



# 宏华集团有限公司

## HONGHUA GROUP LIMITED

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

# 2011

## Interim Report





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# Financial Highlights

## OPERATING RESULTS

	Six months ended 30 June		Change
	2011 RMB'000	2010 RMB'000	
Revenue	<b>1,295,290</b>	685,596	88.9%
Profit/(loss) from operations	<b>83,850</b>	(54,095)	
Profit/(loss) before taxation	<b>75,287</b>	(101,350)	
Profit/(loss) attributable to equity shareholders of the Company	<b>52,774</b>	(89,458)	
<b>Figures per share</b>			
Earnings/(loss) per share-Basic and diluted (RMB cents)	<b>1.64</b>	(2.77)	

## FINANCIAL POSITION

	30 June	31 December	Change
	2011 RMB'000	2010 RMB'000	
Total non-current assets	<b>1,625,599</b>	1,354,893	20.0%
Total current assets	<b>4,686,582</b>	4,639,753	1.0%
Total assets	<b>6,312,181</b>	5,994,646	5.3%
Total current liabilities	<b>1,931,812</b>	1,729,051	11.7%
Total non-current liabilities	<b>255,910</b>	194,804	31.4%
Total liabilities	<b>2,187,722</b>	1,923,855	13.7%
Total equity	<b>4,124,459</b>	4,070,791	1.3%

# Financial Highlights

## KEY FINANCIAL RATIOS\*

	Six months ended 30 June		
	2011	2010	Change
Gross Margin	<b>25.5%</b>	23.6%	1.9%
Net Margin	<b>4.1%</b>	(13.0%)	17.1%
Return on average assets	<b>0.9%</b>	(1.4%)	2.3%
Return on average equity	<b>1.3%</b>	(2.2%)	3.5%

	30 June	31 December	Change
	2011	2010	
Current Ratio	<b>2.43</b>	2.68	(0.25)
Quick ratio	<b>1.51</b>	1.61	(0.10)
Total debts/Total assets	<b>16.0%</b>	10.4%	5.6%
Total liabilities/Total assets	<b>34.7%</b>	32.1%	2.6%

- \* Earnings represent profit attributable to equity shareholders of the Company  
Equity represents total equity attributable to equity shareholders of the Company

# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

Zhang Mi (*Chairman*)  
Ren Jie  
Liu Zhi

### Non-executive Directors

Siegfried Meissner  
Huang Dongyang

### Independent Non-executive Directors

Liu Xiaofeng  
Qi Daqing  
Tai Kwok Leung, Alexander  
Chen Guoming  
Shi Xingquan  
Guo Yanjun (appointed with effect from 20 June 2011)  
Wang Li (resigned with effect from 20 June 2011)

## SECRETARY OF BOARD OF DIRECTORS

Liu Gangqiang

## BOARD COMMITTEES

### Audit Committee

Qi Daqing (*Committee Chairman*)  
Liu Xiaofeng  
Tai Kwok Leung, Alexander  
Chen Guoming  
Shi Xingquan  
Guo Yanjun (appointed with effect from 20 June 2011)  
Wang Li (resigned with effect from 20 June 2011)

### Corporate Governance Committee

Liu Xiaofeng (*Committee Chairman*)  
Qi Daqing  
Tai Kwok Leung, Alexander  
Chen Guoming  
Shi Xingquan  
Guo Yanjun (appointed with effect from 20 June 2011)  
Wang Li (resigned with effect from 20 June 2011)

### Remuneration Committee

Liu Xiaofeng (*Committee Chairman*)  
Zhang Mi  
Qi Daqing

### Strategic Investment and Risk Control Committee

Zhang Mi (*Committee Chairman*)  
Ren Jie  
Liu Zhi  
Huang Dongyang  
Shi Xingquan  
Wang Li (resigned with effect from 20 June 2011)

## JOINT COMPANY SECRETARIES

Liu Gangqiang  
Corinna Leung

# Corporate Information

## LEGAL ADVISORS

### as to Hong Kong law

King & Wood

### as to PRC law

King & Wood

### as to Cayman Islands law

Appleby

## PRINCIPAL BANKERS

Bank of China Limited  
China Construction Bank Corporation  
China Merchants Bank Co., Ltd  
Industrial and Commercial Bank of China Limited  
JPMorgan Chase Bank (China) Company Limited  
The Hongkong and Shanghai Banking  
Corporation Limited  
The Export-Import Bank of China

## AUDITOR

KPMG  
Certified Public Accountants

## REGISTERED OFFICE

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

## HEAD OFFICE

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

## PLACE OF BUSINESS IN HONG KONG

Room 2508, Harcourt House  
39 Gloucester Road  
Wan Chai  
Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong  
Investor Services Limited  
Shops 1712-1716  
17th Floor Hopewell Centre  
183 Queen's Road East  
Wan Chai  
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



During the Period, the Group recorded a turnover of approximately RMB1,295 million, an increase of 88.9% as compared to RMB686 million recorded during the same period last year. Gross profit was RMB330 million and profit attributable to equity shareholders of the Company was RMB53 million.

## INDUSTRY REVIEW

During the Period, the global economy continued the recovery trend since 2010 and the emerging and developing economies still maintained strong growth. During the Period, global demand for crude oil rebounded while the international crude oil price fluctuated wildly. Benefiting from lower cost of oil exploitation, oil and gas exploration companies gradually increased their investment in exploration and exploitation activities. The increasing global oil and gas exploration and exploitation activities led to an increase in demand for oil drilling equipment and therefore created a relatively favorable business environment for the industry. According to Baker Hughes research, the average number of operating rigs worldwide during the Period increased by 17.6% as compared to the same period last year.



Meanwhile, some developed economies were reviewing their nuclear power policies and intended to further facilitate and promote clean energy as well as renewable energy subsequent to the radiation leak accident which occurred in Japan. Following the deployment in exploration and utilisation of coalbed methane and shale gas by various countries in Europe, America, the PRC and other emerging economies which possess abundant reserves of such gas resources, the exploration and utilisation of these resources was proactively promoted. During the Period, the PRC successfully carried out the first tender for the exploitation right of shale gas fields.

## BUSINESS REVIEW

During the Period, to tackle the intensifying competition in the market, the Group stressed on optimising its product structure, enhancing market layout and achieving product and service differentiation, so as to facilitate its positive development in the aspects of manufacturing operations, market development, strategic cooperation and sustainable development, in order to capture the opportunities arising from the full recovery of the global economy and the oil and gas drilling industry.

# Management Discussion and Analysis

## Land Drilling Rigs and Parts, Components and Others Business

During the Period, the Group focused on strengthening sales of its core drilling rig products and achieved satisfactory results in the sales of land drilling rigs and parts and components. Meanwhile, the Group continued to obtain orders from Central Asian, North American and South East Asian markets and successfully promoted its high performance-to-cost land drilling rig products to domestic customers in these regions, consolidating the Group's leading position in the market. During the Period, the Group invested in Chengdu Jinkong Financial Leasing Co., Ltd with an aim to provide a financial leasing platform to address customers' financing needs in order to promote sales of drilling rigs and propel development of the Group's core business.

To improve market share and brand recognition, the Group intensified efforts in marketing and participated in 8 exhibitions, including the China International Petroleum & Petrochemical Technology and Equipment Exhibition, the Russian Petroleum and Gas Exhibition and the U.S. Offshore Petroleum Exhibition to promote sales of its core drilling products. At the same time, the Group continued to enhance its production capacity. During the Period, the Group substantially completed the construction and final inspection

of the main plant in Dubai which has obtained completion certification awarded by Jebel Ali Free Zone Authority. The Group's U.S. assembly base has also completed restructuring and has been put into operation, which will further enhance the Group's capacity in the market promotion.

## Development in Offshore Equipment Business

During the Period, the Group obtained administration approval for its offshore equipment production base in Qidong, Jiangsu Province, the PRC and methodically carried out construction work according to plan. The Group was also proactive in searching for strategic cooperation to enhance the competitiveness and productivity of its offshore production base. In July 2011, the Group announced that it would set up a joint venture with SBI Offshore Limited, an offshore equipment distributor and manufacturer in Singapore. Taking advantage of the two companies' competitive edges in production capability and market development, the joint venture will provide contract production services in the global offshore drilling market.

## Oil and Gas Engineering Services

During the Period, the Group successfully implemented its diversification strategy and extended its production chain to the oil and



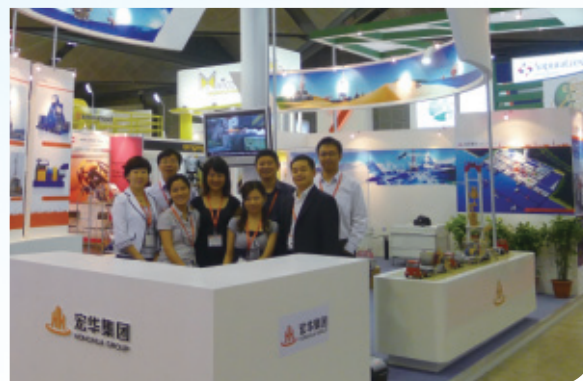
# Management Discussion and Analysis



gas engineering field. The Group's oil and gas engineering project in Kazakhstan commenced during the Period. The Group not only provided a self-manufactured 7000-meter drilling rig and an expert engineering team for the project, but also provided a one-stop drilling rig solution package according to the drilling requirements of the project. In addition, the Group's oil and gas engineering project in Xinjiang Province, the PRC also commenced drilling and the first drilling well was completed by the end of July 2011.

## Research and Development of Products

The Group has always been devoted to the research and development of new products and market promotion so as to efficiently combine its efforts in product R&D and marketing. As at 30 June 2011, the Group had accumulated 123 patent applications and 76 of them have been approved by the authority. During the Period, the Group had 6 new patent applications and 3 of them were new inventions. The in-house designed products including direct top drives and direct-driven pumps have been successfully launched and are constantly modified to meet the demands of customers in different regions. In regard to products for non-conventional gas drilling equipment, the Group has designed the super single pipe rigs, coiled tubing



rigs, rack and pinion rigs and fracturing pumps. Regarding the offshore oil and gas equipment segment, the basic design of "Honghua No.1" jack-up drilling rig perform has been completed and obtained the approval of the American Bureau of Shipping (the "ABS"). Its detailed designs and working drawings are under progress. The lift system and locking system design of the jack-up platform have also been submitted to the ABS for approval.

