HONGHUA GROUP LIMITED
宏華集團有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code: 196

HONG HUA

2009
INTERIM REPORT

CONTENTS

HONGHUA GROUP LIMITED
2009 Interim Report

Financial Highlights

OPERATING RESULTS

	Six months ended 30 June		
	2009	2008	
	RMB'000	RMB'000	Change
Revenue	**1,196,503**	1,502,861	(20.4%)
Profit from operations	**84,291**	214,293	(60.7%)
Profit before taxation	**84,976**	150,873	(43.7%)
Profit attributable to equity shareholders of the Company	**56,113**	125,945	(55.4%)
Figures per share			
Earnings per share-basic and diluted (RMB cents)	**1.74**	4.16	(58.2%)
Special dividend declared and paid per share during the six months (HKD cents per share)	**–**	10	N/A

FINANCIAL POSITION

	30 June	31 December	
	2009	2008	
	RMB'000	RMB'000	Change
Total non-current assets	**1,124,041**	946,480	18.8%
Total current assets	**6,034,249**	6,837,443	(11.7%)
Total assets	**7,158,290**	7,783,923	(8.0%)
Total current liabilities	**2,551,027**	3,232,425	(21.1%)
Total non-current liabilities	**176,017**	24,090	630.7%
Total liabilities	**2,727,044**	3,256,515	(16.3%)
Total equity	**4,431,246**	4,527,408	(2.1%)

KEY FINANCIAL RATIOS

	Six months ended 30 June		
	2009	2008	Change
Gross Margin	**26.7%**	29.7%	(3.0%)
Net Margin	**4.7%**	8.4%	(3.7%)

	30 June	31 December	
	2009	2008	Change
Return on Average Asset	**0.8%**	8.7%	(7.9%)
Return on Average Equity	**1.3%**	17.9%	(16.6%)
Current Ratio	**2.37**	2.12	0.25
Quick Ratio	**1.64**	1.49	0.15
Total Debt/Total Asset	**16.7%**	20.2%	(3.5%)

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

King & Wood (formerly as Arculli Fong & Ng)

as to U.S. law

Latham & Watkins LLP

as to PRC law

King & Wood

as to Cayman Islands law

Appleby

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
The Export-Import Bank of China

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
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Chengdu, Sichuan 610036
PRC

PLACE OF BUSINESS IN HONG KONG

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Wan Chai, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

STOCK CODE

The Stock Exchange of Hong Kong Limited: 0196

WEBSITE:

http:// www.hh-gltd.com

MANAGEMENT DISCUSSION AND ANALYSIS

Management Discussion and Analysis

The Group is a leading global manufacturer of land drilling rigs, 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 parts and components for offshore rigs.

During the six months ended 30 June 2009 (the "Period"), the Group recorded a turnover of approximately RMB1,197 million, a decrease of 20.4% as compared to RMB1,503 million recorded for the six months ended 30 June 2008. Gross profit and profit attributable to equity shareholders of the Company were RMB319 million and RMB56 million respectively, a drop of 28.3% and 55.4% respectively as compared to the same period last year.

INDUSTRY REVIEW

In the first half of 2009, although the effects of the global economic turmoil have slowly diminished, the market continues to face numerous difficulties and challenges. Owing to the credit squeeze caused by the financial tsunami, industrial production around the world declined sharply, causing a corresponding decrease in demand for oil. As a result, global drilling activities and daily consumption rates deteriorated, which was particularly prominent in the North America market. Until June 2009, global drilling activities have recorded a drop for six consecutive months. According to Baker Hughes research, in June 2009, there were 1,987 units of active drilling rigs in the North American market, a drop of 39.2% as compared to the same month in the previous year. Furthermore, according to estimates by Bloomberg, investment in the Russian oil and gas

Direct-drive mud pump

industry is expected to be significantly reduced, dropping 38.6% from approximately US$70 billion in 2008 to approximately US$43 billion in 2009. This is mainly due to the drastic tightening of financial credit in Russia, which affects investment in exploration and exploitation activities by oil and gas enterprises. However, with the strong support by the Export-Import Bank of China to outstanding Chinese enterprises which export heavy industrial equipment, our major customer in Russia was granted a bank loan of US$240 million (approximately HK$1,872 million) in March 2009. This greatly improved the customer's capital sufficiency, as well as paved the way for the Group to further expand and increase its market share in Russia.

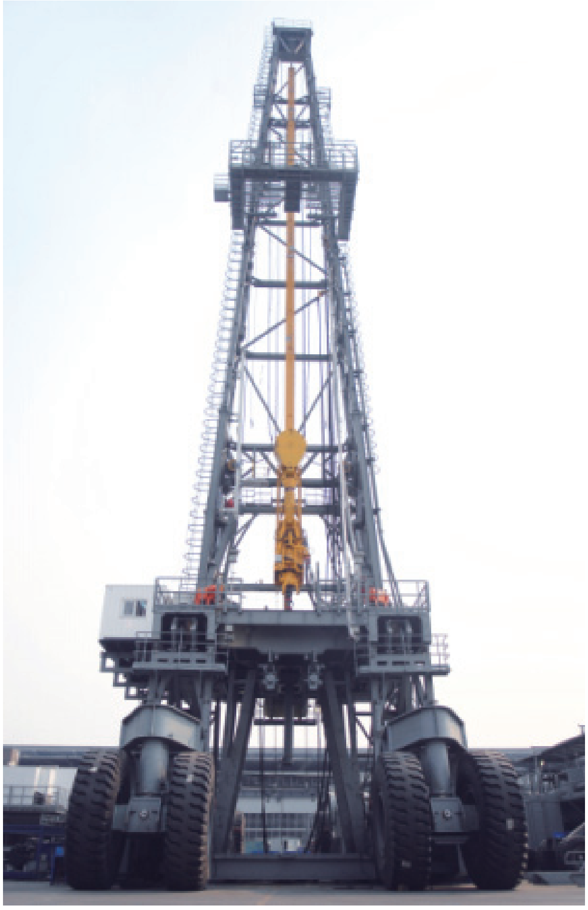
BUSINESS REVIEW

In the first half of 2009, investment by global oil and gas enterprises significantly decreased due to the uncertain outlook for economic recovery leading to lowered demand for drilling rigs, putting pressure on the Group's core business. However, leveraging on its state-of-the-art research and production capabilities, market advantages, as well as an extensive sales and distribution network, the Group continues to maintain its strong competitiveness. During the Period, the Group further enhanced its distribution network and market penetration through its subsidiary in Dubai, the United Arab Emirates. The Group sold 6 land drilling rigs in the Middle-Eastern market while there were no land drilling rigs sold to this market in the same period last year, aiding to minimise the adverse effects of the contracting drilling rig market resulted from the global economic turmoil.

During the Period, the Group further realized its promises made during its Initial Public Offering in early 2008. Apart from its three production bases in Guanghan and Chengdu in China, as well as in Houston in USA and so on, the Group has confirmed the site of its new production base in Qidong City, Jiangsu Province, which will focus on production of offshore drilling platform and related products, including offshore drilling module and so on. Currently, the production base is undergoing foundation works and initial construction of engineering, and is expected to be completed by 2012. Starting from next year, the Group will carry out site and infrastructure construction and production concurrently to ensure designed production capacity could be reached. Meanwhile, the Group is also planning to construct an offshore equipment research centre in Shanghai, fully utilizing unmatched conditions and development potential in the region to attract skilled experts from around the world, and in the process build a solid foundation for its entry into the offshore drilling market.

Furthermore, the Group continues to strengthen the research, development and design of its

Planetary gearbox drawworks



High speed transferring rigs

new products, so as to meet the needs and requirements of different markets, helping to maintain its leading position in the market during the Period. To satisfy the needs of the Middle-Eastern market, the Group successfully developed a new high speed drilling rig — desert trailer drilling rig; while for the Russian market, the Group successfully developed train-skidding artic rig and completed designs of stepwise skidding system used for cluster well, box-on-box rig, slidetrack rigs and continuous pipe rigs, which will be taken for quality checks in the future. During the Period, the Group continued to focus on developing high value-added parts and components to satisfy market demand for superior performance-to-cost products. Up to June 2009, the Group has a total of 302 research and development employees in

Chengdu and Guanghan. Currently, the Group has successfully applied for 38 patents (11 of which are awaiting approval from the State Intellectual Property Office of the P.R.C.).

The Group continues to place great emphasis on its control and testing procedures for raw materials, production flow and quality of its end products. During the Period, the Group's quality control system continues to comply with ISO9001 standards, and was upgraded in accordance with the requirements of the 8th version of APIQ1 and ISO9001-2008. At the same time, the application for API certificate of Sichuan Honghua Petroleum Equipment Co., Ltd, a subsidiary of the Group, has been submitted to American Petroleum Institute for review.

In order to further improve operational efficiency and enhance management quality, the Group cooperated with International Business Machines Corporation (IBM) during the Period to launch Enterprise Resource Planning (ERP). The ERP project will improve management of the Group's cash flow, supply chain and distribution network, further strengthening control of production procedures.

PROSPECTS

The global economic downturn caused by the financial tsunami in the second half of 2008 caused a drastic decline in the world demand for energy, leading to a depression in oil prices. Following stimulating packages introduced by various governments, there is evidence that the global economy has stabilized and is in a position for recovery in the first half of 2009. However, as the market continues to take a prudent view to the outlook of the economy, capital investments by oil and gas enterprises may continue to lag behind the economic recovery. Such investments will also be dependent on various reasons including the dynamics of drilling activities around the world, as well as the financial position of related enterprises.

The Group takes a cautious view of its business for the second half of 2009, it is predicted that the global economic downturn will still have a certain degree of adverse impact on the Group's financial performance. However, the development of the global economy in the foreseeable future is still relying on oil resources; as such the financial

Transportation for mud tanks

turmoil is only delaying greater investments which will ultimately be made in oil and gas exploitation by enterprises. From a long-term perspective, expenses for the exploration and production of oil will continue to increase.

Looking ahead, the Group will further accelerate the pace of Research and Development, and will continue to develop high performance-to-cost products to enrich product mix. The Group has established Honghua Oil & Gas Engineering Services Limited, an affiliated company based in Hong Kong. Leveraging on the Group's competitive advantages in production of drilling equipment and state-of-art technology, the Group is poised to enter the oil and gas engineering service sector in a timely manner. Through the extension of its production chain and the resulting synergetic effects, the Group is able to consolidate its leading position as well as to generate a new income stream. At the same time, by introducing IBM and launching the ERP project, the Group is able to further enhance its internal management amid the market recession. In the first half of 2009, Honghua has come one step further in realizing its dream of becoming an offshore drilling platform manufacturer. In the future, the Group will prudently proceed with plans for the construction of its offshore drilling rig production base and related ancillary facilities, so as to capture the opportunities arising from increasing demands of offshore drilling rigs from developing countries.

