宏华集团有限公司

HONGHUA GROUP LIMITED

(incorporated in the Cayman Islands with limited liability)

Stock Code: 196

創意大智造

2012 Annual Report

CONTENTS

FINANCIAL HIGHLIGHTS

	2012 RMB'000	2011 RMB'000	Changes
Operating results			
Turnover	**5,068,447**	3,485,046	45.4%
Profit from operations	**672,693**	243,856	175.9%
Profit before taxation	**709,458**	199,212	256.1%
Profit attributable to equity shareholders of the Company	**529,458**	167,984	215.2%
Figures per share			
Earnings per share-Basic (RMB cents)	**16.58**	5.21	218.2%
Earnings per share-Diluted (RMB cents)	**16.54**	5.21	217.5%
Financial position			
Total non-current assets	**3,227,901**	1,882,332	71.5%
Total current assets	**6,617,975**	4,810,368	37.6%
Total assets	**9,845,876**	6,692,700	47.1%
Total current liabilities	**4,517,478**	2,119,137	113.2%
Total non-current liabilities	**739,671**	398,705	85.5%
Total liabilities	**5,257,149**	2,517,842	108.8%
Total equity	**4,588,727**	4,174,858	9.9%
Key financial ratios*			
Gross Margin	**34.5%**	27.8%	6.7%
Net Margin	**10.4%**	4.8%	5.6%
Return on average assets	**6.4%**	2.6%	3.8%
Return on average equity	**12.4%**	4.2%	8.2%
Current Ratio	**1.46**	2.27	(0.81)
Quick ratio	**0.86**	1.54	(0.68)
Total debt/Total assets	**20.1%**	13.1%	7.0%
Total liabilities/Total assets	**53.4%**	37.6%	15.8%

* *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
Popin Su (the alternate director to Siegfried Meissner)
Huang Dongyang
(resigned with effect from 19 March 2013)

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 COMMITTEE

AUDIT COMMITTEE

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

CORPORATE GOVERNANCE COMMITTEE (dismissed with effect from 19 March 2013)

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
(resigned with effect from 19 March 2013)
Shi Xingquan
Liu Xiaofeng
(appointed with effect from 19 March 2013)

NOMINATION COMMITTEE (formed on 17 January 2012 and dismissed with effect from 19 March 2013)

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

JOINT COMPANY SECRETARIES

Liu Gangqiang
Corinna Leung

LEGAL ADVISORS

AS TO HONG KONG LAW

King & Wood Mallesons

AS TO PRC LAW

King & Wood Mallesons

AS TO CAYMAN ISLANDS LAW

Appleby

CORPORATE INFORMATION

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, KY1-1108
Cayman Islands

HEAD OFFICE

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

PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

STOCK CODE

The Stock Exchange of Hong Kong Limited: 0196

WEBSITE:

http://www.hh-gltd.com

CHAIRMAN'S STATEMENT

Zhang Mi
Chairman

DEAR SHAREHOLDERS AND INVESTORS,

On behalf of the Board of the Group, I am pleased to announce the annual results for the year ended 31 December 2012.

FINANCIAL HIGHLIGHTS

During the Year, the Group reached revenue of approximately RMB5.068 billion, representing an increase of 45.4% as compared with last year. The Group's gross profit was approximately RMB1.747 billion, representing an increase of 80.1% as compared to last year. Profit attributable to equity shareholders was RMB529 million, an increase of 215.2% compared with last year.

DIVIDEND

The Board proposed to pay a final dividend of HK6 cents per share, subject to approval of the shareholders of the Company at the forthcoming annual general meeting of the Company. The final dividend is payable on or around 17 June 2013 to shareholders of the Company whose names appear on the register of members of the Company as on 4 June 2013.

BUSINESS REVIEW

The year 2012 was the first year for the Group to set its sails and make headway.

During the Year, the Group's land drilling rigs and components business continued to execute its localization and forward sales strategies in order to consolidate the customers in Russia, South America and the Middle East markets, while at the same time explore new clients in Saudi Arabia, Nigeria, Algeria, Kenya and other emerging markets. Concurrently, exploiting for the domestic private drilling markets access further improved the Group's local market share. The Group's self-innovated products, such as top drives, achieved satisfactory sales. Additionally, the Group actively made full use of the global procurement network to expand the trading business of rig parts.

Regarding the offshore equipment business, the Group successfully finished the first phase (stage 1) of construction of the offshore engineering equipment production base located in Qidong City, Jiangsu Province, and commenced construction on the 22,000 metric tons of Honghai Crane and port. The Group also 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. This opportunity has set a new milestone of the Group's entrance into the offshore equipment market.

The Group's oil and gas engineering services business developed rapidly. As at the end of 2012, a total of 11 rigs have been put into production. Up to this time, the Group has developed from a conventional drilling business to drilling fluids services and horizontal well services through actively expanding.

Regarding the unconventional oil and gas business, the Group will continue to popularize a complete set of solutions guided by "Exploiting gas by using gas; simultaneously producing gas and electricity; supported by a distribution network; scale industrialized production; comprehensive utilization" for the shale gas development, and apply itself to the R&D for special equipment. The Group's flexible water tank products were honored with the "Outstanding Innovation Award" at the 10th Gas and Oil Exhibition & Technical Seminar in Poland. Meanwhile, the Group signed a memorandum of strategic cooperation with Baker Hughes regarding unconventional oil and gas development in December 2012, and signed a framework agreement with Shenhua Geological Exploration Co. Ltd on the cooperation strategy of exploring and developing unconventional oil and gas. Those efforts established a solid foundation for the Group to seize the opportunities of unconventional oil and gas from the aspects of equipment, services and resources.

2013–2015 PROSPECTS

From an international perspective, the global economy is prospected to improve continuously in the coming three years, which brings positive support for both the oil market and oil price, and stimulates upstream oil and gas exploration, production and investment. From 2013 to 2015, with the existing solid foundation, the Group will fully capture the huge opportunities in the coming future and will continue to innovate in line with the principle of "Creative Manufacturing". The Group will also enhance allocation in the three sectors: equipment, services and unconventional oil and gas, and will aim to achieve great increases on both revenue and profit so as to become the global leading integrated service provider in the oil and gas exploring industry.

The Group will strive to achieve the following targets in the coming three years, if the three strategic sectors develop smoothly.

2013: BREAK 10 BILLION

In 2013, according to on-hand sales order and the market trend, the Group will strive to achieve total sales revenue of not less than RMB10 billion.

2014: NEW BUSINESS DEVELOP RAPIDLY

In 2014, we expect our new business (oil and gas engineering services, offshore equipment and shale gas) to develop rapidly to keep the sustained growth of our sales revenue.

2015: SALES REVENUE GENERATED BY THREE SECTORS

In 2015, we expect to achieve synergized and mutually complementary development of its onshore and offshore sectors, with equipment manufacturing, oil and gas engineering and unconventional oil and gas resources as three core pillars. The second 10-year strategic development model aims to see three major segments and two key domains nearly established.

ACKNOWLEDGEMENT

I would like to express my sincere gratitude to our clients and partners for their long-term trust. Thanks to all shareholders and friends' support from all walks. Furthermore, I would like to sincerely thank the directors for their strenuous contribution to the Company, and our employees for their great efforts to help realize the second 10-year long-term development. The Group is ready to create better results in 2013 and bring greater returns to its shareholders.

Zhang Mi
Chairman
Hong Kong, 19 March 2013

MANAGEMENT DISCUSSION AND ANALYSIS

During the Year, the Group's revenue amounted to approximately RMB5.068 billion, representing a tremendous increase of 45.4% as compared to Last Year. The Group's gross profit amounted to approximately RMB1.747 billion, representing an increase of 80.1% as compared to Last Year. Profit attributable to equity shareholders was approximately RMB529 million, an increase of 215.2% over Last Year. The Board recommends a final dividend of HK6 cents per Share.

MARKET REVIEW

The global economic recovery has lagged after experiencing factors such as the European debt crisis, the U.S. election and geopolitical turbulence in 2012. Despite the short-term adjustments in June 2012, prices of New York WTI crude oil and London Brent crude oil all maintained at relatively higher levels of US$85 and US$110 per barrel respectively. The high oil prices constantly stimulate investment in oil and gas exploration and development. As Barclays Capital's figures showed, global exploration and development investment in 2012 reached up to US$604 billion, representing an annual increase of 10.9% over 2011. According to Baker Hughes, the number of operating land rigs worldwide by the end of 2012 amounted to 3,390, among which (with the exception of North America) numbers of active land rigs all increased significantly in Europe, Africa, the Middle East and South America as compared with that of Last Year. In addition, according to IHS Petrodata's statistics, the number of active drilling platforms worldwide was 590 by the end of 2012, representing an increase of approximately 10% over Last Year; their utilization rate reached 84.1%, 4.2 percentage points higher than Last Year.

The offshore oil and gas investment has boosted an upward trend as oil development is moving from land to offshore. According to Clarkson's forecast, the compound annual growth rate ("CAGR") of global offshore oil and gas investment from 2010 to 2014 will be 12%, while the CAGR of ultra-depth investment will reach as much as 23%. In July 2012, the State Council released the "12th Five-year Plan for the Development of National Strategic Emerging Industries", which stated that China would give impetus to the development of offshore oil and gas exploration equipment, improving the country's overall capabilities in independent research, development and design, professional manufacturing, contracted projects and equipment.

The National Energy Administration announced the "Shale Gas Development Plan (2011–2015)" in March 2012, targeting shale gas production at 6.5 billion cubic meters per year by 2015 and to 60–100 billion cubic meters by 2020. The plan also sets targets for breakthroughs in key technologies of shale gas exploration and development, as well as achievements in self-manufacturing of essential equipment. According to the statistics of the National Energy Administration, a total of 50 survey wells, 150 various prospecting wells and 990 horizontal wells will be completed in the next three years. Given factors, such as the difficulties in shale gas exploration in China, the learning process in the initial phase of development and the equipment inventory, the market of drilling and well completion equipment has great potential.

