宏华集团有限公司

HONGHUA GROUP LIMITED

(incorporated in the Cayman Islands with limited liability)

Stock Code: 196

2012

Interim Report

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Financial Highlights

OPERATING RESULTS

	Six months ended 30 June		
	2012	2011	
	RMB'000	RMB'000	Change
Turnover	**1,969,330**	1,295,290	52.0%
Profit from operations	**269,335**	83,850	221.2%
Profit before taxation	**278,159**	75,287	269.5%
Profit attributable to equity shareholders of the Company	**209,660**	52,774	297.3%
Earnings per share			
Earnings per share — Basic (RMB cents)	**6.530**	1.637	298.9%
— Diluted (RMB cents)	**6.527**	1.637	298.7%

FINANCIAL POSITION

	30 June	31 December	
	2012	2011	
	RMB'000	RMB'000	Change
Total non-current assets	**2,559,544**	1,882,332	36.0%
Total current assets	**6,202,714**	4,810,368	28.9%
Total assets	**8,762,258**	6,692,700	30.9%
Total current liabilities	**4,067,055**	2,119,137	91.9%
Total non-current liabilities	**425,482**	398,705	6.7%
Total liabilities	**4,492,537**	2,517,842	78.4%
Total equity	**4,269,721**	4,174,858	2.3%

Financial Highlights

KEY FINANCIAL RATIOS*

	Six months ended 30 June		
	2012	2011	Change
Gross Margin	**37.6%**	25.5%	12.1%
Net Margin	**10.6%**	4.1%	6.5%
Return on average assets	**2.7%**	0.9%	1.8%
Return on average equity	**5.1%**	1.3%	3.8%

	30 June 2012	31 December 2011	Change
Current Ratio	**1.53**	2.27	-0.74
Quick ratio	**1.02**	1.54	-0.52
Total debts/Total assets	**10.0%**	13.1%	-3.1%
Total liabilities/Total assets	**51.3%**	37.6%	13.7%

* Earnings exclude non-controlling interests.
Equity excludes non-controlling interests.

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

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

Corporate Governance Committee

Liu Xiaofeng *(Committee Chairman)*
Qi Daqing
Tai Kwok Leung, Alexander
Chen Guoming
Shi Xingquan
Guo Yanjun

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

Nomination Committee
(formed on 17 January 2012)

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

JOINT COMPANY SECRETARIES

Liu Gangqiang
Corinna Leung

Corporate Information

LEGAL ADVISORS

as to Hong Kong law

King & Wood Mallesons

as to PRC law

King & Wood Mallesons

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
The Export-Import Bank of China
Bank of Communications Co., Ltd
Industrial and Commercial Bank of China (Asia) Limited
The Hongkong and Shanghai Banking Corporation Limited
Industrial Bank Co., Ltd.

AUDITOR

KPMG
Certified Public Accountants

REGISTERED OFFICE

Clifton House, 75 Fort Street
PO Box 1350
Grand Cayman, KY 1-1108
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

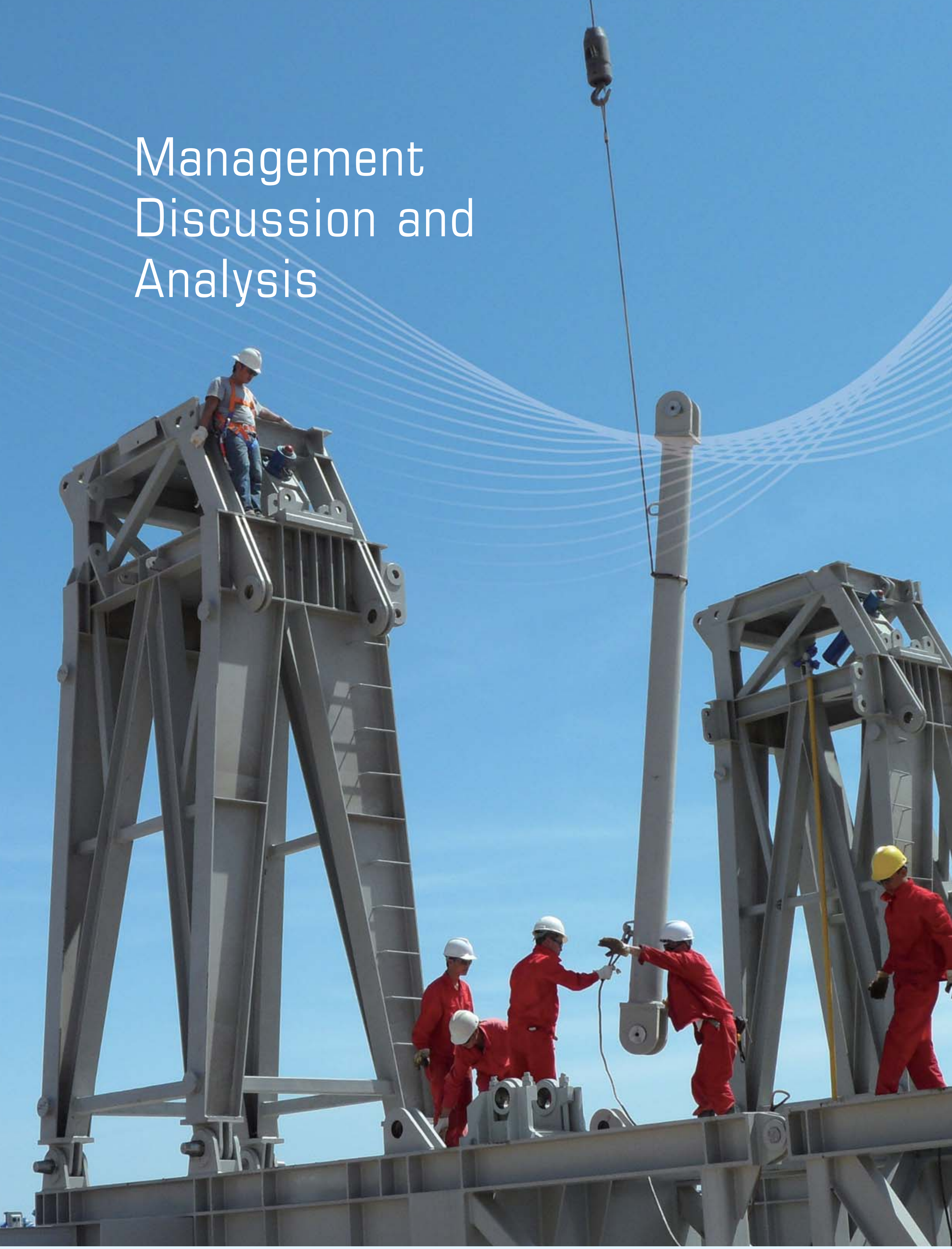
STOCK CODE

The Stock Exchange of Hong Kong Limited: 0196

WEBSITE

http://www.hh-gltd.com

Management Discussion and Analysis

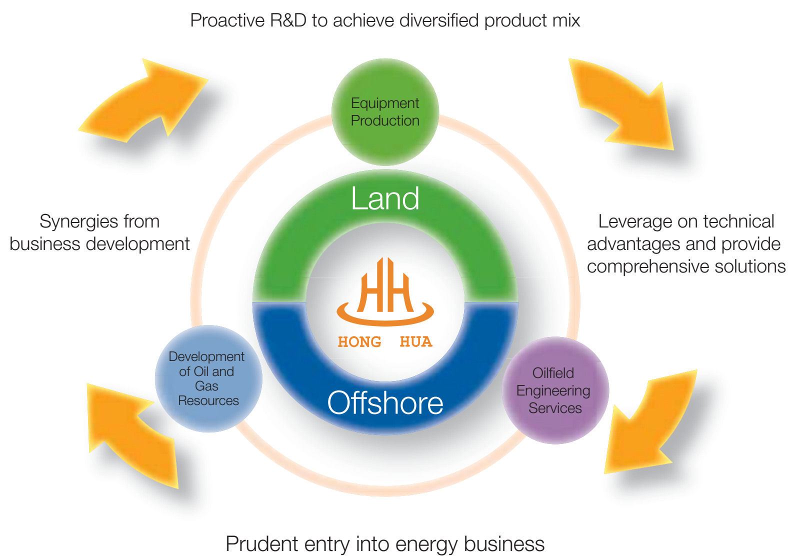


Management Discussion and Analysis

BUSINESS OVERVIEW

Facing numerous challenges in the first half of 2012, overall growth of the global economy has slowed down. New York WTI crude oil prices and London Brent oil prices have maintained relatively high levels, namely US$90 per barrel and US$80 per barrel, respectively. The high oil prices have stimulated oil and gas exploration and investment to some extent. According to Barclays Capital, it is expected that global exploration and production investment in 2012 will reach US$598.5 billion, representing an increase of 10% as compared to US$544.5 billion in 2011. Benefiting from the steady development and investment, it has promoted continuous active oil drilling activities worldwide and maintained stable growth in oil exploration equipment. According to Baker Hughes research, the average number of operating rigs worldwide during the Period amounted to 3,572 sets(Note), increasing by 7.7% as compared to the same period last year and hitting a record high since 1986. Moreover, according to statistics of IHS Petrodata, the overall daily rate of global drilling platform increased greatly in the first half of 2012, with an average growth rate of over 10%. At the same time, the utilization rate of global drilling platforms reached 81.7%, an increase of 4.2 percentage points as compared with the same period last year.

During the Period, following the development of the industry trend, the Group continued to promote the diversified long-term development strategy of "Focusing on land equipment production business with integration in offshore equipment manufacture, oil and gas engineering services and unconventional oil and gas exploration to create synergies". The Group's business continued to maintain rapid growth, with revenue amounting to approximately RMB1,969 million, representing a significant increase of 52% as compared to the same period last year. During the Period, the Group's gross profit was approximately RMB741 million, representing an increase of 124.5% as compared to the same period last year. Profit attributable to equity shareholders was approximately RMB210 million, representing an increase of 297.3% as compared to the same period last year.



(The Group's Long-term Development Strategy)

Note: Statistics of Baker Hughes' active drilling rigs does not include China and Russia.

Management Discussion and Analysis

BUSINESS REVIEW

During the Period, the Group put forward the concept of "Creative Manufacturing", and proactively researched and developed new products, technologies, markets, businesses and models with a focus on market and customer needs, so as to further optimize markets, products and service mix, as well as improve integrated competitiveness and profitability.

Land Drilling Rigs and Components Business

During the Period, the Group enhanced promotion and marketing strength, participating in 10 large-scaled international and domestic exhibitions and placed 18 print advertisements with remarkable effects in the major industry media, further improving product awareness and recognition. Meanwhile, the Group continued to implement its strategy of "Localization" by providing high quality products and comprehensive extended and value-added services, so as to consolidate the customer base in mature markets, while at the same time explore new markets and clients.