## Optimisation in Corporate Governance

While developing its business, the Group was also devoted to building up a robust and efficient management system in quality, environment and safety. During the Period, the Group also obtained the OHSAS18001:2007 Occupational Health and Safety Management Certificate and Dutch National Environmental Management System Accreditation Board (RvA) Certification, after the API Certification and the ISO9001 Certification. During the Period, the Group implemented structure reorganisation and optimisation to enhance its operational efficiency. The Group also developed a systematic training program which integrated the internal and external training to enhance the working skills and overall strengths of staffs. During the Period, 258 sessions of training courses have been completed.

# Management Discussion and Analysis

## PROSPECTS

In the second half of 2011, the emerging markets are expected to maintain stable growth and lead to increasing crude oil demand. However, the market anticipates that oil price will remain volatile and bring uncertainties to the oil and gas market due to the uncertain political status in the Middle-East and North Africa as well as the European and U.S. debt crisis. In the long run, oil and natural gas still have an irreplaceable position in the global energy structure. It is expected that global demand for oil and gas will constantly increase in the future and lead to increase in global oil and gas exploration and exploitation expenditure, creating a relatively stable business environment for the oil and gas manufacturing industry.

Meanwhile, due to large reserves and huge exploitation prospects, non-conventional and offshore oil and gas resources will gradually become the main sources of growth in oil and gas production in the future. The exploration and exploitation of non-conventional gas has become increasingly important in the PRC and other countries and is expected to bring enormous business opportunities to the oil and gas equipment manufacturing industry. The Group will continue to focus on enhancing its technical and equipment reserves in the field of non-conventional oil and gas exploration. The Group will also push ahead

with the construction of its offshore production base and propel the research and development in offshore engineering equipment, so as to capture the business opportunities arising from the growing market demand for the related drilling equipment.

Looking forward, the Group will endeavor to capture opportunities arising from the steady development of the industry. The Group will further its input in research and development of products and convert its technical advantages into market advantages. It will promote new products addressing the changing market needs in a timely manner, reinforce the diversification and differentiation in products, and constantly improve its technical services so as to consolidate and enlarge its market share. The Group will further develop the oil and gas engineering business and proactively search for opportunities in investment and partnership with growth prospects along the upstream and downstream production chain.

Leveraging on the strong in-house research and development capability, technical competitiveness, excellent sales network and profound experience in the drilling equipment manufacturing industry, the Group will steadily promote the strategy of interactive development with equipment production as its core business and engineering services and resource exploration as supporting businesses, so as to bring maximised returns to the shareholders.

# Management Discussion and Analysis

## FINANCIAL REVIEW

During the Period, the Group's gross profit and profit attributable to equity shareholders of the Company amounted to approximately RMB330 million and RMB53 million respectively, while the gross profit and loss attributable to equity shareholders of the Company amounted to approximately RMB162 million and RMB89 million respectively in the same period last year. Gross margin and net margin were 25.5% and 4.1% respectively. During the Period, the increase in gross profit and profit attributable to equity shareholders was mainly due to the significant increase of revenue.

### Revenue

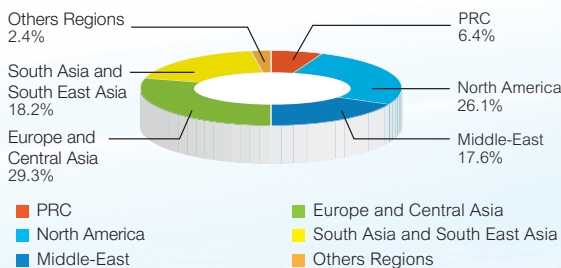
During the Period, the Group's revenue amounted to approximately RMB1,295 million, representing an increase of approximately RMB609 million or 88.9% as compared to approximately RMB686 million in the same period last year. The increase in revenue was mainly due to the gradual recovery

in the global land drilling rig market which led to growing market demand for land drilling rigs. During the Period, total number of rigs sold increased to 19 units from 9 units in the same period last year.

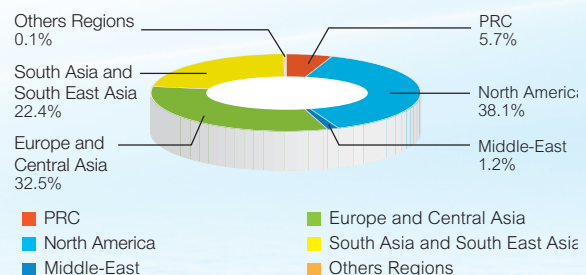
During the Period, revenue by geographical area was as follows: revenue from exports amounted to approximately RMB1,213 million, accounting for approximately 93.6% of the Group's total revenue, representing an increase of RMB566 million as compared to the same period last year. Among which, revenue from the South-Asian and South East-Asian and Middle-Eastern markets increased significantly. During the Period, the sales volume of the said markets increased to 5 and 3 units respectively, as compared to 1 and 0 unit respectively in the same period last year. The European and Central Asian market and the North American market were further penetrated. The sales volume of the said markets increased to 5 and 4 units respectively, as compared to 3 and 3 units respectively in the same period last year. Revenue from other regions and the PRC was roughly equal to that in the same period last year.

### Revenue by Geographical Areas

For the six months ended 30 June 2011



For the six months ended 30 June 2010



# Management Discussion and Analysis

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

Revenue by product categories	For the six months ended 30 June 2011			For the six months ended 30 June 2010			2011.1-6 vs 2010.1-6	
	Revenue RMB'000	Proportion (%)	Quantity (unit)	Revenue RMB'000	Proportion (%)	Quantity (unit)	Change RMB'000	Change (%)
Digitally-controlled rigs	846,419	65.4%	15	466,642	68.1%	9	379,777	81.4%
Conventional rigs	61,035	4.7%	4	—	—	—	61,035	
Subtotal	907,454	70.1%	19	466,642	68.1%	9	440,812	94.5%
Parts, components and others	387,836	29.9%		218,954	31.9%		168,882	77.1%
Total	1,295,290	100.0%		685,596	100.0%		609,694	88.9%

During the Period, revenue from drilling rigs and parts, components and others were RMB907 million and RMB388 million respectively, representing an increase of 94.5% and 77.1% as compared to RMB467 million and RMB219 million in the same period last year.

Drilling rigs comprised of digitally-controlled land rigs and conventional land rigs, revenue from which amounted to RMB846 million and RMB61 million respectively during the Period. The increase in revenue from drilling rigs was mainly due to the increase in sales volume of drilling rigs from 9 units in the same period last year to 19 units during the Period, while the average unit price declined to RMB48 million during the Period from RMB52 million in the same period last year due to the change of composition of specification sold. During the Period, the Group recorded sales of 4 heavy 7000-meter drilling rig, 1 heavy 9000-meter drilling rigs, 10 medium 5000-meter drilling rigs, 3 light 3000-meter drilling rigs and 1 light 1000-meter drilling rig.

The increase in revenue from parts, components and others was mainly due to sales of 3 self-manufactured top drives, compared to zero in the same period last year.

## Cost of Sales

During the Period, the Group's cost of sales amounted to approximately RMB965 million, representing an increase of approximately RMB441 million or 84.2% as compared to the same period last year. The increase was mainly due to the increase in the Group's revenue.

## Gross Profit and Gross Margin

During the Period, the Group's gross profit recorded approximately RMB330 million, representing an increase of RMB168 million as compared to the same period last year. Among which, gross profit from drilling rigs amounted to approximately RMB228 million, representing

# Management Discussion and Analysis

an increase of 135.1% as compared to the same period last year; gross profit from parts, components and others amounted to approximately RMB102 million, representing an increase of 59.4% as compared to the same period last year.

During the Period, the Group's overall gross margin was 25.5%, representing an increase of 1.9 percentage points as compared to 23.6% in the same period last year.

The gross margin for drilling rigs was approximately 25.1%, representing an increase of 4.3 percentage points as compared to 20.8% in the same period last year. The increase in gross margin was mainly due to the decline of manufacturing expense per drilling rig with the marked increase of revenue during the Period.

Gross margin of parts, components and others was 26.3%, representing a decrease of 3.1 percentage points as compared to the same period last year. The decrease was mainly due to the depreciation of the US dollars against RMB and the discount provided for bulk purchases.

## Expenses in the Period

During the Period, the Group's selling expenses amounted to approximately RMB76 million, representing an increase of RMB6 million or 8.6% as compared to RMB70 million in the same period last year. The increase was mainly attributable to an increase of approximately RMB10 million in

transportation costs due to sales increase, partly offset by the decrease of other selling expenses during the Period.

During the Period, the Group's general and administration expenses amounted to approximately RMB172 million, representing an increase of RMB23 million or 15.4% as compared to RMB149 million in the same period last year. The increase was mainly due to a general provision of approximately RMB14 million made for long-aged trade receivables during the Period, while only RMB0.7 million provision for doubtful debts was made in the same period last year, and other general and administration expenses reasonably increased accordingly with the increase of revenue and stricter expense control. For the trade receivables already accrued provision, the Group is actively requesting the settlement.

During the Period, the Group's net financing expenses amounted to approximately RMB6 million, as compared to net financing expenses of RMB46 million in the same period last year. The decrease in net finance expenses was mainly attributable to ups and downs in the exchange rate of the US dollars and Euro against RMB and the Group's strengthened exchange rate risk management, approximately RMB2 million of net exchange loss recorded during the Period, while there was a net exchange loss of approximately RMB31 million in the same period last year.

# Management Discussion and Analysis

## **Share of Loss from Jointly Controlled Entities**

During the Period, the Group's share of loss from jointly controlled entities amounted to approximately RMB5 million, representing an increase of RMB4 million as compared to share of loss of approximately RMB1 million in the same period last year.

## **Share of Profit from an Associate**

During the Period, the Group's share of profit from an associate amounted to approximately RMB2 million, while there was no such investment in the same period last year.

## **Profit/Loss before Taxation**

During the Period, profit before taxation of the Group amounted to approximately RMB75 million, whereas loss before taxation was approximately RMB101 million in the same period last year. The profit was mainly attributable to significant increase in revenue and gross margin.

## **Income Tax Expenses/Credit**

During the Period, the Group's income tax expenses amounted to approximately RMB15 million, as compared to the income tax credit of approximately RMB12 million in the same period last year. The expense was mainly attributable to the profit before taxation of the Group. In addition, the equity-settled share-based payment expenses of RMB4 million (the same period of 2010: RMB10 million) were not deductible from income tax calculation during the Period.

## **Profit/Loss for the Period**

During the Period, the Group's profit amounted to approximately RMB60 million, as compared to a loss of approximately RMB89 million in the same period last year. Among which, profit attributable to equity shareholders of the Company was approximately RMB53 million, while earnings attributable to non-controlling interest was approximately RMB7 million. During the Period, net profit margin was 4.1%, as compared to a net loss margin of 13.0% in the same period last year, which was mainly attributable to the significant decrease in the ratio of expenses to sales due to the marked increase in revenue during the Period.