BUSINESS REVIEW

In 2012, the Group maintained adhering to its diversified long-term development strategy of "focusing on the core business of land equipment manufacturing with synergy of other strategic sectors of offshore equipment manufacturing, oil and gas engineering services and unconventional oil and gas resources". The Group's business effectively produced rapid growth during the Year. By upholding the ideology of "creative manufacturing", the Group satisfied customers' needs, proactively developed new products and technologies, and ventured into frontier markets for new business opportunities and models in a global context. Relying on the market strategies of "localization" and "forward-moving sales", the Group further consolidated its leading position in existing markets, explored emerging markets and trading business, forged long-term partnerships with crucial clients and thus actively enhanced its global market presence and deployment.

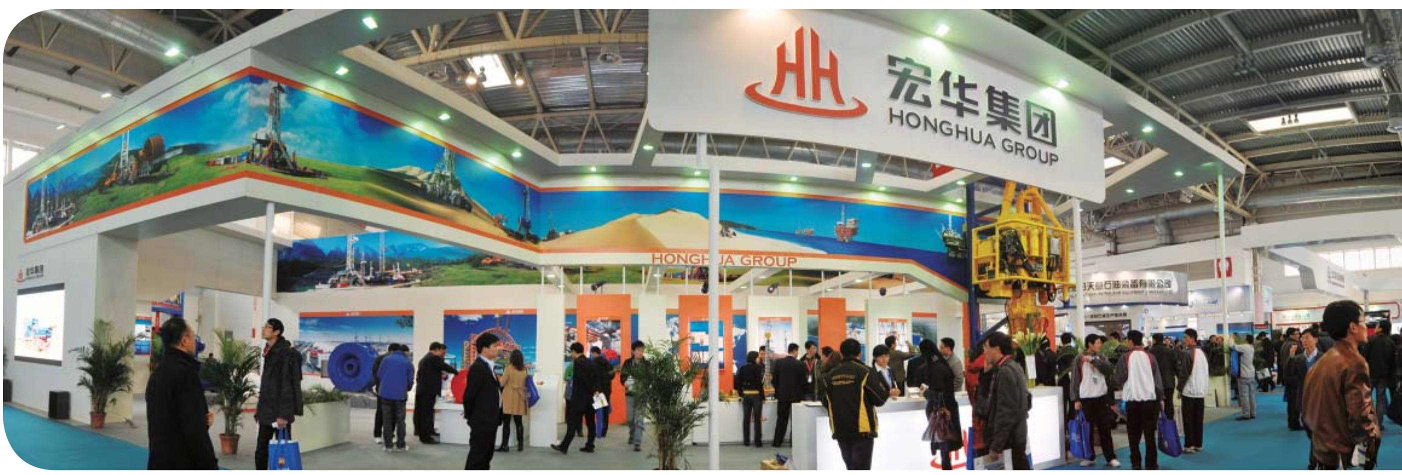
LAND DRILLING RIGS AND RELATED PRODUCTS BUSINESS

Contributed by the active business expansion by overseas subsidiaries, the Group further consolidated the existing markets in Russia, South America and the Middle East, and successfully entered into various large sales agreements during the Year of 2012, the details are as follows: the Group entered into a renewed land drilling sales agreement that was worth approximately US$187 million with Petróleros de Venezuela, S.A. in April, a renewed workover rig sales agreement that was worth approximately US$21.6 million with the National Drilling Company (UAE) in July, a land drilling sales agreement that was worth over US$22 million with Bangladesh Petroleum Exploration & Production Company Limited in August, a trailer drilling rig sales agreement that was worth approximately US$27 million with Weatherford International Limited in September and a land drilling rig sales agreement that was worth approximately US$150 million with OOO Burovoya Kompaniya Eurasia in December. In addition, the Group also successfully penetrated into emerging markets, obtaining 10 land drilling rig sales agreements in Azerbaijan, Kenya, Saudi Arabia, Nigeria and Algeria.

In regards to the domestic market, the Group strengthened expansion in the private drilling market and actively sought out cooperation amid homogeneous competition amongst domestic rig manufacturers. Among other agreements, the Group obtained a sales agreement of 8 land drilling rigs from Jiangsu Xinde Petroleum Machinery Co., Ltd. and successfully uplifted its domestic market share.

Throughout the Year of 2012, the number of accumulated newly signed land drilling rigs amounted to 102 units, worth approximately RMB7.2 billion. Part of the orders has been delivered in 2012.

In terms of parts and components, the Group strived to develop next-generation drilling rigs and high value-added components. The Group's self-innovated serial products of direct top drives achieved satisfactory



sales, recording supporting sales of 26 sets and individual sales of 16 sets during the Year, achieving successful sales of top drive products in domestic markets, including Zhongyuan oilfield and Jiangsu oilfield, etc. In addition, the Group actively made full use of its global procurement network to expand into the trading business of rig parts and components so as to provide integrated procurement services for its clients. The Group successfully entered into a natural gas transmission pipeline sales agreement worth approximately US$21 million with Unicorn Equipment Engineering LLP. In February 2013, the Group also entered into a directional drilling equipment sales agreement worth approximately US$181 million with PDVSA Servicios Petroleros, S.A.

OFFSHORE ENGINEERING EQUIPMENT AND RELATED PRODUCTS BUSINESS

On 23 October 2012, the Group held an opening ceremony at its offshore engineering equipment production base located in Qidong County, Jiangsu Province, the PRC. The first phase (stage 1) of the construction has been completed and the Group has the manufacturing capabilities to receive offshore drilling platform orders. It is expected that Honghai, a crane with 22,000 tons of lifting capacity and a core piece of equipment to the innovative concept of "land-based manufacturing of offshore equipment", will be delivered in mid-2014. Post completion of the first phase, this manufacturing base will have the capability to build 10 drilling platforms at the same time.

During the Year, the Group strengthened its marketing promotions of offshore business and proactively outreached to potential clients. The Group successfully signed a sales contract of drilling packages for Tiger series drilling vessels with Shanghai Shipyard Co., Ltd. that worth a total value of more than RMB300 million. This contract signaled a huge breakthrough for a Chinese offshore engineering enterprise into the deep-water drilling package market, which previously

had been monopolized by international giants and also a milestone marking the Group's venture into the offshore equipment market. At present, the Tiger project is running smoothly and is expected to be delivered in separate phases in 2013.

Furthermore, the Group has been proactively looking for strategic partners of offshore business. During the Year, the Group entered into strategic partnership with Reignwood Group, a holding company of OPUS. Reignwood agreed that the Group would be the prioritized suppliers of drilling packages for its future offshore equipment purchases and gradually lifted the Honghua's drilling package ratio. In addition, the Group will be the preferential contractor and technical support provider for Reignwood Group in manufacturing jack-up drilling platforms in the future.

OIL AND GAS ENGINEERING SERVICES BUSINESS

During the Year, the Group achieved breakthroughs in its oil and gas engineering services business in both the domestic and overseas markets. By the end of 2012, 11 projects have been under operation with a total personnel of 554 working in Kazakhstan, Iraq, China's Xinjiang, Northeast China, Sichuan Province, the PRC and the other regions. With continuous improvements in operational efficiency, with just 3 drilling rigs in operation during the Year, the Group completed 24 wells and achieved 90,000 meters of footage drilled. Apart from the conventional drilling business, the Group also proactively extended into oil and gas engineering services. Throughout the Year, 3 teams provided independent drilling fluids services for the Northeast Project and successfully completed the first horizontal well exploration with a horizontal length of 1,400 meters.

Moreover, the Group's Oil & Gas Engineering Services Company started to set up and enhance a set of safety management systems concerning quality, environment and occupational health, and obtained a series of licenses and permits, such as Safety Production License, Sinopec's permit for entering the northeastern market, IADC2012 and Qualification Accreditation for Oilfield Enterprises etc. The Company also gained three quality management system accreditation certificates for ISO9001, ISO14001 and GB/T28001, paving the way for a full penetration into the oil and gas services market.

UNCONVENTIONAL OIL AND GAS DEVELOPMENT BUSINESS

From 2011 to 2012, the Chinese Ministry of Land and Resources held two rounds of open tendering for shale gas exploration rights and in return gained substantial support. It will be beneficial to the prosperity of China's shale gas market that the exploration rights are constantly open for bidding by private enterprises. The Ministry of Finance also said it would subsidize shale gas exploration with RMB0.4 per cubic meter. The National Development and Reform Commission prioritized the natural gas price reform in early 2013 and targeted to raise natural gas price within three years. China's shale gas development and exploiting have already kicked off.

During the Year, the Group actively promoted its worldwide initiative of shale gas development solutions and concept, which is "prioritizing distribution network, exploiting gas by using gas while simultaneously producing gas and electricity in an industrialized, assembly line operation format". Meanwhile, the Group accelerated its R&D process in a series of shale gas special equipment. Among which, the serial products of flexible water tanks have not only completed well site trials but also won the "Outstanding Innovation Award" at the Tenth Portland Oil and Gas Exhibition and Technology Seminar in September 2012 and the products will be on sale in 2013. On the other hand, the 6000HP fracturing pump with the world's highest horsepower has already completed individual tests during the Year with the aim of finishing well site online tests both at home and abroad in 2013.

Apart from reinforcing its own strength, the Group actively sought cooperation opportunities with renowned enterprises that specialized in the development of unconventional oil and gas

resources. In December 2012, the Group entered into a strategic cooperation memorandum with Baker Hughes, a famous oilfield services company. Proposed cooperation agendas included provision of integrated operation solutions to unconventional oil and gas projects for international companies and independent Chinese investors, establishment of an unconventional energy engineering research center, engagement in shale oil and gas-related research and consultancy services as well as cooperation in related engineering equipment. In January 2013, the Group signed a strategic cooperation framework agreement with Shenhua Geological Exploration Co., Ltd. on the exploration and development of unconventional oil and gas. Pursuant to the agreement, both parties would carry out long-term cooperation initiatives in unconventional natural gas development, research, consultation and equipment.