The Group has successfully entered into a land drilling rig sales agreement worth approximately US$187 million with Petróleros de Venezuela, S.A. during the Period, which further improved the Group's market share in the South American market. In July 2012, the Group renewed the workover rig sales agreement worth approximately US$21.6 million with the National Drilling Company, enlarging its influence in the Middle Eastern market. At the same time, the Group successfully penetrated into the Nigerian and Azerbaijan markets, obtaining 1 rig sales contract in Nigeria as well as 4 rig sales contracts in Azerbaijan. Under the environment of increasing competition in the domestic market, the Group strived to achieve cooperation amid these circumstances and signed 3 sales contracts with ZYT Petroleum Equipment Co., Ltd.. In July 2012, the Group entered into a land drilling rig sales agreement worth approximately RMB320 million with a new client, Jiangsu Xinde Petroleum Machinery Co., Ltd., gradually improving its revenue proportion in the domestic market.

At the same time, the Group strived to develop new drilling rigs and related products, fully utilize its technological advantage of "mechanical and electrical integration" and increase profit contribution of high value-added products, so as to provide continuous momentum for the Group's long-term stable development. During the Period, the Group's self-innovated series product of top drives achieved satisfactory sales, recording individual sales of 2 sets and supporting sales of 12 sets. Moreover, through proactive exploration of new sales models and application of operating and financial leases, the Group achieved successful sales of top drive products in the domestic market including Zhongyuan oilfield and Jiangsu oilfield, etc.

Offshore Equipment Business

The Group has entered the finishing stages of the first phase of construction of the offshore engineering equipment production base located in Qidong City, Jiangsu Province, which possesses the production conditions and capabilities to undertake the entire offshore platform order. In addition, the construction program of the core equipment of the innovative "onshore-made offshore equipment" construction program — the "Honghai Crane", has been approved, and will begin construction soon.

The Group has gained a foothold in the global market, and will strive to strengthen the marketing of its offshore business and actively develop potential customers. During the Period, the Group's wholly owned subsidiary successfully signed a sales contract with Shanghai Shipyard Co., Ltd. for TIGER series drilling vessels drilling equipment packages worth a total value of more than RMB300 million. The agreement not only marks the first time a Chinese offshore manufacturing enterprise has broken the deep-water drilling package monopoly of international giants, opening a new chapter of the Group's entrance into the deep-water drilling package market and setting a new milestone of the Group's entrance into the offshore equipment market. The project was included in the national hi-tech industry development project plans and investment plans and got approval document of subsidy from the National Development and Reform Commission, which will gradually invest totally RMB40 million to the Group.

Oil and Gas Engineering Services Business

In the first half of 2012, the Group achieved breakthroughs in its oil and gas engineering services business. On one hand, the Group has consolidated the Kazakhstan market by obtaining new contracts in the region. On the other hand, the Group has successfully explored new markets including Xinjiang Karamay, Sinopec Northeast Oil and Gas Company, Sichuan Antonoil and Iraq and signed long-term service agreements with clients. Meanwhile, through entering into a drilling service contract with Baker Hughes, the world's third largest oil and gas engineering services company, and providing services to Italian company ENI, the Group has officially stepped into the global high-end market and obtained product and services recognition by clients.

During the Period, the Company secured the China Drilling Engineering Industry Safety Production License and also successfully joined the network of Sinopec Northeast Oil and Gas Company, laying a foundation for full entry into Sinopec's oil and gas engineering market network.

The Group's Oil and Gas Engineering Service Company has 5 operational drilling rigs in total during the Period. The oil and gas engineering team has 427 employees. During the Period, operational efficiency of the oil and gas engineering business continued to improve and the average drilling completion date per well decreased significantly. In addition, through continued expansion of new business, the Group has begun to get involved in mud pumping services in its Northeast projects.

Management Discussion and Analysis

Unconventional Oil and Gas Equipment Business

According to the "Shale Gas Development Plan (2011–2015)" announced by the National Energy Administration in March 2012, the target of shale gas production by 2015 is 6.5 billion cubic meters, and shale gas resources are currently in the early stages of exploration. Large-scale development is expected to begin during 2016–2020, and will strive to achieve an annual output of 100 billion cubic meters by 2020.

In 2011, U.S. shale gas production reached 180 billion cubic meters, with a fracturing capacity of 12 million hydraulic horsepower. Based on projections, in 2020, if the annual shale gas production in China reaches 60–100 billion cubic meters, and annual fracturing demand will grow to over 600,000 hydraulic horsepower, equivalent to an annual demand for 240 new fracturing units, a market scale of up to RMB3.6 billion. Thus, the room for growth in the fracturing equipment market is huge.

During the Period, the Group has been actively promoting its unique "To establish substation and electricity transmission network ahead; to exploit gas by using gas; to use gas fired power-gen and power grid; to pursue flow process operations; to realize large-scale industrial production" shale gas development solutions and ideas. This set of innovative ideas as well as the special equipment developed for shale gas (i.e. 6000HP fracturing pump), was exhibited in May of this year at the OTC exhibition in the USA, and received industry-wide attention and praise for its significant advantage in reduced footprints, reduced costs and environmental friendliness. While the Group promotes its programs and related equipment, it has also gradually accelerated its shale gas special equipment R&D process, of which the 6000HP fracturing truck design was completed in May of this year, prototype assembly sets will be completed in October.

During the Period, the Group's subsidiary Gansu Hongteng Oil & Gas Equipment Manufacturing Co., Ltd. obtained orders of 2 fracturing trucks and 1 70-fracturing truck. The technological transformation of fracturing equipment production line and the R&D of traditional fracturing equipment 3000HP fracturing trucks as well as digital variable frequency sand mixing cars are related to the long-term development of the company, and are currently being undertaken in an orderly manner.

Innovation, Research and Development

The Group firmly believes that innovation and R&D are the driving forces for an enterprise's development. During the Period, the Group

increased cooperation with renowned research institutions and universities in the area of new product development and introduced engineers and experienced researchers and implemented innovation and R&D for series of products, focusing on a main stream of new drilling rigs, high value-added components and shale gas exploration equipment. During the Period, the Group invested a total of RMB18.546 million into R&D funding, which has seen some encouraging progress. Among these, the land equipment's serialized direct top drive-90 series top drive prototype has completed restructuring and site testing and the five-cylinder direct-drive mud pump industrial tests were completed in June. With regards to unconventional oil and gas development, the component design and optimization of the rack and pinion rig was completed in May. As of 30 June 2012, the Group has accumulatively filed 165 patent applications and 86 of them had been approved.

Improving Operating Efficiency

The Group established the Procurement and Logistics Department early this year, aiming to develop and implement the Group's procurement strategies at corporate level, establish an optimized procurement structure, maximize supply chain resources through insights of supply chain and application of management strategies, so as to provide strong supply chain resources and protection for realization of the Group's strategic goals on operating development. In terms of quality control, the Group further implemented a simplified production mechanism and improved production processes, effectively shortening production cycle of parts and eliminated waste, as well as increasing efficiency of product testing.

During the Period, the Group continued to adopt comprehensive budget management and implement rigorous cost control measures. Meanwhile, the Group also strengthened income and accounts receivable management, implemented monthly alert and monitoring on sales income to establish dynamic administrative mechanism for sales income. With an aim of reducing the accounts receivable turnover period, the Group also developed regulations for receivable management and implemented assessment for receivable rate. During the Period, the Group's average receivables turnover [Note] period was 95 days, a decrease of 32 days as compared to the same period last year.

In addition, the Group has strengthened the sorting of all warehouse processes and standardized inventory logistics management and operations. Strict control of production technology, production

Note: Receivables include trade receivables, long-term receivables and bills receivable.

Management Discussion and Analysis

processes, materials distribution processes and other aspects, while guaranteeing product quality and production cycles, have effectively controlled production costs and improved production efficiency. During the Period, the Group's inventory turnover period was 266 days, a decrease of 77 days as compared to the same period last year.

Human Resources Management

During the Period, the Group continued to emphasize on optimization of organizational and professional structure as well as strengthened introduction of industry experts, first-class technical professionals and international talents, so as to enrich and improve its human resources reserve for its long-term development. At the same time, the Group further improved training systems, and strengthened employment and cultivation of senior management, top engineering technicians and researchers. During the Period, the Group conducted a total of 283 training courses, covering management and development, professional skills, legal knowledge, operation efficiency and product knowledge, aiming to improve employee skills and enhance working efficiency.

PROSPECTS

In the second half of 2012, despite the slowdown of the effect on the world economy by the debt crises in Europe, the USA and other countries, the outlook is not optimistic, but the overall development trend of the oil and gas industry is good. In particular, Americas, Africa and other emerging markets will usher in a peak period of oil and gas exploration and development in the next few years, effectively driving the demand for land-based oil drilling equipment and services.

The Group will grasp the development trend of the oil and gas industry. On one hand, we will continue to implement the strategy of "localization" and establish joint ventures in Russia and Venezuela to further improve global market distribution; on the other hand, we will continue to implement the "market diversification" sales strategy to strengthen macro brand building and product promotion efforts in order to actively expand into emerging markets, increase global market share and consolidate the Group's leading position in the global land-based equipment manufacturing industry in order to lay the foundation for sustained and stable growth of the Group's results. At the same time, the Group will place innovation and R&D in a more prominent position and strive to create value through innovation, further promote high-end and high value-added products and achieve sales breakthroughs of new products.

Since onshore conventional oil and gas resources are limited, it is expected that more than 70% of oil and gas production will come from the ocean. More than 60% of existing offshore platforms have been used more than 25 years; the offshore equipment market in the future will usher in a new peak period of upgrading. The Group will capture the opportunity of the development of the offshore oil and gas industry, and plans to begin construction of the "Honghai Crane" in the second half of the year. Meanwhile, the Group will continue to strengthen the technical innovation and development of the offshore platform and strive to bring profits to the Group as soon as possible.

Management Discussion and Analysis

With the continuous expansion of the domestic and foreign oil service market, the Group will maintain the efficient functioning of existing projects, and actively develop high quality projects, expanding the scope of oil and gas services, as well as gradually develop the mud services, directional drilling services, fracturing acidification and other diversified services in order to improve the competitiveness and profitability of the Group in the industry. In the second half of the year, the Group plans to invest more rigs, and aims to put a total of 11 rigs into production and form 11 oil and gas service teams for the initial realization of economies of scale.

In the face of the domestic and foreign unconventional oil and gas development boom, the Group will continue to work on the development and marketing of related products in order to reach commercial sales within the year. In addition, we will continue to actively looking for partners and hope to promote the "To establish substation and electricity transmission network ahead; to exploit gas by using gas; to use gas fired power-gen and power grid; to pursue flow process operations; to realize large-scale industrial production" shale gas development solutions and ideas in China and North America. At the same time, the Group will continue to focus on tendering and exploration and development of unconventional oil and gas blocks to seek cooperation opportunities.

Looking forward for the whole year, the Group will endeavor to promote the revenue of core businesses, while expanding offshore engineering equipment, oil and gas engineering services, development of unconventional oil and gas and other businesses. We will continue to implement the concept of "Creative Manufacturing" to create value and enhance the overall competitiveness of the Group to achieve sustainable and stable development and create greater shareholder returns.

FINANCIAL REVIEW

During the Period, the Group's gross profit and profit attributable to shareholders of the Company amounted to RMB741 million and RMB210 million respectively, while gross profit and profit attributable to shareholders of the Company in the same period last year amounted to RMB330 million and RMB53 million respectively. Gross profit margin and net profit margin amounted to approximated 37.6% and 10.6% respectively. During the Period, the increase in the Group's gross profit and profit attributable to shareholders of the Company was due to significant growth in sales revenue and increase in gross profit margin.