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

During the Period, EBITDA amounted to RMB130 million, as compared to an EBITDA loss of approximately RMB13 million in the same period last year, which was mainly due to the marked increase in operating profit for the increase in revenue. The EBITDA margin was 10.1%, as compared to a loss margin of 1.8% in the same period last year, which was mainly attributable to the increase of gross margin and the significant decrease in the ratio of expenses to sales as compared to the same period last year due to the significant increase in revenue during the Period.



# Management Discussion and Analysis

## Dividend

For the period ended at 30 June 2011, 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.

At 30 June 2011, the Group's bank borrowings amounted to approximately RMB1,012 million, representing an increase of approximately RMB386 million as compared to 31 December 2010. Among which, borrowings repayable within one year amounted to approximately RMB770 million, representing an increase of RMB326 million as compared to 31 December 2010. The increase of borrowings are mainly due to the increase of capital requirement accordingly with the increase of business.

## Deposit and Cash Flow

At 30 June 2011, the Group's cash and cash equivalents amounted to approximately RMB1,421 million, representing an increase of approximately RMB418 million as compared to 31 December 2010.

During the Period, the Group's net operating cash outflow amounted to approximately RMB226 million; net cash inflow from investing activities amounted to approximately RMB285 million, which was due to the proceeds from sales of other

financial assets during the period; net cash inflow from financing activities amounted to approximately RMB367 million, which was mainly for the proceeds from new bank loans; and net cash outflow for the effect of foreign exchange rates changes amounted to approximately RMB8 million.

## Assets Structure and Changes Thereof

At 30 June 2011, the Group's total assets amounted to approximately RMB6,312 million, representing an increase of approximately RMB318 million or 5.3% as compared to 31 December 2010. Among which, current assets amounted to approximately RMB4,686 million, which were mainly listing proceeds, inventories and trade receivables and accounted for approximately 74.3% of total assets. Non-current assets amounted to approximately RMB1,626 million, accounting for approximately 25.7% of total assets.

## Liabilities

At 30 June 2011, the Group's total liabilities amounted to approximately RMB2,188 million, representing an increase of approximately RMB264 million as compared to 31 December 2010. Among which, current liabilities amounted to approximately RMB1,932 million, accounting for approximately 88.3% of total liabilities. Non-current liabilities amounted to approximately RMB256 million, accounting for approximately 11.7% of total liabilities. At 30 June 2011, the Group's gearing ratio was approximately 34.7%, representing an increase of 2.6 percentage points as compared to 31 December 2010.

# Management Discussion and Analysis

## **Total Equity**

At 30 June 2011, total equity amounted to RMB4,124 million, representing an increase of RMB54 million as compared to 31 December 2010. Total equity attributable to equity shareholders of the Company amounted to approximately RMB4,010 million, representing an increase of RMB46 million as compared to 31 December 2010. Non-controlling interests totaled to approximately RMB115 million, representing an increase of RMB7 million as compared to 31 December 2010. Net asset value reached approximately RMB1.24 per share, representing an increase of RMB0.01 as compared to RMB1.23 at 31 December 2010. During the Period, the Group's earnings per share was approximately RMB1.64 cents, representing an increase of RMB4.41 cents as compared to loss per Share of RMB2.77 cents in the same period last year.

## **Contingent Liabilities and Pledge**

As at 30 June 2011, details of Group's contingent liabilities are set out in Note 20 to the interim financial report.

The Group has pledged bank deposits of approximately RMB76 million, representing an increase of approximately RMB47 million as compared with that at 31 December 2010.

## **Capital Expenditure, Major Investment and Capital Commitments**

During the Period, capital expenditure of the Group on infrastructure and technical improvements amounted to approximately RMB273 million, representing an increase of approximately RMB198 million as compared to the same period last year. This was mainly due to the development of offshore construction projects and input of drilling rigs for oil & gas engineering services.

At 30 June 2011, the Group had capital commitments of approximately RMB1,903 million, which will be used for the construction of Jiangsu Qidong offshore manufacturing base and expand the Group's business as well as its production capacity.

## **Foreign Currency Risk**

The Group has certain foreign currency deposits. At 30 June 2011, the Group's foreign currency deposits were equivalent to approximately RMB62 million, trade receivables and other receivables denominated in foreign currency were equivalent to approximately RMB711 million. Exports and foreign currencies settled business exposed the Group to exchange risk.

# Management Discussion and Analysis

## **Use of Proceeds from the Initial Public Offerings**

The net proceeds after the deduction of the related expenses from the initial public offering were approximately HK\$2,958 million. The Group has used the net proceeds obtained from initial public offerings in accordance with the “Use of Proceeds” in the prospectus of the Company issued at 25 February 2008. As at 30 June 2011, the use of the net proceeds was as follows: proceeds of HK\$975 million to be used for the offshore project, among which HK\$535 million has been incurred; proceeds of HK\$592 million to be used for the enlargement of oil and gas exploration, provision of products and services, oil and gas engineering services and oil and gas resources exploration, as well as other businesses which can create profitability for the Group, among which HK\$72 million has been incurred; proceeds of HK\$354 million to be used for production capacity expansion and research and development expenses, among which all has been incurred; proceeds of HK\$1,037 million to be used as working capital and day to day expenses, all has been incurred.

## **Employee Remuneration and Benefits**

During the Period, the average number of the Group’s employees was 3,997. The total remuneration and benefit amounted to approximately RMB162 million, representing an

increase of RMB25 million or approximately 18.2% as compared to the same period last year. It was mainly attributable to further development in the new offshore engineering business and penetration into the oil and gas drilling market. During the Period, 403 additional personnel were employed and approximately RMB13 million labor cost was added as compared to the same period last year.

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

# 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 emphasise 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 2011 except the vesting of roles of both Chairman and President (Chief Executive Officer).

## 3. CHAIRMAN AND PRESIDENT (CHIEF EXECUTIVE OFFICER, "CEO")

CG Code provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separated 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) to 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 two 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.

# Corporate Governance Report

## 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 of 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 for the six months ended 30 June 2011.

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

## 6. AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") in compliance with 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 six Independent Non-executive Directors, namely Qi Daqing (Chairman), Liu Xiaofeng, Tai Kwok Leung Alexander, Chen Guoming, Shi Xingquan and Guo Yanjun including three Independent Non-executive Directors with the appropriate professional qualifications and accounting and related financial management expertise. Wang Li was also a member of the Audit Committee and has resigned with effect from 20 June 2011.

The Audit Committee has reviewed the unaudited financial reports for the six months ended 30 June 2011 of the Company and the Group.

# Report of the Board

The Board is pleased to present its interim report for the six months ended 30 June 2011.

## 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 2011, 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 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:

### 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	1,572,058,037 <sup>(1)(5)</sup>	48.76%
Mr. Ren Jie	Long	Personal interest, corporate interest and settlor of a discretionary trust	1,572,058,037 <sup>(2)(5)</sup>	48.76%
Mr. Liu Zhi	Long	Corporate interest and settlor of a discretionary trust	1,572,058,037 <sup>(3)(5)</sup>	48.76%
Mr. Guo Yanjun (appointed as Independent Non-Executive Director with effect from 20 June 2011)	Long	Corporate interest	2,100,000 <sup>(4)</sup>	0.07%

(1) Zhang Mi individually owns 900,000 Shares. Yi Langlin, spouse of Zhang Mi owns 2,156,000 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 1,337,727,837 Shares. The Trustee of The ZYL Family Trust owns 103,800,000 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 23,103,200 Shares. The Trustee of a discretionary trust, The LZWM Family Trust, whose settlor is Liu Zhi, another member of the Concert Group, owns 17,750,000 Shares. The Trustee of a discretionary trust, The FBX Family Trust, whose settlor is Fan Bing, another member of the Concert Group, owns 12,341,000 Shares. The Trustee of a discretionary trust, The ZHH Family Trust, whose settlor is Zuo Huixian, another member of the Concert

# Report of the Board

Group, owns 12,244,400 Shares. The Trustee of a discretionary trust, The Hong Xu Family Trust, whose settlor is Zhang Xu, another member of the Concert Group, owns 11,737,400 Shares. The Trustee of a discretionary trust, The LXYX Family Trust, whose settlor is Liu Xuetian (deceased), another member of the Concert Group, owns 10,452,400 Shares. The other members of the Concert Group totally own 39,676,800 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 1,337,727,837 Shares. The Trustee of The RJDJ Victory Trust owns 23,103,200 Shares. Zhang Mi, another member of the Concert Group and the settlor of a discretionary trust, The ZYL Family Trust, individually owns 900,000 Shares. The Trustee of The ZYL Family Trust owns 103,800,000 Shares. Yi Langlin, spouse of Zhang Mi owns 2,156,000 Shares.

The Trustee of a discretionary trust, The LZWM Family Trust, whose settlor is Liu Zhi, another member of the Concert Group, owns 17,750,000 Shares. The Trustee of a discretionary trust, The FBX Family Trust, whose settlor is Fan Bing, another member of the Concert Group, owns 12,341,000 Shares. The Trustee of a discretionary trust, The ZHH Family Trust, whose settlor is Zuo Huixian, another member of the Concert Group, owns 12,244,400 Shares. The Trustee of a discretionary trust, The Hong Xu Family Trust, whose settlor is Zhang Xu, another member of the Concert Group, owns 11,737,400 Shares. The Trustee of a discretionary trust, The LXYX Family Trust, whose settlor is Liu Xuetian (deceased), another member of the Concert Group, owns 10,452,400 Shares. The other members of the Concert Group totally own 39,676,800 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 1,337,727,837 Shares. The Trustee of The LZWM Family Trust owns 17,750,000 Shares.

Zhang Mi and Ren Jie, the other two members of the Concert Group, collectively hold 1,069,000 Shares. The Trustees of the two discretionary trusts, whose settlors are Zhang Mi and Ren Jie respectively, collectively own 126,903,200 Shares. Yi Langlin, spouse of Zhang Mi owns 2,156,000 Shares. The Trustee of a discretionary trust, The FBX Family Trust, whose settlor is Fan Bing, another member of the Concert Group, owns 12,341,000 Shares. The Trustee of a discretionary trust, The ZHH Family Trust, whose settlor is Zuo Huixian, another member of the Concert Group, owns 12,244,400 Shares. The Trustee of a discretionary trust, The Hong Xu Family Trust, whose settlor is Zhang Xu, another member of the Concert Group, owns 11,737,400 Shares. The Trustee of a discretionary trust, The LXYX Family Trust, whose settlor is Liu Xuetian (deceased), another member of the Concert Group, owns 10,452,400 Shares. The other members of the Concert Group totally own 39,676,800 Shares.

