

8 INCOME TAX EXPENSES (continued)

(b) Taxation in the income statement represents: (continued)

(vi) ***PRC*** *(continued)*

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

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

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

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

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

Sichuan Honglian Industrial Co., Ltd and Sichuan Hongcheng Business Trading Ltd were incorporated on 30 April 2008 and 25 April 2008 respectively. There were no assessable profits for the year ended 31 December 2008.

8 INCOME TAX EXPENSES (continued)

(c) Withholding Tax

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

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

	2008 **RMB'000**	2007 RMB'000
Profit before taxation	**655,506**	684,516
Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned	**160,194**	212,705
Tax effect of non-deductible expenses	**17,033**	19,861
Tax effect of non-taxable income	**(75)**	—
Tax effect of temporary differences previously not recognised	**(2,278)**	—
Effect on deferred tax balances resulting from a change in tax rate	**—**	2,269
Over-provision in respect of prior years	**(5,531)**	—
Withholding tax on profit from PRC subsidiaries	**5,696**	—
Tax concessions	**(59,479)**	(167,324)
Income tax expenses	**115,560**	67,511

Notes to the Financial Statements

(Expressed in Renminbi)

9 DIRECTORS' REMUNERATION

Details of directors' remuneration are set out below:

	Year ended 31 Decemeber 2008					
	Fees RMB'000	Basic salaries, allowances and other benefits in kind RMB'000	Contributions to defined contribution retirement scheme RMB'000	Discretionary bonuses RMB'000	Equity-settled share based payment expenses RMB'000	Total RMB'000
Chairman and Executive Director						
Zhang Mi	–	1,144	13	1,067	6,284	8,508
Executive Directors						
Ren Jie	–	385	13	771	1,968	3,137
Liu Zhi	–	719	12	434	1,777	2,942
Zhang Xu (resigned on 26 May 2008)	–	66	4	–	277	347
Non-executive Directors						
Wang Yaoxin (resigned on 26 May 2008)	–	–	–	–	–	–
Siegfried Meissner	–	–	–	–	–	–
Xiang Qingsheng	–	–	–	–	–	–
He Sean Xing	–	–	–	–	–	–
Independent Non-executive Directors						
Qi Daqing	–	176	–	–	–	176
Liu Xiaofeng	–	176	–	–	–	176
Chen Guoming	–	88	–	–	–	88
Wang Li	–	88	–	–	–	88
Tai Kwok Leung, Alexander	–	132	–	–	–	132
Wang Chunlin (resigned on 13 February 2009)	–	132	–	–	–	132
Liu Yinchun	–	88	–	–	–	88
Total	–	3,194	42	2,272	10,306	15,814

Notes to the Financial Statements

(Expressed in Renminbi)

9 DIRECTORS' REMUNERATION (continued)

	Year ended 31 December 2007					
	Fees RMB'000	Basic salaries, allowances and other benefits in kind RMB'000	Contributions to defined contribution retirement scheme RMB'000	Discretionary bonuses RMB'000	Equity-settled share based payment expenses RMB'000	Total RMB'000
Chairman and Executive Director						
Zhang Mi	–	1,232	13	1,508	–	2,753
Executive Directors						
Ren Jie	–	316	12	956	–	1,284
Zhang Xu	–	226	13	283	–	522
Non-executive Director						
Wang Yaoxin	–	19	–	–	–	19
Total	–	1,793	38	2,747	–	4,578

During the year, no amount was paid or payable by the Group to the directors or any of the five highest paid individuals set out in note 10 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 year (2007: RMBnil).

10 INDIVIDUAL WITH HIGHEST EMOLUMENTS

The five highest paid individuals of the Group include three directors during the year ended 31 December 2008 (2007: two) whose emoluments are disclosed in note 9. Details of remuneration paid to the remaining two (2007: three) highest individuals of the Group are as follows:

	2008 RMB'000	2007 RMB'000
Basic salaries, allowances and other benefits in kind	**1,000**	2,107
Discretionary bonuses	**861**	1,552
Contributions to defined contribution retirement scheme	**13**	12
Equity-settled share based payment expenses	**2,412**	—
	4,286	3,671

The emoluments of these individuals are within the following bands:

	2008	2007
HK$nil to HK$1,000,000	**—**	—
HK$1,000,001 to HK$1,500,000	**—**	2
HK$1,500,001 to HK$2,000,000	**—**	1
HK$2,000,001 to HK$2,500,000	**2**	—
HK$2,500,001 to HK$3,000,000	**—**	—

Notes to the Financial Statements

(Expressed in Renminbi)

11 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The profit attributable to equity shareholders of the Company includes a profit of RMB284,100,882 (2007: loss of RMB2,471,262) which has been dealt with in the financial statements of the Company.

12 DIVIDENDS

	2008	2007
	RMB'000	RMB'000
Special dividends declared and paid of Hong Kong Dollars ("HK$") 10 cents per share (2007: HK$nil)	**287,671**	—
Final dividends proposed after the balance sheet date of HK$6 cents per share (2007: HK$nil)	**170,382**	—

Special dividends represent non-recurring dividends declared by a board resolution on 16 September 2008.

The final dividends proposed after balance sheet date have not been recognised as a liability at the balance sheet date.

13 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB511,974,000 (2007: RMB583,235,000) and the weighted average number of 3,157,004,167 (2007: 2,500,000,000) ordinary shares in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2008	2007
Issued ordinary shares at 1 January	**2,500,000,000**	1
Effect of shares issued on reorganisation	**—**	2,499,999,999
Effect of shares issued under placing and public offering	**683,081,967**	—
Effect of shares repurchased	**(26,077,800)**	—
Weighted average number of ordinary shares at 31 December	**3,157,004,167**	2,500,000,000

There were no dilutive potential ordinary shares for the years presented and, therefore, diluted earnings per share is the same as the basic earnings per share.

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(Expressed in Renminbi)

14 FIXED ASSETS

The Group

	Freehold land RMB'000	Interests in leasehold land held for own use under operating leases RMB'000	Buildings held for own use RMB'000	Plant and machinery RMB'000	Fixtures, fittings and equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost:							
At 1 January 2008	5,880	57,576	132,474	90,498	64,282	25,217	375,927
Additions	–	267	4,889	28,835	29,807	11,013	74,811
Transfer from construction in progress (note 15)	–	–	75,215	1,479	2,267	–	78,961
Disposals	–	–	(939)	(56)	(2,899)	(44)	(3,938)
Exchange difference	(371)	–	(1,514)	(147)	(81)	(313)	(2,426)
At 31 December 2008	5,509	57,843	210,125	120,609	93,376	35,873	523,335
Accumulated amortisation and depreciation:							
At 1 January 2008	–	2,746	12,389	17,327	16,690	6,612	55,764
Charge for the year	–	1,636	6,579	10,222	11,948	3,726	34,111
Written back on disposal	–	–	(223)	(42)	(192)	(35)	(492)
Exchange difference	–	–	(64)	(42)	(33)	(48)	(187)
At 31 December 2008	–	4,382	18,681	27,465	28,413	10,255	89,196
Net book value:							
At 31 December 2008	5,509	53,461	191,444	93,144	64,963	25,618	434,139