FINANCIAL REVIEW

During the Period, the Group's gross profit and profit attributable to equity shareholders of the Company amounted to approximately RMB319 million and RMB56 million respectively, representing a decrease of 28.3% and 55.4% respectively as compared to the same period last year. Gross margin and net margin amounted to approximately 26.7% and 4.7% respectively. During the Period, the decrease of the Group's gross profit and profit attributable to shareholders was mainly due to the decline in the Group's total revenue.

Technical support at our customers' drilling sites

Revenue

During the Period, the Group's revenue amounted to approximately RMB1,197 million, representing a decrease of approximately RMB306 million or 20.4% as compared to approximately RMB1,503 million in the same period last year. The decrease in revenue was mainly attributable to the influence of the global economic crisis and oil price fluctuation leading to the deterioration in global land rig markets and weakened demand for land drilling rigs as well as parts and components. During the Period, total number of rigs sold decreased to 27 units from 31 units in the same period last year. In addition, as a result of the drop in rig configuration requirements, average selling price of rigs decreased.

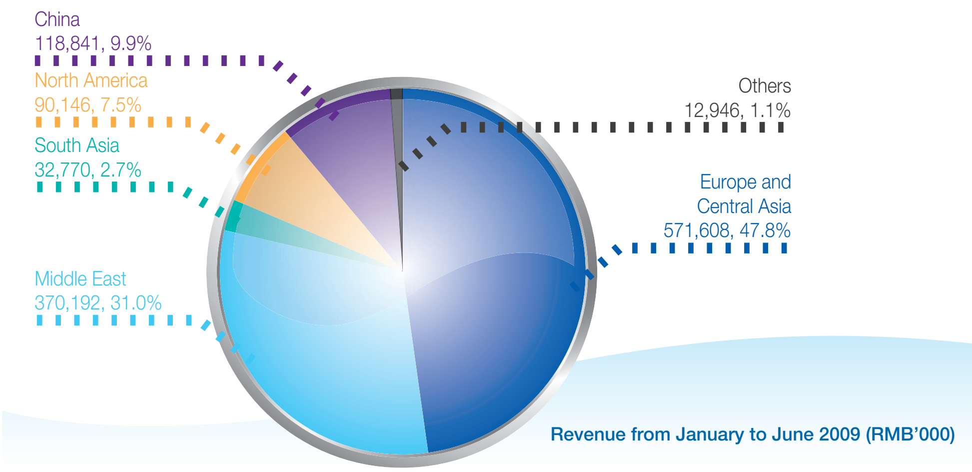
During the Period, revenue from exports amounted to approximately RMB1,078 million, representing a decrease of RMB245 million as compared to the same period last year, and accounted for approximately 90.1% of the Group's total revenue. Among which, revenue from Europe and Central Asia decreased significantly. Despite the sales volume amounted to 14 units during the period, representing an increase of 2 units as compared to the same period last year, the total revenue

High rank official's visit to Honghua

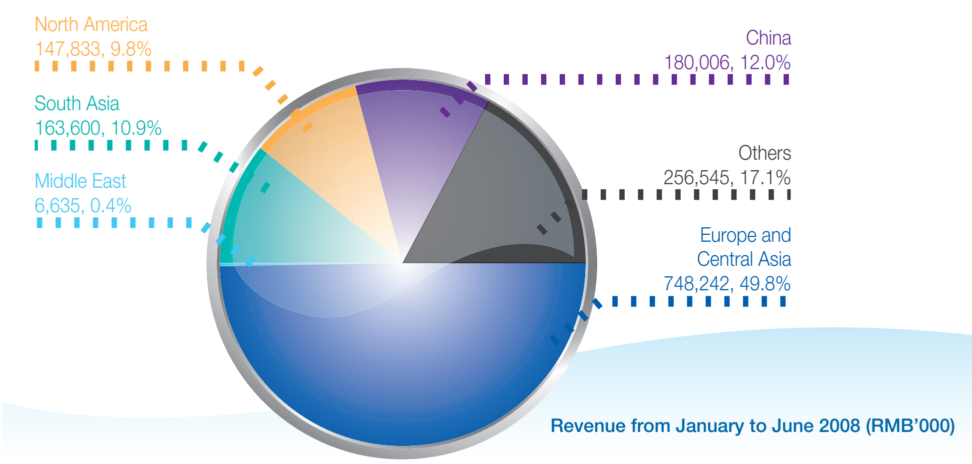
decreased due to variations in rig configuration being sold, leading to the decrease in average selling price. On the contrary, sales from the Middle-Eastern market increased rapidly and recorded total sales of 6 units while there were no rigs sold to the said market in the same period last year. This was mainly contributed by the enhancement of sales network and improvement in market initiatives of the Group's subsidiary in Dubai. Other markets including South Asia, North America, the PRC and other areas were all affected by the slowdown in rig demand. As a result, the sales volume in these markets were 3, 1, 3 and 0 units respectively, whereas for the same period of last year, sales to these markets were 6, 2, 9 and 2 units respectively.

Revenue by Geographical Areas

For six months ended 30 June 2009



For six months ended 30 June 2008



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

	For the six months ended 30 June 2009			For the six months ended 30 June 2008			2009.1-6 vs 2008.1-6	
	Revenue (RMB'000)	Proportion (%)	Quantity (Unit)	Revenue (RMB'000)	Proportion (%)	Quantity (Unit)	Change (RMB'000)	Change (%)
Digitally-controlled Rigs	**759,574**	**63.5%**	**19**	1,149,514	76.5%	17	**(389,940)**	**(33.9%)**
Conventional Rigs	**264,125**	**22.1%**	**8**	212,418	14.1%	14	**51,707**	**24.3%**
Subtotal	**1,023,699**	**85.6%**	**27**	1,361,932	90.6%	31	**(338,233)**	**(24.8%)**
Mud Pumps	**71,072**	**5.9%**	**64**	29,035	1.9%	32	**42,037**	**144.8%**
Other Parts and Components	**101,732**	**8.5%**		111,894	7.5%		**(10,162)**	**(9.1%)**
Subtotal	**172,804**	**14.4%**	**64**	140,929	9.4%	32	**31,875**	**22.6%**
Total	**1,196,503**	**100.0%**	**91**	1,502,861	100.0%	63	**(306,358)**	**(20.4%)**

During the Period, revenue from drilling rigs as well as parts and components were RMB1,024 million and RMB173 million respectively, representing a decrease of 24.8% and an increase of 22.6% as compared to RMB1,362 million and RMB141 million in the same period last year.

Drilling rigs comprise digitally-controlled land rigs and conventional land rigs, sales of which amounted to RMB760 million and RMB264 million respectively. The decrease in revenue from drilling rigs was mainly due to the decrease in sales volume of drilling rigs from 31 units in the same period last year to 27 units during the Period. Meanwhile, reduced drilling rig configuration requirements caused the average price to drop to RMB38 million during the Period from RMB44 million in the same period last year. During the Period, the Group recorded sales of 4 heavy 7000-meter drilling rigs, 4 middle 5000-meter drilling rigs, 4 middle 4000-meter drilling rigs, 14 light 3000-meter drilling rigs and 1 light 1000-meter drilling rig, among which all the 3000-meter drilling rigs were low-temperature drilling rigs sold to Russian clients.

The increase in revenue from parts and components was mainly due to the increase in sales volume of mud pumps to 64 units during the Period from 32 units in the same period last year, among which, 8 were mud pumps with high configuration requirements which raised the average selling price to RMB1.11 million from RMB0.91 million in the same period last year.

Cost of Sales

During the Period, the Group's cost of sales amounted to approximately RMB877 million, representing a decrease of approximately RMB180 million or 17.0% as compared to the same period last year. The decrease was mainly due to the decrease in the Group's revenue.

Gross Profit and Gross Margin

During the Period, the Group's gross profit recorded approximately RMB319 million, representing a decrease of 28.3% as compared to the same period last year. Gross profit from drilling rigs amounted to approximately RMB273 million, representing a decrease of 32.3% as compared to the same period last year. While the gross profit from digitally-controlled rigs and conventional rigs were RMB199 million and RMB74 million respectively, representing a decrease of 41.9% and an increase of 21.4% as compared to the same period last year. Gross profit from parts and components amounted to approximately RMB46 million, representing an increase of 9.4% as compared to the same period last year.

During the Period, the Group's overall gross margin was 26.7%, representing a decrease of 3 percentage points as compared to 29.7% in the same period last year.

The gross margin of drilling rigs was approximately 26.6%, representing a decrease of 3 percentage points as compared to 29.6% in the same period last year. Among which, gross margins of digitally-controlled rigs and conventional rigs were 26.2% and 28.1% respectively, representing a decrease of 3.5 percentage points and 0.7 percentage points as compared to 29.7% and 28.8% respectively in the same period last year. The margin has declined mainly due to the rise in cost incurred when importing overseas raw materials for amending rig configuration as requested by the client.

Gross margin of rig parts and components was 27.0%, representing a decrease of 3.3 percentage points as compared to the same period last year. Among which, gross margin of mud pumps was 24.8%, representing an increase of 2.7 percentage points as compared to 22.1% in the same period last year. The increase in margin was mainly attributable to the rise in the sales of mud pumps with higher configuration requirements. The gross margin of other rig parts and components was 28.5%, representing a decrease of 3.9 percentage points as compared to 32.4% in the same period last year.

Other Net Operating Revenue and Other Net Income

During the Period, the Group's other net operating revenue amounted to approximately RMB0.47 million, representing a decrease of approximately RMB0.54 million or 53.5% as compared to RMB1.01 million in the same period last year. The decrease was mainly due to increasing labour cost and processing cost incurred when rendering services overseas. Other net income amounted to approximately RMB4.36 million, representing a decrease of RMB0.36 million or 7.6% as compared to RMB4.72 million in the same period last year. The decrease was mainly due to the decrease in subsidy income.

Expenses in the Period

During the Period, the Group's selling expenses amounted to approximately RMB112 million, representing a decrease of RMB12 million or 9.7% as compared to RMB124 million in the same period last year, which was mainly due to the decrease in transportation costs. Transportation costs amounted to RMB62 million, representing a decrease of RMB17 million or 21.1% as compared to RMB79 million in the same period last year. During the Period, although export volume increased, transportation cost has decreased, this was because the costs for delivery to Russia borne by the Group has decreased significantly as compared to the same period last year.