- (4) Guo Yanjun owns 2,100,000 Shares through his directly wholly-owned company, Long Apex Limited.
- (5) Concert Group is defined in the prospectus of the Company dated 25 February 2008.

# Report of the Board

## 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	2,000,000	—
Mr. Liu Xiaofeng	Long	2,000,000	—
Mr. Tai Kwok Leung, Alexander	Long	1,700,000	—
Mr. Chen Guoming	Long	1,500,000	—
Mr. Wang Li (resigned as Independent Non-Executive Director with effect from 20 June 2011)	Long	750,000	—
Mr. Shi Xingquan	Long	1,500,000	—
Guo Yanjun (appointed as Independent Non-Executive Director with effect from 20 June 2011)	Long	850,000	—

Saved as disclosed above, at 30 June 2011, none of the Directors and Chief Executives (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe

for Shares (or warrants or debentures, if applicable) of the Company and its associated corporations required to be disclosed pursuant to the SFO.



# Report of the Board

## 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 2011, 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.

Name	Long/Short Position	Number of shares held						% of the issued share capital of the Company	
		Personal interest			Corporate interest	Corporate interest and a discretionary trust	Interest of the Concert Group		Total
		Share option	Shares interest	Shares interest					
Ally Giant Limited	Long	—	1,337,727,837	—	—	274,520,200	1,612,248,037 <sup>(1)</sup>	50.01%	
Ample Chance International Limited	Long	—	—	1,337,727,837	—	274,520,200	1,612,248,037 <sup>(2)</sup>	50.01%	
Wealth Afflux Limited	Long	—	—	1,337,727,837	—	274,520,200	1,612,248,037 <sup>(3)</sup>	50.01%	
Ally Smooth Investments Limited	Long	—	—	1,337,727,837	—	274,520,200	1,612,248,037 <sup>(3)</sup>	50.01%	
Equity Trustee Limited	Long	—	—	—	1,558,722,237	—	1,558,722,237 <sup>(5)</sup>	48.35%	
							<sup>(6)</sup> / <sup>(9)</sup> / <sup>(10)</sup> / <sup>(14)</sup> / <sup>(20)</sup> / <sup>(22)</sup>		
Charm Moral International Limited	Long	—	—	1,337,727,837	—	274,520,200	1,612,248,037 <sup>(4)</sup>	50.01%	
Mowbray Worldwide Limited	Long	—	—	1,337,727,837	—	274,520,200	1,612,248,037 <sup>(5)</sup>	50.01%	
Ecotech Enterprises Corporation	Long	—	—	1,337,727,837	—	274,520,200	1,612,248,037 <sup>(6)</sup>	50.01%	
Mr. Zheng Yong	Long	2,085,000	11,549,000	1,337,727,837	—	260,886,200	1,612,248,037 <sup>(7)</sup>	50.01%	
Beauty Clear Holdings Limited	Long	—	—	1,337,727,837	—	274,520,200	1,612,248,037 <sup>(8)</sup>	50.01%	
Mr. Zuo Huixian	Long	1,734,000	—	—	1,349,972,237	260,541,800	1,612,248,037 <sup>(9)</sup>	50.01%	
Vast & Fast Corporation	Long	—	—	1,337,727,837	—	274,520,200	1,612,248,037 <sup>(9)</sup>	50.01%	
Mr. Zhang Xu	Long	1,833,000	—	—	1,349,465,237	260,949,800	1,612,248,037 <sup>(10)</sup>	50.01%	
Cavendish Global Corporation	Long	—	—	1,337,727,837	—	274,520,200	1,612,248,037 <sup>(10)</sup>	50.01%	
Elegant Scene International Limited	Long	—	—	1,337,727,837	—	274,520,200	1,612,248,037 <sup>(11)</sup>	50.01%	
Mr. Wang Jiangyang	Long	941,000	4,772,600	1,337,727,837	—	268,806,600	1,612,248,037 <sup>(11)</sup>	50.01%	
Mr. Chen Jun	Long	872,000	2,640,400	1,337,727,837	—	271,007,800	1,612,248,037 <sup>(12)</sup>	50.01%	
Believe Power International Limited	Long	—	—	1,337,727,837	—	274,520,200	1,612,248,037 <sup>(13)</sup>	50.01%	
Mr. Fan Bing	Long	1,744,000	—	—	1,350,068,837	260,435,200	1,612,248,037 <sup>(14)</sup>	50.01%	
Brondesbury Enterprises Limited	Long	—	—	1,337,727,837	—	274,520,200	1,612,248,037 <sup>(14)</sup>	50.01%	
Mr. Zhang Yanyong	Long	1,480,000	10,479,600	1,337,727,837	—	262,560,600	1,612,248,037 <sup>(15)</sup>	50.01%	
Mr. Ao Pei	Long	683,000	727,400	1,337,727,837	—	273,109,800	1,612,248,037 <sup>(16)</sup>	50.01%	
Mr. Tian Diyong	Long	550,000	416,400	1,337,727,837	—	273,553,800	1,612,248,037 <sup>(17)</sup>	50.01%	
Mr. Shen Dingjian	Long	262,000	798,000	1,337,727,837	—	273,460,200	1,612,248,037 <sup>(18)</sup>	50.01%	
Benefit Way International Limited	Long	—	—	1,337,727,837	—	274,520,200	1,612,248,037 <sup>(19)</sup>	50.01%	
Mr. Liu Xuetian (deceased)	Long	—	—	—	1,348,180,237	264,067,800	1,612,248,037 <sup>(20)</sup>	50.01%	
Dobson Global Inc.	Long	—	—	1,337,727,837	—	274,520,200	1,612,248,037 <sup>(20)</sup>	50.01%	
Ms. Qu Yihong	Long	—	—	1,348,180,237	—	264,067,800	1,612,248,037 <sup>(21)</sup>	50.01%	
Ms. Liu Ying	Long	—	—	1,348,180,237	—	264,067,800	1,612,248,037 <sup>(21)</sup>	50.01%	
Mr. Zhou Bing	Long	1,445,000	5,689,600	—	1,337,727,837	267,385,600	1,612,248,037 <sup>(22)</sup>	50.01%	
Darius Enterprises Limited	Long	—	—	1,337,727,837	—	274,520,200	1,612,248,037 <sup>(22)</sup>	50.01%	
Ms. Lv Lan	Long	519,000	1,006,800	1,337,727,837	—	272,994,400	1,612,248,037 <sup>(23)</sup>	50.01%	
Mr. Tian Yu	Long	515,000	1,148,000	1,337,727,837	—	272,857,200	1,612,248,037 <sup>(24)</sup>	50.01%	
Mr. Li Hangqiang	Long	345,000	600	1,337,727,837	—	274,174,600	1,612,248,037 <sup>(25)</sup>	50.01%	
Mr. Liu Yingguo	Long	242,000	448,000	1,337,727,837	—	273,830,200	1,612,248,037 <sup>(26)</sup>	50.01%	
Ms. Liu Lulu	Long	243,000	400	1,337,727,837	—	274,276,800	1,612,248,037 <sup>(27)</sup>	50.01%	

# Report of the Board

Name	Long/Short Position	Number of shares held						% of the issued share capital of the Company
		Personal interest		Corporate interest	Corporate interest and a discretionary trust	Interest of the Concert Group	Total	
Share option	Shares interest							
China Ocean Oilfields Services (Hong Kong) Limited	Long	—	174,425,609	—	—	—	174,425,609 <sup>(28)</sup>	5.41%
China National Offshore Oil Corporation	Long	—	—	174,425,609	—	—	174,425,609 <sup>(28)</sup>	5.41%
Nabors Drilling International II Limited	Long	—	450,000,000	—	—	—	450,000,000 <sup>(29)</sup>	13.96%
Nabors International Management Limited	Long	—	—	450,000,000	—	—	450,000,000 <sup>(29)</sup>	13.96%
Nabors Global Holdings Limited	Long	—	—	450,000,000	—	—	450,000,000 <sup>(29)</sup>	13.96%
Nabors Industries Ltd.	Long	—	—	450,000,000	—	—	450,000,000 <sup>(29)</sup>	13.96%
Carlyle Offshore Partners II, Ltd.	Long	—	—	166,841,887	—	—	166,841,887 <sup>(30)</sup>	5.18%
DBD Cayman, Ltd	Long	—	—	166,841,887	—	—	166,841,887 <sup>(30)</sup>	5.18%
TCG Holdings Cayman II, L.P.	Long	—	—	166,841,887	—	—	166,841,887 <sup>(30)</sup>	5.18%
Yi Langlin	Long	—	2,156,000	—	—	—	1,612,248,037 <sup>(31)</sup>	50.01%
			1,610,092,037 (family interest)					

(1) Ally Giant Limited is wholly-owned by Ample Chance International Limited and holds 1,337,727,837 Shares.