In addition, the Group conducted factory renovation, production line modification as well as recruitment of new personnel at its subsidiary, Gansu Hongteng Petroleum Machinery Manufacturing Co., Ltd. (“Hongteng”) and achieved significant beneficial effects. In terms of the production management, the Group streamlined Hongteng’s procurement and supply systems, reinforced its quality control, enhanced product stability and lowered operation failure rates. Hongteng’s entire manufacturing process, “technology R&D — manufacturing of core components — integration and assembly — online testing — quality check upon delivery — after-sale services”, has already taken shape, laying a solid foundation for the Company’s sustained development. As for marketing, Hongteng proactively established its own sales teams so as to effectively tap foreign markets.

QUALITY MANAGEMENT, INNOVATION, RESEARCH AND DEVELOPMENT

The Group constantly attaches significance to the improvement and optimization of quality management system. During the Year, the Group successfully passed a triennial review and verification of ISO 9001 Quality Management System conducted by Det Norske Veritas (DNV) and in January 2013, the Group also passed the recertification review of the American

Petroleum Institute (API), all of which were authoritative testimonies that the Group's quality management had reached a new level.

With next-generation drilling rigs, high value-added components, special equipment for shale gas development and key spare parts of offshore equipment as the mainstay, the Group is always dedicated to its research and development as well as new products optimization and has invested a total of RMB58 million in 2012 with outstanding R&D achievements. During the Year, the Group conducted design optimization and industrial tests for its hydraulic super single pipe rigs and the new energy-efficient quintuple mud pumps. More significantly, the Group's self-developed jacking and fixation systems have successfully passed the American Bureau of Shipping (ABS)'s loading tests and obtained the subsequent nondestructive certification. As at 31 December 2012, the Group has filed 222 patents and 113 of them had been approved.

HUMAN RESOURCES MANAGEMENT

While focusing on enhancing human resources structure and attracting high caliber of technical talents, the Group also gives impetus to diversifying and expanding its talent pool which is central to making great strides in future development. During the Year, the Group hired senior technicians from Germany and held multiple thematic recruitment fairs for technical graduates at colleges and universities around the country. Moreover, the Group also signed strategic framework agreements on cultivating pertinent talents with the nation's gas and oil-related colleges and universities such as the Northeast Petroleum University, China University of Petroleum, Yangtze University, Southwest Petroleum University and Xi'an Shiyou University. During the Year, the Group has an average number of 4,980 employees, among which 432 are research personnel based in Sichuan, Shanghai and Gansu, the PRC as well as overseas locations including Egypt, Dubai (UAE) etc.

OUTLOOK FOR 2013

Despite the sluggish global economic recovery, the United States, Japan and other developed economies are healing steadily, the pressure of the European debt crisis has been gradually alleviated and emerging economies have augmented their capabilities to respond to the crisis. All these factors contribute to a positive outlook for the global economy in the next years. The entire oil and gas industry also presents an optimistic development trend. In particular, Latin America, the Middle East and Asia will witness a substantial increase, ushering in a bonanza period for oil and gas exploration and development there and subsequently boosting a robust demand for oil and gas drilling equipment and services.

In regard to land drilling equipment, the Group will keep on implementing its strategies of "localization" and "forward-moving sales", enhancing overseas branding and sales of new products, proactively expanding into trade in components and promoting finance leasing so as to meet diversified demands from customers. Meanwhile, the Group continues to attach importance to innovation and R&D and has completed its Technology Innovation Industrial Park. The project is implemented in line with the concept of "creative manufacturing" and strives to attain objectives of new industry, technology, equipment and manufacturing process, reflecting the Group's endeavor to relentlessly sharpen its competitive edge for continuous development in its second decade of growth since foundation.

As for offshore engineering equipment, the number of the world's new and renovated offshore platforms in the next five years, according to ODS-Petrodata's latest forecast, will reach up to 400-500 with a combined market volume of US$276.5 billion. The Group will enhance its presence in the offshore equipment market with the aim to sign its first order of offshore drilling platform and reach the breakeven point in 2013. With further verification of and testament to the Group's expertise in offshore engineering, the innovative method of "onshore manufacturing of offshore equipment" is expected to demonstrate its unique merits in key aspects including delivery period, cost-effectiveness, designing process etc, fueling the Group's advancement in overseas offshore engineering equipment market.

In 2013, the Group will timely extend the scope of its oil and gas engineering services from drilling, dredging, orientation, fracturing and repairing to a wider array of integrated services, aligned with the accumulation of market resources and strengthening of technical foundation. Meanwhile, the Group will vigorously promote and deepen cooperation with reputable drilling companies both at home and abroad with plans like joint tendering with Baker Hughes for unconventional oil and gas development projects. Within the next three years, the Group looks to develop its Honghua Oil & Gas Engineering Services Co., Ltd. into a small and medium-sized, flexible and integrated oilfield service provider that features equipment-based, professionalized and technology-intensive services.

Responding to the boom in unconventional oil and gas development both at home and abroad, the Group is committed to R&D and marketing of new products. New series such as flexible water tanks are scheduled to be rolled out in 2013 and an unconventional oil and gas engineering research center established in collaboration with Baker Hughes in Chengdu, the PRC is also expected to be inaugurated to carry out R&D projects of related equipment. The Group will also keep on seeking cooperation opportunities with unconventional oil and gas developers and promote its innovative concept and solution of "exploiting gas by using gas while simultaneously producing gas and electricity in an industrialized, assembly line operation format". Furthermore, the Group aims to move upstream along the industrial chain by participating as a minor shareholder in the development projects of high-quality shale gas fields.

Looking forward, the Group will continuously work on the concept and principle of "creative manufacturing" and maintain a steady and sustained growth in its land drilling business, while proactively in expanding into new strategic segments including offshore engineering equipment, oil and gas engineering services as well as unconventional oil and gas development with new products, business and modes. The Group will strive to achieve sales targets of RMB10 billion for 2013 in light of future market trends, and development prospect for specific business segments. By 2015, the Group expects to achieve synergized and mutually complementary development of its onshore and offshore sectors, with equipment manufacturing, oil and gas engineering and unconventional oil and gas resources as three core pillars. Its blueprint of "three major segments plus two key domains" for the second decade of growth will also be fully materialized, paving the way for the Group's long-term prosperity and shareholders' greater returns.

FINANCIAL REVIEW

During the Year, the Group's gross profit and profit attributable to shareholders of the Company amounted to RMB1,747 million and RMB529 million respectively, Gross margin and net margin amounted to approximately 34.5% and 10.4% respectively. While gross profit and profit attributable to shareholders of the Company in the Last Year amounted to approximately RMB970 million and RMB168 million respectively, gross margin and net margin in the Last Year amounted to approximately 27.8% and 4.8% respectively. During the Year, the increase in the Group's gross profit and profit attributable to shareholders of the Company was mainly attributable to the global growth in demand of oil drilling equipment, the Group's effort in proactive market development and strengthening of cost control, economies of scale due to increased production, and the contribution of new business.

TURNOVER

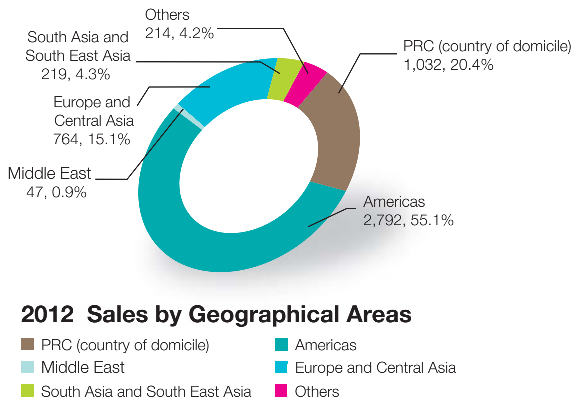
During the Year, the Group's turnover amounted to approximately RMB5,068 million, while it was approximately RMB3,485 million during the Last Year, representing an increase of 45.4%. The increase was mainly attributable to the global growth in demand of oil drilling equipment, the Group's effort in proactive market development, growth of the oil and gas engineering services and offshore drilling rig, parts and components. As there was growth in demand of the Group's higher end product, the average selling price increased. The number of drilling rigs sold during the Year increased to 56 units from 48 units of the Last Year.

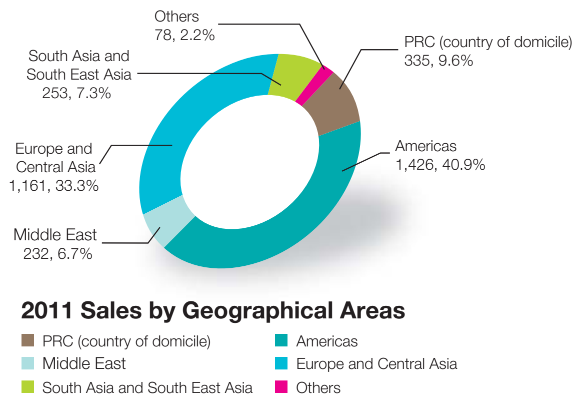
(1) REVENUE BY GEOGRAPHICAL AREAS

The Group's revenue by geographical segment areas during the Year was as follows: (1) the revenue from export amounted to approximately RMB4,036 million, accounting for approximately 79.6% of total revenue, representing an increase of approximately RMB886 million or 28.1% as compared to those of the Last Year. Among which, the revenue from American market amounted to approximately RMB2,792 million, representing an increase of approximately RMB1,366 million or 95.8%. The revenue from South Asia and Southeast Asia market was similar to Last Year. Revenue in the European and Middle Eastern market decreased; (2) the revenue from the PRC market amounted to approximately RMB1,032 million, accounting for approximately 20.4% of total revenue, representing an increase of RMB697 million or 208.0% as compared to the Last Year.

The Group's sales revenues from different regions are affected by the local oil and gas exploration activities. The Group actively explores markets in different regions to develop new customers, to get new orders and to ensure sustained growth in sales revenue.

Revenue by Geographical Areas in 2012 and 2011 were as follows (in RMB million):





(2) REVENUE BY BUSINESS CATEGORIES

The Group's business are divided into land drilling rigs, land drilling rig parts and components, offshore drilling rigs and parts and oil and gas engineering services.