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(Expressed in Renminbi)

14 FIXED ASSETS (continued)

The Group (continued)

	Freehold land RMB'000	Interests in leasehold land held for own use under operating leases RMB'000	Buildings held for own use RMB'000	Plant and machinery RMB'000	Fixtures, fittings and equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost:							
At 1 January 2007	6,295	26,175	106,036	71,504	44,495	19,067	273,572
Additions	—	31,401	7,118	19,184	20,876	6,555	85,134
Transfer from construction in progress (note 15)	—	—	21,431	—	1,651	—	23,082
Disposals	—	—	(418)	(106)	(2,518)	(294)	(3,336)
Exchange difference	(415)	—	(1,693)	(84)	(222)	(111)	(2,525)
At 31 December 2007	5,880	57,576	132,474	90,498	64,282	25,217	375,927
Accumulated amortisation and depreciation:							
At 1 January 2007	—	1,559	6,600	10,603	9,496	3,985	32,243
Charge for the year	—	1,187	5,797	6,669	7,511	2,624	23,788
Written back on disposal	—	—	(20)	(84)	(379)	(173)	(656)
Exchange difference	—	—	12	139	62	176	389
At 31 December 2007	—	2,746	12,389	17,327	16,690	6,612	55,764
Net book value:							
At 31 December 2007	5,880	54,830	120,085	73,171	47,592	18,605	320,163

Interests in leasehold land held for own use under operating leases represent prepayments for land use rights in the PRC with a medium-term period.

15 CONSTRUCTION IN PROGRESS

	The Group	
	2008	2007
	RMB'000	RMB'000
Balance at 1 January	**38,741**	11,071
Additions	**80,589**	50,752
Transfer to fixed assets (note 14)	**(78,961)**	(23,082)
Balance at 31 December	**40,369**	38,741

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

16 INTANGIBLE ASSETS

	The Group and the Company	
	2008	2007
	RMB'000	RMB'000
Cost:		
At 1 January	**389,691**	—
Addition through contribution by holding company	**—**	389,691
Exchange difference	**(21,192)**	—
At 31 December	**368,499**	389,691
Accumulated amortisation:		
At 1 January	**—**	—
Amortisation for the year	**(12,423)**	—
Exchange difference	**140**	—
At 31 December	**(12,283)**	—
Net book value:		
At 31 December	**356,216**	389,691

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(Expressed in Renminbi)

17 INVENTORIES

(a) Inventories in the balance sheet comprise:

	The Group	
	2008	2007
	RMB'000	RMB'000
Raw materials	**917,372**	244,290
Work in progress	**506,352**	369,477
Finished goods	**566,557**	368,868
Goods in transit	**43,207**	49,133
	2,033,488	1,031,768

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

	The Group	
	2008	2007
	RMB'000	RMB'000
Carrying amount of inventories sold	**3,353,267**	2,105,823
Write down of inventories	**24,422**	31,183
Reversal of write-down of inventories	**(28,200)**	(19,520)
	3,349,489	2,117,486

18 TRADE AND OTHER RECEIVABLES

	The Group	
	2008	2007
	RMB'000	RMB'000
Trade receivables	**1,551,659**	1,113,964
Bills receivable	**4,706**	57,663
Less: allowance for doubtful debts (note 18(b))	**(1,405)**	(3,312)
Sub-total	**1,554,960**	1,168,315
Value-added tax receivable	**257,430**	129,372
Other receivables	**50,222**	55,944
Prepayments	**182,457**	253,329
	2,045,069	1,606,960

18 TRADE AND OTHER RECEIVABLES (continued)

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

(a) Ageing analysis

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

	The Group	
	2008	2007
	RMB'000	RMB'000
Current	**1,074,915**	964,933
Less than 1 month past due	**290,721**	78,828
More than 1 month but less than 3 months past due	**130,739**	80,515
More than 3 months but less than 12 months past due	**24,852**	44,039
More than 1 year past due	**33,733**	—
	1,554,960	1,168,315

The Group normally grants an average credit period of 30 to 90 days to its trade customers. Further details on the Group's credit policy are set out in note 31(a).

(b) Impairment of trade receivables and bills receivable

Impairment loss in respect of trade receivables and bills receivable is recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables and bills receivable directly (see note 3(i)).

The movement in the allowance for doubtful debts during the year, including specific loss component, is as follows:

	The Group	
	2008	2007
	RMB'000	RMB'000
At 1 January	**3,312**	3,551
Provision for impairment losses (note 7(c))	**247**	—
Written back of impairment losses (note 7(c))	**(2,154)**	(239)
At 31 December (note 18)	**1,405**	3,312

Notes to the Financial Statements

(Expressed in Renminbi)

18 TRADE AND OTHER RECEIVABLES (continued)

(b) Impairment of trade receivables and bills receivable (continued)

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

(c) Trade receivables that are not impaired

Receivables that were neither past due nor impaired (disclosed as current on the table given in note 18(a)) relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired (as shown in the table in note 18(a)) relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has been no history of default and the balances are still considered recoverable. The Group does not hold any collateral over these balances.

19 PLEDGED BANK DEPOSITS

The deposits are pledged to banks as security against certain banking facilities granted to the Group (see notes 21 and 22).

20 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and in hand	**1,462,900**	195,367	**50,241**	—
Certificates of deposits	**4,463**	—	**—**	—
	1,467,363	195,367	**50,241**	—

As at 31 December 2008, deposits that were placed with banks in the PRC and included in the cash and cash equivalents above amounted to RMB1,196,876,702 (2007: RMB180,234,346). Remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

Notes to the Financial Statements

(Expressed in Renminbi)

21 INTEREST-BEARING BORROWINGS

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

	The Group	
	2008	2007
	RMB'000	RMB'000
Bank loans		
— secured	**790,048**	25,384
— unsecured	**771,000**	831,059
	1,561,048	856,443
Loan from a financial institution — secured	**14,353**	15,319
Total	**1,575,401**	871,762

The bank loans were repayable as follows:

	The Group	
	2008	2007
	RMB'000	RMB'000
Within 1 year		
— bank loans	**1,561,000**	856,059
After 1 year but within 2 years		
— loan from a financial institution	**11,961**	—
After 2 years but within 5 years		
— bank loans	**48**	384
— loan from a financial institution	**2,392**	15,319
	14,401	15,703
Total	**1,575,401**	871,762

Bank loans of certain subsidiaries amounting to RMB790,048,354 as at 31 December 2008 (2007: RMB25,384,349) are secured by their leasehold land with an aggregate carrying value of RMB82,862,673 as of 31 December 2008 (2007: RMB18,176,926).

The bank loans as at 31 December 2008 bear interest at 4.86% to 8.25% per annum (2007: 5.30% to 9.25% per annum).