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

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

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

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

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

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

# Report of the Board

- (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 Elegant Scene International Limited, approximately 5.10% by Chen Jun, and a total of approximately 42.74% by 3 other shareholders.
- (9) Approximately 23.63% of 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) Approximately 5.76% of the issued share capital of Beauty Clear Holdings Limited is held by Elegant Scene International Limited, which in turn is wholly-owned by Wang Jiangyang. Beauty Clear Holdings Limited is the beneficial owner of approximately 18.51% of the issued share capital of Ample Chance International Limited. Wang Jiangyang is a member of the Concert Group.
- (12) Chen Jun is the beneficial owner of approximately 5.10% of the issued share capital of Beauty Clear Holdings Limited, which in turn is the beneficial owner of approximately 18.51% of the issued share capital of Ample Chance International Limited. Chen Jun is a member of the Concert Group.
- (13) Believe Power International Limited is owned approximately 32.72% by Brondesbury Enterprises Limited, approximately 29.16% by Zhang Yanyong, approximately 5.53% by Ao Pei, approximately 2.85% by Tian Diyong, approximately 2.24% by Shen Dingjian, and a total of approximately 27.50% by 4 other shareholders.
- (14) Approximately 32.72% of the issued share capital of Believe Power International Limited is held by Brondesbury Enterprises Limited, which in turn is held by Equity Trustee Limited as trustee of The FBX Family Trust. The FBX Family Trust is a discretionary trust, established by Fan Bing as settlor, with Equity Trustee Limited as trustee. The beneficiaries under The FBX Family Trust are Fan Bing and his family members. Fan Bing is a member of the Concert Group.
- (15) Zhang Yanyong is the beneficial owner of approximately 29.16% of the issued share capital of Believe Power International Limited, which in turn is the beneficial owner of approximately 12.71% of the issued share capital of Ample Chance International Limited. Zhang Yanyong is a member of the Concert Group.
- (16) Ao Pei is the beneficial owner of approximately 5.53% of the issued share capital of Believe Power International Limited, which in turn is the beneficial owner of approximately 12.71% of the issued share capital of Ample Chance International Limited. Ao Pei is a member of the Concert Group.
- (17) Tian Diyong is the beneficial owner of approximately 2.85% of the issued share capital of Believe Power International Limited, which in turn is the beneficial owner of approximately 12.71% of the issued share capital of Ample Chance International Limited. Tian Diyong is a member of the Concert Group.
- (18) Shen Dingjian is the beneficial owner of approximately 2.24% of the issued share capital of Believe Power International Limited, which in turn is the beneficial owner of approximately 12.71% of the issued share capital of Ample Chance International Limited. Shen Dingjian is a member of the Concert Group.
- (19) Benefit Way International Limited is owned approximately 35.57% by Dobson Global Inc., approximately 19.36% by Darius Enterprises Limited, approximately 6.49% by Lv Lan, approximately 3.91% by Tian Yu, approximately 3.50% by Li Hangqiang, approximately 1.52% by Liu Yingyuo, approximately 1.22% by Liu Lulu and approximately 28.43% by 6 other shareholders.
- (20) Approximately 35.57% of the issued share capital of Benefit Way International Limited is held by Dobson Global Inc., which in turn is held by Equity Trustee Limited as trustee of The LXYY Family Trust. The LXYY Family Trust is a discretionary trust, established by Liu Xuetian (deceased) as settlor, with Equity Trustee Limited as trustee. The beneficiaries under The LXYY Family Trust are Liu Xuetian (deceased) and his family members. Liu Xuetian (deceased) was a member of the Concert Group and passed away on 23 January 2008.

# Report of the Board

- (21) Qu Yihong and Liu Ying, family members of Liu Xuetian (deceased), are deemed to be interested in 1,348,180,237 Shares as directors of Dobson Global Inc..
- (22) Approximately 19.36% of the issued share capital of Benefit Way International Limited is held by Darius Enterprises Limited, which in turn is held by Equity Trustee Limited as trustee of The Fang Zhou Family Trust. The Fang Zhou Family Trust is a discretionary trust, established by Zhou Bing as settlor, with Equity Trustee Limited as trustee. The beneficiaries under The Fang Zhou Family Trust are Zhou Bing and his family members. Zhou Bing is a member of the Concert Group.
- (23) Lv Lan is the beneficial owner of approximately 6.49% of the issued share capital of Benefit Way International Limited, which in turn is the beneficial owner of approximately 10.50% of issued share capital of Ample Chance International Limited. Lv Lan is a member of the Concert Group.
- (24) Tian Yu is the beneficial owner of approximately 3.91% of the issued share capital of Benefit Way International Limited, which in turn is the beneficial owner of approximately 10.50% of 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 issued share capital of Ample Chance International Limited. Li Hanqiang is a member of the Concert Group.
- (26) Liu Yingyuo 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 issued share capital of Ample Chance International Limited. Liu Yingyuo 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 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 99.35% by China National Offshore Oil Corporation and approximately 0.65% by Overseas Oil & Gas Corporation Limited.
- (29) Nabors Drilling International II Limited ("NDIL II") holds 450,000,000 Shares. NDIL II is a direct, wholly owned subsidiary of Nabors International Management Limited ("NIML"). NIML is a direct, wholly owned subsidiary of Nabors Global Holdings Limited which is in turn wholly owned by Nabors Industries Ltd.
- (30) Carlyle Offshore Partners II, Ltd. owns 100% of DBD Cayman Ltd., which in turn owns 100% of TCG Holdings Cayman II, L.P., which in turn is holding subsidiaries that hold 166,841,887 Shares.
- (31) Yi Langlin, spouse of Zhang Mi, is deemed to be interested in 1,612,248,037 Shares.

Save as disclosed above, to the best of the Directors and the Chief Executives of the Company's knowledge, as at 30 June 2011, 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 2011, none of the grantees has exercised the share options granted to him under the Pre-IPO share option scheme and 2,179,000 shares options have been 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 2011, 80% of the total number of the share options granted (if not cancelled) or 48,000,000 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

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

On 15 April 2009, share options to subscribe for 60,000,000 Shares were granted to the eligible participants at an exercise price of HK\$1.27 per Share 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 options is up to 14 April 2019.

On 11 October 2010, share options to subscribe for 2,200,000 Shares were granted to the grantees at an exercise price of HK\$1.05 per Share under the Share Option Scheme. The share options are exercisable on or after 25 October 2010 by the grantees in the following manners: (1) up to 40% of the share options granted to each grantee from 25 October 2010 to 10 October 2011; (2) up to 70% of the share options granted to each grantee on or before 10 October 2012; (3) all the remaining share options granted to each grantee on or after 11 October 2012; and in each case, not later than 10 October 2020. The valid period of the share options is up to 10 October 2020.

On 20 June 2011, share options to subscribe for a total of 7,600,000 shares were granted to the grantees at an exercise price of HK\$0.83 per Share under the Share Option Scheme. The exercise price of HK\$0.83 represents the highest of (i) the closing price of HK\$0.78 per Share as stated in

# Report of the Board

the daily quotations sheet issued by the Stock Exchange on the date of grant of the share options, i.e. 20 June 2011 (the "Date of Grant"); (ii) the average closing price of HK\$0.83 per Share as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the Date of Grant; and (iii) the nominal value of Share, which is HK\$0.10. The share options are exercisable

on or after 19 July 2011 by the grantees with details as follows: (1) up to 30% of the share options granted to each grantee from 19 July 2011 to 19 June 2012; (2) up to 60% of the share options granted to each grantee on or before 19 June 2013; (3) all the remaining share options granted to each grantee on or after 20 June 2013; and in each case, not later than 19 June 2021. The valid period of the share options is up to 19 June 2021.

Particulars and movements of share options under the Share Option Scheme during the six months ended 30 June 2011 were as follows:

Name or category of participant	Number of share options					Outstanding as at 30/06/2011	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\$
	Outstanding as at 01/01/2011	Granted during the six months ended 30 June 2011	Exercised during the six months ended 30 June 2011	Lapsed during the six months ended 30 June 2011	Cancelled during the six months ended 30 June 2011					
<b>Directors</b>										
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
	—	750,000	—	—	—	750,000	20/06/2011	19/07/2011–19/06/2021	0.83	0.79
Mr. Liu Xiaofeng	1,000,000	—	—	—	—	1,000,000	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
	—	1,000,000	—	—	—	1,000,000	20/06/2011	19/07/2011–19/06/2021	0.83	0.79
Mr. Qi Daqing	1,000,000	—	—	—	—	1,000,000	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
	—	1,000,000	—	—	—	1,000,000	20/06/2011	19/07/2011–19/06/2021	0.83	0.79
Mr. Tai Kwok Leung, Alexander	850,000	—	—	—	—	850,000	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
	—	850,000	—	—	—	850,000	20/06/2011	19/07/2011–19/06/2021	0.83	0.79
Mr. Wang Li (resigned as Independent Non-Executive Director with effect from 20 June 2011)	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
	—	750,000	—	—	—	750,000	20/06/2011	19/07/2011–19/06/2021	0.83	0.79
Mr. Guo Yanjun (appointed as Independent Non-Executive Director with effect from 20 June 2011)	—	850,000	—	—	—	850,000	20/06/2011	19/07/2011–19/06/2021	0.83	0.79
Sub-total	13,997,000	5,200,000	—	—	—	19,197,000				

# Report of the Board

Name or category of participant	Number of share options					Outstanding as at 30/06/2011	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\$
	Outstanding as at 01/01/2011	Granted during the six months ended 30 June 2011	Exercised during the six months ended 30 June 2011	Lapsed during the six months ended 30 June 2011	Cancelled during the six months ended 30 June 2011					
<b>Substantial Shareholders</b>										
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. Lv 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				
<b>Other</b>										
Employees	38,520,900	—	—	315,400	—	38,205,500	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
Employees	2,200,000	—	—	—	—	2,200,000	11/10/2010	25/10/2010–10/10/2020	1.05	1.01
Employees	—	2,400,000	—	—	—	2,400,000	20/06/2011	19/07/2011–19/06/2021	0.83	0.79
Sub-total	40,720,900	2,400,000	—	315,400	—	42,805,500				
<b>Total</b>	<b>60,434,900</b>	<b>7,600,000</b>	<b>—</b>	<b>315,400</b>	<b>—</b>	<b>67,719,500</b>				

# Report of the Board

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's Shares during the six months ended 30 June 2011.

## **AUDIT COMMITTEE**

The Audit Committee comprises all the Independent Non-executive Directors with written terms of reference pursuant to the Listing Rules. The Audit Committee is responsible for reviewing and supervising the financial reporting process and internal control systems of the Group, and providing advices and recommendations to the Board. The Audit Committee shall hold at least two meetings a year and review opinions of internal auditors, internal control, risk management and financial reporting. The Audit Committee has reviewed the interim results announcement of the Group for the six months ended 30 June 2011.

## **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 2011, 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 experience in the industry and related administration. The Board takes the view that the vesting of duties of Chairman of the Board and President (Chief Executive Officer) of the Company to Mr. Zhang Mi would bring the Company a strong and consistent leadership and permit effective planning and executing business decisions and strategies, which would ensure the interests of the shareholders as a whole. On the other hand, the balance between powers and duties could be ensured though the operation of the Board and its committees. The Company will continue to review the effectiveness of corporate governance structure of the Group and consider whether it needs to make any changes, including the separation of duties of the 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, 24 August 2011



# 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 33 to 58 which comprises the consolidated balance sheet of Honghua Group Limited as at 30 June 2011 and the related consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the condensed consolidated cash flow 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.