During the Period, the Group's general and administration expenses amounted to approximately RMB128 million, representing an increase of RMB15 million or 13.3% as compared to RMB113 million in the same period last year. The increase was mainly due to amortization of intangible assets arising from technological input by Nabors, which began in September 2008. The amortization amounted to RMB18 million while there was no such expense in the same period last year.

During the Period, the Group's net financing income amounted to approximately RMB3 million as compared to net financing costs of RMB74 million in the same period last year. The decrease of net finance costs was mainly attributable to the increase in net exchange gain of RMB76 million. During the Period, the exchange rate of RMB against US dollar was relatively stable. Therefore, the gross exchange loss decreased to RMB13 million from RMB77 million in the same period last year. Meanwhile, the exchange rate of EURO against RMB increased approximately 10%, which was beneficial for the Group's EURO denominated contracts. The Group's gross exchange gain increased to RMB34 million from RMB21 million in the same period last year.

Share of Loss from Jointly Controlled Entities

During the Period, the Group's share of loss from jointly controlled entities amounted to approximately RMB2 million, representing a decrease of RMB13 million as compared to share of profit of RMB11 million in the same period last year, which was mainly attributable to the decrease in sales in Egyptian Petroleum HH Rig Manufacturing Shareholder Co.. 2 rigs were sold in the same period last year while none was sold during the Period.

Profit before Taxation

During the Period, profit before taxation of the Group amounted to approximately RMB85 million, representing a decrease of RMB66 million or approximately 43.7% as compared to RMB151 million in the same period last year. The decrease was mainly attributable to the decrease in gross profit.

Income Tax Expenses

During the Period, the Group's income tax expenses amounted to approximately RMB20 million, representing a decrease of RMB5 million or approximately 18.6% as compared to the same period last year. The decrease was mainly attributable to the decrease in profit before taxation. During the Period, the effective tax rate was 23.9%, representing an increase of 7.4 percentage points as compared to 16.5% in the same period last year. This was mainly attributable to the equity-settled share based payment expenses of RMB15 million (1H2008: RMB24 million) and amortization expenses of intangible assets amounted to RMB18 million (1H2008: nil), which accounted for 38.8% of profit before taxation (1H2008: 15.9%) were not deductible from income tax calculation during the Period and resulted in increased effective income tax rate.

Profit for the Period

During the Period, the Group's profit amounted to approximately RMB65 million, representing a decrease of RMB61 million or 48.4% as compared to RMB126 million in the same period last year. Among which, earnings attributable to equity shareholders of the Company was approximately RMB56 million, while earnings attributable to minority interest was approximately RMB9 million. Net margin was 4.7%, representing a decrease of 3.7 percentage points as compared to the same period last year, which was mainly attributable to the decrease in gross margin during the Period.

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

During the Period, EBITDA amounted to RMB123 million, representing a decrease of RMB118 million or 49.0% as compared to RMB241 million in the same period last year. The decrease was mainly due to the decrease in gross profit. The EBITDA margin was 10.3%, representing a decrease of 5.8 percentage points as compared to 16.1% in the same period last year, which was mainly attributable to the decrease in gross margin and the loss arising from the jointly controlled entities.

Dividend

For the period ended at 30 June 2009, the Board does not recommend the payment of interim dividend.

Source of Capital and Borrowings

The Group's principal sources of capital include listing proceeds, cash from operations, and bank borrowings. As at 30 June 2009, the Group's bank borrowings amounted to approximately RMB1,194 million, representing a decrease of approximately RMB381 million as compared to 31 December 2008. Among which, borrowings repayable within one year amounted to approximately RMB1,030 million, representing a decrease of RMB531 million as compared to 31 December 2008.

Deposit and Cash Flow

At 30 June 2009, the Group's cash and cash equivalents amounted to approximately RMB1,210 million, representing a decrease of approximately RMB257 million as compared to that of 31 December 2008. During the Period, the Group's operating cash inflow amounted to approximately RMB65 million, cash inflow from investing activities amounting to approximately RMB99 million as a result of transferral of time deposits to cash at bank, and cash outflow from financing activities amounted to approximately RMB422 million was used to repay bank loans.

Assets Structure and Changes Thereof

At 30 June 2009, the Group's total assets amounted to approximately RMB7,158 million, representing a decrease of RMB626 million or approximately 8.0% as compared to 31 December 2008. Among which, current assets amounted to approximately RMB6,034 million, which were mainly listing proceeds, trade receivables and inventories and accounted for approximately 84.3% of total assets; non-current assets amounted to approximately RMB1,124 million, accounting for approximately 15.7% of total assets.

Liabilities

At 30 June 2009, the Group's total liabilities amounted to approximately RMB2,727 million, representing a decrease of approximately RMB529 million as compared to 31 December 2008. Among which, current liabilities amounted to approximately RMB2,551 million, accounting for approximately 93.5% of total liabilities; non-current liabilities amounted to approximately RMB176 million, accounting for approximately 6.5% of total liabilities. At 30 June 2009, the Group's gearing ratio is approximately 38.1%.

Total Equity

At 30 June 2009, total equity amounted to RMB4,431 million, representing a decrease of RMB96 million as compared to 31 December 2008. Total equity attributable to equity shareholders of the company amounted to approximately RMB4,335 million, representing a decrease of RMB100 million as compared to 31 December 2008. Minority interests totaled approximately to RMB96 million, representing an increase of RMB3 million as compared to 31 December 2008. Net asset value reached approximately RMB1.38 per share, representing a decrease of RMB0.02 as compared to RMB1.40 at 31 December 2008. During the Period, the Group's earnings per share amounted to RMB1.74 cents, representing a decrease of RMB2.42 cents as compared to RMB4.16 cents in the same period last year.

Turnover

The decline in oil price, coupled with the tightened credit market, led to the slow down capital expenditure of oil exploration and extraction activities of drilling companies, which ended up in prolonging the financial cycle.

During the Period, the average turnover days of inventories increased to 405 days from 216 days of the same period last year. This was mainly attributable to the earlier purchase of high-end raw materials for production and cost control purpose. Moreover, delay in production and delivery schedule due to weakened demand of rigs, also resulted in increasing days of inventories.

Amid global economy slowdown, the Group has proactively strengthened communication with clients and suppliers, established good control over cash flow, to strive for healthy financial ratios. The average days of trade receivables increased to 247 days during the Period from 119 days of the same period last year. During the Period, the Group has adjusted the payment method according to the production requirements and financial situations so as to strengthen liquidity reserve. The average days of trade payables increased to 157 days from 137 days of the same period last year.

Contingent Liabilities and Pledge

At 30 June 2009, details of contingent liabilities are set out in note 23 to the interim financial report. The Group have pledged bank deposits of RMB63 million, representing a decrease of RMB196 million as compared to 31 December 2008.

Capital Expenditure, Major Investment and Capital Commitments

During the Period, capital expenditure of the Group on infrastructure and technical improvements amounted to approximately RMB46 million, representing a decrease of RMB35 million as compared to the same period last year. This was mainly due to the gradual completion of infrastructure constructions launched earlier and no new significant infrastructure constructions launched during the Period.

At 30 June 2009, the Group had capital commitments of RMB2,092 million, which will be mainly used for the construction of Jiangsu Qidong offshore equipment manufacturing base so as to expand the Group's business and production capacities.

Foreign Currency Risk

The Group has certain foreign currency deposits. At 30 June 2009, the Group's foreign currency deposits were equivalent to approximately RMB159 million, trade receivables and other receivables denominated in foreign currency were equivalent to approximately RMB1,074 million. Exports and foreign currencies settled business also exposed the Group to exchange rate risk.

Use of Proceeds from the Initial Public Offering

The net proceeds after the deduction of the related expenses from the initial public offering were HK$2,958 million. In order to strengthen the Group's operation, the Group adjusted the use of capital. As at 30 June 2009, the use of net proceeds is as follows: proceeds of HK$1,275 million to be used for the offshore project, among which HK$232 million was incurred; proceeds of HK$592 million to be used for potential acquisitions, none has incurred; proceeds of HK$354 million to be used for production capacity expansion and research and development expenses, among which HK$240 million has incurred; proceeds of HK$737 million to be used as working capital and day to day expenses, all have incurred.

Employee Remuneration and Benefit

During the Period, the average number of the Group's employees was 3,503. The total remuneration and benefit amounted to RMB118 million, representing an increase of RMB17 million or approximately 16.8% as compared to the same period last year. The bonus from Board of Directors was written-back in the same period last year whereas none has incurred this Period resulting in the increase of remuneration and benefit during the Period.

The Group provided competitive remuneration and benefit to its employees, and determined the employee's individual remuneration based on his/her job duties, work performance and capability. The Group issues share options to senior management to make personal interests in line with the Group. The Group strives to maintain its outstanding corporate culture, implement a people-oriented principle and build up a broad stage for the employee to fulfill one's value under the Group's systematic training and employee skill enhancement plans.

Corporate Governance Report

1. OVERVIEW OF CORPORATE GOVERNANCE

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

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

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

2. CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with most of the code provisions as set out in the CG Code throughout the six months ended 30 June 2009 except the vesting of roles of both Chairman and President (Chief Executive Officer).

3. CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

Mr. Zhang Mi is the Chairman and President (Chief Executive Officer) of the Company. 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 (Chief Executive Officer) in Mr. Zhang Mi 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 Mr. Zhang Mi 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 (Chief Executive Officer) are necessary.

4. MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted its own code of conduct regarding dealings of Directors and relevant employees 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 both the Company's Code and the Model Code throughout the Reporting Period.

No incident of non-compliance of the Company's Code by the employees was noted by the Company.

5. INDEPENDENT NON-EXECUTIVE DIRECTORS

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

6. AUDIT COMMITTEE

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

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

The Audit Committee has reviewed the unaudited financial reports for the six months ended 30 June 2009 of the Company and the Group.

Report of the Board

The Board of the Company is to present its reviewed interim report for the six month end 30 June 2009.

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

At 30 June 2009, 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, 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. The Trustee of The ZYL Family Trust owns 3,000,000 Shares. Ren Jie, another member of the Concert Group and the settlor of a discretionary trust, The RJDJ Victory Trust, individually owns 169,000 Shares. The Trustee of The RJDJ Victory Trust 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 collectively own 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, through Mowbray Worldwide Limited, holds approximately 41.34% of the issued share capital of Charm Moral International Limited, which in turn is the beneficial owner of approximately 19.09% of the issued share capital of Ample Chance International Limited, which in turn is the beneficial owner of the entire issued share capital of Ally Giant Limited which holds 1,617,727,837 Shares. The Trustee of The RJDJ Victory Trust owns 1,000,000 Shares.