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(Expressed in Renminbi)

21 INTEREST-BEARING BORROWINGS (continued)

The loan from a financial institution as at 31 December 2008 amounting to RMB14,352,660 (2007: RMB15,318,660) is secured by the equipment and inventories with an aggregate carrying value of RMB156,601,887 (2007: RMB155,449,093).

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

Certain banking facilities of the Group are subject to the fulfilment of covenants relating to certain of the Group's profitability and financial positions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 31(b). As at 31 December 2008, none of the covenants relating to drawn down facilities had been breached (2007: RMB nil).

22 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables	**702,194**	600,089	**—**	—
Bills payable	**176,371**	135,890	**—**	—
Receipts in advance	**522,505**	226,368	**—**	—
Other payables	**171,900**	174,545	**7,948**	2,517
	1,572,970	1,136,892	**7,948**	2,517

Bills payable as at 31 December 2007 and at 31 December 2008 were secured by pledged bank deposits as disclosed in note 19.

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

	The Group	
	2008	2007
	RMB'000	RMB'000
Within 3 months	**645,852**	535,768
3 months to 6 months	**117,862**	107,873
6 months to 1 year	**79,895**	63,294
Over 1 year	**34,956**	29,044
	878,565	735,979

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(Expressed in Renminbi)

23 EMPLOYEE RETIREMENT BENEFITS

Defined contribution retirement scheme

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. The Group has no obligation for the payment of overseas pension benefits.

24 EQUITY-SETTLED SHARE BASED PAYMENTS

(a) Pre-IPO Share Option Scheme

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

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

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

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(Expressed in Renminbi)

24 EQUITY-SETTLED SHARE BASED PAYMENTS (continued)

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

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

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

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

The options outstanding at 31 December 2008 had an exercise price of HK$3.83 and a weighted average remaining contractual life of 9.08 years. No options and rights were outstanding as at 31 December 2007.

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24 EQUITY-SETTLED SHARE BASED PAYMENTS (continued)

(d) Fair value of share options and assumptions

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

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

Fair value of share options and assumptions

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

(e) Share Option Scheme

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

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

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24 EQUITY-SETTLED SHARE BASED PAYMENTS (continued)

(e) Share Option Scheme (continued)

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

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

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

25 TAXATION IN THE BALANCE SHEET

(a) Current tax payable in the balance sheet represents:

	The Group	
	2008	2007
	RMB'000	RMB'000
The PRC Tax		
— Provision for PRC income tax	**107,069**	66,260
— Income tax paid	**(34,681)**	(32,483)
	72,388	33,777
Balance of PRC income tax recoverable in respect of prior years	**(1,253)**	—
Taxation outside PRC	**5,944**	—
	77,079	33,777

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(Expressed in Renminbi)

25 TAXATION IN THE BALANCE SHEET (continued)

(b) Deferred taxation

The components of deferred tax assets/(liabilities) recognised in the Group's balance sheet and the movements during the year are as follows:

	Write down of inventories RMB'000	Provision for product warranty RMB'000	*Insurance premium paid RMB'000	Withholding tax on dividends RMB'000	Unrealised profit on inventories RMB'000	Total RMB'000
Deferred tax arising from:						
At 1 January 2008	**8,096**	**3,741**	**(3,983)**	**–**	**–**	**7,854**
(Charged)/credited to the income statement (note 8(a))	**(4,044)**	**289**	**(356)**	**(5,696)**	**7,962**	**(1,845)**
Exchange difference	**–**	**–**	**256**	**90**	**–**	**346**
At 31 December 2008	**4,052**	**4,030**	**(4,083)**	**(5,606)**	**7,962**	**6,355**
At 1 January 2007	8,096	4,992	(4,259)	–	–	8,829
Credited to the income statement (note 8(a))	–	1,018	–	–	–	1,018
Effect of change in tax rate (note 8(a))	–	(2,269)	–	–	–	(2,269)
Exchange difference	–	–	276	–	–	276
At 31 December 2007	8,096	3,741	(3,983)	–	–	7,854

* Insurance premium paid will be refunded under the terms as set forth in the insurance contract. The refund received is subject to US income tax and therefore, the related tax effect is treated as a deferred tax liability.

	The Group	
	2008 RMB'000	2007 RMB'000
Deferred tax assets recognised on the balance sheet	**16,044**	11,837
Deferred tax liabilities recognised on the balance sheet	**(9,689)**	(3,983)
	6,355	7,854

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26 INVESTMENT IN A SUBSIDIARY

	The Company	
	2008	2007
	RMB'000	RMB'000
Unlisted shares at cost	**220,475**	233,155
Long term receivable from a subsidiary	**2,470,826**	—
	2,691,301	233,155

The long term receivable from a subsidiary is unsecured, interest-free and has no fixed term of repayment. The Company has given undertaking not to demand for repayment within one year from the balance sheet date.

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26 INVESTMENT IN A SUBSIDIARY (continued)

Details of the subsidiaries at 31 December 2008 are set out below:

Name of the company	Place of incorporation/ establishment and operation	Issued and fully paid up/ registered capital	Attributable equity interest		Principal activities
			Direct	Indirect	
Asia Harbour (宏海國際有限公司) (note (i))	Hong Kong	HK$1	100%	—	Investment holding
Honghua Company (四川宏華石油設備有限公司) (note (i), (ii))	The PRC	RMB750,000,000	—	100%	Manufacturing of petroleum equipment
Hongtian Company (成都宏天電傳工程有限公司) (note (i), (ii))	The PRC	RMB17,500,000	—	80%	Manufacturing of panel of drilling rig
Youxin Company (四川宏華友信石油機械有限公司) (note (i), (ii))	The PRC	RMB11,760,000	—	80%	Manufacturing of parts of drilling rig
Honghua International (四川宏華國際科貿有限公司) (note (i), (ii))	The PRC	RMB51,200,000	—	85%	Trading of drilling rigs and related parts
Honghua America, LLC (宏華美國有限責任公司) (note (i))	United States of America	US$800,000	—	80%	Trading of drilling rigs and related parts
Golden Coast Company (宏華金海岸設備有限公司) (note (i))	United Arab Emirates	AED1,000,000	—	85%	Trading of drilling rigs and related parts
Sichuan Honglian Industrial Co., Ltd. (四川宏聯實業有限公司) (note (i), (ii))	The PRC	HK$758,000,000	—	100%	Trading of drilling rigs and related parts
Sichuan Hongcheng Business Trading Ltd. (四川宏程商貿有限公司) (note (i), (ii))	The PRC	HK$758,000,000	—	100%	Trading of drilling rigs and related parts
Newco (H.K.) Limited (新順(香港)有限公司) (note (i))	Hong Kong	HK$1,000	—	100%	Trading of drilling rigs and related parts
Russia Honghua Co., Ltd (俄羅斯宏華有限公司) (note (i))	Russia	RUB10,000	—	100%	Trading of drilling rigs and related parts

Notes:

(i) These entities are limited liability companies.

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

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27 AMOUNT DUE FROM A SUBSIDIARY

The amount due from a subsidiary is unsecured, interest-free and has no fixed repayment terms.