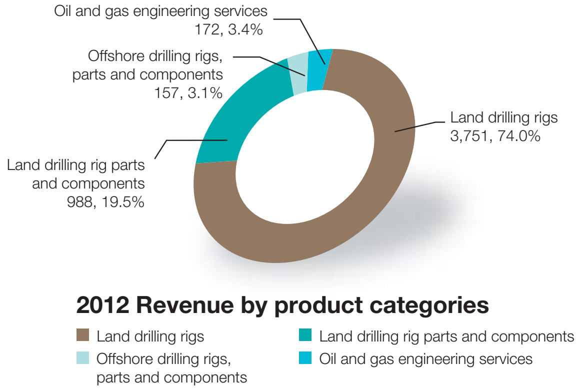
During the Year, revenue from land drilling rigs amounted to approximately RMB3,751 million while it was approximately RMB2,543 million during the Last Year, representing an increase of RMB1,208 million or 47.5% as compared to the Last Year. The growth in land drilling rig sales revenue was mainly attributable to the increase in the number of sales volume from 48 units to 56 units, as well as due to the added value of drilling rigs sold leading to improvement of the selling price.

During the Year, revenue from the land drilling rig parts and components amounted to approximately RMB989 million, while it was approximately RMB862 million during the Last Year, representing an increase of RMB127 million or 14.7% as compared to the Last Year. The revenue growth was mainly attributable to the Group's effort in proactive market development and breakthrough in sales of new products. Among which, 16 units of Direct-drive top drive were sold during the Year, generating revenue amounted to approximately RMB125 million; drilling rig transformation and parts processing generating revenue amounted to approximately RMB134 million; 108 units of mud pump were sold, generating revenue amounted to approximately RMB109 million; 6 units of electric drive system were sold, generating revenue amounted to approximately RMB44 million; 12 units of fracturing truck were sold, generating revenues amounted to approximately RMB43 million.

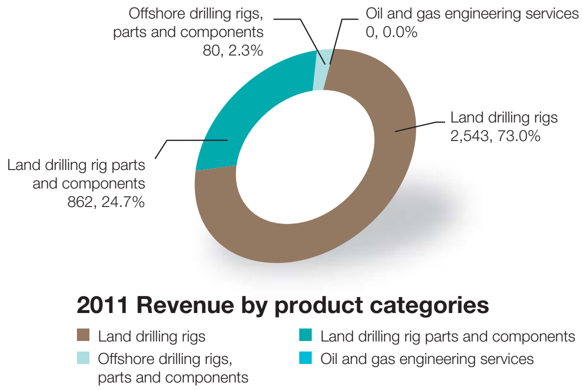
During the Year, revenue from offshore drilling rig parts and components amounted to approximately RMB157 million, while it was approximately RMB80 million in the Last Year. The Group sold 2 sets of offshore drilling rig modules during the Year, while 1 set was sold in the Last Year.

During the Year, revenue from oil and gas engineering services amounted to approximately RMB172 million, mainly attributable to the Group's proactive development of oil and gas drilling service market, providing oil and gas engineering services to 11 well fields located in Xinjiang and northeast China, Iraq and Kazakhstan.

Revenue by business categories in 2012 and 2011 were as follows (in RMB million):



2012 Revenue by product categories



2011 Revenue by product categories

COST OF SALES

During the Year, the Group's cost of sales amounted to approximately RMB3,321 million, while it was approximately RMB2,515 million in the Last Year, representing an increase of approximately 32.1% as compared to the Last Year, mainly due to significant growth in sales revenue.

GROSS PROFIT AND GROSS MARGIN

During the Year, the Group's gross profit amounted to approximately RMB1,747 million, representing an increase of RMB777 million or 80.1% spare as compared to the Last Year.

During the Year, the Group's overall gross profit margin was 34.5%, representing an increase of 6.7 percentage points as compared to the Last Year. This was mainly attributable to the Group's strengthening of cost control, increase in product value and the effect of economies of scale brought by the expansion on operating scale.

EXPENSES IN THE YEAR

During the Year, the Group's selling expenses amounted to approximately RMB554 million, representing an increase of RMB168 million or 43.6% as compared to RMB386 million in the 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 Year, the Group's general and administration expenses amounted to approximately RMB527 million, representing an increase of RMB118 million or 28.9% as compared to RMB409 million in the Last Year. Based on the Group's customers' ability to pay, a provision of approximately RMB37 million for bad debts was made. This amount was RMB14 million in the 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 business volume. In addition, the Group increased new products, new technology and new process of research and development investment, invested RMB58 million during the Year, representing an increase of 26.7% as compared to RMB46 million in the Last Year.

During the Year, the Group's net finance income amounted to approximately RMB29 million as compared to net finance expenses of RMB50 million in the Last Year. The increase in net finance income was mainly because of the Group having recorded a net exchange gain of approximately RMB20 million during the Year, while there was a net exchange loss of approximately RMB34 million in the Last Year.

SHARE OF PROFIT FROM AN ASSOCIATE

During the Year, the Group's share of profit from an associate amounted to approximately RMB7.7 million, while amounted to approximately RMB5.4 million in the Last Year. It was mainly attributable to the significant improvement of the operational performance of the associate during the Year as compared to the Last Year.

PROFIT BEFORE TAXATION

During the Year, profit before taxation of the Group amounted to approximately RMB709 million, representing an increase of RMB510 million or 256.1% as compared to RMB199 million in the Last Year. The increase was mainly attributable to the significant increase in gross profit and the decline of selling and administrative expenses in proportion to sales revenue.

INCOME TAX EXPENSES

During the Year, the Group's income tax expenses amounted to approximately RMB168 million as compared to the income tax expenses of approximately RMB28 million in the Last Year. The increase was mainly attributable to the growth of the Group's profit before taxation.

PROFIT FOR THE YEAR

During the Year, the Group's profit for the year amounted to approximately RMB542 million, representing an increase of RMB371 million or 216.0% as compared to RMB171 million in the Last Year. Among which, profit attributable to equity shareholders of the Company was approximately RMB529 million, representing an increase of RMB361 million or 215.2% as compared to the Last Year; while profit attributable to non-controlling interests was approximately RMB13 million. During the Year, net margin was 10.4%, representing an increase of 5.6 percentage points as compared to a net margin of 4.8% in the Last Year, which was mainly attributable to the significant increase in gross margin and decrease in expense ratio.

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

During the Year, EBITDA amounted to approximately RMB828 million, as compared to approximately RMB356 million in the 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 16.3%, as compared to 10.2% in the 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 selling expense, general and administrative expenses ratio.

DIVIDEND

For the year ended at 31 December 2012, the Directors recommend a final dividend of HK6 cents per Share, which is subject to the approval of the shareholders of the Company at the forthcoming annual general meeting. The final dividend will be payable on or around 17 June 2013 to the shareholders of the Company whose names appear in the register of members of the Company as on 4 June 2013.

SOURCES OF CAPITAL AND BORROWINGS

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

As at 31 December 2012, the Group's bank borrowings amounted to approximately RMB1,983 million, representing an increase of approximately RMB1,103 million as compared to that at 31 December 2011. Among which, borrowings repayable within one year amounted to approximately RMB1,246 million, representing an increase of RMB746 million as compared to 31 December 2011. The increase in banking borrowings was mainly attributable to the rapid growth of the Group's operating scale, leading to increased demand for capital investment and operating cash.

DEPOSIT AND CASH FLOW

As at 31 December 2012, the Group's cash and cash equivalents amounted to approximately RMB984 million, representing an increase of approximately RMB132 million as compared to that at 31 December 2011. During the Year, net operating cash outflow amounted to approximately RMB508 million, mainly because the Group had increased the procurement of raw materials to ensure timely delivery of orders in 2013; net cash outflow from investing activities amounted to approximately RMB217 million, which was mainly due to investment of fixed assets and construction in progress for offshore manufacturing base project and interest of RMB20 million received from investment of principal-protected structural deposits; net cash inflow from financing activities amounted to approximately RMB855 million, which was due to increase of bank borrowings.

ASSETS STRUCTURE AND CHANGES THEREOF

As at 31 December 2012, the Group's total assets amounted to approximately RMB9,846 million, representing an increase of approximately RMB3,153 million or 47.1% as compared to 31 December 2011. Among which, current assets amounted to approximately RMB6,618 million, accounting for approximately 67.2% of total assets and representing an increase of approximately RMB1,808 million as compared to that at 31 December 2011, mainly due to an increase of cash and cash equivalents, trade receivables and inventories; non-current assets amounted to approximately RMB3,228 million, accounting for approximately 32.8% of total assets and representing an increase of approximately RMB1,345 million as compared to that at 31 December 2011, which were mainly due to an increase in fixed assets, construction in progress and long-term receivables.

LIABILITIES

As at 31 December 2012, the Group's total liabilities amounted to approximately RMB5,257 million, representing an increase of approximately RMB2,739 million as compared to that at 31 December 2011. Among which, current liabilities amounted to approximately RMB4,517 million, accounting for approximately 85.9% of total liabilities and representing an increase of approximately RMB2,398 million as compared to that at 31 December 2011; non-current liabilities amounted to approximately RMB740 million, accounting for approximately 14.1% of total liabilities and representing an increase of approximately RMB341 million as compared to that at 31 December 2011. As at 31 December 2012, the Group's gearing ratio was approximately 53.4%.

EQUITY

As at 31 December 2012, total equity amounted to RMB4,589 million, representing an increase of RMB414 million as compared to that at 31 December 2011. Total equity attributable to equity shareholders of the Company amounted to approximately RMB4,456 million, representing an increase of RMB397 million as compared to 31 December 2011. Non-controlling interests amounted to approximately RMB133 million, representing an increase of RMB17 million as compared to that at 31 December 2011. Net assets value reached approximately RMB1.40 per Share. During the Year, the Group's basic earnings per Share was approximately RMB16.58 cents, and diluted earnings per Share was approximately RMB16.54 cents.