# Independent Review Report

## 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 2011 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

24 August 2011

# Consolidated Income Statement

for the six months ended 30 June 2011 – unaudited  
(Expressed in Renminbi)

	Note	Six months ended 30 June	
		2011 RMB'000	2010 RMB'000
<b>Revenue</b>	3, 4	<b>1,295,290</b>	685,596
Cost of sales		<b>(965,265)</b>	(523,929)
<b>Gross profit</b>		<b>330,025</b>	161,667
Other revenue	5	<b>2,417</b>	3,193
Other net (loss)/income		<b>(71)</b>	1,253
Other operating expenses		<b>(560)</b>	(1,227)
Selling expenses		<b>(75,945)</b>	(69,984)
General and administrative expenses		<b>(172,016)</b>	(148,997)
<b>Profit/(loss) from operations</b>		<b>83,850</b>	(54,095)
Finance income		<b>10,840</b>	8,755
Finance expenses		<b>(16,623)</b>	(54,526)
<b>Net finance expenses</b>	6(a)	<b>(5,783)</b>	(45,771)
<b>Share of profit from an associate</b>		<b>1,757</b>	—
<b>Share of loss from jointly controlled entities</b>		<b>(4,537)</b>	(1,484)
<b>Profit/(loss) before taxation</b>	6	<b>75,287</b>	(101,350)
Income tax (expenses)/credit	7	<b>(15,059)</b>	12,176
<b>Profit/(loss) for the period</b>		<b>60,228</b>	(89,174)
<b>Attributable to:</b>			
Equity shareholders of the company		<b>52,774</b>	(89,458)
Non-controlling interests		<b>7,454</b>	284
<b>Profit/(loss) for the period</b>		<b>60,228</b>	(89,174)
<b>Earnings/(loss) per share – Basic and diluted (RMB cents)</b>	8	<b>1.64</b>	(2.77)

The accompanying notes form part of this interim financial report.

# Consolidated Statement of Comprehensive Income

for the six months ended 30 June 2011 — unaudited  
(Expressed in Renminbi)

	Six months ended 30 June	
	2011 RMB'000	2010 RMB'000
<b>Profit/(loss) for the period</b>	<b>60,228</b>	(89,174)
<b>Other comprehensive income for the period, net of tax:</b>		
Exchange differences on translation of financial statements of operations outside the People's Republic of China ("PRC")	<b>(10,872)</b>	(18,504)
<b>Total comprehensive income for the period</b>	<b>49,356</b>	(107,678)
<b>Attributable to:</b>		
Equity shareholders of the company	<b>41,957</b>	(107,969)
Non-controlling interests	<b>7,399</b>	291
<b>Total comprehensive income for the period</b>	<b>49,356</b>	(107,678)

The accompanying notes form part of this interim financial report.

# Consolidated Balance Sheet

at 30 June 2011 — unaudited  
(Expressed in Renminbi)

	Note	30 June 2011 RMB'000	31 December 2010 RMB'000
<b>Non-current assets</b>			
Fixed assets			
— Property, plant and equipment		657,339	529,574
— Interests in leasehold land held for own use under operating leases		139,699	140,058
— Freehold land		5,217	5,339
	9	802,255	674,971
Deposits paid for acquisition of leasehold land		223,972	218,984
Construction in progress		187,986	77,144
Intangible assets	10	249,028	272,585
Interest in an associate		61,335	—
Interests in jointly controlled entities		29,634	41,868
Deferred tax assets		71,389	69,341
<b>Total non-current assets</b>		<b>1,625,599</b>	<b>1,354,893</b>
<b>Current assets</b>			
Inventories	11	1,767,113	1,859,897
Trade and other receivables	12	1,330,099	1,217,108
Amounts due from related companies		61,373	25,749
Amount due from immediate holding company		6	6
Amount due from ultimate holding company		6	6
Current tax recoverable		23,420	27,508
Other financial assets		—	473,680
Pledged bank deposits	13	76,475	29,072
Bank deposits maturing over three months		6,600	4,000
Cash and cash equivalents		1,421,490	1,002,727
<b>Total current assets</b>		<b>4,686,582</b>	<b>4,639,753</b>
<b>Total assets</b>		<b>6,312,181</b>	<b>5,994,646</b>
<b>Current liabilities</b>			
Interest-bearing borrowings	14	769,950	444,000
Amounts due to related companies		28,810	48,206
Trade and other payables	15	1,101,341	1,209,911
Current tax payable		11,826	11,196
Provision for product warranties		19,885	15,738
<b>Total current liabilities</b>		<b>1,931,812</b>	<b>1,729,051</b>

# Consolidated Balance Sheet

at 30 June 2011 — unaudited  
(Expressed in Renminbi)

	Note	30 June 2011 RMB'000	31 December 2010 RMB'000
<b>Net current assets</b>		<b>2,754,770</b>	2,910,702
<b>Total assets less current liabilities</b>		<b>4,380,369</b>	4,265,595
<b>Non-current liabilities</b>			
Interest-bearing borrowings	14	242,265	182,318
Deferred tax liabilities		13,645	12,486
<b>Total non-current liabilities</b>		<b>255,910</b>	194,804
<b>Total liabilities</b>		<b>2,187,722</b>	1,923,855
<b>Equity</b>	16		
Share capital		299,593	299,593
Reserves		3,710,206	3,663,937
<b>Total equity attributable to equity shareholders of the company</b>		<b>4,009,799</b>	3,963,530
<b>Non-controlling interests</b>		<b>114,660</b>	107,261
<b>Total equity</b>		<b>4,124,459</b>	4,070,791
<b>Total liabilities and equity</b>		<b>6,312,181</b>	5,994,646

Approved and authorised for issue by the board of directors on 24 August 2011.

**Zhang Mi**

*Director*

**Ren Jie**

*Director*

The accompanying notes form part of this interim financial report.

# Consolidated Statement of Changes in Equity

for the six months ended 30 June 2011 — unaudited  
(Expressed in Renminbi)

	Attributable to equity shareholders of the company								Non-controlling interests	Total equity
	Share capital (Note 16(a))	Share premium	Other reserve	Capital reserve	Surplus reserve	Exchange reserve	Retained profits	Subtotal		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		
<b>At 1 January 2011</b>	<b>299,593</b>	<b>2,477,519</b>	<b>57,472</b>	<b>488,318</b>	<b>211,551</b>	<b>(112,614)</b>	<b>541,691</b>	<b>3,963,530</b>	<b>107,261</b>	<b>4,070,791</b>
Equity-settled share-based transactions	—	—	—	4,312	—	—	—	4,312	—	4,312
Options lapsed under share option schemes	—	—	—	(1,152)	—	—	1,152	—	—	—
Total comprehensive income for the period	—	—	—	—	—	(10,817)	52,774	41,957	7,399	49,356
<b>At 30 June 2011</b>	<b>299,593</b>	<b>2,477,519</b>	<b>57,472</b>	<b>491,478</b>	<b>211,551</b>	<b>(123,431)</b>	<b>595,617</b>	<b>4,009,799</b>	<b>114,660</b>	<b>4,124,459</b>
<b>At 1 January 2010</b>	<b>299,542</b>	<b>2,476,705</b>	<b>57,510</b>	<b>471,185</b>	<b>211,551</b>	<b>(77,742)</b>	<b>725,632</b>	<b>4,164,383</b>	<b>95,024</b>	<b>4,259,407</b>
Capital injection by non-controlling interests	—	—	—	—	—	—	—	—	9	9
Equity-settled share-based transactions	—	—	—	10,482	—	—	—	10,482	—	10,482
Shares issued under share option scheme	51	814	—	(217)	—	—	—	648	—	648
Options lapsed under share option schemes	—	—	—	(15)	—	—	15	—	—	—
Total comprehensive income for the period	—	—	—	—	—	(18,511)	(89,458)	(107,969)	291	(107,678)
<b>At 30 June 2010</b>	<b>299,593</b>	<b>2,477,519</b>	<b>57,510</b>	<b>481,435</b>	<b>211,551</b>	<b>(96,253)</b>	<b>636,189</b>	<b>4,067,544</b>	<b>95,324</b>	<b>4,162,868</b>

The accompanying notes form part of this interim financial report.

# Condensed Consolidated Cash Flow Statement

for the six months ended 30 June 2011 — unaudited  
(Expressed in Renminbi)

	Six months ended 30 June	
	2011 RMB'000	2010 RMB'000
<b>Cash (used in)/generated from operations</b>	<b>(213,848)</b>	16,128
<b>Tax paid</b>	<b>(11,590)</b>	(7,427)
<b>Net cash (used in)/generated from operating activities</b>	<b>(225,438)</b>	8,701
<b>Net cash generated from investing activities</b>	<b>284,945</b>	345,770
<b>Net cash generated from/(used in) financing activities</b>	<b>367,559</b>	(412,317)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>427,066</b>	(57,846)
<b>Cash and cash equivalents at 1 January</b>	<b>1,002,727</b>	1,603,316
<b>Effect of foreign exchange rates changes</b>	<b>(8,303)</b>	(4,055)
<b>Cash and cash equivalents at 30 June</b>	<b>1,421,490</b>	1,541,415

The accompanying notes form part of this interim financial report.



# Notes to the Condensed Consolidated Interim Financial Report

(Expressed in Renminbi)

## 1 BASIS OF PRESENTATION AND PREPARATION

### (a) General information

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 2011 comprises the company and its subsidiaries (collectively referred to as the “group”) and the group’s interests in an associate and jointly controlled entities.

During the six months ended 30 June 2011, the group acquired 25.71% equity interests in Chengdu Jinkong Financial Leasing Co., Ltd (“Chengdu Jinkong”) at a consideration of RMB60,000,000. The change in composition of the group does not have a material effect on the results of operation and financial position of the group for the interim period presented.

### (b) Basis of preparation

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard (“IAS”) 34, *Interim financial reporting*, adopted by the International Accounting Standards Board (“IASB”). It was authorised for issuance on 24 August 2011.

The interim financial report has also been prepared in accordance with the same accounting policies adopted by the group in the 2010 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2011 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 2010 annual financial statements.

# Notes to the Condensed Consolidated Interim Financial Report

(Expressed in Renminbi)

## 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 2010 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”) and should be read in conjunction with the consolidated financial statements of the group for the year ended 31 December 2010.

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 30.

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 2010 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 2010 are available from the company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 29 March 2011.

## 2 CHANGES IN ACCOUNTING POLICIES

The IASB has issued a number of amendments to IFRSs and one new Interpretation 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.