28 INTEREST IN A JOINTLY CONTROLLED ENTITY

	The Group	
	2008	2007
	RMB'000	RMB'000
Share of net assets	**9,604**	6,006

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

Name of Company	Place and date of establishment	Issued and fully paid-up/ registered capital	Proportion of ownership interests: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
Egyptian Petroleum HH Rig Manufacturing Shareholder Co. ("HH Egyptian Company")	Egypt 24 April 2007	US$12,000,000	50%	—	50%	Manufacture and sale of drilling rig, parts and components

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

	The Group	
	2008	2007
	RMB'000	RMB'000
Non-current assets	**53,250**	18,224
Current assets	**39,957**	99,437
Current liabilities	**(14,766)**	(16,508)
Non-current liabilities	**(68,837)**	(95,147)
	9,604	6,006
Income	**78,924**	47,264
Expenses	**(71,592)**	(40,796)
Profit for the year	**7,332**	6,468

Notes to the Financial Statements

(Expressed in Renminbi)

29 SHARE CAPITAL

(a) Details of the movements in capital of the Company are set out on page 64.

(b) Authorised and issued share capital

	2008		2007	
	Number of shares	**'000**	Number of shares	'000
Authorised:				
Ordinary shares of HK$0.10 each	**10,000,000,000**	**HK$1,000,000**	10,000,000,000	HK$1,000,000
Equivalent to:		**RMB968,739**		RMB968,739
Ordinary shares, issued and fully paid:				
At 1 January 2008 and 15 June 2007	**2,500,000,000**	**233,155**	1	—
Arising from the reorganisation (note (i))	**—**	**—**	2,499,999,999	233,155
Issue of shares under public offering (note (ii))	**833,360,000**	**76,077**	—	—
Purchase of own shares (note (iii))	**(110,672,000)**	**(9,737)**	—	—
At 31 December	**3,222,688,000**	**299,495**	2,500,000,000	233,155

(i) Shares issue on reorganisation

The Company was incorporated in the Cayman Islands on 15 June 2007 with an authorised share capital of 3,800,000 shares of HK$0.10 each. One share of HK$0.10 was issued nil paid and allotted to Reid Services Limited and was transferred to Ally Giant on the same day.

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

Notes to the Financial Statements
(Expressed in Renminbi)

29 SHARE CAPITAL (continued)

(b) Authorised and issued share capital (continued)

(i) Shares issue on reorganisation (continued)

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

(ii) Issue of shares under public offering

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

(iii) Purchase of own shares

During the year, the Company repurchased its own shares on the Stock Exchange as follows:

Month/year	Number of shares repurchased	Highest price paid per share	Lowest price paid per share	Aggregate consideration paid
		HK$	HK$	HK$'000
September 2008	53,304,000	1.45	1.06	70,312
October 2008	51,200,000	1.56	1.07	64,766
November 2008	6,168,000	1.30	1.15	7,491
	110,672,000			142,569

The repurchased shares were cancelled and, accordingly, the issued share capital of the Company was reduced by the nominal value of these shares. The premium paid on the repurchase of the shares of HK$131,502,000 (equivalent to RMB115,694,000) was charged to the share premium account.

Notes to the Financial Statements

(Expressed in Renminbi)

30 RESERVES

(a) Statutory reserve

Pursuant to applicable PRC regulations, PRC entity is required to appropriate 10% of its profit-after-tax (after offsetting prior year losses) to the reserve until such reserve reaches 50% of the registered capital. The transfer to the reserve must be made before distribution of dividends to shareholders. The statutory reserve can be utilised, upon approval by the relevant authorities, to offset accumulated losses or to increase registered capital of the PRC subsidiaries, provided that the balance after such issue is not less than 50% of its registered capital.

(b) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside the PRC which are dealt with in accordance with the accounting policies as set out in note 3(t).

(c) Distributable reserve

The aggregate amount of distributable reserves at 31 December 2008 of the Company were RMB2,502,161,000 (2007: RMBnil).

(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 and the contribution of technology licenses by Ally Giant.

(i) On 17 October 2007, the immediate holding company of the Company, Ally Giant, contributed several technology licences amounting to US$52,768,000 (equivalent to RMB389,691,000) to the Company. The amount is recorded in “Other reserve”.

(ii) Pursuant to a Group reorganisation, on 16 October 2007, the Company entered into a sale and purchase agreement with Ally Giant, under which agreement the Company acquired one ordinary share (at par value of HK$1.00) of Asia Harbour from Ally Giant. The difference between the historical carrying value of the share acquired and the consideration (see note 29(b)(i)) is recorded in “Other reserve”.

Notes to the Financial Statements

(Expressed in Renminbi)

30 RESERVES (continued)

(e) Capital reserve

Capital reserve represents the value of employee services in respect of share options granted under the Pre-IPO Options Scheme as set out in note 24 and waiver of debts by the immediate holding company.

(f) Share premium

The application of the share premium account is governed by the Companies Law (Revised) of the Cayman Islands. The fund in the share premium account of the Company is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(g) The Company

	Share premium RMB'000	Other reserve RMB'000	Capital reserve RMB'000	Exchange reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2008	**–**	**389,691**	**–**	**–**	**(2,471)**	**387,220**
Share issued under placing and public offering, net of issuing expenses	**2,623,896**	**–**	**–**	**–**	**–**	**2,623,896**
Special dividends declared and paid	**–**	**–**	**–**	**–**	**(287,671)**	**(287,671)**
Repurchase of own shares	**(115,694)**	**–**	**–**	**–**	**–**	**(115,694)**
Equity-settled share based transactions	**–**	**–**	**38,086**	**–**	**–**	**38,086**
Exchange difference on translation of financial statements	**–**	**–**	**–**	**(131,437)**	**–**	**(131,437)**
Profit for the year	**–**	**–**	**–**	**–**	**284,101**	**284,101**
At 31 December 2008	**2,508,202**	**389,691**	**38,086**	**(131,437)**	**(6,041)**	**2,798,501**
At 15 June 2007	–	–	–	–	–	–
Loss for the period	–	–	–	–	(2,471)	(2,471)
Arising from reorganisation	–	389,691	–	–	–	389,691
At 31 December 2007	–	389,691	–	–	(2,471)	387,220

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUE

Exposure to credit, liquidity, interest rate, currency and business risks arises in the normal course of the Group's business. The Group's exposure to these risks and financial risk management polices and practices used by the Group to manage these risks are described below.

(a) Credit risk

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30 to 90 days from the date of billing. The Group meets with those debtors with overdue balances to agree a repayment schedule and continuously evaluates the credit quality of its debtors to assess the necessity to revise the credit term. Debtors with balances that are more than 24 months past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not collect collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant exposure to individual customers. At the balance sheet date, 18% (2007: 27%) and 50% (2007: 57%) of the total trade and other receivables were due from the Group's largest debtor and the five largest debtors respectively.

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset in the balance sheet after deducting any impairment allowance.

The credit risk on cash at bank and pledged bank deposits is limited as the counterparties are banks with sound credit standing. Majority of the Group's cash at bank and pledged bank deposits were deposited at the four largest state-owned commercial banks in the PRC.