CONTINGENT LIABILITIES AND PLEDGE

(a) CONTINGENT LIABILITIES

(i) Contingent liabilities in respect of legal claim

Lawsuits with sales agencies

Several sales agencies filed lawsuits against the subsidiaries of the Company, alleged that they were owed commissions in excess of USD100 million in relation to their services to the Group.

The lawsuits are in the preliminary stage. Having consulted the Group's legal advisors, management considered that the Group had legal and factual merit to defend in the lawsuits. Accordingly, management determined that it was not probable that the outcome of the lawsuits will be unfavourable to the Group. No provision was made for the potential claims under these lawsuits.

(ii) Financial guarantees issued

As at 31 December 2011, Honghua Holdings Limited has issued a guarantee to Chengdu Investment Holding Group, which is a shareholder of Chengdu Jinkong Finance Leasing Co., Ltd and provided financial guarantee in respect of a banking facility granted to Chengdu Jinkong

Finance Leasing Co., Ltd. The guarantee has been discharged on 8 August 2012 along with the repayment of the loan by Chengdu Jinkong Finance Leasing Co., Ltd.

(b) PLEDGE

As at 31 December 2012, the Group has pledged bank deposits, land use rights, fixed assets and all assets of a subsidiary of approximately total carrying amount of RMB912 million, representing an increase of approximately RMB517 million as compared to that at 31 December 2011.

CAPITAL EXPENDITURE, MAJOR INVESTMENT AND CAPITAL COMMITMENTS

During the Year, capital expenditure of the Group on infrastructure and technical improvements amounted to approximately RMB1,100 million, representing an increase of approximately RMB480 million as compared to Last Year. This was mainly attributable to the input in the infrastructure construction of offshore projects.

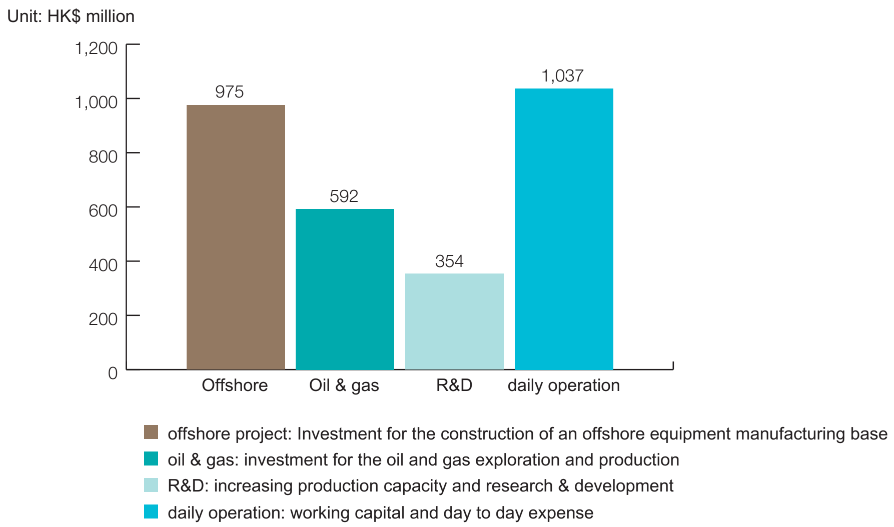
As at 31 December 2012, the Group had capital commitments of approximately RMB812 million, which will be used for the construction of Jiangsu Qidong offshore manufacturing base and expansion of the Group's business as well as the production capacity.

FOREIGN CURRENCY RISK

The Group has certain foreign currency deposits. As at 31 December 2012, the Group's foreign currency deposits were equivalent to approximately RMB378 million, trade and other receivables denominated in foreign currency were equivalent to approximately RMB1,517 million. Exports and foreign currencies settled business exposed the Group to exchange risk. The Group has managed to mitigate the exchange risk 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 of the Group were approximately HK$2,958 million. The use and their respective amounts are shown below:



During the Year, the Group has used proceeds of HK$749 million, among which HK$261 million were used for offshore project and HK$488 million were used for oil and gas engineering services. At 31 December 2012, all of the proceeds have been used.

EMPLOYEE REMUNERATION AND BENEFITS

During the Year, the average number of the Group's employees was 4,980. The total remuneration and benefits amounted to approximately RMB578 million. The Group has been continuously optimizing the organizational and workforce structure, implementing various incentive mechanism, strictly enforcing the internal assessment and performance management system, enhancing the organization performance appraisal and management of cadres. The Group adjusts the remuneration package of staff in accordance with the annual performance appraisal result of each subsidiary, the job performance of each employee, human resources environment and economic environment. The Group also provides diversified employee benefits, such as professional training program to improve the staff's knowledge and the technology, and to enhance the sense of belongings. The Group has also set up a share option scheme and restricted share award scheme, as a long-term incentive mechanism of core talented employee and excellent staff to encourage them to grow with the Group. The Group endeavors to improve the staff's working enthusiasm, inspire the staff's potential and spirit, so as to gain the overall competitive advantage of the Group.

EXECUTIVE DIRECTORS

Mr. Zhang Mi (張弭先生), aged 56, has been Chairman of the Company and an Executive Director since June, 2007. He is also President of the Company.

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

Subsidiary	Position	Term of Office
Honghua Holdings Limited	director	Since 18 August 2006
	chairman, and chief executive officer	Since 8 September 2009
Sichuan Honghua Petroleum Equipment Co.,Ltd.	director	Since 31 December 1997
Honghua International Co., Ltd.	chairman	Since 13 January 2004
Honghua Offshore Oil & Gas Equipment (Jiangsu) Co., Ltd.	chairman	Since 8 June 2009
Shanghai Honghua Offshore Oil & Gas Equipment Co., Ltd.	executive director	Since 9 September 2009
Honghua (China) Investment Co, Ltd.	chairman, and general manager	Since 14 January 2010
Honghua Oil & Gas Engineering Services Co. Ltd.	director	Since 14 April 2009
Alpha Advance Limited	director	Since 10 July 2009
Honghua America, LLC.	chairman	Since 11 October 2004
Egyptian Petroleum HH Rigs Manufacturing CO.S.A.E	director	Since 26 April 2007
HS OFFSHORE PTE. LTD (was dissolved on 8 January 2013)	director	Since 27 July 2011 Until 8 January 2013
Gansu Hongteng Oil & Gas Equipment	director	Since 28 December 2011

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

Mr. Zhang is particularly involved in enhancing the company's technological innovation. Mr. Zhang is responsible for the development of the ZJ70LC drilling rig. He is also responsible for the development of the digitally-controlled VFD rig (DBS), the first of its kind in China. The DBS has been included in the State Critical Technological Equipment Innovation Research Project (國家重大技術裝備創新研製項目), the State Key New Products (國家重點新產品) and the National Torch Plan Project (國家級火炬計劃項目). In 2005, Mr. Zhang was awarded the Sichuan Province Prize for Outstanding Talent in Innovation (四川省第三屆傑出創新人才獎), by the Sichuan Provincial Party Committee and the Sichuan Provincial People's Government. In 2007, he was granted the May 1 Labor Medal of Sichuan Province (四川省五一勞動獎章) by the Sichuan Provincial Federation of Trade Unions in 2007. Mr. Zhang was rewarded as Leading Entrepreneur of Foreign Trading and Export Enterprises in Sichuan for 2009.

Mr. Ren Jie (任杰先生), aged 46, has been an Executive Director of the Company since 18 January 2008. He is also a Vice-president of the Company. In 1990, Mr. Ren earned a Bachelor's degree in mining machinery from Southwest Petroleum University, located in Sichuan Province, specializing in petroleum and natural gas. In 1995, Mr. Ren obtained an engineering qualification, granted by the China National Petroleum Corp., Sichuan Petroleum Administration. In November 2007, he also became a member of the 5th Edition Committee of the Oil Field Equipment Journal, and in 2012, he earned a Doctor's degree in Mechanical Design and Theory from Southwest Petroleum University. Mr. Ren is employed as an engineer by Honghua Company.

In the early stages of Honghua Company, Mr. Ren successfully designed a rotary table transmission unit, a drawworks bevel gear box, and universal shaft equipment for the ZJ70LC drilling rigs, which contributed greatly to the development of the Company. Mr. Ren, together with his research and development team, also successfully developed a set of digitally-controlled VFD rigs, after the development of the first digitally controlled VFD rig (DBS).

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

Subsidiary	Position	Term of Office
Honghua Holdings Limited	director	Since 18 August 2006
Sichuan Honghua Petroleum Equipment Co., Ltd.	director	Since 31 December 1997
Honghua International Co., Ltd.	director	Since 13 January 2004
	general manager	Since 24 April 2008
Honghua Offshore Oil & Gas Equipment (Jiangsu) Co. Ltd.	director	Since 8 June 2009
Chengdu Hongtian Electric Drive Engineering Co., Ltd.	director	Since 1 August 2009
Honghua (China) Investment Co., Ltd.	director	Since 14 January 2010
Newco (H.K.) Limited	director	Since 22 June 2008
	chairman, and general manager	Since 22 September 2009
Alpha Advanced Limited	director	Since 10 July 2009
Russia Honghua Co., Ltd.	director	Since 26 June 2008
Egyptian Petroleum HH Rigs Manufacturing CO. S.A.E	director	Since 7 August 2009
Honghua America, LLC.	director	Since 10 October 2008
Sichuan Honghua International (H.K.) Limited	director	Since 25 June 2010

Mr. Liu Zhi (劉智先生), aged 49, has been an Executive Director of the Company since 26 May 2008. He is also a Vice-president of the Company. In 2008, Mr. Liu was in charge of quality department, technical centre of research of drilling equipment, material supply department and sale department of Honghua Company. Mr. Liu graduated from Southwest Petroleum University in 2003, with a Master degree in oil and gas storage and transportation. He was an engineer and a head of workshop of South-Sichuan Mining Area of Sichuan Petroleum Bureau since 1981 to 1994. Mr. Liu was the factory director of Guanghan Petroleum Machinery Main Factory of Sichuan Petroleum Administration from 1994 to 2000. Mr. Liu has contributed to the expansion of the Group's markets inside and outside of China.