- IAS 24 (revised 2009), *Related party disclosures*
- Improvements to IFRSs (2010)

# Notes to the Condensed Consolidated Interim Financial Report

(Expressed in Renminbi)

## 2 CHANGES IN ACCOUNTING POLICIES (continued)

The group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

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

## 3 SEGMENT REPORTING

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

For the six months ended 30 June	Land drilling rigs		Parts, components and others		Offshore drilling rigs		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers	<b>907,454</b>	466,642	<b>387,836</b>	218,954	—	—	<b>1,295,290</b>	685,596
Inter-segment revenue	—	—	<b>312,184</b>	139,423	—	—	<b>312,184</b>	139,423
Reportable segment revenue	<b>907,454</b>	466,642	<b>700,020</b>	358,377	—	—	<b>1,607,474</b>	825,019
Reportable segment profit/(loss)	<b>89,776</b>	(27,501)	<b>36,165</b>	20,859	<b>(22,295)</b>	(10,761)	<b>103,646</b>	(17,403)
As at 30 June/ 31 December	<b>2011</b>	2010	<b>2011</b>	2010	<b>2011</b>	2010	<b>2011</b>	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Reportable segment assets	<b>2,393,920</b>	2,667,836	<b>1,313,918</b>	1,442,078	<b>414,886</b>	329,878	<b>4,122,724</b>	4,439,792

# Notes to the Condensed Consolidated Interim Financial Report

(Expressed in Renminbi)

## 3 SEGMENT REPORTING (continued)

### (a) Reconciliation of reportable segment profit or loss

	Six months ended 30 June	
	2011 RMB'000	2010 RMB'000
<b>Profit/(loss)</b>		
Reportable segment profit/(loss)	<b>103,646</b>	(17,403)
Elimination of inter-segment profits	<b>(19,707)</b>	(35,179)
Reportable segment profit/(loss) derived from group's external customers	<b>83,939</b>	(52,582)
Share of profit from an associate	<b>1,757</b>	—
Share of loss from jointly controlled entities	<b>(4,537)</b>	(1,484)
Other revenue, expenses and net income	<b>1,786</b>	3,219
Net finance expenses	<b>(5,783)</b>	(45,771)
Unallocated head office and corporate expenses	<b>(1,875)</b>	(4,732)
Consolidated profit/(loss) before taxation	<b>75,287</b>	(101,350)

### (b) Change in reportable segments

The major change in segment information during the period is the addition of a new offshore drilling rigs segment. Due to the expansion of group's operation, the internal reporting to the group's chief operating decision maker include a new reportable segment on offshore drilling rigs. The offshore drilling rigs segment is engaged in the manufacturing and sales of offshore drilling rigs.

### (c) 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.

# Notes to the Condensed Consolidated Interim Financial Report

(Expressed in Renminbi)

## 4 REVENUE

The principal activities of the group are 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.

For the six months ended 30 June 2011, the group's customer base include four customers (six months ended 30 June 2010: three customers) with whom transactions representing 16%, 15%, 12% and 12% (six months ended 30 June 2010: 29%, 24% and 22%) of the group's revenue respectively. For the six months ended 30 June 2011, revenues from sales of drilling rigs and related parts and components to these customers, amounted to approximately RMB211 million, RMB193 million, RMB157 million and RMB157 million (six months ended 30 June 2010: RMB198 million, RMB166 million and RMB151 million) respectively which arose in Middle East region, Europe and Central Asia region, North America region, and Europe and Central Asia region, respectively (six months ended 30 June 2010: North America region, Europe and Central Asia region, and South Asia region respectively).

## 5 OTHER REVENUE

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
Rendering of repairing services	688	2,834
Others	1,729	359
	<b>2,417</b>	3,193

# Notes to the Condensed Consolidated Interim Financial Report

(Expressed in Renminbi)

## 6 PROFIT/(LOSS) BEFORE TAXATION

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

	Six months ended 30 June	
	2011 RMB'000	2010 RMB'000
<b>(a) Net finance expenses</b>		
Bank interest income	<b>(3,963)</b>	(8,755)
Interest income on available-for-sale investments	<b>(6,877)</b>	—
Finance income	<b>(10,840)</b>	(8,755)
Foreign exchange loss, net	<b>1,517</b>	30,703
Interest on interest-bearing borrowings wholly repayable within five years	<b>19,904</b>	26,712
Bank charges	<b>2,536</b>	1,935
	<b>23,957</b>	59,350
Less: interest expense capitalised into assets under construction *	<b>(7,334)</b>	(4,824)
Finance expenses	<b>16,623</b>	54,526
Net finance expenses	<b>5,783</b>	45,771

\* The borrowing costs have been capitalised at a rate of 2.29%–6.97% (six months ended 30 June 2010: 0.68%–6.50%) per annum.

# Notes to the Condensed Consolidated Interim Financial Report

(Expressed in Renminbi)

## 6 PROFIT/(LOSS) BEFORE TAXATION (continued)

	Six months ended 30 June	
	2011 RMB'000	2010 RMB'000
<b>(b) Staff costs</b>		
Contributions to defined contribution retirement schemes	23,316	19,931
Equity-settled share based payment expenses	4,312	10,482
Salaries, wages and other benefits	134,320	106,098
	<b>161,948</b>	136,511
<b>(c) Other items</b>		
Amortisation and depreciation		
— leasehold land held for use under operating leases	1,433	886
— other fixed assets	30,220	23,736
— intangible assets	17,560	18,350
Impairment losses on trade and other receivables	13,712	681
Operating lease charges in respect of properties	2,033	2,839
Provision for product warranties	19,130	13,663
Research and development costs (Note)	22,286	18,888

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

## 7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

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

	Six months ended 30 June	
	2011 RMB'000	2010 RMB'000
<b>Current tax – outside Hong Kong</b>		
Provision for the period	15,426	2,234
Under/(over) provision in respect of prior years	523	(1,113)
	<b>15,949</b>	1,121
<b>Deferred tax</b>		
Origination and reversal of temporary differences	(890)	(13,297)
	<b>15,059</b>	(12,176)

# Notes to the Condensed Consolidated Interim Financial Report

(Expressed in Renminbi)

## 7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT (continued)

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

#### (i) **Hong Kong**

No provision for Hong Kong Profits Tax has been made as the group did not have assessable profits subject to Hong Kong Profits Tax during the six months ended 30 June 2010 and 2011.

#### (ii) **PRC**

Pursuant to the income tax rules and regulations of the PRC, the companies comprising the group in the PRC are liable to PRC enterprise income tax at a rate of 25% during the six months ended 30 June 2011 and 2010, except for the following companies:

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

Honghua Company is a wholly foreign-owned enterprise, and is entitled to a reduced tax rate of 12.5% during the six months ended 30 June 2010. During the six months ended 30 June 2011, income tax is accrued at a tax rate of 15% applicable for Hi-Tech Enterprises pursuant to the relevant PRC tax rules and regulations.

##### (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. These companies are entitled to a preferential income tax rate of 15% during the six months ended 30 June 2010. Effective from 1 January 2011, the applicable tax rate for Hongtian Company and Youxin Company is 25%.

On 27 July 2011, the Ministry of Finance, the General Administration of Customs and the State Administration of Taxation jointly issued CaiShui [2011] No. 58 which states that enterprises within encouraged industries and located in the Western Region are entitled to a preferential tax rate of 15% for the period from 1 January 2011 to 31 December 2020 ("Tax Concession"). Hongtian Company and Youxin Company will apply for the Tax Concession in order to continue to enjoy the 15% preferential income tax rate from 2011 to 2020.

#### (iii) **Others**

The provision for taxation for other entities is based on the estimated assessable income of those entities and their respective applicable tax rates ruling in the relevant jurisdictions.



# Notes to the Condensed Consolidated Interim Financial Report

(Expressed in Renminbi)

## 7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT (continued)

### (b) Withholding tax

Under the PRC tax law and its Implementation Rules, dividends receivable by non-PRC resident enterprises from PRC enterprises on earnings earned since 1 January 2008 are subject to withholding tax at a rate of 10%. Deferred tax liabilities have been recognised for undistributed retained profits of its subsidiaries established in the PRC earned since 1 January 2008 to the extent that profits are likely to be distributed in the foreseeable future.

## 8 EARNINGS/(LOSS) PER SHARE

### (a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share for the six months ended 30 June 2011 is based on the profit attributable to ordinary equity shareholders of the company for the period of RMB52,774,000 (six months ended 30 June 2010: loss of RMB89,458,000) and the weighted average number of shares of 3,223,798,400 (six months ended 30 June 2010: 3,223,782,961) in issue during the interim period.

### (b) Diluted earnings/(loss) per share

The share options are anti-dilutive. Therefore, diluted earnings/(loss) per share are the same as the basic earnings/(loss) per share for each of the six months ended 30 June 2010 and 2011.

## 9 FIXED ASSETS

	2011 RMB'000	2010 RMB'000
Net book value, at 1 January	674,971	562,079
Additions	155,851	24,700
Transfer from construction in progress	5,598	4,616
Disposals (net carrying amount)	(455)	(685)
Amortisation and depreciation charge for the period	(31,653)	(24,622)
Exchange difference	(2,057)	(214)
Net book value, at 30 June	802,255	565,874

# Notes to the Condensed Consolidated Interim Financial Report

(Expressed in Renminbi)

## 10 INTANGIBLE ASSETS

	2011 RMB'000	2010 RMB'000
Net book value, at 1 January	272,585	318,859
Amortisation for the period	(17,560)	(18,350)
Exchange difference	(5,997)	(2,810)
Net book value, at 30 June	249,028	297,699

## 11 INVENTORIES

### (a) Inventories in the balance sheet comprise:

	30 June 2011 RMB'000	31 December 2010 RMB'000
Raw materials	603,554	826,226
Work in progress	830,189	606,555
Finished goods	328,046	422,624
Goods in transit	5,324	4,492
	1,767,113	1,859,897

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

	Six months ended 30 June	
	2011 RMB'000	2010 RMB'000
Carrying amount of inventories sold	941,659	500,801
Write-down of inventories	4,501	9,702
Reversal of write-down of inventories	—	(237)
	946,160	510,266

# Notes to the Condensed Consolidated Interim Financial Report

(Expressed in Renminbi)

## 12 TRADE AND OTHER RECEIVABLES

	<b>30 June 2011 RMB'000</b>	31 December 2010 RMB'000
Trade receivables	<b>1,045,424</b>	1,018,668
Bills receivable	<b>4,000</b>	4,000
Less: Allowance for doubtful debts	<b>(139,985)</b>	(126,273)
Value-added tax recoverable	<b>909,439</b>	896,395
Prepayments	<b>181,671</b>	102,348
Other receivables	<b>138,491</b>	125,406
	<b>100,498</b>	92,959
	<b>1,330,099</b>	1,217,108

All of the trade receivables are expected to be recovered within one year and all of the other receivables are expected to be recovered or recognised as expense within one year.

### Ageing analysis

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

	<b>30 June 2011 RMB'000</b>	31 December 2010 RMB'000
Current	<b>556,883</b>	704,274
Less than 1 month past due	<b>14,283</b>	7,407
1 to 3 months past due	<b>11,012</b>	16,707
More than 3 months but less than 12 months past due	<b>169,487</b>	40,132
More than 1 year past due	<b>157,774</b>	127,875
	<b>909,439</b>	896,395

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

# Notes to the Condensed Consolidated Interim Financial Report

(Expressed in Renminbi)

## 13 PLEDGED BANK DEPOSITS

The deposits are pledged to banks as security against bills payable (see note 15) and certain banking facilities (see note 14) granted to the group.