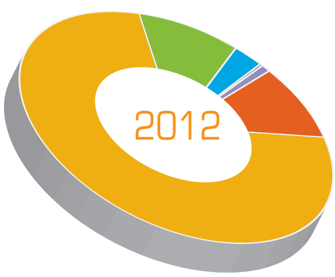
Turnover

During the Period, the Group's turnover amounted to approximately RMB1,969 million, representing an increase of RMB674 million or 52.0% as compared to the same period last year. Revenue growth was due to the Group's active market development. The number of rig sales during the Period increased to 22 units from 19 units in the same period last year.

The Group's revenue by geographical segment during the Period: The Group's export revenue amounted to approximately RMB1,779 million, accounting for approximately 90.4% of total revenue, representing an increase of RMB567 million as compared to the same period last year. Among which, there was a substantial increase in revenue from the Americans market, drilling rig sales increased to 15 units as compared to 4 units in the same period last year; domestic sales also saw growth, 4 drilling rigs were sold during the Period, while 1 unit was sold in the same period last year. In addition, diminished demand led to a significant decrease in income in the European and Central Asian, South and Southeast Asian, and Middle Eastern markets as compared to the same period last year, drilling rig sales dropped from 5 units, 5 units and 3 units respectively in the same period last year to 1 unit each.

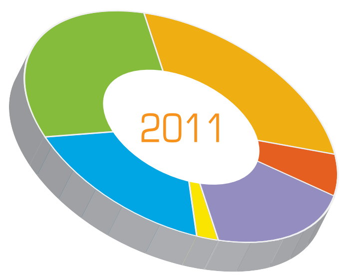
Revenue by Geographical Areas

For the six months ended 30 June 2012



Europe and Central Asia	10.2%	Middle-East	0.7%
South Asia and South East Asia	2.7%	PRC	9.6%
Other Regions	0.4%	Americas	76.4%

For the six months ended 30 June 2011



Europe and Central Asia	29.3%	Middle-East	17.6%
South Asia and South East Asia	18.2%	PRC	6.4%
Other Regions	2.4%	Americas	26.1%

The Group actively explores markets in different regions, and the revenues from different regions are affected by the local oil and gas exploration activities.

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

Revenue by product categories	For the six months ended 30 June 2012			For the six months ended 30 June 2011			2012.1–6 vs 2011.1–6	
	Revenue RMB'000	**Proportion (%)**	**Quantity (unit)**	Revenue RMB'000	Proportion (%)	Quantity (unit)	Change RMB'000	Change (%)
Digitally-controlled rigs	**1,361,307**	**69.1%**	**17**	846,419	65.3%	15	514,888	60.8%
Conventional rigs	**248,912**	**12.6%**	**5**	61,035	4.7%	4	187,877	307.8%
Subtotal	**1,610,219**	**81.7%**	**22**	907,454	70.1%	19	702,765	77.4%
Mud pump	**28,835**	**1.5%**	**26**	69,305	5.3%	68	(40,470)	–58.4%
Other parts and component	**316,953**	**16.1%**		318,531	24.6%		(1,578)	–0.5%
Subtotal	**345,788**	**17.6%**	**26**	387,836	29.9%	68	(42,048)	–10.8%
Offshore Rigs and parts and components	**13,323**	**0.7%**		–	0.0%		13,323	
Total	**1,969,330**	**100.0%**		1,295,290	100.0%		674,040	52.0%

The Group's products are divided into drilling rigs, rig parts and components and offshore drilling rigs and parts.

During the Period, revenue from drilling rigs and parts, components and others were RMB1,610 million and RMB346 million respectively, representing an increase of 77.4% and decrease of 10.8% as compared to RMB907 million and RMB388 million in the same period last year. Offshore drilling rigs and parts revenue amounted to approximately RMB13 million, mainly attributable to the Group's sales of offshore drilling parts, which was zero at the same period last year.

Drilling rigs comprised of digitally-controlled land rigs and conventional land rigs, revenue from which amounted to RMB1,361 million and RMB249 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 19 units in the same period last year to 22 units during the Period, while the average unit price increase to RMB73 million during the Period from RMB48 million in the same period last year.

Drilling rig parts and components and other revenue decreased. This was mainly attributable to the order will be delivered in the second half. Mud pump sales during the Period decreased to 26 units from 68 units as compared to the same period last year. In addition, Gansu Hongteng has begun sales of fracturing trucks, enriching the Group's product portfolio.

Cost of Sales

During the Period, the Group's cost of sales amounted to approximately RMB1,228 million, representing an increase of approximately 27.3% or RMB263 million as compared to the same period last year, mainly due to a rebound in sales.

Management Discussion and Analysis

Gross Profit and Gross Margin

During the Period, the Group's gross profit amounted to approximately RMB741 million, representing an increase of RMB411 million as compared to the same period last year. Among which, gross profit from drilling rigs amounted to approximately RMB686 million, representing an increase of 200.7% as compared to the same period last year; drilling rig and parts and components and other gross profit amounted to approximately RMB62 million, representing a decrease of 39.4% as compared to the same period last year;

During the Period, the Group's overall gross profit margin was 37.6%, representing an increase of 12.1 percentage points as compared to 25.5% in the same period last year. This was mainly attributable to the Group's active market development during the Period, the relative depreciation of the Renminbi against the US dollar and economies of scale due to the increased production.

Expenses in the Period

During the Period, the Group's selling expenses amounted to approximately RMB244 million, representing an increase of RMB168 million or 221.1% as compared to RMB76 million in the same period last year. This was mainly attributable to increased transportation costs brought on by the increased sales revenue and an increase in costs related to the Group's active market exploration.

During the Period, the Group's general and administration expenses amounted to approximately RMB209 million, representing an increase of RMB37 million or 21.5% as compared to RMB172 million in the same period last year. Based on the Group's customers' ability to pay, a provision of approximately RMB29 million for bad debts was made. This amount was RMB14 million in the same period last year. The Group is actively requesting the settlement of trade receivables for which provisions have already been made. Meanwhile, general and administration expenses reasonably increased accordingly with the increase of revenue.

During the Period, the Group's net financing income amounted to approximately RMB10 million as compared to net financing expenses of RMB6 million in the same period last year. The increase in net finance income was mainly attributable to an increase in interest income brought by continuous improvement in operating cashflow and enhancement of treasury management. The Group recorded a net exchange gain of approximately RMB3 million during the Period, while there was a net exchange loss of approximately RMB2 million in the same period last year, which was mainly attributable to the relative depreciation of the Renminbi against the US dollar.

Share of Loss from Jointly Controlled Entities

During the Period, the Group's share of loss from jointly controlled entities amounted to approximately RMB6 million, representing an increase of RMB1 million as compared to share of loss of RMB5 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 RMB4 million as compared to a profit of RMB2 million in the same period last year.

Profit before Taxation

During the Period, profit before taxation of the Group amounted to approximately RMB278 million, representing an increase of RMB203 million as compared to the same period last year. The increase was mainly attributable to the significant increase in revenue and gross profit.

Income Tax Expenses

During the Period, the Group's income tax expense amounted to approximately RMB62 million as compared to the income tax expense of approximately RMB15 million in the same period last year. The increase was mainly attributable to the growth in the Group's profit before taxation.

Profit for the Period

During the Period, the Group's profit amounted to approximately RMB216 million, as compared to a profit of approximately RMB60 million in the same period last year. Among which, profit attributable to equity shareholders of the Company was approximately RMB210 million, while earnings attributable to non-controlling interests was approximately RMB6 million. During the Period, net profit margin was 10.6%, as compared to a net profit margin of 4.1% in the same period last year, which was mainly attributable to the significant increase in gross profit 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 RMB329 million, as compared to approximately RMB130 million in the same period last year, which was mainly attributable to the marked increase in operating profit brought on by the significant increase in revenue. The EBITDA margin was 16.7%, as compared to 10.1% in the same period last year, which was mainly attributable to the increase of gross margin brought on by the significant increase in sales revenue and a marked decrease of the general and administrative expenses ratio as compared to the same period last year.

Dividend

For the period ended at 30 June 2012, the Board does not recommend the payment of interim dividend.

Source of Capital and Borrowings

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

As at 30 June 2012, the Group's bank borrowings amounted to approximately RMB873 million, representing a decrease of approximately RMB7 million as compared to 31 December 2011. Among which, borrowings repayable within one year amounted to approximately RMB473 million, representing a decrease of RMB27 million as compared to 31 December 2011.

Deposit and Cash Flow

As at 30 June 2012, the Group's cash and cash equivalents amounted to approximately RMB1,982 million, representing an increase of approximately RMB1,130 million as compared to 31 December 2011.

During the Period, due to an improvement in the Group's debt collection, net operating cash inflow from operations amounted to approximately RMB1,299 million; net cash inflow from investing activities amounted to approximately RMB21 million, which was due to the sale of other financial assets during the period; net cash outflow from financing activities amounted to approximately RMB193 million, which was mainly for the payment of dividends and to repurchase shares for the share award scheme; and net cash inflow due to the effect of foreign exchange changes amounted to approximately RMB3 million.

Assets Structure and Changes Thereof

As at 30 June 2012, the Group's total assets amounted to approximately RMB8,762 million, representing an increase of approximately RMB2,070 million or 30.9% as compared to 31 December 2011. Among which, current assets amounted to approximately RMB6,203 million, accounting for approximately 70.8% of total assets, which were mainly listing proceeds, inventories and trade receivables. Non-current assets amounted to approximately RMB2,560 million, accounting for approximately 29.2% of total assets.

Liabilities

As at 30 June 2012, the Group's total liabilities amounted to approximately RMB4,493 million, representing an increase of approximately RMB1,975 million as compared to 31 December 2011. Among which, current liabilities amounted to approximately RMB4,067 million, accounting for approximately 90.5% of total liabilities. Non-current liabilities amounted to approximately RMB425 million, accounting for approximately 9.5% of total liabilities. As at 30 June 2012, the Group's gearing ratio was approximately 51.3%, representing an increase of 13.7 percentage points as compared to 31 December 2011 and was mainly attributable to advanced payments from customers.

Equity

As at 30 June 2012, total equity amounted to RMB4,270 million, representing an increase of RMB95 million as compared to 31 December 2011. Total equity attributable to equity shareholders of the Company amounted to approximately RMB4,133 million, representing an increase of RMB75 million as compared to 31 December 2011. Non-controlling interests totaled to approximately RMB137 million, representing an increase of RMB20 million as compared to 31 December 2011. Net asset value reached approximately RMB1.29 per share. During the Period, the Group's earnings per share was approximately RMB6.53 cents, representing an increase of RMB4.89 cents as compared to RMB1.64 cents in the same period last year.

Provisions, Contingent Liabilities and Pledge

As at 30 June 2012, details of the Group's provisions are set out in note 18 to the interim financial report.

As at 30 June 2012, details of the Group's contingent liabilities are set out in note 23 to the interim financial report.

The Group has pledged bank deposits of approximately RMB255 million, representing an increase of approximately RMB190 million as compared with that at 31 December 2011.

Capital Expenditure, Major Investment and Capital Commitments

During the Period, capital expenditure of the Group on infrastructure and technical improvements amounted to approximately RMB427 million, representing an increase of approximately RMB154 million as compared to the same period last year. This was mainly due to the development of offshore construction projects and deployment of drilling rigs for oil & gas engineering services.