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

Subsidiary	Position	Term of Office
Honghua Holdings Limited	director	Since 26 May 2008
Honghua Offshore Oil & Gas Equipment (Jiangsu) Co., Ltd.	director	Since 8 June 2009
Honghua Oil & Gas Engineering Services Co., Ltd.	director	Since 14 April 2009
	chairman	Since 21 July 2009
Alpha Advance Limited	chairman	Since 31 August 2009
Honghua (China) Investment Co., Ltd.	director	Since 14 January 2010
Honghua Oil & Gas Engineering and Technology Services (Sichuan) Co., Ltd.	chairman and general manager	Since 30 December 2010

NON-EXECUTIVE DIRECTORS

Mr. Huang Dongyang (黃東陽先生), aged 52, has been a Non-executive Director of the Company since 14 April 2010 and resigned with effect from 19 March 2013. He was a director of Honghua Holdings Limited, Honghua Company as well as Honghua Offshore Oil & Gas Equipment (Jiangsu) Co., Ltd. respectively from 13 April 2010 to 24 January 2011. He was a director of Honghua (China) Investment Co., Ltd. from 4 May 2010 to 24 January 2011. Mr. Huang has been the managing director of China Ocean Oilfields Services (H.K.) Ltd. ("COOS") since April 2009, and was the deputy manager of COOS from 2007 to 2009. From 2006 to 2007, he was the manager of Logistics Department of COOS, and from 2002 to 2006, he was the deputy manager of Hui Zhou Petrochemicals Services Company, CNOOC Nanhai East Corporation. From September 1978 to July 1982, Mr. Huang studied Theoretical Physics at Xiamen University and obtained Bachelor's degree of science in 1982. From March 1985 to July 1986, Mr. Huang further studied English Language in College of Foreign Language at Sun Yat-Sen University. Mr. Huang has been a senior engineer since February 1995.

Mr. Siegfried Meissner, aged 60, has been a Non-executive Director of the Company since 26 May 2008. Mr. Meissner graduated from the Technical University of Clausthal-Zellerfeld, Germany as Dipl. Berging., specialized in drilling, reservoir and production engineering in 1982. Since 1993, Mr. Meissner joined the Nabors Group as President of Nabors Drilling International Limited. Mr. Meissner has been a director of Nabors International Management Limited since 29 December 2004.

Mr. Popin Su, aged 48, has been the alternate director to Siegfried Meissner, a Non-executive Director of the Company, since 27 December 2012 and the vice president and corporate treasurer of Nabors Industries since 2008. Mr. Su acted as the vice president of Nabors Drilling International Ltd. from 1999 to 2007. Mr. Su holds a Bachelor of Science degree from National Taiwan University and a Master's degree in Business Administration from University of Texas at Austin.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Liu Xiaofeng (劉曉峰先生), aged 50, has been an Independent Non-executive Director of the Company since 18 January 2008. He is currently a managing director of China Resources Capital Holdings Company Limited, and an Independent Non-executive Director of Kun Lun Energy Company Limited (formerly known as "CNPC (Hong Kong) Limited") (HKSE stock code: 00135) and Haier Electronics Group Co., Ltd. (HKSE stock code: 01169). He has over 19 years of experience in corporate finance and has worked with various international financial institutions since 1993, including NM Rothschild & Sons, JP Morgan, and DBS. Mr. Liu obtained a Master's degree and a Ph.D. from the Faculty of Economics, University of Cambridge in 1988 and 1993 respectively, a Master of Science degree in Development Studies from the University of Bath, England, in 1987, and a Bachelor of Economics degree from Sichuan Finance College (Southwest University of Finance and Economics, China) in 1983.

Mr. Qi Daqing (齊大慶先生), aged 49, has been an Independent Non-executive Director of the Company since 18 January 2008. Mr. Qi is also an independent non-executive director of Sohu.com Inc. (NASDAQ stock code: SOHU), Focus Media Holding Ltd. (NASDAQ stock code: FMCN), AutoNavi Holdings Ltd. (NASDAQ stock code: AMAP), Bona Film Group Ltd. (NASDAQ stock code: BONA), SinoMedia Holding Ltd. (HKSE stock code: 00623) and China Vanke Co. Ltd. (SZSE stock code: 000002). Mr. Qi is currently a professor and associate dean of Cheung Kong Graduate School of Business and a member of the American Accounting Association. Mr. Qi had worked for The Chinese University of Hong Kong, the Eli Broad Graduate School of Management at Michigan State University in the United States, the East-West Center in the United States and the China Features in Xinhua News Agency in the PRC. Mr. Qi graduated from Fudan University with a Bachelor's degree of science in Biophysics and a Bachelor's degree of arts in International Journalism. He obtained a Master's degree in Management from the University of Hawaii and a doctoral degree in Accounting from the Eli Broad College of Business, Michigan State University in the United States.

Mr. Tai Kwok Leung, Alexander (戴國良先生), aged 55, has been an Independent Non-executive Director of the Company since 18 January 2008. Mr. Tai graduated from Victoria University of Wellington in New Zealand with a degree in Bachelor of Commerce and Administration in 1982 and became an associate member of the Hong Kong Institute of Certified Public Accountants in 1983. Mr. Tai has extensive accounting, corporate finance and investment experience in Hong Kong and overseas. Mr. Tai is a shareholder and an executive director of Invest Captial Asia Limited (formerly known as "Access Capital Limited"), a licensed corporation under the SFO to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities. Mr. Tai is currently an independent non-executive director of Luk Fook Holdings (International) Limited (HKSE stock code: 00590) and First Credit Holdings Limited (HKSE stock code: 08215) .

Mr. Chen Guoming (陳國明先生), aged 50, has been an Independent Non-executive Director of the Company since 18 January 2008. In 1982, Mr. Chen graduated from the Mechanical Department of the East China Petroleum Institute with a Bachelor's Degree, and then worked as an assistant engineer in the Lanzhou General Machinery Plant from 1982 to 1983. He earned his Master's degree in 1986, from the Beijing Graduate School of East China Petroleum Institute. He then worked as a teacher in this Institute and was promoted to Associate Professor and then Professor in 1992 and 1995, respectively. He was a visiting scholar at the University of California, Berkeley, from 1996 to 1997. He obtained his Ph.D. degree in 1999, and was promoted to Ph.D. candidate supervisor in 2000. He is now a Professor and a Ph.D. candidate supervisor in the Department of Mechanical and Electrical Engineering, China University of Petroleum. Currently, Mr. Chen is the chief officer of Shandong Key Laboratory of Petroleum Mechanical Engineering and the Research Centre of Security technique of the Offshore Oil & Gas Equipment; a member of the Quality & Reliability Committee of China Petroleum Society, the Offshore Engineering Committee of China Naval Architects and Marine Engineers' Society and China Mechanical Engineering Society; and a member of the Editorial Committee of the Journal of Petroleum Science, the Journal of Oil Mining Field Machinery and the Journal of China University of Petroleum (Natural Science Edition). He has been receiving special subsidies granted by the State Council of the PRC government (政府特殊津貼) since August 2005, for his significant contribution to the development of higher education in China, and was awarded the National Labor Day Medal in 2007.

Mr. Shi Xingquan (史興全先生), aged 70, has been an Independent Non-executive Director of the Company since 14 April 2009. Mr. Shi is a senior engineer in professor level. Mr. Shi graduated from the Northeastern Petroleum College in 1965 and is a well-known petroleum engineering expert. Mr. Shi has been appointed as the vice president of PetroChina Company Limited from 1999 until 2003. Mr. Shi was awarded the National Technology Advancement Award (First Prize) by the National Science and Technology Council of the PRC in 1997. In 2003, Mr. Shi was awarded the National Scientific and Technological Progress Award (First Prize) by State Council of the PRC. Mr. Shi was also granted the Middle-aged and Young Experts of the State with Outstanding Contribution by Ministry of Personnel of the PRC.

Mr. Guo Yanjun (郭燕軍先生), aged 60, has been an Independent Non-executive Director of the Company since 20 June 2011. In 1982, Mr. Guo graduated with a Diploma in Law from China People's University in 1984. Mr. Guo is an independent non-executive director of Mei Ah Entertainment Group Limited (HKSE stock code: 00391) and Strong Petrochemical Holdings Limited (HKSE stock code: 00852) . Mr. Guo has extensive entrepreneurship experiences and experience of corporate operation and management. Mr. Guo is currently the chairman of Beijing Junxinda Economic Development Co., Ltd., CNHK Media Limited, CNHK Energy Limited and CNHK Publication Limited respectively.

SENIOR MANAGEMENT

Mr. Zhao Ping (趙平先生), aged 56, has been a Vice-president of the Company since 27 April 2008. He has been a director of Honghua Company since 18 January 2010, and has been the chairman of Honghua Company since 1 January 2012. He was the general manager of Honghua Company from 18 January 2010 to 31 December 2011. Mr. Zhao has been the chairman and general manager of Sichuan Honghua Youxin Petroleum Machinery Co., Ltd. from 2000 to 2012. From 1972 to 1999, Mr. Zhao worked in South-Sichuan Mining Area of Sichuan Petroleum Bureau. He was the head of Quality Management Office since 1993, and the director of Workshop No.1 from 1994 to 1996, and was the deputy factory director from 1997 to 1999. Mr. Zhao graduated from Machinery Department of Southwest Petroleum University, majoring in Petroleum & Minerals Machinery and is a qualified engineer.