Zhang Mi, another member of the Concert Group and the settlor of a discretionary trust, The ZYL Family Trust, individually owns 280,000 Shares. The Trustee of The ZYL Family Trust 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 collectively own 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, 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. The Trustee of The LZWM Family Trust owns 1,070,000 Shares.

Zhang Mi and Ren Jie, the other two members of the Concert Group, collectively hold 449,000 Shares. The Trustees of the two discretionary trusts, whose settlors are Zhang Mi and Ren Jie respectively, collectively own 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 the Concert Group collectively own 1,885,000 Shares.

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

b) Share options of the Company

	Long/Short position	Number of options held — Personal interest	Number of options held — Interest of the Concert Group
Mr. Zhang Mi	Long	13,837,000	26,353,000
Mr. Ren Jie	Long	5,687,000	34,503,000
Mr. Liu Zhi	Long	5,173,000	35,017,000
Mr. Qi Daqing	Long	1,000,000	—
Mr. Liu Xiaofeng	Long	1,000,000	—
Mr. Tai Kwok Leung, Alexander	Long	850,000	—
Mr. Chen Guoming	Long	750,000	—
Mr. Liu Yinchun	Long	750,000	—
Mr. Wang Li	Long	750,000	—
Mr. Shi Xingquan	Long	750,000	—

Saved as disclosed above, on 30 June 2009, none of the Directors and Chief Executives (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for Shares (or warrants or debentures, if applicable) of the Company and its associated corporations required to be disclosed pursuant to the SFO.

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

The register of substantial shareholders required to be kept under section 336 of Part XV of the SFO shows that, at 30 June 2009, 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	Shares interest	Corporate interest	Corporate interest and settlor of a discretionary trust	Interest of the Concert Group	Total	% of the issued share capital of the Company
Ally Giant Limited	Long	–	1,617,727,837	–	–	48,287,000	1,666,014,837[1]	51.70%
Ample Chance International Limited	Long	–	–	1,617,727,837	–	48,287,000	1,666,014,837[2]	51.70%
Wealth Afflux Limited	Long	–		1,617,727,837	–	48,287,000	1,666,014,837[3]	51.70%
Ally Smooth Investments Limited	Long	–	–	1,617,727,837	–	48,287,000	1,666,014,837[3]	51.70%
Equity Trustee Limited	Long	–	–	–	1,623,490,837	–	1,623,490,837[3][5][6][9][10][14][20][22]	50.38%
Charm Moral International Limited	Long	–	–	1,617,727,837	–	48,287,000	1,666,014,837[4]	51.70%
Mowbray Worldwide Limited	Long	–	–	1,617,727,837	–	48,287,000	1,666,014,837[5]	51.70%
Ecotech Enterprises Corporation	Long	–	–	1,617,727,837	–	48,287,000	1,666,014,837[6]	51.70%
Mr. Zheng Yong	Long	2,085,000	–	1,617,727,837	–	46,202,000	1,666,014,837[7]	51.70%
Beauty Clear Holdings Limited	Long	–	–	1,617,727,837	–	48,287,000	1,666,014,837[8]	51.70%
Mr. Zuo Huixian	Long	1,734,000	–	–	1,617,727,837	46,553,000	1,666,014,837[9]	51.70%
Vast & Fast Corporation	Long	–	–	1,617,727,837	–	48,287,000	1,666,014,837[9]	51.70%
Mr. Zhang Xu	Long	1,833,000	–	–	1,617,727,837	46,454,000	1,666,014,837[10]	51.70%
Cavendish Global Corporation	Long	–	–	1,617,727,837	–	48,287,000	1,666,014,837[10]	51.70%
Mr. Wang Jiangyang	Long	941,000	1,785,000	1,617,727,837	–	45,561,000	1,666,014,837[11]	51.70%
Mr. Chen Jun	Long	872,000	–	1,617,727,837	–	47,415,000	1,666,014,837[12]	51.70%
Believe Power International Limited	Long	–	–	1,617,727,837	–	48,287,000	1,666,014,837[13]	51.70%
Mr. Fan Bing	Long	1,744,000	–	–	1,618,420,837	45,850,000	1,666,014,837[14]	51.70%
Brondesbury Enterprises Limited	Long	–	–	1,617,727,837	–	48,287,000	1,666,014,837[14]	51.70%
Mr. Zhang Yanyong	Long	1,480,000	100,000	1,617,727,837	–	46,707,000	1,666,014,837[15]	51.70%
Mr. Ao Pei	Long	683,000	–	1,617,727,837	–	47,604,000	1,666,014,837[16]	51.70%
Mr. Tian Diyong	Long	550,000	–	1,617,727,837	–	47,737,000	1,666,014,837[17]	51.70%
Mr. Shen Dingjian	Long	262,000	–	1,617,727,837	–	48,025,000	1,666,014,837[18]	51.70%
Benefit Way International Limited	Long	–	–	1,617,727,837	–	48,287,000	1,666,014,837[19]	51.70%
Mr. Liu Xuetian (deceased)	Long	–	–	–	1,617,727,837	48,287,000	1,666,014,837[20]	51.70%
Dobson Global Inc.	Long	–	–	1,617,727,837	–	48,287,000	1,666,014,837[20]	51.70%
Ms. Qu Yihong	Long	–	–	1,617,727,837	–	48,287,000	1,666,014,837[21]	51.70%
Ms. Liu Ying	Long	–	–	1,617,727,837	–	48,287,000	1,666,014,837[21]	51.70%
Mr. Zhou Bing	Long	1,445,000	–	–	1,617,727,837	46,842,000	1,666,014,837[22]	51.70%
Darius Enterprises Limited	Long	–	–	1,617,727,837	–	48,287,000	1,666,014,837[22]	51.70%
Ms. Lu Lan	Long	519,000	–	1,617,727,837	–	47,768,000	1,666,014,837[23]	51.70%
Mr. Tian Yu	Long	515,000	–	1,617,727,837	–	47,772,000	1,666,014,837[24]	51.70%

Name	Long/Short position	Number of shares held: Personal interest: Share option	Shares interest	Corporate interest	Corporate interest and settlor of a discretionary trust	Interest of the Concert Group	Total	% of the issued share capital of the Company
Mr. Li Hanqiang	Long	345,000	–	1,617,727,837	–	47,942,000	1,666,014,837(25)	51.70%
Mr. Liu Yingguo	Long	242,000	–	1,617,727,837	–	48,045,000	1,666,014,837(26)	51.70%
Mrs. Liu Lulu	Long	243,000	–	1,617,727,837	–	48,044,000	1,666,014,837(27)	51.70%
China Ocean Oilfields Services (Hong Kong) Limited	Long	–	174,425,609	–	–	–	174,425,609(28)	5.41%
China National Offshore Oil Corporation	Long	–	–	174,425,609	–	–	174,425,609(28)	5.41%
Nabors Drilling International II Limited	Long	–	450,000,000	–	–	–	450,000,000(29)	13.96%
Nabors International Management Limited	Long	–	–	450,000,000	–	–	450,000,000(29)	13.96%
Nabors Global Holdings Limited	Long	–	–	450,000,000	–	–	450,000,000(29)	13.96%
Nabors Industries Ltd.	Long	–	–	450,000,000	–	–	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 19.09% of the issued share capital of Ample Chance International Limited. Zheng Yong is a member of the Concert Group.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Save as disclosed above, to the best of the Directors and the Chief Executives of the Company's knowledge, as at 30 June 2009, 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 principal terms of pre-IPO share option scheme have been approved by resolutions in writing by all the Shareholders on 21 January 2008. As at the date of this report, a total of 270 eligible participants have been conditionally granted share options to subscribe for an aggregate of 60,000,000 Shares at an exercise price of offer price of HK$3.83 per Share. As at 30 June 2009, none of the grantees has exercised the share options granted to him/her under the Pre-IPO share option scheme and 420,000 shares options were lapsed.

Each share 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 date of grant. As at 30 June 2009, 40% of the total number of the share options granted (if not cancelled) or 24,000,000 share options can be exercised under the Pre-IPO share option scheme.

No further options were granted under pre-IPO share option scheme on or after the Listing Date .

(B) Share Option Scheme after Listing

On 15 April 2009, options to subscribe for 60,000,000 Shares of HK$0.10 each were granted to the eligible participants at an exercise price of HK$1.27 per Share under the share option scheme adopted by resolutions in writing of all the Shareholders on 21 January 2008 (the "Share Option Scheme").

Under the Share Option Scheme, the share options are exercisable on or after 1 December 2009 by the grantees in the following manners: (1) up to 30% of the share options granted to each grantee from 1 December 2009 to 14 April 2010; (2) up to 60% of the share options granted to each grantee on or before 14 April 2011; (3) all the remaining share options granted to each grantee on or after 15 April 2011; and in each case, not later than 14 April 2009.

The valid period of the Share Option Scheme is up to 14 April 2019. As at the date of this report, none of the grantees has exercised the share options granted to him/her under the Share Option Scheme.