As at 30 June 2012, the Group had capital commitments of approximately RMB1,448 million, which will be used for the construction of Jiangsu Qidong offshore manufacturing base and expansion of the Group's business as well as its production capacity.

Foreign Currency Risk

The Group has certain foreign currency deposits. As at 30 June 2012, the Group's foreign currency deposits were equivalent to approximately RMB922 million, trade receivables and other receivables denominated in foreign currency were equivalent to approximately RMB335 million. Exports and foreign currencies settled business exposed the Group to exchange risk. The Group has managed to mitigate the exchange risks through entering into forward exchange rate swap contracts and price adjustment during contract negotiation in consideration of future exchange rate circumstances.

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. To enhance the Group's operating capacity, the Group has adjusted the use of some of the proceeds. As at 30 June 2012, the use of the net proceeds was as follows: proceeds of HK$975 million to be used for the offshore project, among which all 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$393 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 4,144. The total remuneration and benefits amounted to approximately RMB201 million, representing an increase of RMB39 million or approximately 24.1% as compared to the same period last year. It was mainly attributable to 147 additional personnel were employed during the Period.

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 emphasize a quality Board, effective internal control and accountability to shareholders.

The Stock Exchange has enhanced the Code on Corporate Governance Practices (the "Former Code") set out in Appendix 14 of the Listing Rules, where the revised code, namely Corporate Governance Code (the "Revised Code"), has become effective on 1 April 2012.

The Company has applied the principles and code provisions as set out in the Former Code and the Revised Code as contained in Appendix 14 of the Listing Rules.

The Company has complied with the code provisions of the Former Code and the Revised Code throughout the respective periods from (i) 1 January 2012 to 31 March 2012; and (ii) 1 April 2012 to 30 June 2012, except for the deviations as mentioned below.

2. CHAIRMAN AND PRESIDENT (CHIEF EXECUTIVE)

Code Provision A.2.1 of the Corporate Governance Code stipulates that the roles of Chairman and Chief Executive should be separate and should not be performed by the same individual.

Mr. Zhang Mi is the Chairman and President (Chief Executive) 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) in Mr. Zhang Mi provides the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies.

The Board is of the view that it is in the best interests of the Group to have the 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) are necessary.

3. ATTENDANCE OF GENERAL MEETINGS

Code Provision A.6.7 of the Corporate Governance Code stipulates that independent non-executive directors and non-executive directors should attend general meetings. Four Independent Non-executive Directors and two Non-executive Directors were absent from last annual general meeting of the Company held in May 2012 due to their respective other important engagements at the relevant time.

4. MODEL CODE FOR SECURITIES TRANSACTIONS

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

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with both the Company's Code and the Model Code throughout the reporting period for the six months ended 30 June 2012.

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; with Rule 3.10(2) of the Listing Rules, which requires one of those Independent Non-executive Directors to be specialized in accounting or relevant financial management; and with Rule 3.10A of the Listing Rules, which requires Independent Non-executive Directors representing at least one-third of the Board of Directors.

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.

The Audit Committee has reviewed the unaudited financial reports for the six months ended 30 June 2012 of the Company and the Group.

Report of the Board

The Board is to present its reviewed interim report for the six months ended 30 June 2012.

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 2012, 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 contained in Appendix 10 to the Listing Rules were as follows:

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

	Long/Short position	Nature of interest	Number of shares held	% of the issued share capital of the Company
Mr. Zhang Mi	Long	Personal interest, corporate interest and settlor of a discretionary trust	1,570,465,037(1)(5)	48.71%
Mr. Ren Jie	Long	Personal interest, corporate interest and settlor of a discretionary trust	1,570,465,037(2)(5)	48.71%
Mr. Liu Zhi	Long	Corporate interest and settlor of a discretionary trust	1,570,465,037(3)(5)	48.71%
Mr. Guo Yanjun	Long	Corporate interest	2,100,000(4)	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 21,387,200 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 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 LXYY 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 39,799,800 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 21,387,200 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 LXYY 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 39,799,800 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 125,187,200 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 LXYY 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 39,799,800 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.

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	26,943,000
Mr. Ren Jie	Long	5,687,000	35,093,000
Mr. Liu Zhi	Long	5,173,000	35,607,000
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. Shi Xingquan	Long	1,500,000	—
Mr. Guo Yanjun	Long	850,000	—

Saved as disclosed above, at 30 June 2012, none of the Directors and Chief Executives (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for Shares or warrants or debentures, (if applicable) of the Company and its associated corporations required to be disclosed pursuant to the SFO.

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

The register of substantial shareholders required to be kept under section 336 of Part XV of the SFO shows that, at 30 June 2012, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors and Chief Executives of the Company.

		Number of shares held						
		Personal interest						
Name	Long/Short Position	Share option	Shares Interest	Corporate interest	Corporate interest and settlor of a discretionary trust	Interest of the Concert Group	Total	% of the issued share capital of the Company
Ally Giant Limited	Long	–	1,337,727,837	–	–	273,517,200	1,611,245,037[1]	49.98%
Ample Chance International Limited	Long	–	–	1,337,727,837	–	273,517,200	1,611,245,037[2]	49.98%
Wealth Afflux Limited	Long	–	–	1,337,727,837	–	273,517,200	1,611,245,037[3]	49.98%
Ally Smooth Investments Limited	Long	–	–	1,337,727,837	–	273,517,200	1,611,245,037[3]	49.98%
Equity Trustee Limited	Long	–	–	–	1,557,006,237	–	1,557,006,237[3][5][6][9][10][14][20][22]	48.30%
Charm Moral International Limited	Long	–	–	1,337,727,837	–	273,517,200	1,611,245,037[4]	49.98%
Mowbray Worldwide Limited	Long	–	–	1,337,727,837	–	273,517,200	1,611,245,037[5]	49.98%
Ecotech Enterprises Corporation	Long	–	–	1,337,727,837	–	273,517,200	1,611,245,037[6]	49.98%
Mr. Zheng Yong	Long	2,085,000	11,549,000	1,337,727,837	–	259,883,200	1,611,245,037[7]	49.98%
Beauty Clear Holdings Limited	Long	–	–	1,337,727,837	–	273,517,200	1,611,245,037[8]	49.98%
Mr. Zuo Huixian	Long	1,734,000	–	–	1,349,972,237	259,538,800	1,611,245,037[9]	49.98%
Vast & Fast Corporation	Long	–	–	1,337,727,837	–	273,517,200	1,611,245,037[9]	49.98%
Mr. Zhang Xu	Long	1,833,000	–	–	1,349,465,237	259,946,800	1,611,245,037[10]	49.98%
Cavendish Global Corporation	Long	–	–	1,337,727,837	–	273,517,200	1,611,245,037[10]	49.98%
Elegant Scene International Limited	Long	–	–	1,337,727,837	–	273,517,200	1,611,245,037[11]	49.98%
Mr. Wang Jiangyang	Long	1,191,000	4,772,600	1,337,727,837	–	267,553,600	1,611,245,037[11]	49.98%
Mr. Chen Jun	Long	872,000	2,640,400	1,337,727,837	–	270,004,800	1,611,245,037[12]	49.98%
Believe Power International Limited	Long	–	–	1,337,727,837	–	273,517,200	1,611,245,037[13]	49.98%
Mr. Fan Bing	Long	1,744,000	–	–	1,350,068,837	259,432,200	1,611,245,037[14]	49.98%
Brondesbury Enterprises Limited	Long	–	–	1,337,727,837	–	273,517,200	1,611,245,037[14]	49.98%
Mr. Zhang Yanyong	Long	1,480,000	10,479,600	1,337,727,837	–	261,557,600	1,611,245,037[15]	49.98%
Mr. Ao Pei	Long	683,000	727,400	1,337,727,837	–	272,106,800	1,611,245,037[16]	49.98%
Mr. Tian Diyong	Long	550,000	416,400	1,337,727,837	–	272,550,800	1,611,245,037[17]	49.98%
Mr. Shen Dingjian	Long	262,000	798,000	1,337,727,837	–	272,457,200	1,611,245,037[18]	49.98%
Benefit Way International Limited	Long	–	–	1,337,727,837	–	273,517,200	1,611,245,037[19]	49.98%
Mr. Liu Xuetian (deceased)	Long	–	–	–	1,348,180,237	263,064,800	1,611,245,037[20]	49.98%
Dobson Global Inc.	Long	–	–	1,337,727,837	–	273,517,200	1,611,245,037[20]	49.98%
Ms. Qu Yihong	Long	–	–	1,348,180,237	–	263,064,800	1,611,245,037[21]	49.98%
Ms. Liu Ying	Long	–	–	1,348,180,237	–	263,064,800	1,611,245,037[21]	49.98%
Mr. Zhou Bing	Long	1,445,000	5,689,600	–	1,337,727,837	266,382,600	1,611,245,037[22]	49.98%
Darius Enterprises Limited	Long	–	–	1,337,727,837	–	273,517,200	1,611,245,037[22]	49.98%
Ms. Lv Lan	Long	769,000	1,006,800	1,337,727,837	–	271,741,400	1,611,245,037[23]	49.98%
Mr. Tian Yu	Long	605,000	1,148,000	1,337,727,837	–	271,764,200	1,611,245,037[24]	49.98%
Mr. Li Hanqiang	Long	345,000	600	1,337,727,837	–	273,171,600	1,611,245,037[25]	49.98%

Report of the Board

		Number of shares held							
		Personal interest							
Name	Long/Short Position	Share option	Shares Interest	Corporate interest	Corporate interest and settlor of a discretionary trust	Interest of the Concert Group	Total	% of the issued share capital of the Company
Mr. Liu Yingguo	Long	242,000	448,000	1,337,727,837	–	272,827,200	1,611,245,037[26]	49.98%
Ms. Liu Lulu	Long	243,000	123,400	1,337,727,837	–	273,150,800	1,611,245,037[27]	49.98%
China Ocean Oilfields Services (Hong Kong) Limited	Long	–	174,425,609	–	–		174,425,609[28]	5.41%
China National Offshore Oil Corporation	Long	–	–	174,425,609	–	–	174,425,609[28]	5.41%
Nabors Drilling International II Limited	Long	–	450,000,000	–	–	–	450,000,000[29]	13.96%
Nabors International Management Limited	Long	–	–	450,000,000	–	–	450,000,000[29]	13.96%
Nabors Global Holdings Limited	Long	–	–	450,000,000	–	–	450,000,000[29]	13.96%
Nabors Industries Ltd.	Long	–	–	450,000,000	–	–	450,000,000[29]	13.96%
Carlyle Offshore Partners II. Ltd	Long	–	–	166,841,887	–	–	166,841,887[30]	5.18%
DBD Cayman, Ltd	Long	–	–	166,841,887	–	–	166,841,887[30]	5.18%
TCG Holdings Cayman II, L.P.	Long	–	–	166,841,887	–	–	166,841,887[30]	5.18%
The Capital Group Companies, Inc.	Long	–	–	161,330,000	–	–	161,330,000[31]	5.00%
Capital Group International, Inc.	Long	–	–	161,330,000	–	–	161,330,000[31]	5.00%
Ms. Yi Langlin	Long	–	2,156,000 1,609,089,037 (family interest)	–	–	–	1,611,245,037[32]	49.98%

(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.