Mr. Zhang Cong (張聰先生), aged 57, has been a Vice-president of the Company since 27 April 2008, and has been the chairman and general manager of Chengdu Hongtian Electric Drive Engineering Co., Ltd. since June 2001. He has been a director of Honghua International Co., Ltd since 1 August 2009, and has been the general manager of Honghua Offshore Oil & Gas Equipment (Jiangsu) Co., Ltd. and Shanghai Honghua Offshore Oil & Gas Equipment Co., Ltd. since 26 September 2011. Mr. Zhang was one of the initial founders of Chengdu Hongtian Electric Drive Engineering Co., Ltd.. Mr. Zhang has helped Chengdu Hongtian Electric Drive Engineering Co., Ltd. to sell DBS digital VFD system to major oil fields in China and a large number of products to the overseas market. In December 2006, Mr. Zhang was awarded "The Fourth session Excellent Start in Undertaking Entrepreneur of Chengdu". Mr. Zhang was a cadre in South-Sichuan Mining Area of Sichuan Petroleum Bureau from September 1985 to September 1994 and was the Manager and Director of Luzhou Huayou Compressed Gas Co., Ltd. from September 1994 to June 2001. Mr. Zhang graduated from Sichuan Radio TV University, majoring in electronic technology and is a qualified engineer.

Mr. Liu Gangqiang (劉剛強先生), aged 43, has been the Secretary of the Board of Directors and a Joint Company Secretaries of the Company since 21 January 2008. He has been the Secretary of the board of directors of Honghua Company from March 2004 to January 2011. Mr. Liu is designated as the chief operational officer of Honghua Holdings Limited since September 2009. He is mainly responsible for reorganization and listing preparation of the Company, capital operation, securities market related affairs, internal audit and supervision affairs, capital market compliance and government and regulatory authority coordination, and day-to-day administration of the Board of Directors and general meeting etc.. From February 2003 to September 2003, Mr. Liu conducted research on the development of state-owned enterprises, in the Work Technology Center of the Sichuan State-Owned Enterprise Supervisory Committee. From October 2000 to September 2003, he was an assistant general manager of Sichuan Aerospace High-tech Co., Ltd., and the general manager of Aerospace Network Communications System Engineering Co., Ltd.. From September 1997 to October 2000, he served as an economist in Sichuan Trust & Investment Co., Ltd., and was engaged in securities analysis, investment financing, capital planning, asset management and legal affairs. From September 1991 to May 1994, he was a technician at Beijing Yanshan Petroleum & Chemicals Co., Ltd.. Mr. Liu graduated from Chengdu Science and Technology University (now Sichuan

University), with a Bachelor's Degree in high polymer material and engineering, in 1991. He earned a Master's degree in Economics from Southwest University of Finance and Economics in 1997. In 2003, he received a Ph.D. in Economics from Southwest University of Finance and Economics.

Mr. Feng Shangfei (馮尚飛先生), aged 39, has been the Human Resources Director of the Company and Honghua (China) Investment Co., Ltd. since 1 June 2011, and was appointed as the general manager of Honghua Company with effect from 1 January 2012. Mr. Feng graduated from Shangdong University (formerly known as Shangdong Industry University) with a Bachelor's Degree of engineering in 1995, majoring in mechanical design and manufacture. He earned a Master's degree of Psychology from Beijing Normal University in 2000. Mr. Feng has over 10 years of experience in personnel, administration, corporate culture, senior management of large enterprise. For the period from October 2009 to March 2011, Mr. Feng worked for Anton Oilfield Services (Group) Ltd. as the Human Resources Director. For the period from April 2006 to September 2009, he worked for ENN Energy Holdings Limited, served as Human Resources Director of the LNG Division, vice president of human resources of overseas business department and general manager of Vietnamese company. For the period from October 2000 to March 2005, Mr. Feng worked for Linuo Group Holdings Co.,Ltd.. For the period from July 1995 to October 2000, he was a lecturer of Shandong University.

Mr. Chung Kai Cheong (鍾啓昌先生), aged 35, has been the Financial Controller of the Company, Honghua Holdings Limited and Honghua (China) Investment Co., Ltd. since 1 June 2011. Mr. Chung joined the Group in August 2008 as a director of financial centre of the Company. Mr. Chung has over 11 years of experience in accounting and auditing at international accounting firms and listed company. Mr. Chung also worked for KPMG from December 2003 to July 2008 with the then latest position as an audit manager. He also worked for BDO Limited (formerly known as BDO McCabe Lo & Co.) for the period from June 2000 to December 2003 with the then latest position as a senior associate. Mr. Chung obtained a Bachelor's Degree majoring in accountancy from The City University of Hong Kong in September 2000. He is currently an associate member of the Hong Kong Institute of Certified Public Accountants.

Ms. Corinna Leung (梁慧嫻女士), aged 45, has been a Joint Company Secretaries of the Company since 21 January 2008. She is a director of the corporate services department of Tricor Services Limited. She is a fellow member with the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries. She provides corporate services to companies that are listed on the Main Board, Growth Enterprise Market of the Stock Exchange and private companies. She acts as the joint company secretary of SBI Holdings, Inc. (HKSE stock code: 6488), a company listed on the Stock Exchange and Beijing Jingneng Clean Energy Co., Limited (HKSE stock code: 00579), a company listed on the Stock Exchange.

CORPORATE GOVERNANCE REPORT

The Board presents this Corporate Governance Report in the Group's annual report for the year ended 31 December 2012.

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

CORPORATE GOVERNANCE PRACTICES OF THE COMPANY

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

The Group strives to 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 controls and accountability to Shareholders.

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

The Company has applied the principles set out in the Code on Corporate Governance Practices (the "Former Code"), where the revised code, namely the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Listing Rules has become effective on 1 April 2012.

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

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

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

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

The Company has complied with most of the code provisions as set out in the Former Code and the CG Code during the respective period (i) from 1 January 2012 to 31 March 2012 and (ii) from 1 April 2012 to 31 December 2012, save for certain deviations from the code provisions in respect of separation of roles of Chairman and President (Chief Executive Officer) and the attendance of Independent Non-executive Directors and Non-executive Directors to general meetings of the Company, details of which will be explained below.

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Company Code and the Model Code throughout the year ended 31 December 2012.

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

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

THE BOARD OF DIRECTORS

BOARD COMPOSITION

The Board currently comprises 11 members, consisting of 3 Executive Directors, 1 Non-executive Director and his alternate and 6 Independent Non-executive Directors.

The Board comprises the following Directors:

Executive Directors:

Zhang Mi *(Chairman and President (Chief Executive Officer, "CEO"), Chairman of Strategic Investment and Risk Control Committee, Chairman of Nomination Committee and Member of Remuneration Committee)*

Ren Jie *(Vice-President and Member of Strategic Investment and Risk Control Committee)*

Liu Zhi *(Vice-President and Member of Strategic Investment and Risk Control Committee)*

Non-executive Directors:

Siegfried Meissner	
Popin Su	*(appointed as the alternate director to Siegfried Meissner with effect from 27 December 2012)*
Huang Dongyang	*(Member of Strategic Investment and Risk Control Committee) (Resigned with effect from 19 March 2013)*

Independent Non-executive Directors:

Liu Xiaofeng	*(Chairman of Remuneration Committee, Chairman of Corporate Governance Committee, Member of Strategic Investment and Risk Control Committee, Audit Committee and Nomination Committee)*
Qi Daqing	*(Chairman of Audit Committee and Member of Remuneration Committee, Corporate Governance Committee and Nomination Committee)*
Tai Kwok Leung, Alexander	*(Member of Audit Committee and Corporate Governance Committee)*
Chen Guoming	*(Member of Audit Committee and Corporate Governance Committee)*
Shi Xingquan	*(Member of Audit Committee, Corporate Governance Committee and Strategic Investment and Risk Control Committee)*
Guo Yanjun	*(Member of Audit Committee and Corporate Governance Committee)*

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

CHAIRMAN AND PRESIDENT (CHIEF EXECUTIVE OFFICER "CEO")

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

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

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

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

During the year ended 31 December 2012, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the Independent Non-executive Directors in respect of his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company considers all Independent Non-executive Directors are independent.

NON-EXECUTIVE DIRECTORS AND DIRECTORS' RE-ELECTION

Code provision A.4.1 of the CG Code stipulates that Non-executive Directors shall be appointed for a specific term, subject to re-election, whereas code provision A.4.2 states that all directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment and that every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

Each of the Directors of the Company is appointed for a specific term of not exceeding 3 years and is subject to retirement by rotation at least once every three years.

RESPONSIBILITIES, ACCOUNTABILITIES AND CONTRIBUTIONS OF THE BOARD AND MANAGEMENT

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

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

All Directors, including Non-executive Directors and Independent Non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

All Directors have full and timely access to all the information of the Company as well as the services and advice from the company secretary and senior management. The Directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The Directors shall disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each Director to perform his responsibilities to the Company.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management.

TRAINING INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

Directors keep abreast of responsibilities as a director of the Company and of the conduct, business activities and development of the Company.

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

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Internally-facilitated briefings for Directors will be arranged and reading material on relevant topics will be issued to Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses.

During the year ended 31 December 2012, the following Directors attended seminars/training sessions/in-house briefing:

Directors	Topic
Executive Directors	
Zhang Mi	Training Seminar — "Duties of directors, supervisors and senior management of a listed company" Senior Management Training Seminar — "Functions position in Honghua Group Headquarter and Capital Management"
Ren Jie	Training Seminar — "Duties of directors, supervisors and senior management of a listed company"
Liu Zhi	Training Seminar — "Duties of directors, supervisors and senior management of a listed company"
Non-Executive Directors	
Siegfried Meissner	Training Seminar — "Duties of directors, supervisors and senior management of a listed company"
Popin Su *(alternate to Siegfried Meissner, appointed with effect from 27 December 2012)*	The New Director Training
Huang Dongyang *(resigned with effect from 19 March 2013)*	Training Seminar — "Duties of directors, supervisors and senior management of a listed company"
Independent Non-Executive Directors	
Liu Xiaofeng	Training Seminar — "Duties of directors, supervisors and senior management of a listed company"
Qi Daqing	Training Seminar — "Duties of directors, supervisors and senior management of a listed company"
Tai Kwok Leung, Alexander	Training Seminar — "Duties of directors, supervisors and senior management of a listed company" KPMG Independent Non-Executive Director Forum
Chen Guoming	Training Seminar — "Duties of directors, supervisors and senior management of a listed company"
Shi Xingquan	Training Seminar — "Duties of directors, supervisors and senior management of a listed company"
Guo Yanjun	Training Seminar — "Duties of directors, supervisors and senior management of a listed company" KPMG Independent Non-Executive Director Forum

BOARD COMMITTEES

The Board has established 5 committees, namely, the Audit Committee, Nomination Committee, Corporate Governance Committee, Remuneration Committee and Strategic Investment and Risk Control Committee of which the Nomination Committee and the Corporate Committee were dismissed with effect from 19 March 2013, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the Company's website and the Stock Exchange's website and are available to Shareholders upon request.