(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, subject to approval by the Company's management 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 adequate committed lines of funding from major financial institutes to meet its liquidity requirements in the short and longer term.

Notes to the Financial Statements

(Expressed in Renminbi)

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(b) Liquidity risk (continued)

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 under the Group's non-derivative financial liabilities which are due to be paid.

	2008				2007			
	Contractual undiscounted cash flow				Contractual undiscounted cash flow			
	Within 1 year or on demand RMB'000	More than 1 year RMB'000	Total RMB'000	Balance sheet carrying amount RMB'000	Within 1 year or on demand RMB'000	More than 1 year RMB'000	Total RMB'000	Balance sheet carrying amount RMB'000
Trade and other payables	(1,572,970)	–	(1,572,970)	1,572,970	(1,136,892)	–	(1,136,892)	1,136,892
Interest-bearing borrowings	(1,663,324)	(15,345)	(1,678,669)	1,575,401	(877,576)	(18,137)	(895,713)	871,762
Amounts due to related companies	(21,376)	–	(21,376)	21,376	(46,490)	–	(46,490)	46,490
Loan from immediate holding company	–	–	–	–	(405,488)	–	(405,488)	405,488
Loans from shareholders of the holding company	–	–	–	–	(76,850)	–	(76,850)	76,850
	(3,257,670)	(15,345)	(3,273,015)	3,169,747	(2,543,296)	(18,137)	(2,561,433)	2,537,482

(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 21. The Group's policy is to manage its interest rate risk to ensure there are no undue exposures to significant interest rate movements. The Group does not use derivative financial instruments to hedge its fixed rate debt obligations.

The Group has interest-bearing assets carrying at floating rate as set out in the table below. All of the interest-bearing borrowing of the Group are fixed rate instruments and are insensitive to any change in market interest rates. The net exposure subject to the interest rate risk is not material and management does not expect the increase in interest rates at the balance sheet date would significantly affect profit or loss.

Notes to the Financial Statements

(Expressed in Renminbi)

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(c) Interest rate risk (continued)

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 31 December 2008			
	Effective interest rate	Total RMB'000	Within one year RMB'000	More than one year and less than five years RMB'000
Repricing dates for assets which reprice before maturity				
Pledged bank deposits	**1.00%–3.24%**	**259,099**	**259,099**	**–**
Time deposits	**1.10%–4.14%**	**998,356**	**998,356**	**–**
Cash and cash equivalents	**0%–2.50%**	**1,467,363**	**1,467,363**	**–**
Liabilities which do not reprice before maturity				
Interest-bearing borrowings	**4.86%–8.25%**	**1,575,401**	**1,561,000**	**14,401**

Notes to the Financial Statements

(Expressed in Renminbi)

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(c) Interest rate risk (continued)

	Year ended 31 December 2007			
	Effective interest rate	Total RMB'000	Within one year RMB'000	More than one year and less than five years RMB'000
Repricing dates for assets which reprice before maturity				
Pledged bank deposits	0.72%–5.10%	261,109	261,109	—
Cash and cash equivalents	0.10%–3.20%	195,367	195,367	—
Liabilities which do not reprice before maturity				
Interest-bearing borrowings	5.30%–9.25%	871,762	856,059	15,703

Sensitivity analysis

At 31 December 2008, it is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would increase/decrease the Group's profit after tax and retained profits by approximately RMB10,677,000 (2007: decrease/increase the Group's profit after tax and retained profits by approximately RMB370,000).

Management assumed that certain interest-bearing borrowings maturing during the next reporting period will be rolled over upon the maturity for daily operation purpose.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at that date. The 50 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2007.

Notes to the Financial Statements

(Expressed in Renminbi)

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(d) Foreign currency risk

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

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

RMB is not freely convertible into foreign currencies. All foreign exchange transactions involving RMB must take place through the People's Bank of China or other institutions authorised to buy and sell foreign currencies. 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.

In addition, an appreciation of RMB against US$ may have the effect of rendering exports from the Group in the PRC 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 recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate at the year end date.

	The Group				
	Exposure to foreign currencies (expressed in RMB'000 equivalent)				
	2008				
	US$'000	EUR'000	AED'000	HK$'000	RMB'000
Cash and cash equivalents	179,408	251	—	4,594	—
Trade and other receivables	990,190	293,131	—	—	37
Interest-bearing borrowings	—	—	—	—	—
Trade and other payables	(145,338)	(4,182)	—	—	—
Overall net exposure	1,024,260	289,200	—	4,594	37

Notes to the Financial Statements

(Expressed in Renminbi)

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(d) Foreign currency risk (continued)

	The Group				
	Exposure to foreign currencies (expressed in RMB'000 equivalent)				
	2007				
	US$'000	EUR'000	AED'000	HK$'000	RMB'000
Cash and cash equivalents	51,675	2,973	607	—	—
Trade and other receivables	783,844	6,585	284	—	—
Interest-bearing borrowings	(15,705)	—	—	—	—
Trade and other payables	(135,198)	—	(355)	—	—
Overall net exposure	684,616	9,558	536	—	—

Sensitivity analysis

A 5 percent (2007: 5 percent) strengthening of the RMB against the following currencies at 31 December 2008 would have (decreased)/increased profit 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 as the previous year.

	The Group	
	2008	2007
	RMB'000	RMB'000
Effect on profit after tax and retained profits		
US$	**(41,386)**	(23,851)
EURO	**(11,031)**	(330)
AED	**—**	26
HK$	**(183)**	—
RMB	**(2)**	—
	(52,602)	(24,155)

A 5 percent (2007: 5 percent) weakening of the RMB against the above currencies at 31 December 2008 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.

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(d) Foreign currency risk (continued)

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to each of the Group entities' exposure to currency risk for non-derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date.

(e) Fair value

The carrying amounts of significant financial assets and liabilities approximate their respective fair values as at 31 December 2008.

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

(i) Cash and cash equivalents, pledged bank 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 term 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.

(iii) The amounts 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.

Notes to the Financial Statements

(Expressed in Renminbi)

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(f) Business risk

The Group's revenue is generated mainly 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 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 primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group's capital structure is regularly reviewed and managed in accordance with the capital management practices of the Group and in light of changes in economic conditions affecting the Group, to the extent that these do not conflict with the directors' fiduciary duties towards the Group.

Consistent with the industry practice, the Group's capital structure is monitored on the basis of a net debt-to-capital ratio. For this purpose, net debt is defined as interest-bearing borrowings, trade and other payables and amounts due to related parties plus unaccrued proposed dividends of the Group. The total capital is referred as shareholders' equity in the consolidated balance sheet.

During 2008, the Group's strategy, which was unchanged from 2007, was to maintain sufficient capital to cover any net debt position by adjusting the amount of dividends paid to shareholders or issue new shares. The net debt-to-equity ratios as at 31 December 2008 and 2007 are 0.71 and 1.97 respectively.