(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 7.30% by Ao Pei, approximately 2.85% by Tian Diyong, approximately 2.24% by Shen Dingjian, and a total of approximately 25.73% 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 7.30% of the issued share capital of Believe Power International Limited, which in turn is the beneficial owner of approximately 12.71% of the issued share capital of Ample Chance International Limited. Ao Pei is a member of the Concert Group.

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

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

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

(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 Yingguo is a member of the Concert Group.

(27) Liu Lulu is the beneficial owner of approximately 1.22% of the issued share capital of Benefit Way International Limited, which in turn is the beneficial owner of approximately 10.50% of 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) The Capital Group Companies holds 161,330,000 Shares. The Capital Group Companies, Inc is a direct, wholly owned subsidiary of Capital Group International, Inc.

(32) Yi Langlin, spouse of Zhang Mi, is deemed to be interested in 1,609,089,037 Shares.

Save as disclosed above, to the best of the Directors and the Chief Executives of the Company's knowledge, as at 30 June 2012, 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 2012, none of the grantees has exercised the share options granted to him under the Pre-IPO share option scheme and 2,736,000 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 2012, 100% of the total number of the share options granted (if not cancelled) or 60,000,000 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 2019. 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 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.

On 5 April 2012, share options to subscribe for a total of 15,400,000 shares were granted to the grantees (out of which 590,000 shares were granted to certain substantial Shareholders) at an exercise price of HK$1.19 per Share under the Share Option Scheme, which represents the highest of (i) the closing price of HK$1.19 per Share as stated in the daily quotations sheet issued by the Stock Exchange on the date of grant of the Share Options, i.e. 5 April 2012 (the "Date of Grant"); (ii) the average closing price of HK$1.134 per Share as stated in the daily quotations sheet 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 5 April 2013 by the grantees with details as follows: (1). up to 30% of the Share Options granted to each grantee from 5 April 2013 to 4 April 2014; (2) up to 60% of the Share Options granted to each grantee on or before 4 April 2015; (3) all the remaining Share Options granted to each grantee on or after 5 April 2015; and in each case, not later than 4 April 2022. The valid period of the share options is up to 4 April 2022.

Particulars and movements of share options under the Share Option Scheme during the six months ended 30 June 2012 were as follows:

Name or category of participant	Number of share options: Outstanding as at 01/01/2012	Granted during the six months ended 30 June 2012	Exercised during the six months ended 30 June 2012	Lapsed during the six months ended 30 June 2012	Cancelled during the six months ended 30 June 2012	Outstanding as at 30/06/2012	Date of grant (DD/MM/YY)	Exercise period (DD/MM/YY)	Exercise price per Share HK$	Price per Share immediately preceding the grant date of share options HK$
Directors										
Mr. Zhang Mi	3,937,000	–	–	–	–	3,937,000	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
Mr. Liu Zhi	2,373,000	–	–	–	–	2,373,000	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
Mr. Ren Jie	2,587,000	–	–	–	–	2,587,000	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
Mr. Chen Guoming	750,000	–	–	–	–	750,000	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
	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. 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	850,000	–	–	–	–	850,000	20/06/2011	19/07/2011–19/06/2021	0.83	0.79
Sub-total	18,447,000	–	–	–	–	18,447,000				

Report of the Board

Name or category of participant	Number of share options: Outstanding as at 01/01/2012	Granted during the six months ended 30 June 2012	Exercised during the six months ended 30 June 2012	Lapsed during the six months ended 30 June 2012	Cancelled during the six months ended 30 June 2012	Outstanding as at 30/06/2012	Date of grant (DD/MM/YY)	Exercise period (DD/MM/YY)	Exercise price per Share HK$	Price per Share immediately preceding the grant date of share options HK$
Substantial Shareholders										
Mr. Zheng Yong	695,000	–	–	–	–	695,000	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
Mr. Zuo Huixian	674,000	–	–	–	–	674,000	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
Mr. Zhang Xu	642,000	–	–	–	–	642,000	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
Mr. Wang Jiangyang	301,000	–	–	–	–	301,000	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
	–	250,000	–	–	–	250,000	05/04/2012	05/04/2013–04/04/2022	1.19	1.20
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
	–	250,000	–	–	–	250,000	05/04/2012	05/04/2012–04/04/2022	1.19	1.20
Mr. Tian Yu	275,000	–	–	–	–	275,000	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
	–	90,000	–	–	–	90,000	05/04/2012	05/04/2012–04/04/2022	1.19	1.20
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	590,000	–	–	–	6,307,000				
Other										
Employee	37,958,300	–	–	491,000	–	37,467,300	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
Employee	2,200,000	–	–	–	–	2,200,000	11/10/2010	25/10/2010–10/10/2020	1.05	1.01
Employee	2,400,000	–	100,000	–	–	2,300,000	20/06/2011	19/07/2011–19/06/2021	0.83	0.79
Employee	–	14,810,000	–	–	–	14,810,000	05/04/2012	05/04/2013–04/04/2022	1.19	1.20
Sub-total	42,558,300	14,810,000	100,000	491,000		56,777,300	–	–	–	–
Total	66,772,300	15,400,000	100,000	491,000	–	81,531,300	–	–	–	–

RESTRICTED SHARE AWARD SCHEME

On 30 December 2011, the Board approved and adopted a restricted share award scheme in which Selected Participant(s) including any Employee or Director (including, without limitation, any Executive Directors, Non-executive Directors or Independent Non-executive Directors), any consultant or adviser (whether on any employment or contractual or honorary basis and whether paid or unpaid) of the Company or any member of the Group, who in the absolute opinion of the Board, have contributed to the Company or the Group. Pursuant to the Scheme Rules, existing Shares will be purchased by the Trustee from the market out of cash contributed by the Company and be held in trust for the relevant Selected Participant until such Shares are vested with the relevant Selected Participants in accordance with the Scheme Rules. The Scheme shall be effective for a term of 10 years commencing on the Adoption Date subject to any early termination as may be determined by the Board. The Board will implement the Scheme in accordance with the Scheme Rules including providing necessary funds to the Trustee to purchase for Shares up to 5% of the issued share capital of the Company from time to time. The Selected Participant is not entitled to receive any income or distribution, such as dividend derived from the Restricted Shares allocated to him, prior to the vesting of the Restricted Shares in the Selected Participants. During the six months period ended 30 June 2012, the Trustee has purchased 47,817,000 of the Company's Shares, accounting for 1.48% of the issued share capital of the Company and no Shares was granted to the Selected Participants.

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

Save for the Trustee of the restricted share award scheme, 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 2012.

AUDIT COMMITTEE

The Audit Committee of the Company comprises all the Independent Non-executive Directors with written terms of its responsibilities and powers pursuant to the Listing Rules, the Former Code and the Revised Code. The Audit Committee is primarily 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 2012.

Report of the Board

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES/CODE PROVISIONS IN THE CORPORATE GOVERNANCE CODE

The Stock Exchange has enhanced the Code on Corporate Governance Practices, the Former Code, set out in Appendix 14 of the Listing Rules, where the Revised Code, namely Corporate Governance Code, has become effective on 1 April 2012.

The Company has complied with the code provisions of the Former Code and the Revised Code throughout the respective periods from (i) 1 January 2012 to 31 March 2012; and (ii) 1 April 2012 to 30 June 2012, except for the deviations as mentioned below.

Based on the Code Provision A.2.1 of Corporate Governance Code, the roles of Chairman and Chief Executive should be separate and should not be performed by the same individual. However, Mr. Zhang Mi is the Chairman of the Board and President (Chief Executive) 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) 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 the 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) of the Company.

Based on the Code Provision A.6.7 of Corporate Governance Code, independent non-executive directors and non-executive directors should attend general meetings. Four Independent Non-executive Directors and two Non-executive Directors were absent from last annual general meeting of the Company held in May 2012 due to their respective other important engagements at the relevant time.

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

Hong Kong, 28 August 2012

Independent Review Report

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 36 to 66 which comprises the consolidated balance sheet of Honghua Group Limited as at 30 June 2012 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.

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 2012 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

28 August 2012

Consolidated Income Statement

for the six months ended 30 June 2012 — unaudited
(Expressed in Renminbi)

		Six months ended 30 June	
		2012	2011
	Note	**RMB'000**	RMB'000
Turnover	3	**1,969,330**	1,295,290
Cost of sales		**(1,228,300)**	(965,265)
Gross profit		**741,030**	330,025
Other revenue	5	**15,945**	2,417
Other net gain/(loss)		**2,098**	(71)
Selling expenses		**(243,608)**	(75,945)
General and administrative expenses		**(208,783)**	(172,016)
Other operating expenses	6	**(37,347)**	(560)
Profit from operations		**269,335**	83,850
Finance income		**33,481**	10,840
Finance expenses		**(22,995)**	(16,623)
Net finance income/(expenses)	7(a)	**10,486**	(5,783)
Share of profit from an associate		**4,484**	1,757
Share of loss from jointly controlled entities		**(6,146)**	(4,537)
Profit before taxation	7	**278,159**	75,287
Income tax expenses	8	**(62,149)**	(15,059)
Profit for the period		**216,010**	60,228
Attributable to:			
Equity shareholders of the company		**209,660**	52,774
Non-controlling interests		**6,350**	7,454
Profit for the period		**216,010**	60,228
Earnings per share — Basic	9(a)	**0.06530**	0.01637
Earnings per share — Diluted	9(b)	**0.06527**	0.01637

The accompanying notes form part of this interim financial report. Details of dividends payable to equity shareholders of the company are set out in note 19(c).

Consolidated Statement of Comprehensive Income

for the six months ended 30 June 2012 — unaudited
(Expressed in Renminbi)

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Profit for the period	**216,010**	60,228
Other comprehensive income for the period:		
Exchange differences on translation of financial statements of operations outside the People's Republic of China ("PRC"), net of tax	**(4,307)**	(10,872)
Total comprehensive income for the period	**211,703**	49,356
Attributable to:		
Equity shareholders of the company	**205,358**	41,957
Non-controlling interests	**6,345**	7,399
Total comprehensive income for the period	**211,703**	49,356

The accompanying notes form part of this interim financial report.