Particulars and movements of share options under the Share Option Scheme during the six months ended 30 June 2009 were as follows:

	Number of share options									
Name or category of participant	Outstanding as at 01/01/2009	Granted during the six months ended 30 June 2009	Exercised during the six months ended 30 June 2009	Lapsed during the six months ended 30 June 2009	Cancelled during the six months ended 30 June 2009	Outstanding as at 30/06/2009	Date of grant (DD/MM/YY)	Exercise period (DD/MM/YY)	Exercise price per Share HK$	Price per Share immediately preceding the grant date of share options HK$
Directors										
Mr. Zhang Mi	–	3,937,000	–	–	–	3,937,000	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
Mr. Liu Zhi	–	2,373,000	–	–	–	2,373,000	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
Mr. Ren Jie	–	2,587,000	–	–	–	2,587,000	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
Mr. Chen Guoming	–	750,000	–	–	–	750,000	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
Mr. Liu Xiaofeng	–	1,000,000	–	–	–	1,000,000	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
Mr. Liu Yinchun	–	750,000	–	–	–	750,000	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
Mr. Qi Daqing	–	1,000,000	–	–	–	1,000,000	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
Mr. Tai Kwok Leung, Alexander	–	850,000	–	–	–	850,000	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
Mr. Wang Li	–	750,000	–	–	–	750,000	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
Mr. Shi Xingquan	–	750,000	–	–	–	750,000	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
Sub-total	–	14,747,000	–	–	–	14,747,000				

	Number of share options									
Name or category of participant	Outstanding as at 01/01/2009	Granted during the six months ended 30 June 2009	Exercised during the six months ended 30 June 2009	Lapsed during the six months ended 30 June 2009	Cancelled during the six months ended 30 June 2009	Outstanding as at 30/06/2009	Date of grant (DD/MM/YY)	Exercise period (DD/MM/YY)	Exercise price per Share HK$	Price per Share immediately preceding the grant date of share options HK$
Substantial Shareholders										
Mr. Zheng Yong	–	695,000	–	–	–	695,000	15/04/2009	01/12/2009– 14/04/2019	1.27	1.29
Mr. Zuo Huixian	–	674,000	–	–	–	674,000	15/04/2009	01/12/2009– 14/04/2019	1.27	1.29
Mr. Zhang Xu	–	642,000	–	–	–	642,000	15/04/2009	01/12/2009– 14/04/2019	1.27	1.29
Mr. Wang Jiangyang	–	301,000	–	–	–	301,000	15/04/2009	01/12/2009– 14/04/2019	1.27	1.29
Mr. Chen Jun	–	332,000	–	–	–	332,000	15/04/2009	01/12/2009– 14/04/2019	1.27	1.29
Mr. Fan Bing	–	569,000	–	–	–	569,000	15/04/2009	01/12/2009– 14/04/2019	1.27	1.29
Mr. Zhang Yanyong	–	480,000	–	–	–	480,000	15/04/2009	01/12/2009– 14/04/2019	1.27	1.29
Mr. Ao Pei	–	243,000	–	–	–	243,000	15/04/2009	01/12/2009– 14/04/2019	1.27	1.29
Mr. Tian DiYong	–	195,000	–	–	–	195,000	15/04/2009	01/12/2009– 14/04/2019	1.27	1.29
Mr. Shen Dingjian	–	87,000	–	–	–	87,000	15/04/2009	01/12/2009– 14/04/2019	1.27	1.29
Mr. Zhou Bing	–	695,000	–	–	–	695,000	15/04/2009	01/12/2009– 14/04/2019	1.27	1.29
Ms. Lu Lan	–	174,000	–	–	–	174,000	15/04/2009	01/12/2009– 14/04/2019	1.27	1.29
Mr. Tian Yu	–	275,000	–	–	–	275,000	15/04/2009	01/12/2009– 14/04/2019	1.27	1.29
Mr. Li Hanqiang	–	130,000	–	–	–	130,000	15/04/2009	01/12/2009– 14/04/2019	1.27	1.29
Mr. Liu Yingguo	–	117,000	–	–	–	117,000	15/04/2009	01/12/2009– 14/04/2019	1.27	1.29
Ms. Liu Lulu	–	108,000	–	–	–	108,000	15/04/2009	01/12/2009– 14/04/2019	1.27	1.29
Sub-total	–	5,717,000	–	–	–	5,717,000				
Other										
Employees	–	39,536,000	–	–	–	39,536,000	15/04/2009	01/12/2009– 14/04/2019	1.27	1.29
	–	–	–	–	–					
Sub-total	–	39,536,000	–	–	–	39,536,000				
Total	–	60,000,000	–	–	–	60,000,000				

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

The Company did not purchase, sell or repurchase any of its shares during the six months ended 30 June 2009.

AUDIT COMMITTEE

The Audit Committee comprises all the independent non-executive Directors with written terms of reference in compliance with the Listing Rules. The Audit Committee is responsible for reviewing and supervising financial reporting process and internal control systems and providing advices and recommendations to the Board. The Audit Committee shall hold at least two meetings a year and review opinions of internal auditors, matters in respects of internal control, risk management and financial reporting. The Audit Committee has reviewed the interim results of the Group for the six months ended 30 June 2009.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the principles as set out in the CG Code throughout the six months ended 30 June 2009, except the following deviations:

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

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

Hong Kong, 8 September 2009

Independent Review Report

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

INTRODUCTION

We have reviewed the interim financial report set out on pages 30 to 67 which comprises the consolidated balance sheet of Honghua Group Limited as at 30 June 2009 and the related consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and condensed consolidated cash flows statement for the six months then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard ("IAS") 34, "Interim financial reporting" adopted by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with IAS 34.

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

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2009 is not prepared, in all material respects, in accordance with IAS 34 "Interim financial reporting".

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

8 September 2009

Consolidated Income Statement

For the six months ended 30 June 2009 — unaudited
(Expressed in Renminbi)

		Six months ended 30 June	
		2009	2008
	Note	**RMB'000**	RMB'000
Revenue	4	**1,196,503**	1,502,861
Cost of sales		**(877,037)**	(1,057,218)
Gross profit		**319,466**	445,643
Other operating revenue	5	**2,991**	1,637
Other operating expenses		**(2,523)**	(631)
Selling expenses		**(111,849)**	(123,733)
General and administrative expenses		**(128,157)**	(113,339)
Other net income	5	**4,363**	4,716
Profit from operations		**84,291**	214,293
Net finance income/(costs)	6(a)	**2,837**	(74,242)
Share of (loss)/profit from jointly controlled entities		**(2,152)**	10,822
Profit before taxation	6	**84,976**	150,873
Income tax expenses	7	**(20,333)**	(24,965)
Profit for the period		**64,643**	125,908
Attributable to:			
Equity shareholders of the Company		**56,113**	125,945
Minority interests		**8,530**	(37)
Profit for the period		**64,643**	125,908
Earnings per share			
Basic and diluted (RMB cents)	9	**1.74**	4.16

The accompanying notes form part of this interim financial report.

Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2009 — unaudited
(Expressed in Renminbi)

		Six months ended 30 June	
		2009	2008
	Note	**RMB'000**	RMB'000
Profit for the period		**64,643**	125,908
Other comprehensive income for the period:			
Exchange differences on translation of financial statements of operations outside the PRC		**(715)**	(84,446)
Total comprehensive income for the period		**63,928**	41,462
Attributable to:			
Equity shareholders of the Company		**55,398**	41,499
Minority interests		**8,530**	(37)
Total comprehensive income for the period		**63,928**	41,462

The accompanying notes form part of this interim financial report.

Consolidated Balance Sheet

At 30 June 2009 — unaudited
(Expressed in Renminbi)

	Note	30 June 2009 RMB'000	31 December 2008 RMB'000
Non-current assets			
Fixed assets			
— Property, plant and equipment		**383,094**	375,169
— Interests in leasehold land held for own use under operating leases		**52,755**	53,461
— Freehold land		**5,508**	5,509
	10	**441,357**	434,139
Deposit paid for acquisition of leasehold land	11	**249,959**	90,108
Construction in progress		**55,385**	40,369
Intangible assets	12	**337,638**	356,216
Interests in jointly controlled entities		**8,265**	9,604
Deferred tax assets		**31,437**	16,044
Total non-current assets		**1,124,041**	946,480
Current assets			
Inventories	13	**1,856,033**	2,033,488
Trade and other receivables	14	**2,147,355**	2,045,069
Amount due from a jointly controlled entity	22(b)	**33,933**	34,018
Amount due from immediate holding company	22(b)	**8**	8
Amount due from ultimate holding company	22(b)	**42**	42
Pledged bank deposits	15	**63,386**	259,099
Time deposits		**723,259**	998,356
Cash and cash equivalents		**1,210,233**	1,467,363
Total current assets		**6,034,249**	6,837,443
Total assets		**7,158,290**	7,783,923
Current liabilities			
Interest-bearing borrowings	16	**1,030,000**	1,561,000
Amount due to a jointly controlled entity	22(b)	**—**	17,478
Amounts due to related companies	22(b)	**4,973**	3,898
Trade and other payables	17	**1,472,852**	1,572,970
Current taxation		**43,202**	77,079
Total current liabilities		**2,551,027**	3,232,425

Consolidated Balance Sheet

At 30 June 2009 — unaudited
(Expressed in Renminbi)

	Note	**30 June 2009 RMB'000**	31 December 2008 RMB'000
Net current assets		**3,483,222**	3,605,018
Total assets less current liabilities		**4,607,263**	4,551,498
Non-current liabilities			
Interest-bearing borrowings	16	**164,347**	14,401
Deferred tax liabilities		**11,670**	9,689
Total non-current liabilities		**176,017**	24,090
Total liabilities		**2,727,044**	3,256,515
Equity			
Share capital	18	**299,495**	299,495
Reserves	20	**4,035,299**	4,134,887
Total equity attributable to equity shareholders of the Company		**4,334,794**	4,434,382
Minority interests		**96,452**	93,026
Total equity		**4,431,246**	4,527,408
Total liabilities and equity		**7,158,290**	7,783,923

Approved and authorised for issue by the board of directors on 8 September 2009.

Zhang Mi	**Ren Jie**
Director	*Director*

The accompanying notes form part of this interim financial report.

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2009 — unaudited
(Expressed in Renminbi)

		Attributable to equity shareholders of the Company									
	Note	Share capital RMB'000 (Note 18)	Share premium RMB'000 (Note 20(e))	Other reserve RMB'000 (Note 20(c))	Capital reserve RMB'000 (Note 20(d))	Surplus reserve RMB'000 (Note 20(a))	Exchange reserve RMB'000 (Note 20(b))	Retained profits RMB'000	Subtotal RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2009		**299,495**	**2,508,202**	**59,358**	**436,796**	**199,490**	**(76,424)**	**1,007,465**	**4,434,382**	**93,026**	**4,527,408**
Dividends approved in respect of the previous financial year	8	**–**	**–**	**–**	**–**	**–**	**–**	**(170,371)**	**(170,371)**	**–**	**(170,371)**
Dividends to minority shareholders		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(5,104)**	**(5,104)**
Equity-settled share-based transactions		**–**	**–**	**–**	**15,385**	**–**	**–**	**–**	**15,385**	**–**	**15,385**
Total comprehensive income for the period		**–**	**–**	**–**	**–**	**–**	**(715)**	**56,113**	**55,398**	**8,530**	**63,928**
At 30 June 2009		**299,495**	**2,508,202**	**59,358**	**452,181**	**199,490**	**(77,139)**	**893,207**	**4,334,794**	**96,452**	**4,431,246**
At 1 January 2008		233,155	–	60,760	–	140,662	10,936	841,990	1,287,503	68,208	1,355,711
Shares issued under placing and public offering, net of issuing expenses		76,077	2,623,896	–	–	–	–	–	2,699,973	–	2,699,973
Waiver of loan from immediate holding company		–	–	–	398,710	–	–	–	398,710	–	398,710
Dividends to minority shareholders		–	–	–	–	–	–	–	–	(4,556)	(4,556)
Equity-settled share-based transactions		–	–	–	23,979	–	–	–	23,979	–	23,979
Total comprehensive income for the period		–	–	–	–	–	(84,446)	125,945	41,499	(37)	41,462
At 30 June 2008		309,232	2,623,896	60,760	422,689	140,662	(73,510)	967,935	4,451,664	63,615	4,515,279

The accompanying notes form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2009 — unaudited
(Expressed in Renminbi)

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
Cash generated from/(used in) operations	**132,833**	(1,125,422)
Tax paid	**(67,615)**	(33,065)
Net cash generated from/(used in) operating activities	**65,218**	(1,158,487)
Net cash generated from/(used in) investing activities	**99,470**	(93,427)
Net cash (used in)/generated from financing activities	**(421,818)**	2,128,988
Net (decrease)/increase in cash and cash equivalents	**(257,130)**	877,074
Cash and cash equivalents at 1 January	**1,467,363**	195,367
Cash and cash equivalents at 30 June	**1,210,233**	1,072,441

The accompanying notes form part of this interim financial report.