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

Notes to the Financial Statements

(Expressed in Renminbi)

32 COMMITMENTS

(a) Capital commitments

Capital commitments outstanding at 31 December 2008 not provided for in the financial statements were as follows:

	The Group	
	2008	2007
	RMB'000	RMB'000
Contracted for	**16,558**	133,828
Authorised but not contracted for	**786,065**	113,340
	802,623	247,168

(b) Operating lease commitments

At 31 December 2008, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group	
	2008	2007
	RMB'000	RMB'000
Within 1 year	**1,666**	115
After 1 year but within 5 years	**765**	163
	2,431	278

The Group is the lessee in respect of a number of properties held under operating leases. The leases typically run for an initial period of one to five years. None of the leases includes contingent rentals.

Notes to the Financial Statements

(Expressed in Renminbi)

33 MATERIAL RELATED PARTY TRANSACTIONS

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

(a) During the year, 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 have equity interest.
Luzhou Changjiang Petroleum Engineering Equipment Co., Ltd (瀘州長江石油工程機械有限公司) ("Luzhou Changjiang Company")	Luzhou Changjiang Company is a party which the father-in-law of a director, Mr Zhang Mi, has equity interest.
Chengdu Haitaike Electric Motor System L.L.C. (成都海泰科電氣傳動系統有限責任公司) ("Haitaike Company")	Haitaike Company is a party which the brother of a director, Mr Zhang Mi, and a director of a subsidiary have equity interest.
Luzhou Tuojiang Hydraulic Pressure Equipment Company Limited (瀘州沱江液壓件有限公司) ("Luzhou Tuojiang Company")	Luzhou Tuojiang Company is a party which the sister's husband of the spouse of a director, Mr Zhang Mi, has equity interest.
NCE Management, LLC	NCE Management, LLC is a party which certain management of Honghua America have 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 a subsidiary is the legal representative.
Guanghan Huite Fluid Appendix Co., Ltd (廣漢市惠特液壓附件有限公司) ("Guanghan Huite Company")	Guanghan Huite Company is a party which the brother of a director of a 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 a subsidiary have equity interest.
Egyptian Petroleum HH Rig Manufacturing Shareholder Co. ("HH Egyptian Company")	HH Egyptian Company is incorporated in Egypt with limited liability on 24 April 2007 and is 50% owned by Asia Harbour.

Notes to the Financial Statements

(Expressed in Renminbi)

33 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(a) During the year, the directors are of the view that the following companies are related parties of the Group: (continued)

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

	The Group	
	2008	2007
	RMB'000	RMB'000
Purchases of parts and components		
— Hongtai Company *(Note)*	**26,113**	41,071
— Luzhou Changjiang Company	**—**	15,702
— Haitaike Company	**—**	43,419
— Luzhou Tuojiang Company	**—**	4,515
— Chengdu Juzhong Company	**761**	668
— Luzhou Jianming Company	**767**	—
— Guanghan Huite Company	**786**	—
	28,427	105,375
Decoration service received		
— Luzhou Jianming Company	**—**	674
Sub-contracting services received		
— Guanghan Huite Company	**—**	1,045
	—	1,719
Sale of drilling rigs, parts and components		
— Hongtai Company *(Note)*	**—**	45
— HH Egyptian Company	**139,279**	216,594
Payments on behalf of immediate holding company	**3,554**	—
Payments on behalf of ultimate holding company	**8**	—

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.

Note: These material related party transactions constitute connected transactions for the Company which have been disclosed in the annual report under the section headed "Continuing Connected Transactions". The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

Notes to the Financial Statements

(Expressed in Renminbi)

33 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(b) Balances with related parties

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

	The Group	
	2008	2007
	RMB'000	RMB'000
Amounts due from related companies		
— Chengdu Juzhong Company	**—**	84
— Haitaike Company	**—**	13,557
— HH Egyptian Company	**34,018**	27,157
	34,018	40,798
Amount due from immediate holding company	**8**	—
Amount due from ultimate holding company	**42**	—
Loan from immediate holding company	**—**	405,488
Loan from shareholders of the holding company	**—**	76,850
Amounts due to related companies		
— Guanghan Huite Company	**393**	399
— Haitaike Company	**—**	19,280
— HH Egyptian Company	**17,478**	2,601
— Hongtai Company	**2,967**	9,694
— Luzhou Changjiang Company	**—**	12,903
— Luzhou Jianming Company	**418**	230
— Luzhou Tuojiang Company	**—**	1,383
— NCE Management, LLC	**120**	—
	21,376	46,490

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

Notes to the Financial Statements

(Expressed in Renminbi)

33 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(c) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 9 and certain of the key management personnel as disclosed in note 10, is as follows:

	2008	2007
	RMB'000	RMB'000
Basic salaries, allowances and other benefits in kind	**2,109**	3,346
Contributions to defined contribution retirement scheme	**39**	67
Discretionary bonus	**2,320**	5,103
Equity-settled share based payment expenses	**5,713**	—
	10,181	8,516

Total remuneration is included in "staff costs" (see note 7(b)).

34 IMMEDIATE AND ULTIMATE HOLDING COMPANY

The directors consider the immediate holding company and the ultimate holding company as at 31 December 2008 are Ally Giant and Ample Chance International Limited ("Ample Chance") respectively, which are incorporated in the British Virgin Islands. These entities do not produce financial statements available for public use.

35 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 statements. The principal accounting policies are set forth in note 3. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

Notes to the Financial Statements

(Expressed in Renminbi)

35 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(a) Impairments

(i) Impairment of trade and other receivables

Trade and other receivables are reviewed periodically to assess whether impairment losses exist and if they exist, the amounts of the impairment losses are estimated based on historical loss experience for trade and other receivables with similar credit risk. The methodology and assumptions used in estimating future cash flows are reviewed regularly to reduce any difference between the loss estimates and actual amounts.

(ii) Impairment of intangible assets, property, plant and equipment and interests leasehold land held for own use under operating leases

If circumstances indicate that the carrying value of intangible assets, property, plant and equipment and interest in leasehold land held for own use under operating leases may not be recoverable, these assets may be considered impaired, and an impairment loss may be recognised in accordance with IAS 36 "Impairment of Assets". The carrying amounts of these 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 net selling prices and the value in use. It is difficult to estimate precisely the selling prices because quoted market prices for the Group's assets are not readily available. In determining that value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to 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 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.

35 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(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.

(e) Inventory provision due to cancellation of order

Generally, the Group produces drilling rigs based on the signed contracts with customers. As a result of the recent economic turmoil, customers may cancel the contracts and any cancellation of order might lead to obsolescence of inventories. In preparing the financial statements for the year ended 31 December 2008, the directors of the Company have reviewed the status of all contracts on hand and considered that a provision for inventory provision in this regard is not necessary.

36 CONTINGENT LIABILITIES

Dispute with 64 natural persons

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

Notes to the Financial Statements

(Expressed in Renminbi)

36 CONTINGENT LIABILITIES (continued)

Dispute with 64 natural persons (continued)

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

On 11 December 2007, 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). 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 members sought by the 57 plaintiffs and the consequential liabilities thereof, and that Asia Harbour with Honghua Company be ordered to apply to the relevant Administration of 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 proceedings.