## 14 INTEREST-BEARING BORROWINGS

The interest-bearing borrowings were analysed as follows:

	<b>30 June 2011 RMB'000</b>	31 December 2010 RMB'000
Secured	<b>13,590</b>	13,908
Unsecured	<b>998,625</b>	612,410
Total	<b>1,012,215</b>	626,318

The interest-bearing borrowings were repayable as follows:

	<b>30 June 2011 RMB'000</b>	31 December 2010 RMB'000
Within 1 year	<b>769,950</b>	444,000
After 1 year but within 2 years	<b>2,265</b>	30,000
After 2 years but within 5 years	<b>240,000</b>	152,318
	<b>242,265</b>	182,318
Total	<b>1,012,215</b>	626,318

Interest-bearing borrowings of RMB13,590,000 at 30 June 2011 (31 December 2010: RMB13,908,000) are secured by all assets of a subsidiary with an aggregate carrying value of RMB226,197,000 (31 December 2010: RMB322,125,000).

The interest-bearing borrowings at 30 June 2011 bear annual interest ranging from 2.29% to 6.97% (31 December 2010: 2.34% to 6.50%).

# Notes to the Condensed Consolidated Interim Financial Report

(Expressed in Renminbi)

## 14 INTEREST-BEARING BORROWINGS (continued)

Certain banking facilities of the group are subject to the fulfillment of covenants as are commonly found in lending arrangements with financial institutions. 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 2011 and 31 December 2010, none of the covenants relating to drawn down facilities had been breached.

## 15 TRADE AND OTHER PAYABLES

	<b>30 June 2011 RMB'000</b>	31 December 2010 RMB'000
Trade payables	<b>631,389</b>	492,616
Bills payable	<b>89,884</b>	181,425
Receipts in advance	<b>258,004</b>	399,612
Other payables	<b>122,064</b>	136,258
	<b>1,101,341</b>	1,209,911

Bills payable as at 30 June 2011 and at 31 December 2010 were secured by pledged bank deposits (see note 13). All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

An ageing analysis of the trade and bills payable based on the invoice date is as follows:

	<b>30 June 2011 RMB'000</b>	31 December 2010 RMB'000
Within 3 months	<b>433,684</b>	373,363
3 months to 6 months	<b>126,318</b>	138,841
6 months to 1 year	<b>70,044</b>	39,751
Over 1 year	<b>91,227</b>	122,086
	<b>721,273</b>	674,041

# Notes to the Condensed Consolidated Interim Financial Report

(Expressed in Renminbi)

## 16 SHARE CAPITAL, RESERVES AND DIVIDENDS

### (a) Share option scheme

During the six months ended 30 June 2011, equity-settled share options were granted to certain directors and senior management of the group to subscribe for 7,600,000 new shares of the company at an exercise price of HK\$0.83 per share.

During the six months ended 30 June 2010, 579,300 ordinary shares were issued as a result of the exercise of vested options arising from the Share Option Scheme granted to key management and employees. The weighted average closing price of the shares on the dates on which the options were exercised was HK\$1.71.

### (b) Dividends

The board of directors does not recommend the payment of dividends attributable to the six months ended 30 June 2011 (six months ended 30 June 2010: Nil).

## 17 COMMITMENTS

### (a) Capital commitments

Capital commitments outstanding at 30 June 2011 not provided for in the interim financial report were as follows:

	<b>30 June 2011 RMB'000</b>	31 December 2010 RMB'000
Contracted for	<b>281,926</b>	87,763
Authorised but not contracted for	<b>1,620,893</b>	1,823,486
	<b>1,902,819</b>	1,911,249

# Notes to the Condensed Consolidated Interim Financial Report

(Expressed in Renminbi)

## 17 COMMITMENTS (continued)

### (b) Operating lease commitments

At 30 June 2011, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	<b>30 June 2011 RMB'000</b>	31 December 2010 RMB'000
Within 1 year	<b>5,927</b>	3,101
After 1 year but within 5 years	<b>5,947</b>	4,710
After 5 years	<b>9,005</b>	9,121
	<b>20,879</b>	16,932

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 fifteen years. None of the leases includes contingent rentals.

## 18 MATERIAL RELATED PARTY TRANSACTIONS

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

Name of party	Relationship
Guanghan Hongtai Business Trading Co. Ltd (廣漢市宏泰商貿有限公司) ("Hongtai Company")	Hongtai Company is a party over which spouses of certain directors and management have equity interests.
Luzhou City Jianming Decorating Design Company (瀘州市劍鳴裝飾設計有限公司) ("Luzhou Jianming Company")	Luzhou Jianming Company is a party of which the brother of the spouse of a subsidiary's director is its legal representative.
Guanghan Huite Fluid Appendix Co. Ltd (廣漢市惠特液壓附件有限公司) ("Guanghan Huite Company")	Guanghan Huite Company is a party over which the brother of a subsidiary's director has equity interests.
Chengdu Juzhong Technology Co., Ltd (成都市巨中科技有限公司) ("Chengdu Juzhong Company")	Chengdu Juzhong Company is a party over which the brother-in-law and brother-in-law's wife of a subsidiary's director have equity interests.
Egyptian Petroleum HH Rigs Manufacturing Co. S.A.E. (“HH Egyptian Company”)	Jointly controlled entity

# Notes to the Condensed Consolidated Interim Financial Report

(Expressed in Renminbi)

## 18 MATERIAL RELATED PARTY TRANSACTIONS (continued)

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

	Six months ended 30 June	
	2011 RMB'000	2010 RMB'000
Purchases of parts and components		
– Hongtai Company	7,193	3,761
– Chengdu Juzhong Company	367	445
	7,560	4,206
Sale of drilling rigs, parts and components		
– HH Egyptian Company	30,573	502
Decoration service received		
– Luzhou Jianming Company	783	50
Sub-contracting services received		
– Guanghan Huite Company	652	121
	1,435	171



# Notes to the Condensed Consolidated Interim Financial Report

(Expressed in Renminbi)

## 18 MATERIAL RELATED PARTY TRANSACTIONS (continued)

### (a) Balances with related parties

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 2011 (31 December 2010: Nil).

### (b) Key management personnel remuneration

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

	Six months ended 30 June	
	2011 RMB'000	2010 RMB'000
Basic salaries, allowances and other benefits in kind	2,565	2,250
Contributions to defined contribution retirement schemes	53	48
Share-based payments	1,630	4,437
	4,248	6,735

Total remuneration is included in "staff costs" (see note 6(b)).

## 19 NON-ADJUSTING POST BALANCE SHEET EVENT

On 26 July 2011, Honghua Holdings Limited ("Honghua Holdings") entered into an agreement with SBI Offshore Limited, an offshore equipment manufacturing company listed in Singapore, to set up a joint venture, HS Offshore Pte Ltd ("HS Offshore"). HS Offshore will engage primarily in the sales and manufacturing of equipment for the international marine/offshore industry and other related business. Pursuant to the joint venture agreement, Honghua Holdings would hold 70% of the shareholding of HS Offshore.

# Notes to the Condensed Consolidated Interim Financial Report

(Expressed in Renminbi)

## 20 CONTINGENT LIABILITIES

### Dispute with natural persons

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

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

On 11 December 2007, 57 out of the 64 original investors initiated legal proceedings at the Intermediate Peoples’ Court of Chengdu City, Sichuan Province (Action No: (2008) Cheng Min Chu Zi No. 53). The 57 individuals joined as plaintiffs to the legal proceedings against Honghua Company as the 1st defendant, Honghua Holdings as the 2nd defendant and certain 14 individuals as the 3rd to 16th defendants.

The relief sought by the 57 plaintiffs include:

- (1) An adjudication by the court that the 592,250 shares held by the 3rd to 16th defendants were actually owned by the 57 plaintiffs, and all the benefits and rights in such equity interests be restored to the 57 plaintiffs and the names of the 57 plaintiffs be entered into the register of members of Honghua Company;
- (2) An adjudication by the court that Honghua Company be ordered to pay to the 57 plaintiffs a total sum of RMB296,125, being the 2003 dividends;
- (3) An adjudication that the repurchase of the 592,250 shares of Honghua Company be declared null and void;
- (4) An adjudication that Honghua Holdings be jointly and severally liable for the above members sought by the 57 plaintiffs and the consequential liabilities thereof, and that Honghua Holdings 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.

# Notes to the Condensed Consolidated Interim Financial Report

(Expressed in Renminbi)

## 20 CONTINGENT LIABILITIES (continued)

### Dispute with 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 Honghua Holdings be declared null and void and that Honghua Holdings be jointly liable for all the claims against Honghua Company and other defendants.

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

On 17 July 2008, another 2 individuals 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.

Two of the 64 investors accepted the buy-out arrangement and payment from Honghua Company on 29 March 2010 and 18 April 2011 respectively, who are not plaintiffs to the legal proceedings against Honghua Company.

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

# Notes to the Condensed Consolidated Interim Financial Report

(Expressed in Renminbi)

## 20 CONTINGENT LIABILITIES (continued)

### Dispute with natural persons (continued)

On 23 June 2011, Honghua Company received the copy of plaint to amend or supplement claims submitted by the 57 plaintiffs to the Intermediate Peoples' Court of Chengdu City of Sichuan Province. The plaintiffs applied to amend or supplement their claims as follows:

- (1) An adjudication that the repurchase and cancellation of plaintiffs' shares is illegal and infringes plaintiffs' right;
- (2) An adjudication that the 1st defendant be liable for damages of RMB341,949,961.58, including shares and dividend;
- (3) An adjudication that all the defendants be liable for the costs of RMB300,000 incurred by the plaintiffs arising from the legal proceedings;
- (4) An adjudication that the 2nd to the 16th defendants be jointly and severally liable for the plaintiffs' damages; and
- (5) An adjudication that all the defendants be jointly liable for the legal costs arising from the proceedings.

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.

# Definitions

“Board of Directors” or “Board”	the Board of Directors of the Company
“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 15 June 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 of the Company 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), Lv Lan (呂蘭), Tian Yu (田雨), Li Hanqiang (李漢強), Liu Yingguo (劉映國), Liu Lulu (劉露璐), He Guangfu (何光福), Zhang Zongyou (張宗友) and Chen Zongliang (陳宗良), out of which HeGuangfu (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 17 February 2006
“Director(s)”	member(s) of the Board of Directors of the Company
“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
“HK\$” or “HK dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
“Period”	for the six months ended 30 June 2011
“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

# Definitions

“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“Russia”	The Russian Federation
“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)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Substantial Shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“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





**宏华集团有限公司**  
HONGHUA GROUP LIMITED