1 BASIS OF PRESENTATION AND PREPARATION

(a) General information

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

The interim financial report for the six months ended 30 June 2009 comprise the Company and its subsidiaries (collectively referred to as the "Group") and the Group's interest in jointly controlled entities.

(b) Basis of preparation

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). KPMG's independent review report to the Board of Directors is included on page 29.

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard ("IAS") 34, Interim financial reporting, adopted by the International Accounting Standards Board ("IASB"). It was authorised for issuance on 8 September 2009.

The interim financial report has also been prepared in accordance with the same accounting policies adopted by the Group in the 2008 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2009 annual financial statements. Details of these changes in accounting policies are set out in note 2.

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

In preparing this interim financial report, the significant judgements made by management in applying the Group's accounting policies and key sources of estimation uncertainty were the same as those that applied to the 2008 annual financial statements.

1 BASIS OF PRESENTATION AND PREPARATION (continued)

(b) Basis of preparation (continued)

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2008 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs").

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

The financial information relating to the financial year ended 31 December 2008 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2008 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 14 April 2009.

2 CHANGES IN ACCOUNTING POLICIES

The IASB has issued one new IFRS, a number of amendments to IFRSs and new interpretations that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

— IFRS 8, *Operating segments*

— IAS 1 (revised 2007), *Presentation of financial statements*

— Improvements to IFRSs (2008)

— Amendments to IAS 27, *Consolidated and separate financial statements — cost of an investment in a subsidiary, jointly controlled entity or associate*

— Amendments to IFRS 7, *Financial instruments: Disclosures — improving disclosures about financial instruments*

— IAS 23 (revised 2007), *Borrowing costs*

— Amendments to IFRS 2, *Share-based payment — vesting conditions and cancellations*

2 CHANGES IN ACCOUNTING POLICIES (continued)

The amendments to IFRS 2, IAS 27 and Improvements to IFRSs (2008) have had no material impact on the Group's financial statements as the amendments and interpretations were consistent with policies already adopted by the Group. In addition, the amendments to IFRS 7 do not contain any additional disclosure requirements specifically applicable to the interim financial report. The impact of the remainder of these developments on the interim financial report is as follows:

— IFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. This contrasts with the presentation of segment information in prior years which was based on a disaggregation of the Group's financial statements into segments based on related products and services and on geographical areas. The adoption of IFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group's most senior executive management. As this is the first period in which the Group has presented segment information in accordance with IFRS 8, additional explanation has been included in the interim financial report which explains the basis of preparation of the information. Corresponding amounts have also been provided on a basis consistent with the revised segment information.

— As a result of the adoption of IAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expenses are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. The new format for the consolidated statement of comprehensive income and the consolidated statement of changes in equity has been adopted in this interim financial report and corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

2 CHANGES IN ACCOUNTING POLICIES (continued)

— The IAS 23 (revised) eliminates the option in IAS 23 (2004 version) of recognising all borrowing costs immediately as an expense. Consequently the Group is required to adopt a policy of capitalising borrowing costs which are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. As a result, borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred. Capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowings costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009.

3 SEGMENT REPORTING

The Group manages its business by divisions, which are organised by both business lines (drilling rigs and parts and components) and geography. On first-time adoption of IFRS 8, *Operating segments* and in a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

Drilling rigs — This segment manufactures and sells drilling rigs. Currently the Group's products in this regard are mainly sold to customers in the PRC, North America, Middle East, Europe and Central Asia and South Asia.

Parts and components — This segment manufactures and sells parts and components of drilling rigs. Currently the Group's products in this regard are mainly sold to customers in the PRC, North America, Middle East, Europe and Central Asia and South Asia.

3 SEGMENT REPORTING (continued)

(a) Segment results, assets and liabilities

In accordance with IFRS 8, segment information disclosed in the interim financial report has been prepared in a manner consistent with the information used by the Group's most senior executive management for the purposes of assessing segment performance and allocating resources between segments. In this regard, the Group's senior executive management monitors the results, asset and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception of interests in jointly controlled entities, deferred tax assets, pledged bank deposits, time deposits, cash and cash equivalents and other corporate assets. Segment liabilities include trade creditors, accruals and bills payable attributable to the manufacturing and sales activities of the individual segments, with the exception of interest-bearing borrowings, current taxation, deferred tax liabilities and other corporate liabilities.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit is "profit from operations", i.e. "adjusted earnings before net finance income/costs and taxes". To arrive at profit from operations, the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as share of profits of jointly controlled entities, directors' remuneration and other head office or corporate administration costs.

In addition to receiving segment information concerning profit from operations, management is provided with segment information concerning revenue (including inter-segment sales), depreciation, amortisation and impairment losses and additions to non-current segment assets used by the segments in their operations. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

3 SEGMENT REPORTING (continued)

(a) Segment results, assets and liabilities (continued)

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

For the six months ended 30 June	Drilling rigs 2009 RMB'000	Drilling rigs 2008 RMB'000	Parts and components 2009 RMB'000	Parts and components 2008 RMB'000	Total 2009 RMB'000	Total 2008 RMB'000
Revenue from external customers	**1,023,699**	1,361,932	**172,804**	140,929	**1,196,503**	1,502,861
Inter-segment revenue	**—**	—	**459,170**	373,472	**459,170**	373,472
Reportable segment revenue	**1,023,699**	1,361,932	**631,974**	514,401	**1,655,673**	1,876,333
Reportable segment profit	**124,562**	230,684	**91,999**	23,964	**216,561**	254,648
Additions to non-current segment assets during the period	**24,967**	79,653	**20,362**	71,154	**45,329**	150,807

As at 30 June/ 31 December	Drilling rigs 2009 RMB'000	Drilling rigs 2008 RMB'000	Parts and components 2009 RMB'000	Parts and components 2008 RMB'000	Total 2009 RMB'000	Total 2008 RMB'000
Reportable segment assets	**3,738,179**	3,698,482	**1,164,977**	1,389,674	**4,903,156**	5,088,156
Reportable segment liabilities	**958,660**	1,335,279	**413,581**	519,086	**1,372,241**	1,854,365

3 SEGMENT REPORTING (continued)

(b) Reconciliation of reportable segment profit or loss, assets and liabilities

	Six months ended 30 June 2009 RMB'000	Six months ended 30 June 2008 RMB'000
Profit		
Reportable segment profit	**216,561**	254,648
Elimination of inter-segment profits	**(135,934)**	(40,380)
Reportable segment profit derived from group's external customers	**80,627**	214,268
Share of (loss)/profit from jointly controlled entities	**(2,152)**	10,822
Other operating revenue, expenses and net income	**4,831**	5,722
Net finance income/(costs)	**2,837**	(74,242)
Unallocated head office and corporate expenses	**(1,167)**	(5,697)
Profit before taxation	**84,976**	150,873

	30 June 2009 RMB'000	31 December 2008 RMB'000
Assets		
Reportable segment assets	**4,903,156**	5,088,156
Elimination of inter-segment receivables	**(138,934)**	(368,630)
	4,764,222	4,719,526
Interests in jointly controlled entities	**8,265**	9,604
Deferred tax assets	**31,437**	16,044
Unallocated head office and corporate assets	**2,354,366**	3,038,749
Total assets	**7,158,290**	7,783,923

	30 June 2009 RMB'000	31 December 2008 RMB'000
Liabilities		
Reportable segment liabilities	**1,372,241**	1,854,365
Elimination of inter-segment payables	**(138,934)**	(368,630)
	1,233,307	1,485,735
Current taxation	**43,202**	77,079
Deferred tax liabilities	**11,670**	9,689
Unallocated head office and corporate liabilities	**1,438,865**	1,684,012
Total liabilities	**2,727,044**	3,256,515

3 SEGMENT REPORTING (continued)

(c) Geographic information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's fixed assets, deposit paid for acquisition of leasehold land, construction in progress, intangible assets and interests in jointly controlled entities ("specified non-current assets"). The geographical location of customers is based on the location of the customers. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment, the location of the operation to which they are allocated, in the case of intangible assets and interests in jointly controlled entities.

	Revenue from external customers		Specified non-current assets	
	Six months ended 30 June		30 June	31 December
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
PRC	**118,841**	180,006	**1,051,676**	888,763
North America	**90,146**	147,833	**31,884**	31,234
Middle East	**370,192**	6,635	**759**	785
Europe and Central Asia	**571,608**	748,242	**56**	50
South Asia	**32,770**	163,600	**—**	—
Others	**12,946**	256,545	**8,229**	9,604
	1,196,503	1,502,861	**1,092,604**	930,436

(d) Seasonality of operations

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

4 REVENUE

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

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
Sale of drilling rigs	**1,023,699**	1,361,932
Sale of parts and components	**172,804**	140,929
	1,196,503	1,502,861

For the six months ended 30 June 2009, the Group's customer base includes three customers with whom transactions representing 47%, 17% and 13% of the Group's revenue respectively. In 2009 revenues from sales of drilling rigs and related parts and components to these customers, amounted to approximately RMB564 million, RMB200 million and RMB161 million respectively which arose in Europe and Central Asia and Middle East regions.

Further details regarding the Group's principal activities are disclosed in note 3 to this interim financial report.