36 CONTINGENT LIABILITIES (continued)

Dispute with 64 natural persons (continued)

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

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

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

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

Ally Giant, Ample Chance, 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 the dispute and risk dated 15 February 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.

On 17 July 2008, another 2 individuals, Wu Chuan and Gong Yumei refused to accept the buy-out arrangement and payment from Honghua Company. The relief sought is the same as the 57 plaintiffs as mentioned above.

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 directors consider that sufficient provision in legal costs in respect of the dispute has been made.

Notes to the Financial Statements

(Expressed in Renminbi)

37 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2008

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2008 and which have not been adopted in these financial statements.

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 result in a restatement of the Group's or the Company's results of operations and financial position.

In addition, the following developments are expected to result in amended disclosures in the financial statements, including restatement of comparative amounts in the first period of adoption:

		Effective or available for early adoption for accounting periods beginning on or after
Amendments to IFRS 2	Share-based payment — vesting conditions and cancellations	1 January 2009
Amendments to IAS 27	Consolidation and separate financial statements	1 July 2009
IFRS 8	Operating segments	1 January 2009
IAS 1 (revised)	Presentation of financial statements	1 January 2009
IAS 23 (revised)	Borrowing costs	1 January 2009

Five-Year Financial Highlights

	2008 RMB'000	2007 RMB'000	2006 RMB'000	2005 RMB'000	2004 RMB'000
Consolidated Income Statement					
Revenue	**4,737,532**	3,164,022	2,335,948	501,570	539,265
Cost of sales	**(3,381,730)**	(2,083,888)	(1,558,121)	(392,993)	(440,028)
Gross profit	**1,355,802**	1,080,134	777,827	108,577	99,237
Other operating revenue	**5,375**	22,999	4,620	3,187	2,214
Other operating expenses	**(6,970)**	(768)	(917)	(648)	(572)
Selling expenses	**(369,787)**	(210,319)	(84,176)	(22,971)	(17,818)
General and administrative expenses	**(261,207)**	(186,546)	(110,185)	(42,436)	(29,039)
Other net income	**13,662**	22,475	3,085	1,427	440
Profit from operations	**736,875**	727,975	590,254	47,136	54,462
Net financing costs	**(88,701)**	(49,927)	(23,141)	(4,132)	(3,858)
Share of profit from a jointly controlled entity	**7,332**	6,468	—	—	—
Profit before taxation	**655,506**	684,516	567,113	43,004	50,604
Income tax expenses	**(115,560)**	(67,511)	(103,203)	(10,749)	(10,488)
Profit for the year	**539,946**	617,005	463,910	32,255	40,116
Attributable to:					
Equity shareholders of the Company	**511,974**	583,235	412,814	18,454	32,168
Minority interests	**27,972**	33,770	51,096	13,801	7,948
Figures per share					
Earnings per share — Basic and diluted (RMB cents)	**16.2**	23.3	16.5	0.7	1.3
Dividend					
Dividends declared and paid	**287,671**	—	19,533	1,638	2,164
Dividends declared and paid per share	**HK$0.10**	—	N/A	N/A	N/A
Dividend proposed after balance sheet date	**170,382**	—	—	—	—
Dividend proposed after balance sheet date per share	**HK$0.06**	—	—	—	—

Five-Year Financial Highlights

	2008 RMB'000	2007 RMB'000	2006 RMB'000	2005 RMB'000	2004 RMB'000
Consolidated Balance Sheet					
Total non-current assets	**946,480**	794,951	286,659	146,634	77,713
Total current assets	**6,837,443**	3,136,002	1,895,735	1,022,722	306,125
Total assets	**7,783,923**	3,930,953	2,182,394	1,169,356	383,838
Total current liabilities	**3,232,425**	2,555,556	1,818,785	1,024,510	277,307
Total non-current liabilities	**24,090**	19,686	25,558	—	—
Total liabilities	**3,256,515**	2,575,242	1,844,343	1,024,510	277,307
Total equity	**4,527,408**	1,355,711	338,051	144,846	106,531

	2008 RMB'000	2007 RMB'000	2006 RMB'000	2005 RMB'000	2004 RMB'000
Profitability					
Gross margin	**28.6%**	34.1%	33.3%	21.6%	18.4%
EBITDA margin	**16.7%**	24.0%	25.9%	11.1%	11.0%
Net margin	**10.8%**	18.4%	17.7%	3.7%	6.0%
Return					
Return on average equity	**17.9%**	73.3%	203.9%	19.9%	N/A
Return on average assets	**8.7%**	19.1%	24.6%	2.4%	N/A
Liquidity					
Current ratio	**2.12**	1.23	1.04	1.00	1.10
Quick ratio	**1.49**	0.82	0.66	0.71	0.81
Turnover					
Turnover of average trade and bills receivable	**105**	101	59	117	93
Turnover of average trade and bills payable	**88**	107	81	154	81
Turnover of average inventory	**166**	151	116	176	66
Gearing					
Total debts/Total assets	**20.2%**	22.2%	16.8%	2.7%	14.3%
EBIT/Interest expenses	**11.3**	18.7	64.6	21.3	13.3

Five-Year Financial Highlights

Note:

Profitability		
Gross margin	=	Gross profit/Revenue
EBITDA	=	Profit from operations + Share of profit from a jointly controlled entity + Depreciation + Amortisation
EBITDA margin	=	EBITDA/Revenue
Net margin	=	Profit attributable to equity shareholders of the Company/Revenue
Return		
Return on average assets	=	Profit attributable to equity shareholders of the Company/Average assets
Return on average equity	=	Profit attributable to equity shareholders of the Company/Average equity attributable to equity shareholders of the Company
Liquidity		
Current ratio	=	Current asset/Current liability
Quick ratio	=	(Current asset-Inventory)/Current liability
Turnover		
Turnover of average trade and bills receivable	=	365.25*Average trade and bills receivable/Revenue
Turnover of average trade and bills payable	=	365.25*Average trade and bills payable/Cost of sales
Turnover of average inventory	=	365.25*Average inventory/Cost of sales
Gearing		
Total debts/Total assets	=	(Long term interest-bearing borrowings + Short term interest-bearing borrowings)/Total assets
EBIT/Interest expenses	=	(Profit from operations + Share of profit from a jointly controlled entity)/Interest expenses