Consolidated Balance Sheet

at 30 June 2012 — unaudited
(Expressed in Renminbi)

	Note	30 June 2012 RMB'000	31 December 2011 RMB'000
Non-current assets			
Fixed assets	10		
— Property, plant and equipment		**805,748**	678,597
— Interests in leasehold land held for own use under operating leases		**209,898**	181,189
— Freehold land		**5,099**	5,080
		1,020,745	864,866
Deposits paid for acquisition of leasehold land		**207,699**	192,830
Construction in progress		**699,150**	402,065
Intangible assets	11	**220,107**	235,994
Interest in an associate		**67,889**	63,405
Interests in jointly controlled entities		**32,989**	38,919
Deferred tax assets		**105,819**	84,253
Long-term receivables	12	**205,146**	—
Total non-current assets		**2,559,544**	1,882,332
Current assets			
Inventories	13	**2,037,158**	1,544,127
Trade and other receivables	14	**1,593,728**	1,562,410
Amounts due from related companies		**29,865**	64,854
Current tax recoverable		**17,320**	34,418
Other financial assets		**270,000**	678,000
Pledged bank deposits	15	**255,243**	65,612
Bank deposits maturing over three months		**17,607**	9,100
Cash and cash equivalents		**1,981,793**	851,847
Total current assets		**6,202,714**	4,810,368
Current liabilities			
Interest-bearing borrowings	16	**472,837**	499,738
Amounts due to related companies		**21,563**	28,290
Trade and other payables	17	**3,499,528**	1,531,323
Current tax payable		**23,200**	38,543
Provisions	18	**49,927**	21,243
Total current liabilities		**4,067,055**	2,119,137

Consolidated Balance Sheet

at 30 June 2012 — unaudited
(Expressed in Renminbi)

	Note	30 June 2012 RMB'000	31 December 2011 RMB'000
Net current assets		**2,135,659**	2,691,231
Total assets less current liabilities		**4,695,203**	4,573,563
Non-current liabilities			
Interest-bearing borrowings	16	**400,000**	380,000
Deferred tax liabilities		**25,482**	18,705
Total non-current liabilities		**425,482**	398,705
Net assets		**4,269,721**	4,174,858
Equity	19		
Share capital		**299,602**	299,593
Reserves		**3,833,599**	3,758,990
Total equity attributable to equity shareholders of the company		**4,133,201**	4,058,583
Non-controlling interests		**136,520**	116,275
Total equity		**4,269,721**	4,174,858

Approved and authorised for issue by the board of directors on 28 August 2012.

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 2012 — unaudited
(Expressed in Renminbi)

	Attributable to equity shareholders of the company										
	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000	Capital reserve RMB'000	Surplus reserve RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Shares held for share award scheme RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2012	299,593	2,477,519	57,472	493,810	220,033	(193,135)	703,291	–	4,058,583	116,275	4,174,858
Acquisition of a business (see note 4)	–	–	–	–	–	–	–	–	–	36,000	36,000
Capital contribution arising on shareholders' indemnity (see note 18(a))	–	–	–	26,933	–	–	–	–	26,933	–	26,933
Acquisition of non-controlling interests	–	–	(5,880)	–	–	–	–	–	(5,880)	(23,081)	(28,961)
Liquidation of a subsidiary	–	–	–	–	–	–	–	–	–	981	981
Shares purchased under share award scheme (see note 19(b))	–	–	–	–	–	–	–	(49,973)	(49,973)	–	(49,973)
Equity-settled share-based transactions (see note 19(a))	–	–	–	2,773	–	–	–	–	2,773	–	2,773
Shares issued under share option scheme (see note 19(a))	9	98	–	–	–	–	–	–	107	–	107
Options lapsed under share option schemes	–	–	–	(148)	–	–	148	–	–	–	–
Dividends approved in respect of the previous financial year (see note 19(c))	–	–	–	–	–	–	(104,700)	–	(104,700)	–	(104,700)
Total comprehensive income for the period	–	–	–	–	–	(4,302)	209,660	–	205,358	6,345	211,703
At 30 June 2012	299,602	2,477,617	51,592	523,368	220,033	(197,437)	808,399	(49,973)	4,133,201	136,520	4,269,721

	Attributable to equity shareholders of the company									
	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000	Capital reserve RMB'000	Surplus reserve RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2011	299,593	2,477,519	57,472	488,318	211,551	(112,614)	541,691	3,963,530	107,261	4,070,791
Equity-settled share-based transactions (see note 19(a))	–	–	–	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
At 30 June 2011	299,593	2,477,519	57,472	491,478	211,551	(123,431)	595,617	4,009,799	114,660	4,124,459

The accompanying notes form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

for the six months ended 30 June 2012 — unaudited
(Expressed in Renminbi)

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Cash generated from/(used in) operations	**1,378,105**	(213,848)
Income tax paid	**(79,246)**	(11,590)
Net cash generated from/(used in) operating activities	**1,298,859**	(225,438)
Net cash generated from investing activities	**20,815**	284,945
Net cash (used in)/generated from financing activities	**(193,005)**	367,559
Net increase in cash and cash equivalents	**1,126,669**	427,066
Cash and cash equivalents at 1 January	**851,847**	1,002,727
Effect of foreign exchange rates changes	**3,277**	(8,303)
Cash and cash equivalents at 30 June	**1,981,793**	1,421,490

The accompanying notes form part of this interim financial report.

1 BASIS OF PRESENTATION AND PREPARATION

(a) General information

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

The interim financial report for the six months ended 30 June 2012 comprises the company and its subsidiaries (collectively referred to as the "group") and the group's interests in an associate and jointly controlled entities.

On 17 February 2012, the group obtained control over a business pursuant to an agreement entered by Sichuan Honghua Petroleum Equipment Co., Ltd. ("Honghua Company") and Gansu Huateng Oil & Gas Equipment Manufacturing Co., Ltd. ("Gansu Huateng") on 5 December 2011. Details of the business combination are set out in note 4.

On 8 March 2012, one of the subsidiaries of the group, Honghua Company entered into an Equity Transfer Agreement (the "Agreement") with nine individual shareholders of Sichuan Honghua Youxin Petroleum Machinery Co., Ltd. ("Youxin Company") respectively. Pursuant to the Agreement, Honghua Company acquired 20% equity interest in Youxin Company held by the nine individual shareholders at the consideration of RMB28,961,700. Upon completion of the acquisition, the group's effective interest in Youxin Company increased from 80% to 100%.

On 27 March 2012, the group has completed the de-registration of Hi Tech Drilling Company Limited, a 81% owned subsidiary of the group. The subsidiary had remained dormant and derived no revenue since its establishment through its de-registration.

The changes in composition of the group do not have a material effect on the results of operation and financial position of the group for the period presented.

1 BASIS OF PRESENTATION AND PREPARATION (continued)

(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 28 August 2012.

The interim financial report has also been prepared in accordance with the same accounting policies adopted by the group in the 2011 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2012 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 2011 annual financial statements.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the group since the 2011 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 2011.

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 35.

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

1 BASIS OF PRESENTATION AND PREPARATION (continued)

(b) Basis of preparation (continued)

The financial information relating to the financial year ended 31 December 2011 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 2011 are available from the company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 20 March 2012.

2 CHANGES IN ACCOUNTING POLICIES

The IASB has issued a number of amendments to IFRSs that are first effective for the current accounting period of the group and the company. These include the amendments to *IFRS 7 Financial instruments: disclosures* concerning transfers of financial assets require certain disclosures to be included in the annual financial statements in respect of all transferred financial assets that are not derecognised and for any continuing involvement in a transferred asset existing at the reporting date, irrespective of when the related transfer transaction occurred.

None of the other developments are relevant to the group's financial statements and 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 TURNOVER AND SEGMENT REPORTING

(a) Turnover

The principal activities of the group are manufacturing, sale and trading of land drilling rigs, offshore drilling rigs and related parts and components. Turnover represents revenue recognised for the sales value of goods supplied to customers net of value-added tax, returns and trade discounts.

For the six months ended 30 June 2012, the group's customer base include one customer (six months ended 30 June 2011: four customers) with whom transactions representing 64% (six months ended 30 June 2011: 16%, 15%, 12% and 12%) of the group's revenue. For the six months ended 30 June 2012, revenues from sales of drilling rigs and related parts and components to this customer arose in Americas region (six months ended 30 June 2011: Middle East region, Europe and Central Asia region, Americas region, and Europe and Central Asia region, respectively).

3 TURNOVER AND SEGMENT REPORTING (continued)

(b) 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.

	Land drilling rigs		Offshore drilling rigs		Parts, components and others		Total	
For the six months ended 30 June	**2012 RMB'000**	2011 RMB'000	**2012 RMB'000**	2011 RMB'000	**2012 RMB'000**	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
Revenue from external customers	**1,610,219**	907,454	**13,323**	–	**345,788**	387,836	**1,969,330**	1,295,290
Inter-segment revenue	**–**	–	**–**	–	**517,128**	312,184	**517,128**	312,184
Reportable segment revenue	**1,610,219**	907,454	**13,323**	–	**862,916**	700,020	**2,486,458**	1,607,474
Reportable segment profit/(loss)	**387,503**	89,776	**(26,312)**	(22,295)	**19,159**	36,165	**380,350**	103,646
As at 30 June/ 31 December	**2012 RMB'000**	2011 RMB'000	**2012 RMB'000**	2011 RMB'000	**2012 RMB'000**	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
Reportable segment assets	**1,989,521**	2,461,847	**1,100,450**	960,013	**2,121,844**	1,516,210	**5,211,815**	4,938,070

3 TURNOVER AND SEGMENT REPORTING (continued)

(b) Segment reporting (continued)

(i) Reconciliation of reportable segment profit

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Profit		
Reportable segment profit	**380,350**	103,646
Elimination of inter-segment profits	**(89,803)**	(19,707)
Reportable segment profit derived from group's external customers	**290,547**	83,939
Share of profit from an associate	**4,484**	1,757
Share of loss from jointly controlled entities	**(6,146)**	(4,537)
Other revenue, other operating expenses and other net gain/(loss)	**(19,304)**	1,786
Net finance income/(expenses)	**10,486**	(5,783)
Unallocated head office and corporate expenses	**(1,908)**	(1,875)
Consolidated profit before taxation	**278,159**	75,287

(ii) 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, than the second half.

4 BUSINESS COMBINATION

Pursuant to an agreement entered between Honghua Company, the wholly-owned subsidiary of the company, and Gansu Huateng dated 5 December 2011, Honghua Company obtained control from Gansu Huateng on 17 February 2012 of a group of assets which constitute a business of manufacturing and sales of special vehicles, pressure container, equipments in relation with oil rigging, mining drilling, refining and chemicals engineering for cash consideration of RMB39,000,000 and equity interests in Honghua Company. As a result, the group held 70% effective interest in the acquired business.

Details of the provisional fair value of net identifiable assets acquired are as follows:

	Provisional fair value of net identifiable assets acquired as at the acquisition date RMB'000
Fixed assets	
— property, plant and equipment	27,194
— interests in leasehold land held for own use under operating lease	30,020
Construction in progress	1,614
Inventories	16,172
Total net identifiable assets at provisional fair value	75,000

The fair values are determined provisionally based on information available up to the date of this report. The directors are in the process of finalising the valuation of the net identifiable assets acquired. If new information obtained within one year from the acquisition date about facts and circumstances that existed at the acquisition date identifies adjustments to the above amounts, or any additional provisions that existed at the acquisition date, then the acquisition accounting will be revised.

	RMB'000
Cash consideration	39,000
Provisional fair value of non-controlling interests in Honghua Company (note 2)	36,000
Provisional fair value of total identifiable net assets	75,000
Net cash outflow arising from acquisition (note 3):	27,000
Cash and cash equivalent balances acquired	—

4 BUSINESS COMBINATION (continued)

Note 1: Since the date of the acquisition, the subsidiary contributed a loss of RMB377,659 to the group.

Note 2: The group has chosen to measure the non-controlling interests ("NCI") in Honghua Company at fair value for this acquisition. The fair value of the NCI of RMB36,000,000 is determined provisionally based on information available up to the date of this report.

Note 3: The cash outflow as at 30 June 2012 amounted to RMB 27,000,000 and the deferred cash consideration of RMB12,000,000 has been recorded in other payables in note 17.