5 OTHER OPERATING REVENUE AND OTHER NET INCOME

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
Other operating revenue		
Rendering of repairing services	**2,523**	1,245
Others	**468**	392
	2,991	1,637
Other net income		
Government grants	**6,239**	6,646
Loss on disposal of fixed assets	**(726)**	(3)
Others	**(1,150)**	(1,927)
	4,363	4,716

6 PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
(a) Net finance (income)/costs		
Exchange (gain)/loss, net	**(20,650)**	55,719
Interest income	**(23,405)**	(17,218)
Interest on bank borrowings wholly repayable within five years	**37,476**	32,309
Bank charges	**3,742**	3,432
	(2,837)	74,242
(b) Staff costs		
Contributions to defined contribution retirement scheme	**13,098**	12,932
Equity-settled share based payment expenses (note 19)	**15,385**	23,979
Salaries, wages and other benefits	**89,818**	64,405
	118,301	101,316
(c) Other items		
Amortisation and depreciation		
— assets held for use under operating leases	**764**	760
— other assets	**22,151**	15,534
— intangible assets	**18,415**	—
Operating lease charges in respect of properties	**2,263**	1,522
Provision for product warranty	**5,875**	3,472
Research and development costs (note)	**15,100**	13,309

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

7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
Current tax — the People's Republic of China ("PRC")		
Provision for the period	**35,735**	18,111
Over-provision in respect of prior years	**(1,939)**	(711)
	33,796	17,400
Current tax — the United States of America		
Provision for the period	**1,620**	—
Over-provision in respect of prior years	**(1,675)**	—
	(55)	—
Deferred tax		
Origination and reversal of temporary differences	**(13,408)**	7,565
	20,333	24,965

(i) Hong Kong

No provision for the Hong Kong Profits Tax has been made as the Group did not have assessable profits subject to Hong Kong Profits Tax for the period (2008: Nil).

(ii) Cayman Islands

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

(iii) British Virgin Islands

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

7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT (continued)

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

(iv) United States of America

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

(v) United Arab Emirates

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

(vi) PRC

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

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

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 2009 to 30 June 2009 are subject to 50% of the prevailing tax rate of 25% (2008: 25%).

7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT (continued)

(a) Taxation in the consolidated 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% (2008: 25%).

(d) Sichuan Honglian Industrial Co., Ltd, Sichuan Hongcheng Business Trading Co., Ltd and Honghua Offshore Oil and Gas Equipments (Jiangsu) Co., Ltd

There were no assessable profits for the period ended 30 June 2009 (2008: Nil).

(b) Withholding tax

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

8 DIVIDENDS

(i) Dividends payable to equity shareholders attributable to the interim period

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
Special dividend declared after the interim period of Hong Kong Dollars ("HKD") Nil cents per share (six months ended 30 June 2008: 10 cents per share)	**–**	290,236

Special dividends in respect of the six months period ended 30 June 2008 represented non-recurring dividends declared by a board resolution on 16 September 2008.

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

(ii) Dividends payable to equity shareholders attributable to the previous financial year, approved during the interim period

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, approved during the following interim period, of HK$6 cents per share (six months ended 30 June 2008: $Nil per share)	**170,371**	–

9 EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2009 is based on the profit attributable to shareholders of the Company for the period of RMB56,113,000 (six months ended 30 June 2008: RMB125,945,000) and the weighted average number of shares of 3,222,688,000 (2008: 3,031,152,527) in issue during the interim period.

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

10 FIXED ASSETS

	2009 RMB'000	2008 RMB'000
Net book value, at 1 January	**434,139**	320,163
Additions	**15,019**	45,009
Transfer from construction in progress	**15,965**	—
Disposals (net carrying amount)	**(836)**	(16)
Amortisation and depreciation charge for the period	**(22,915)**	(16,294)
Exchange difference	**(15)**	(2,105)
Net book value, at 30 June	**441,357**	346,757

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

11 DEPOSIT PAID FOR ACQUISITION OF LEASEHOLD LAND

The balance representing deposit paid by the Group for certain leasehold land in the PRC, while the land use right certificates have not been obtained as at balance sheet dates presented. During the six months ended 30 June 2009, the Group has placed deposit of RMB160,000,000 on acquiring the leasehold land in Qidong City, Jiangsu Province for the production base of offshore drilling rigs and related products.

12 INTANGIBLE ASSETS

	2009 RMB'000	2008 RMB'000
Net book value, at 1 January	**356,216**	389,691
Amortisation for the period	**(18,415)**	—
Exchange difference	**(163)**	(22,320)
Net book value, at 30 June	**337,638**	367,371

13 INVENTORIES

	30 June 2009 RMB'000	31 December 2008 RMB'000
Raw materials	**869,689**	917,372
Work in progress	**304,880**	506,352
Finished goods	**675,554**	566,557
Goods in transit	**5,910**	43,207
	1,856,033	2,033,488

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

	Six months ended 30 June	
	2009 RMB'000	2008 RMB'000
Carrying amount of inventories sold	**845,350**	1,072,939
Write-down of inventories	**25,812**	3,524
Reversal of write-down of inventories	**—**	(22,717)
	871,162	1,053,746

14 TRADE AND OTHER RECEIVABLES

	30 June 2009 RMB'000	31 December 2008 RMB'000
Trade receivables	**1,684,734**	1,551,659
Bills receivable	**–**	4,706
Less: allowance for doubtful debts (note 14(b))	**(1,405)**	(1,405)
Sub-total	**1,683,329**	1,554,960
Value-added tax receivable	**239,010**	257,430
Other receivables	**105,917**	50,222
Prepayments	**119,099**	182,457
	2,147,355	2,045,069

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:

	30 June 2009 RMB'000	31 December 2008 RMB'000
Current	**624,683**	1,074,915
Less than 1 month past due	**163,889**	290,721
More than 1 month but less than 3 months past due	**13,758**	130,739
More than 3 months but less than 12 months past due	**854,425**	24,852
More than 1 year past due	**26,574**	33,733
	1,683,329	1,554,960

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

14 TRADE AND OTHER RECEIVABLES (continued)

(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.

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

	2009	2008
	RMB'000	RMB'000
At 1 January	**1,405**	3,312
Provision for impairment losses	**–**	247
Write-back of provision for impairment losses	**–**	(2,154)
At 30 June/31 December (note 14)	**1,405**	1,405

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 14(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 14(a)) relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has been no history of default and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

As at 30 June 2009, 92.6% to the total trade receivables that are more than 3 months but less than 12 months past due were due from five major customers of the Group. These debtors are either long term customers of the Group with good repayment history or well established entities in the industry. The Group has agreed with these debtors a repayment schedule and continuously evaluates the credit quality of its debtors to assess the necessity to revise the credit term.

15 PLEDGED BANK DEPOSITS

Bank deposits have been pledged to banks as security for certain banking facilities (see note 17).

16 INTEREST-BEARING BORROWINGS

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

	30 June 2009 RMB'000	31 December 2008 RMB'000
Bank loans		
— secured	**630,000**	790,048
— unsecured	**480,000**	771,000
	1,110,000	1,561,048
Loan from a financial institution		
— secured	**14,347**	14,353
— unsecured	**70,000**	—
	84,347	14,353
Total	**1,194,347**	1,575,401

The bank loans were repayable as follows:

	30 June 2009 RMB'000	31 December 2008 RMB'000
Within 1 year	**1,030,000**	1,561,000
After 1 year but within 2 years	**161,956**	11,961
After 2 years but within 5 years	**2,391**	2,440
Total	**1,194,347**	1,575,401

Bank loans of certain subsidiaries amounting to RMB630,000,000 as of 30 June 2009 (31 December 2008: RMB790,048,354) are secured by their leasehold land with an aggregate carrying value of RMB75,819,817 as of 30 June 2009 (31 December 2008: RMB82,862,673).

16 INTEREST-BEARING BORROWINGS (continued)

The bank loans as at 30 June 2009 bear interest at 4.78% to 7.47% per annum (31 December 2008: 4.86% to 8.25%).

The loan from a financial institution as at 30 June 2009 amounting to RMB14,346,990 (31 December 2008: RMB14,352,660) is secured by the equipment and inventories with an aggregate carrying value of RMB180,151,463 (31 December 2008: RMB156,601,887).

The loan from a financial institution as at 30 June 2009 bears interest at 4.50% to 6.50% per annum (31 December 2008: 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. As at 30 June 2009, none of the covenants relating to drawn down facilities had been breached (31 December 2008: none).

17 TRADE AND OTHER PAYABLES

	30 June 2009 RMB'000	31 December 2008 RMB'000
Trade payables	**554,455**	702,194
Bills payable	**70,694**	176,371
Receipts in advance	**569,697**	522,505
Other payables	**278,006**	171,900
	1,472,852	1,572,970

Bills payable as at 30 June 2009 and at 31 December 2008 were secured by pledged bank deposits (see note 15).

17 TRADE AND OTHER PAYABLES (continued)

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

	30 June 2009 RMB'000	31 December 2008 RMB'000
Within 3 months	**312,450**	645,852
3 months to 6 months	**93,031**	117,862
6 months to 1 year	**147,183**	79,895
Over 1 year	**72,485**	34,956
	625,149	878,565

18 SHARE CAPITAL

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

(b) Authorised and issued share capital

	30 June 2009 and 31 December 2008	
	Number of shares	**HK$'000**
Authorised:		
Ordinary shares of HK$0.1 each	**10,000,000,000**	**1,000,000**
Equivalent to:		**RMB968,739**
Ordinary shares, issued and fully paid:		
At 1 January 2008	2,500,000,000	233,155
Issue of shares under public offering	833,360,000	76,077
Purchase of own shares	(110,672,000)	(9,737)
At 31 December 2008 and 30 June 2009	**3,222,688,000**	**299,495**

18 SHARE CAPITAL (continued)

(c) Issue of shares under public offering

On 7 March 2008, the Company issued 833,360,000 shares with a par value of HK$0.10 each, at a price of HK$3.83 per share by way of an initial public offering to Hong Kong and overseas investors. Net proceeds from such issue amounting 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).

19 EQUITY-SETTLED SHARE BASED PAYMENTS

(a) Pre-IPO share option scheme

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

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

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

19 EQUITY-SETTLED SHARE BASED PAYMENTS (continued)

(b) 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.

On 15 April 2009, 60,000,000 share options were granted to 10 directors and 302 employees of the Group under the Company's Share Option Scheme. Each option gives the holder the right to subscribe for one ordinary share of HK$1.270 each. The valid period of the share options is up to 14 April 2019. The share options are exercisable on or after 1 December 2009 by the grantees with details as follows:

(i) up to 30% of the share options granted to each grantee from 1 December 2009 to 14 April 2010;

(ii) up to 60% of the share options granted to each grantee on or before 14 April 2011;

(iii) all the remaining share options granted to each grantee on or after 15 April 2011;

and in each case, not later than 14 April 2019.