Definitions

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

Definitions

"Company" or "our Company"	Honghua Group Limited, (宏華集團有限公司) an exempted company incorporated in the Cayman Islands with limited liability on June 15, 2007
"Concert Group"	several shareholders of Honghua Company forming a concert group as set out in the "Company History and Reorganisation-Ownership Continuity and Control" section of this Prospectus, namely, Zhang Mi (張弭), Ren Jie (任杰), Liu Zhi (劉智), Zheng Yong (鄭勇), Zuo Huixian (左輝先), Zhang Xu (張旭), Wang Jiangyang (王江陽), Chen Jun (陳俊), Fan Bing (范兵), Zhang Yanyong (張彥永), Ao Pei (敖沛), Tian Diyong (田弟勇), Shen Dingjian (沈定建), Liu Xuetian (劉學田) (deceased), Zhou Bing (周兵), Lv Lan (呂蘭), Tian Yu (田雨), Li Hanqiang (李漢強), Liu Yingguo (劉映國), Liu Lulu (劉露璐), He Guangfu (何光福), Zhang Zongyou (張宗友) and Chen Zongliang (陳宗良), out of which He Guangfu (何光福), Zhang Zongyou (張宗友) and Chen Zongliang (陳宗良) transferred an aggregate of approximately 9.1325% equity interests in Honghua Company to the other members of the Concert Group. The transfers were completed on February 17, 2006
"Controlling Shareholder(s)"	has the meaning ascribed thereto under the Listing Rules being, for the time being, Ally Giant, Ample Chance, Ally Smooth, Charm Moral, Beauty Clear, Believe Power, Benefit Way, Wealth Afflux Limited, Mowbray Worldwide Limited, Ecotech Enterprises Corporation, Vast & Fast Corporation, Cavendish Global Corporation, Brondesbury Enterprises Limited, Dobson Global Inc, Darius Enterprises Limited, Zhang Mi (張弭), Ren Jie (任杰), Liu Zhi (劉智), Zheng Yong (鄭勇), Zuo Huixian (左輝先), Zhang Xu (張旭), Wang Jiangyang (王江陽), Chen Jun (陳俊), Fan Bing (范兵), Zhang Yanyong (張彥永), Ao Pei (敖沛), Tian Diyong (田弟勇), Shen Dingjian (沈定建), Liu Xuetian (劉學田) (deceased), Zhou Bing (周兵), Lv Lan (呂蘭), Tian Yu (田雨), Li Hanqiang (李漢強), Liu Yingguo (劉映國) and Liu Lulu (劉露璐). Contracts executed by the Controlling Shareholders after Liu Xuetian's death were executed by his legal successors
"COOS"	China Ocean Oilfields Services (Hong Kong) Limited (中國近海石油服務（香港）有限公司), a company incorporated in Hong Kong with limited liability on April 2, 1982
"Director(s)"	member(s) of the Board of Directors of our Company
"Great Wall"	Great Wall Drilling Company (中油長城鑽井有限責任公司), a subsidiary of CNPC

Definitions

"Golden Coast Company"	Honghua Golden Coast Equipment FZE (宏華金海岸設備有限公司), formerly known as Golden Coast Equipment FZE (金海岸設備公司), a company incorporated in the United Arab Emirates with limited liability on November 28, 2006 and a wholly-owned subsidiary of Honghua International
"Group" or "we" or "us"	the Company and its subsidiaries, and, for the period before the Company became the holding company for such subsidiaries, the entities which carried on the business of the Group
"HH Egyptian Company"	Egyptian Petroleum HH Rig Manufacturing Shareholder Co., a company incorporated in Egypt with limited liability on April 24, 2007 and is held by Asia Harbour, Petrotem Projects and Technical Consultation Company, Engineering for the Petroleum and Process Industries Company and Tharwa Petroleum Company as to 50%, 25% 10% and 15% respectively
"HK$" or "HK dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"Honghua America"	Honghua America, LLC, formerly known as New Continental Equipment Co., LLC and as New Continental Equipment Co., Ltd, a limited partnership formed in the State of Texas on October 11, 2004, and converted into a limited liability company on December 19, 2006, and a 80%-owned subsidiary of Honghua Company
"Honghua Company"	Sichuan Honghua Petroleum Equipment Co., Ltd. (四川宏華石油設備有限公司), formerly known as Chuanyou Guanghan Honghua Co., Ltd. (川油廣漢宏華有限公司), a limited liability company established in the PRC on December 31, 1997,and a wholly-owned subsidiary of Asia Harbour
"Honghua Industrial"	Chuanyou Guanghan Honghua Industrial Development Company (川油廣漢宏華實業開發公司), a collectively-owned enterprise established in the PRC on June 17, 1993
"Honghua International"	Honghua International Co., Ltd. (四川宏華國際科貿有限公司), formerly known as Sichuan Honghua Trading Co., Ltd. (四川宏華貿易有限公司), a limited liability company established in the PRC on January 13, 2004, and an 85%-owned subsidiary of Honghua Company
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC

Definitions

"Hongtai Company"	Guanghan Hongtai Business Trading Co., Ltd (廣漢市宏泰商貿有限公司), a limited liability company established in the PRC on June 21, 2002
"Hongtian Company"	Chengdu Hongtian Electronic Drive Engineering Co., Ltd. (成都宏天電傳工程有限公司), a limited liability company established in the PRC on June 6, 2001, and an 80%-owned subsidiary of Honghua Company
"Latest Practical Date"	the date on 14 April, 2009
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
"Lucky Wish"	Lucky Wish International Limited, a company incorporated in the BVI with limited liability on February 2, 2005 and wholly-owned by Liu Zhi on trust for Honghua International
"Nabors Global"	Nabors Global Holdings Ltd, an exempted company organized under the laws of Bermuda on February 25, 2005
"Nabors Group"	Nabors Industries and its subsidiaries
"Nabors Industries"	Nabors Industries Ltd., an exempted company organized under the laws of Bermuda on December 11, 2001, whose shares are listed on the New York Stock Exchange
"Nabors International"	Nabors Drilling International II Limited, an exempted company organized under the laws of Bermuda on March 12, 2003
"Nabors Management"	Nabors International Management Limited, an exempted company organized under the laws of Bermuda on December 23, 2004
"National Bureau of Statistics"	National Bureau of Statistics of the PRC (中國國家統計局)
"PetroChina"	PetroChina Company Limited (中國石油天然氣股份有限公司)
"PRC" or "China"	the People's Republic of China and, except where the context requires and only for the purpose of this Prospectus, references in this Prospectus to the PRC or China do not apply to Taiwan or the Hong Kong and Macau Special Administrative Regions

Definitions

"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"Russia"	The Russian Federation
"SAFE"	the PRC State Administration of Foreign Exchange (國家外滙管理局)
"Securities and Futures Commission" or "SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary shares issued by the Company, with a nominal value of HK$0.10 each
"Shareholder(s)"	holder(s) of our Share(s)
"Sinopec"	China Petroleum & Chemical Corporation (中國石油化工股份有限公司)
"sq.m."	square meters
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Substantial Shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"UAE"	the United Arab Emirates
"United Kingdom" or "UK"	the United Kingdom of Great Britain and Northern Ireland
"United States", "USA" or "U.S."	the United States of America, including its territories and possessions
"US$" or "U.S. dollars" or "USD"	United States dollars, the lawful currency of the United States
"Youxin Company"	Sichuan Honghua Youxin Petroleum Machinery Co., Ltd. (四川宏華友信石油機械有限公司), formerly known as Guanghan Youxin Co., Ltd. (廣漢市友信有限責任公司), a limited liability company established in the PRC on August 7, 1998, and an 80%-owned subsidiary of Honghua Company

HONG HUA

HONGHUA GROUP LIMITED

宏華集團有限公司