5 OTHER REVENUE

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Repair services income	**3,312**	688
Government grants (note)	**11,936**	1,496
Others	**697**	233
	15,945	2,417

Note: Government grants are subsidies received from government mainly for industry development encouragement.

6 OTHER OPERATING EXPENSES

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Provision for a legal claim (see note 18(a))	**31,686**	—
Others	**5,661**	560
	37,347	560

7 PROFIT BEFORE TAXATION

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

(a) Net finance (income)/expenses

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Interest income on bank deposits	**(14,390)**	(3,963)
Interest income on disposal of other financial assets	**(16,320)**	(6,877)
Net foreign exchange gain	**(2,771)**	—
Finance income	**(33,481)**	(10,840)
Bank charges	**6,199**	2,536
Net foreign exchange loss	**—**	1,517
Interest on interest-bearing borrowings wholly repayable within five years	**32,760**	19,904
Less: interest expense capitalised into assets under construction*	**(15,964)**	(7,334)
Finance expenses	**22,995**	16,623
Net finance (income)/expenses	**(10,486)**	5,783

* The borrowing costs have been capitalised at a rate of 1.97%—7.70% per annum (six months ended 30 June 2011: 2.29%–6.97%).

(b) Staff costs

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Contributions to defined contribution retirement schemes	**26,137**	23,316
Equity-settled share-based payment expenses	**2,773**	4,312
Salaries, wages and other benefits	**172,124**	134,320
	201,034	161,948

7 PROFIT BEFORE TAXATION (continued)

(c) Other items

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Amortisation and depreciation		
— leasehold land held for own use under operating leases	**1,345**	1,433
— other assets	**42,824**	30,220
— intangible assets	**17,608**	17,560
Impairment losses on trade and other receivables	**28,811**	13,712
Operating lease charges: properties	**3,028**	2,033
Provision for product warranties	**5,705**	19,130
Research and development costs other than amortisation costs (note)	**18,546**	22,286

Note: The amounts included staff costs of employees in the Research and Development Department totaling RMB14,378,458, which are included in the total staff costs as disclosed in note 7(b) above.

8 INCOME TAX EXPENSES

(a) Taxation in the consolidated income statement represents:

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Current tax — outside Hong Kong		
Provision for the period	**80,031**	15,426
Under-provision in respect of prior years	**1,660**	523
	81,691	15,949
Deferred tax		
Origination and reversal of temporary differences	**(19,542)**	(890)
Income tax expenses	**62,149**	15,059

8 INCOME TAX EXPENSES (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 2011 and 2012.

(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 2012 and 2011, except for the following companies:

(a) Honghua Company

Honghua Company is a wholly foreign-owned enterprise, income tax is accrued at a tax rate of 15% applicable for Hi-Tech Enterprises pursuant to the relevant PRC tax rules and regulations during the six months ended 30 June 2011 and 2012.

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

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"). The Tax Concession needs to be applied annually. Hongtian Company and Youxin Company applied for and successfully obtained the Tax Concession with 15% preferential income tax rate during the 12 months ended 31 December 2011. The directors of the company assess that it is highly probable that these two subsidiaries will continue to be granted with the Tax Concession upon their application for renewal, and accordingly provision for PRC enterprise income tax for these two subsidiaries were made at the preferential rate of 15% in this interim financial report.

(iii) Russian Federation

In accordance with the Russian tax legislation, Russia Honghua Co., Ltd. ("Russia Honghua") is subject to corporate profits tax at a rate of 20%. No provision for Russian Profits Tax has been made as Russia Honghua did not earn any assessable profits during the period ended 30 June 2011 and 2012.

8 INCOME TAX EXPENSES (continued)

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

(iv) United States of America ("US")

Honghua America LLC ("Honghua America") is treated as a partnership for US federal income tax purpose and therefore makes no provision for federal and state income taxes while the partners are responsible for the tax on their share of the taxable income or loss and any available tax credits on their income tax returns. However, Honghua America is required, among other things, to withhold US federal income tax on fixed or determinable annual or periodic US source income gains and profits allocable to its foreign partners as required under applicable US tax law. It is also required to pay withholding tax with respect to the effectively connected taxable income for a taxable year allocable to any of its foreign partners as required under applicable US tax law.

(v) Others

Taxation for other entities is charged at their respective applicable tax rates ruling in the relevant jurisdictions.

(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.

9 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2012 is based on the profit attributable to equity shareholders of the company for the period of RMB209,660,000 (six months ended 30 June 2011: profit of RMB52,774,000) and the weighted average number of shares of 3,210,765,021 (six months ended 30 June 2011: 3,223,798,400 shares) in issue during the interim period.

9 EARNINGS PER SHARE (continued)

(a) Basic earnings per share (continued)

Weighted average number of ordinary shares

	2012	2011
Issued ordinary shares at 1 January	**3,223,798,400**	3,223,798,400
Effect of shares repurchased for share award scheme (see note 19(b))	**(13,077,335)**	—
Effect of share options exercised	**43,956**	—
Weighted average number of ordinary shares at 30 June	**3,210,765,021**	3,223,798,400

(b) Diluted earnings per share

The calculation of diluted earnings per share for the six months ended 30 June 2012, is based on the profit attributable to equity shareholders of the company of RMB209,660,000 (six months ended 30 June 2011: profit of RMB52,774,000) and the weighted average number of shares of 3,212,351,021 (six months ended 30 June 2011: 3,223,798,400 shares), calculated as follows:

Weighted average number of ordinary shares (diluted)

	2012	2011
Weighted average number of ordinary shares at 30 June	**3,210,765,021**	3,223,798,400
Effect of deemed issue of shares under the company's share option scheme for nil consideration	**1,586,000**	—
Weighted average number of ordinary shares (diluted) at 30 June	**3,212,351,021**	3,223,798,400

10 FIXED ASSETS

	2012 RMB'000	2011 RMB'000
Net book value, at 1 January	**864,866**	674,971
Additions	**136,527**	223,735
Acquisition through business combination (see note 4)	**57,214**	—
Transfer from construction in progress	**6,809**	46,323
Disposals (net carrying amount)	**(834)**	(2,668)
Amortisation and depreciation charge for the period	**(44,169)**	(71,323)
Exchange difference	**332**	(6,172)
Net book value, at 30 June/31 December	**1,020,745**	864,866

11 INTANGIBLE ASSETS

	2012 RMB'000	2011 RMB'000
Net book value, at 1 January	**235,994**	272,585
Additions	**516**	10,234
Amortisation for the period	**(17,608)**	(34,741)
Exchange difference	**1,205**	(12,084)
Net book value, at 30 June/31 December	**220,107**	235,994

12 LONG-TERM RECEIVABLES

Long-term receivables mainly represent receivables from installment sales at the agreed interest rates and maturity dates.

13 INVENTORIES

(a) Inventories in the consolidated balance sheet comprise:

	30 June 2012 RMB'000	31 December 2011 RMB'000
Raw materials	**519,639**	520,732
Work in progress	**937,015**	586,965
Finished goods	**420,923**	425,912
Goods in transit	**159,581**	10,518
	2,037,158	1,544,127

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

	Six months ended 30 June	
	2012 RMB'000	2011 RMB'000
Carrying amount of inventories sold	**1,171,991**	941,659
Write-down of inventories	**50,605**	4,501
	1,222,596	946,160

14 TRADE AND OTHER RECEIVABLES

	30 June 2012 RMB'000	31 December 2011 RMB'000
Trade receivables	**910,311**	1,235,780
Bills receivable	**6,500**	1,700
Less: Allowance for doubtful debts (see note 14(b))	**(168,910)**	(140,099)
Sub-total	**747,901**	1,097,381
Value-added tax recoverable	**233,743**	223,019
Prepayments	**425,545**	120,734
Other receivables (note)	**186,539**	121,276
	1,593,728	1,562,410

Note: Included in other receivables of the group as at 30 June 2012, RMB31,686,000 (31 December 2011: Nil) is the amount to be indemnified by the Indemnifiers in relation to a legal claim, details of which are set in note 18(a).

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

(a) Ageing analysis

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

	30 June 2012 RMB'000	31 December 2011 RMB'000
Current	**326,631**	770,419
Less than 1 month past due	**3,468**	12,017
1 to 3 months past due	**2,734**	25,136
More than 3 months but less than 12 months past due	**288,222**	213,628
More than 1 year past due	**126,846**	76,181
	747,901	1,097,381

The group maintains different billing policies for different customers based on the negotiated terms with each of the customers. The group will bill different percentages of the contract price at different stages such as upon the signing of contracts and upon the delivery of products. The exact percentage of each part of payment varies from contract to contract. Trade receivables are due for payment upon the group presenting the bills to the customers.

14 TRADE AND OTHER RECEIVABLES (continued)

(b) Impairment of trade receivables and bills receivable

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

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

	2012 **RMB'000**	2011 RMB'000
At 1 January	**140,099**	126,273
Provision for impairment losses	**28,811**	13,826
At 30 June/31 December	**168,910**	140,099

At 30 June 2012, the group's trade receivables and bills receivable of RMB144,655,000 (31 December 2011: RMB126,273,000) was individually determined to be impaired. The individually impaired receivables relate to customers that are in financial difficulties and management assesses the recoverability is doubtful but not remote.

Consequently, specific allowances for doubtful debts of RMB144,655,000 (2011: RMB126,273,000) were recognised. The group does not hold any collateral over these balances.

(c) Trade receivables that are not impaired

The ageing analysis of trade receivables and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

	2012 **RMB'000**	2011 RMB'000
Neither past due nor impaired	**326,631**	770,419
Less than 1 month past due	**3,468**	12,017
1 to 3 months past due	**2,734**	25,136
More than 3 months but less than 12 months past due	**288,222**	213,628
Past due but not impaired	**294,424**	250,781

14 TRADE AND OTHER RECEIVABLES (continued)

(c) Trade receivables that are not impaired (continued)

Receivables that were neither past due nor impaired (disclosed as current in the table given in note 14(a)) relate to a wide range of customers for whom there was no recent history of default.

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

15 PLEDGED BANK DEPOSITS

The deposits are pledged to banks as security against bills payable (see note 17) and certain banking facilities (see note 16) granted to the group.

16 INTEREST-BEARING BORROWINGS

The interest-bearing borrowings were as follows:

	30 June 2012 RMB'000	31 December 2011 RMB'000
Bank loans — secured	**23,282**	13,232
Bank loans — unsecured	**849,555**	866,506
Total	**872,837**	879,738

The interest-bearing borrowings were repayable as follows:

	30 June 2012 RMB'000	31 December 2011 RMB'000
Within 1 year	**472,837**	499,738
After 1 year but within 2 years	**240,000**	150,000
After 2 years but within 5 years	**160,000**	230,000
	400,000	380,000
Total	**872,837**	879,738

16 INTEREST-BEARING BORROWINGS (continued)

Interest-bearing borrowings amounted to RMB23,282,000 as at 30 June 2012 (31 December 2011: RMB13,232,000) are secured by all assets of a subsidiary with an aggregate carrying value of RMB247,683,000 (31 December 2011: RMB328,934,000) and land use right and a plant of a subsidiary with an aggregate carrying value of RMB35,601,610 (31 December 2011: RMB Nil).