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 share of the Company in issue.

20 RESERVES

(a) Surplus 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 surplus reserve can be utilised, upon approval by the relevant authorities, to offset accumulated losses or to increase registered capital of the PRC subsidiaries, provided that the balance after such issue is not less than 50% of its registered capital.

(b) Exchange reserve

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

(c) Other reserve

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

(d) Capital reserve

Capital reserve represents the value of employee services in respect of share options granted under the Pre-IPO Option Scheme and Share Option Scheme as set out in note 19 and waiver of debts by the immediate holding company.

(e) Share premium

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

21 COMMITMENTS

(a) Capital commitments

Capital commitments outstanding at 30 June 2009 not provided for in the interim financial report were as follows:

	30 June 2009 RMB'000	31 December 2008 RMB'000
Contracted for	**11,055**	16,558
Authorised but not contracted for	**2,080,773**	786,065
	2,091,828	802,623

(b) Operating lease commitments

At 30 June 2009, the total future minimum payments under non-cancellable operating leases are payable as follows:

	30 June 2009 RMB'000	31 December 2008 RMB'000
Within 1 year	**2,237**	1,666
After 1 year but within 5 years	**1,972**	765
	4,209	2,431

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.

22 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in the interim financial report, transactions with the following parties are considered as related party transactions.

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

Name of party	Relationship
Guanghan Hongtai Business Trading Co. Ltd. ("Hongtai Company") (廣漢市宏泰商貿有限公司)	Hongtai Company is a party which spouses of certain directors and management have 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 ("Luzhou Jianming Company") (瀘州市劍鳴裝飾設計有限公司)	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. ("Guanghan Huite Company") (廣漢市惠特液壓附件有限公司)	Guanghan Huite Company is a party which the brother of a director of subsidiary has equity interest.
Chengdu Juzhong Technology Co., Ltd. ("Chengdu Juzhong Company") (成都巨中科技有限公司)	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 was incorporated in Egypt with limited liability on 24 April 2007 and is 50% owned by Asia Harbour.

22 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(a) During the period, 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:

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
Purchases of parts and components		
— Hongtai Company	**7,999**	19,807
— Chengdu Juzhong Company	**118**	890
	8,117	20,697
Decoration service received		
— Luzhou Jianming Company	**277**	314
Sub-contracting services received		
— Guanghan Huite Company	**714**	550
	991	864
Sale of drilling rigs, parts and components		
— HH Egyptian Company	**5,676**	2,393

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

22 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(b) Balances with related parties

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

	30 June 2009 RMB'000	31 December 2008 RMB'000
Amount due from a jointly controlled entity		
— HH Egyptian Company	**33,933**	34,018
Amount due from immediate holding company	**8**	8
Amount due from ultimate holding company	**42**	42
Amount due to a jointly controlled entity		
— HH Egyptian Company	**—**	17,478
Amounts due to related companies		
— Hongtai Company	**3,512**	2,967
— Luzhou Jianming Company	**394**	418
— Guanghan Huite Company	**947**	393
— NCE Management, LLC	**120**	120
	4,973	3,898

The balances with related parties are unsecured, interest-free and have no fixed repayment terms. There was no provision made against these amounts at 30 June 2009 (31 December 2008: Nil).

22 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 is as follows:

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
Basic salaries, allowances and other benefits in kind	**2,117**	2,058
Contributions to defined contribution retirement scheme	**38**	32
Discretionary bonuses	**18**	10
Equity-settled share-based payment	**6,340**	9,273
	8,513	11,373

Total remuneration is included in "staff costs".

23 CONTINGENT LIABILITIES

Dispute with 64 natural persons

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

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

23 CONTINGENT LIABILITIES (continued)

Dispute with 64 natural persons (continued)

On 11 December 2007, 57 out of the 64 initiated the legal proceedings at the Intermediate Peoples' Court of Chengdu City, Sichuan Province (Action No.: (2008) Cheng Min Chu Zi No. 53). The 57 individuals joined as plaintiffs to the legal proceedings against Honghua Company as the 1st defendant. Asia Harbour as the 2nd defendant and 14 individuals including Shi Shuming (3rd defendant); Huang Dequan (4th defendant), Li Yan (5th defendant), Wang Yaoxin (6th defendant), Zhou Tao (7th defendant), Wang Wei (8th defendant), Cheng 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 includes:

(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.

23 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 judgment is executed in full, including shareholders' rights for 3,760,379 bonus shares calculated until 30 September 2007, pre-emptive rights, and dividend from 2004 to 2006 in a total amount of RMB1,510,237.50;

(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 Limited, 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 and members of the Group for any potential damages that the Company may suffer as a result of the legal proceedings initiated by the 57 plaintiffs.

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 legal proceedings have been completed on 19 June 2009 and the verdict is yet to be announced up to the date of this report.

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.

24 COMPARATIVE FIGURES

As a result of the application of IAS 1 (revised 2007), *Presentation of financial statements*, and IFRS 8, *Operating segments*, certain comparative figures have been adjusted to conform to current period's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009. Further details of these developments are disclosed in note 2.

Definitions

"Ally Smooth"	Ally Smooth Investments Limited (聯順投資有限公司), a company incorporated in 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 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, revised and approved at Annual General Meeting of the Company on June 3, 2009
"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 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 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 BVI with limited liability on July 7, 2006
"Board of Directors" or "Board"	the Board of Directors of the 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 BVI with limited liability on July 18, 2006
"CNOOC"	China National Offshore Oil Corporation (中國海洋石油總公司), a state-owned enterprise established in the PRC on February 15, 1982
"CNOOC Group"	CNOOC and its subsidiaries
"Companies Ordinance"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)

"Company" or "our Company"	Honghua Group Limited, (宏華集團有限公司) an exempted company incorporated in the Cayman Islands with limited liability on June 15, 2007
"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 the Prospectus dated 25 February, 2008, namely, Zhang Mi (張弭), Ren Jie (任杰), Liu Zhi (劉智), Zheng Yong (鄭勇), Zuo Huixian (左輝先), Zhang Xu (張旭), Wang Jiangyang (王江陽), Chen Jun (陳俊), Fan Bing (范兵), Zhang Yanyong (張彥永), Ao Pei (敖沛), Tian Diyong (田弟勇), Shen Dingjian (沈定建), Liu Xuetian (劉學田) (deceased), Zhou Bing (周兵), Lu Lan (呂蘭), Tian Yu (田雨), Li Hanqiang (李漢強), Liu Yingguo (劉映國), Liu Lulu (劉露璐), He Guangfu (何光福), Zhang Zongyou (張宗友) and Chen Zongliang (陳宗良), out of which He Guangfu (何光福), Zhang Zongyou (張宗友) and Chen Zongliang (陳宗良) transferred an aggregate of approximately 9.1325% 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), Lu Lan (呂蘭), Tian Yu (田雨), Li Hanqiang (李漢強), Liu Yingguo (劉映國) and Liu Lulu (劉露璐). Contracts executed by the Controlling Shareholders after Liu Xuetian's death were executed by his legal successors
"COOS"	China Ocean Oilfields Services (Hong Kong) Limited (中國近海石油服務（香港）有限公司), a company incorporated in Hong Kong with limited liability on April 2, 1982
"Director(s)"	member(s) of the Board of Directors of the Company

"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, Petroleum Projects and Technical Consultation Company, Engineering for the Petroleum and Process Industries Company and Tharwa Petroleum Company as to 50%, 25%, 10% and 15% respectively
"HK$" or "HK dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"Honghua America"	Honghua America, LLC, formerly known as New Continental Equipment Co., LLC and as New Continental Equipment Co., Ltd, a limited partnership formed in the State of Texas on October 11, 2004, and converted into a limited liability company on December 19, 2006, and a 80%-owned subsidiary of Honghua Company
"Honghua Company"	Sichuan Honghua Petroleum Equipment Co., Ltd. (四川宏華石油設備有限公司), formerly known as Chuanyou Guanghan Honghua Co., Ltd. (川油廣漢宏華有限公司), a limited liability company established in the PRC on December 31, 1997, and a wholly-owned subsidiary of Asia Harbour
"Honghua International"	Honghua International Co., Ltd. (四川宏華國際科貿有限公司), formerly known as Sichuan Honghua Trading Co., Ltd. (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

"Hongtai Company"	Guanghan Hongtai Business Trading Co., Ltd (廣漢市宏泰商貿有限公司), a limited liability company established in the PRC on June 21, 2002
"Hongtian Company"	Chengdu Hongtian Electronic Drive Engineering Co., Ltd. (成都宏天電傳工程有限公司), a limited liability company established in the PRC on June 6, 2001, and an 80%-owned subsidiary of Honghua Company
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
"Nabors Global"	Nabors Global Holdings Limited, an exempted company organized under the laws of Bermuda on February 25, 2005
"Nabors Group"	Nabors Industries and its subsidiaries
"Nabors Industries"	Nabors Industries Ltd., an exempted company organized under the laws of Bermuda on December 11, 2001, whose shares are listed on the New York Stock Exchange
"Nabors International"	Nabors Drilling International II Limited, an exempted company organized under the laws of Bermuda on March 12, 2003
"Nabors Management"	Nabors International Management Limited, an exempted company organized under the laws of Bermuda on December 23, 2004
"PRC" or "China"	the People's Republic of China and, except where the context requires and only for the purpose of this Interim Report, references in this Interim Report to the PRC or China do not apply to Taiwan or Hong Kong and Macau Special Administrative Regions
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"Russia"	The Russian Federation
"Securities and Futures Commission" or "SFC"	the Securities and Futures Commission of Hong Kong

"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary shares issued by the Company, with a nominal value of HK$0.10 each
"Shareholder(s)"	holder(s) of our Share(s)
"sq.m."	square meters
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Substantial Shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"UAE"	the United Arab Emirates
"United States", "USA" or "U.S."	the United States of America, including its territories and possessions
"US$" or "U.S. dollars" or "USD"	United States dollars, the lawful currency of the United States
"Youxin Company"	Sichuan Honghua Youxin Petroleum Machinery Co., Ltd. (四川宏華友信石油機械有限公司), formerly known as Guanghan Youxin Co., Ltd. (廣漢市友信有限責任公司), a limited liability company established in the PRC on August 7, 1998, and an 80%-owned subsidiary of Honghua Company