The interest-bearing borrowings at 30 June 2012 bear annual interest ranging from 1.97%–7.70% (31 December 2011: 2.29% to 6.97%).

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 breaches the covenants, the drawn down facilities would become payable on demand. The group regularly monitors its compliance with these covenants. As at 30 June 2012 and 31 December 2011, none of the covenants relating to drawn down facilities had been breached.

17 TRADE AND OTHER PAYABLES

	30 June 2012 RMB'000	31 December 2011 RMB'000
Trade payables	**836,740**	596,907
Bills payable	**509,880**	289,439
Receipts in advance	**1,834,316**	256,804
Other payables (note 4(3))	**318,592**	388,173
	3,499,528	1,531,323

Bills payable as at 30 June 2012 and 31 December 2011 were secured by pledged bank deposits (see note 15). Included in other payables was an amount due to acquire Gansu Huateng of RMB12,000,000 for the acquisition of a group of assets that constituted a business (see note 4).

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 payables based on the invoice date is as follows:

	30 June 2012 RMB'000	31 December 2011 RMB'000
Within 3 months	**914,016**	527,180
3 months to 6 months	**223,524**	172,924
6 months to 1 year	**57,028**	63,170
Over 1 year	**152,052**	123,072
	1,346,620	886,346

18 PROVISIONS

	30 June 2012 RMB'000	31 December 2011 RMB'000
Provision for a legal claim (a)	**31,686**	—
Provision for product warranties (b)	**18,241**	21,243
	49,927	21,243

(a) Provision for a legal claim

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 the 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. 64 of the 728 original 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. On 17 July 2008, another 2 individuals refused to accept the buy-out arrangement and payment from Honghua Company and sought the same relief as the 57 plaintiffs mentioned above.

On 23 June 2011, the 57 plaintiffs applied to amend and add claims including one against Honghua Company for damages of RMB341,949,961.58, including shares and dividend. The Court held a hearing for these amended claims on 30 September 2011.

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

18 PROVISIONS (continued)

(a) Provision for a legal claim (continued)

On 18 April 2012, Honghua Company received the first instance judgment ((2008) Cheng Min Chu Zi No. 53) from Chengdu Intermediate Court as follows: (1) within 30 days from the effective date of the Judgment, Honghua Company shall pay to the plaintiffs' the economic loss of RMB20,728,750 and dividend of RMB296,125 together with their respective interests thereon (for the period from 26 April 2006 to the date when the payment is fully paid, based on the current interest rate of one year term loan of the People's Bank of China); (2) within 30 days from the effective date of the judgment, Honghua Company shall pay to the plaintiffs' other economic loss of RMB100,000; (3) the plaintiffs' other claims were dismissed. For the proceedings acceptance fee of RMB1,751,549, RMB200,000 shall be borne by the plaintiffs, and RMB1,551,549 shall be borne by Honghua Company.

The management take the view that Honghua Company's repurchase of the equity interest and capital reduction were conducted under the PRC law. Honghua Company has therefore filed an appeal to the Sichuan Higher People's Court pursuant to the applicable law on 3 May 2012. The hearing is arranged by the court to be held on 12 September 2012.

A deed of indemnity in respect of the dispute and risk dated 15 February 2008 was entered into between some beneficiary owners of the company (herein as defined "Indemnifiers") in favor of the group pursuant to which each of the Indemnifiers jointly and severally provide an indemnity to any members of the group for potential damages that the company may suffer as a result of the legal proceedings initiated by the 57 plaintiffs or the dispute with the 64 individuals.

As at 30 June 2012, a provision for the above legal claim of RMB31,686,000 has been made. Pursuant to the deed of indemnity, the group has the right to claim from the Indemnifiers the same amount of loss suffered from the legal claim. Accordingly, receivables from the Indemnifiers of the same amount and the corresponding credit to capital reserve (net of tax) have been recognised in the financial statements. There is no impact on both the net assets and cashflow of the group.

(b) Provision for product warranties

	2012 RMB'000	2011 RMB'000
At 1 January	**21,243**	15,738
Provision made	**5,705**	26,912
Utilised during the period/year	**(8,707)**	(21,407)
At 30 June/31 December	**18,241**	21,243

18 PROVISIONS (continued)

(b) Provision for product warranties (continued)

Under the terms of the group's sales arrangements, the group will rectify any product defects arising within the period specified in the respective sales contracts. The provision is based on estimates made from historical warranty data associated with similar products. The group expects to incur most of the liability over the next year.

19 SHARE CAPITAL, RESERVES AND DIVIDENDS

(a) Share option scheme

During the six months ended 30 June 2012, equity-settled share options were granted to certain senior management and employees of the group to subscribe for 15,400,000 new shares of the company at an exercise price of HK$1.19 per share.

During the six months ended 30 June 2012, 100,000 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 in 2011 with exercise price of HK$0.83.

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.

(b) Share award scheme

On 30 December 2011, the board of directors approved to adopt a Restricted Share Award Scheme (the "Scheme"). Under the Scheme, the company may grant shares of the company to certain selected participants at nil consideration.

Pursuant to the Scheme rules, existing shares will be purchased by Computershare Hong Kong Investor Services Limited (the "Trustee") from the market out of funds provided by the company and be held in trust for the relevant selected participants until such shares are vested with relevant selected participants in accordance with the Scheme rules.

During the period ended 30 June 2012, the Trustee acquired 47,817,000 shares of the company through purchases on the open market according to the instructions of the board of directors, at a total cost of approximately RMB49,973,000.

As at 30 June 2012, the purchased shares have not been granted to the relevant selected participants.

19 SHARE CAPITAL, RESERVES AND DIVIDENDS (continued)

(c) Dividends

Dividends payable to equity shareholders attributable to the previous financial year, approved and paid during the interim period is as follows:

	Six months ended June	
	2012	2011
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, approved and paid during the following interim period, of HK$0.04 per share (six months ended 30 June 2011: HK$ Nil per share)	**104,700**	—

The board of directors does not recommend the payment of dividends attributable to the six months ended 30 June 2012 (six months ended 30 June 2011: Nil).

20 COMMITMENTS

(a) Capital commitments

Capital commitments outstanding at 30 June 2012 not provided for in the interim financial report were as follows:

	30 June 2012	31 December 2011
	RMB'000	RMB'000
Contracted for	**142,521**	355,533
Authorised but not contracted for	**1,305,634**	1,244,058
	1,448,155	1,599,591

20 COMMITMENTS (continued)

(b) Operating lease commitments

At 30 June 2012, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	30 June 2012 RMB'000	31 December 2011 RMB'000
Within 1 year	**2,449**	4,399
After 1 year but within 5 years	**4,420**	5,064
After 5 years	**7,774**	8,566
	14,643	18,029

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.

21 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")	Hongtai is a party over which spouses of certain directors and management have equity interests
NCE Management, LLC ("NCE Management")	NCE Management is a party which certain management of Honghua America have equity interest
Luzhou City Jianming Decorating Design Company (瀘州市劍鳴裝飾設計公司) ("Luzhou Jianming")	Luzhou Jianming 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")	Guanghan Huite is a party over which the brother of a subsidiary's director has equity interests
Chengdu Juzhong Technology Co., Ltd. (成都巨中科技有限公司) ("Chengdu Juzhong")	Chengdu Juzhong is a party over which the brother-in-law and brother-in-law's wife of a subsidiary's director has equity interests
Sichuan Deep & Fast Oil Drilling Tools Co., Ltd. (四川深遠石油鑽井工具有限公司) ("Sichuan Shenyuan")	Sichuan Shenyuan is a party of which spouse of a certain director has equity interests
HH Egyptian Company	Jointly controlled entity
Honghua — Ukraine Limited	Jointly controlled entity
Chengdu Jinkong Finance Leasing Co., Ltd. (成都金控融資租賃有限公司) ("Chengdu Jinkong")	Associate

21 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	
	2012	2011
	RMB'000	RMB'000
Purchases of parts and components		
— Hongtai	**11,671**	7,193
— Chengdu Juzhong	**330**	367
— Sichuan Shenyuan	**1,433**	—
	13,434	7,560
Sale of drilling rigs, parts and components		
— HH Egyptian Company	**3,390**	30,573
Decoration service received		
— Luzhou Jianming	**—**	783
Sub-contracting services received		
— Guanghan Huite	**—**	652

(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 2012 (31 December 2011: 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	
	2012	2011
	RMB'000	RMB'000
Basic salaries, allowances and other benefits in kind	**3,410**	2,565
Contributions to defined contribution retirement schemes	**19**	53
Share-based payments	**1,373**	1,630
	4,802	4,248

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

22 NON-ADJUSTING POST BALANCE SHEET EVENT

On 9 July 2012, Honghua Company set up a wholly-owned subsidiary, Sichuan Honghua Petroleum Equipment (H.K.) Limited ("Honghua HK"). Honghua HK is primarily engaged in the sales of drilling rigs and related parts.

23 CONTINGENT LIABILITIES

(a) Contingent liabilities in respect of legal claims

(i) Lawsuits with former sales agencies

Three former sales agencies filed lawsuits against Honghua America, NCE Management, and Honghua Company on 22 September 2011. In their Second Amended Petition filed on 3 February 2012, these former agencies alleged that they are owed commissions in excess of USD83,600,000 in relation to Honghua Company's sales.

The agencies filed arbitration claims for this dispute in January 2012. On 3 July 2012, the court ordered parties to arbitrate this dispute.

Based on the group's US legal advisor's opinion, the management considered the relevant agreements have all expired by their terms when the group entered into the sales transactions with the customers, and the group has no obligation to pay commissions to these former agencies. Accordingly, the management determined that it is not probable that the outcome of the lawsuits will be unfavourable to the group. No provision was made for the potential claims under this lawsuit.

(ii) Lawsuits with contractors and a former employee of Honghua America

Certain individual contractors and a former employee of Honghua America filed lawsuits against Honghua America in 2011, seeking compensation arising out of overtime and termination of employment. In their petitions and demand letters, the plaintiffs alleged damages, costs and fees in excess of USD3,173,297.

The management considered, based on the group's US legal advisor's opinion, Honghua America has complied with the relevant US laws and acted appropriately to its contractors and former employee. Accordingly, the management determined that it is not probable that the outcome of the lawsuits will be substantially unfavourable to the group. No provision was made for the potential claims under this lawsuit.

(b) Financial guarantees issued

As at 30 June 2012, Honghua Holdings has issued a guarantee to Chengdu Investment Holding Group, which is a shareholder of Chengdu Jinkong and provided financial guarantee in respect of a banking facility granted to Chengdu Jinkong. The guarantee has been discharged on 8 August 2012 along with the repayment of the loan by Chengdu Jinkong.

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 He Guangfu (何光福), Zhang Zongyou (張宗友) and Chen Zongliang (陳宗良) transferred an aggregate of approximately 9.1325% equity interests in Honghua Company to the other members of the Concert Group. The transfers were completed on 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 2012
"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
"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$0.10 each
"Shareholder(s)"	holder(s) of our Share(s)
"Stock Exchange" or "HKSE"	The Stock Exchange of Hong Kong Limited
"Substantial Shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"United States", "USA" or "U.S."	the United States of America, including its territories and possessions
"US$" 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