The majority of the members of each Board committee are Independent Non-executive Directors and the list of the chairman and members of each Board committee is set out under "Corporate Information" on page 3.

AUDIT COMMITTEE

The Audit Committee comprises 6 Independent Non-executive Directors, namely, Qi Daqing (Chairman), Liu Xiaofeng, Tai Kwok Leung, Alexander, Chen Guoming, Shi Xingquan and Guo Yanjun, including 3 Independent Non-executive Directors who possess the appropriate professional qualifications or accounting or related financial management expertise.

The main duties of the Audit Committee include the following:

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

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

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

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

During the Year under review, the Audit Committee has reviewed the Group's annual results and annual report for the year ended 31 December 2012, the financial reporting and compliance procedures, the report from the management on the Company's internal control and risk management systems and processes, and the re-appointment of the external auditors.

The Audit Committee held two meetings during the year ended 31 December 2012 and the attendance records are set out under “Directors’ Attendance Records” on page 41.

REMUNERATION COMMITTEE

The Remuneration Committee comprises 3 members, Liu Xiaofeng (Chairman), Zhang Mi and Qi Daqing, the majority of them are Independent Non-executive Directors.

The primary objectives of the Remuneration Committee include the following:

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

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

The Remuneration Committee held a meeting during the year ended 31 December 2012 and the attendance records are set out under “Directors’ Attendance Records” on page 41.

The remuneration policies of the Group focus on the efficiency of the employees and the position-value index, with reference to the individual ability and experience of an employee as well as the market value of the labor market, and emphasize on incentive-orientation and also the establishment of a fair and competitive remuneration system. For long-term incentive policies, the Company has adopted the Share Option Scheme and Restricted Share Award Scheme for eligible participants. Details are set out in the paragraphs headed “Share Option Scheme” and “Restricted Share Award Scheme” in the Report of the Directors.

The basis of determining the emolument of Directors is on various considerations, including Directors’ capability, knowledge and experience, participation to the Board, job duties and responsibilities and is also made reference to the market practices and conditions. The remuneration of the Executive Directors is based on their administrative management positions. Independent Non-executive Directors are entitled to a fixed emolument package. Non-executive Directors may be entitled to a fixed remuneration under the service contract.

NOMINATION COMMITTEE

The Nomination Committee newly formed on 17 January 2012, comprises 3 members, Zhang Mi (Chairman), Liu Xiaofeng and Qi Daqing, the majority of them are Independent Non-executive Directors.

The primary objectives of the Nomination Committee include the following:

- To review the structure, size and composition of the Board and make recommendations regarding any proposed changes of the Board;
- To develop and formulate relevant procedures for nomination and appointment of Directors;
- To identify suitable candidates for appointment as Directors;
- To assess the independence of Independent Non-executive Directors;
- To make recommendations to the Board on appointment or re-appointment of and succession planning for Directors; and
- To discharge other rights authorized by the Board.

The Nomination Committee meets at least once a year to review the structure, size and composition of the Board and the independence of the Independent Non-executive Directors, and to consider the qualifications of the retiring directors standing for election at the Annual General Meeting.

The Nomination Committee held a meeting during the year ended 31 December 2012 and the attendance records are set out under "Directors' Attendance Records" on page 41.

The Nomination Committee was dismissed with effect from 19 March 2013. The Board will take over the duties of the Nomination Committee and will review its own structure, size and composition regularly to ensure that it has a balance of expertise, skills and experience board members appropriate for the requirements of the business of the Company.

CORPORATE GOVERNANCE COMMITTEE

The Corporate Governance Committee comprises all the 6 Independent Non-executive Directors, namely Liu Xiaofeng (Chairman), Qi Daqing, Tai Kwok Leung, Alexander, Chen Guoming, Shi Xingquan and Guo Yanjun.

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

- To review the compliance of the corporate governance issues of the Company pursuant to the Listing Rules and other applicable rules and regulations;
- To review the corporate governance report to be included in the annual report and interim report of the Company; and

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

The Corporate Governance Committee normally meets at least twice a year for reviewing the compliance of the corporate governance issues, the corporate governance report and the corporate governance policy. The Corporate Governance Committee held two meetings during the year ended 31 December 2012 and the attendance records are set out under “Directors’ Attendance Records” on page 41.

The Corporate Governance Committee was dismissed with effect from 19 March 2013. The Audit Committee will take over the duties of the Corporate Governance Committee and will be responsible for reviewing the compliance of the corporate governance issues, the corporate governance report and the corporate governance policy.

STRATEGIC INVESTMENT AND RISK CONTROL COMMITTEE

The Strategic Investment and Risk Control Committee was formed by Zhang Mi (Chairman), Liu Zhi, Ren Jie, Shi Xingquan and Liu Xiaofeng. Huang Dongyang has resigned and Liu Xiaofeng has been appointed as the member of the Strategic Investment and Risk Control Committee for replacement both with effect from 19 March 2013.

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

- To review the investment strategies of the Company;
- To review the risk control of the Company; and
- To recommend investment strategies and risk control policy and practices to the Board.

The Strategic Investment and Risk Control Committee normally meets at least once a year for reviewing the investment and risk control issues. The Strategic Investment and Risk Control Committee held three meetings during the year ended 31 December 2012 and the attendance records are set out under “Directors’ Attendance Records” on page 41.

ATTENDANCE RECORD OF DIRECTORS AND COMMITTEE MEMBERS

During the year ended 31 December 2012, seven Board meetings including four regular Board meetings were held at approximately quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

The attendance record of each Director at the meetings of the Board, the Audit Committee, the Nomination Committee, the Remuneration Committee, the Corporate Governance Committee and the Strategic Investment and Risk Control Committee during the year ended 31 December 2012 are set out below:

	Attendance/Number of Meetings						
Name of Director	Board	Nomination Committee	Remuneration Committee	Audit Committee	Corporate Governance Committee	Strategic Investment and Risk Control Committee	Annual General Meeting
Zhang Mi	07/07	01/01	01/01	–	–	03/03	01/01
Ren Jie	07*/07	–	–	–	–	03/03	0/01
Liu Zhi	07/07	–	–	–	–	03/03	0/01
Siegfried Meissner	0/07	–	–	–	–	–	0/01
Popin Su *(appointed as alternate to Mr. Siegfried Meissner with effect from 27 December 2012)*	01/01	–	–	–	–	–	—
Huang Dongyang	07/07	–	–	–	–	02/03	0/01
Qi Daqing	07/07	01/01	01/01	02/02	02/02	–	0/01
Liu Xiaofeng	06/07	01/01	01/01	02/02	02/02	–	01/01
Chen Guoming	07/07	–	–	02/02	02/02	–	0/01
Tai Kwok Leung, Alexander	07/07	–	–	02/02	02/02	–	01/01
Shi Xingquan	07/07	–	–	02/02	02/02	03/03	0/01
Guo Yanjun	06/07	–	–	01/02	02/02	–	0/01

* Director had appointed proxy to attend one meeting

Apart from regular Board meetings, the Chairman also held meetings with the Non-executive Directors (including Independent Non-executive Directors) without the presence of Executive Directors during the Year.

DIRECTORS' RESPONSIBILTY FOR FINANCIAL REPORTING IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2012.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report on pages 70 to 71.

Where appropriate, a statement will be submitted by the Audit Committee explaining its recommendation regarding the selection, appointment, resignation or dismissal of external auditors and the reasons why the Board has taken a different view from that of the Audit Committee.

AUDITORS' REMUNERATION

During the year ended 31 December 2012, the remuneration paid to the Company's auditors, Messrs KPMG, is set out below:

Category of Service	Fees (in Renminbi)
Audit Services	2,099,000
Non-audit Services	
— Reviewing interim financial statements	700,000
Total	2,799,000

The auditors' remuneration disclosed in note 6(c) to the consolidated financial statements included the remuneration paid to KPMG as detailed above and the remuneration paid to domestic auditors of the Company's subsidiaries.

INTERNAL CONTROLS

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

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

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

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

COMPANY SECRETARY

Corinna Leung of Tricor Services Limited, an external service provider, has been engaged by the Company as one of its Joint Company Secretaries. Its primary contact person at the Company is Liu Gangqiang, one of the Joint Company Secretaries of the Company.

Each of the Joint Company Secretary has complied with Rule 3.29 of the Listing Rules by taking no less than 15 hours of the relevant professional training during the Year.

SHAREHOLDERS' RIGHTS

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

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

CONVENING AN EXTRAORDINARY GENERAL MEETING BY SHAREHOLDERS

Extraordinary general meetings may be convened by the Board on requisition of one or more Shareholders' holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the Secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

PUTTING FORWARD PROPOSALS AT GENERAL MEETINGS

There is no provision allowing Shareholders to move new resolutions at general meetings under the Cayman Islands Companies Law or the Articles of Association of the Company. Shareholders who wish to move a resolution may request the Company to convene a general meeting following the procedures set out in the preceding paragraph.

As regards proposing a person for election as a director, please refer to the procedures available on the websites of the Company.

PUTTING FORWARD ENQUIRIES TO THE BOARD

For putting forward any enquiries to the Board of the Company, Shareholders may send written enquiries to the Company.

Note: The Company will not normally deal with verbal or anonymous enquiries.

CONTACT DETAILS

Shareholders may send their enquiries or requests as mentioned above to the following:

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

Email: shareholder@hhcp.com.cn

For the avoidance of doubt, Shareholders must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address or 99 East Road, Information Park, Jinniu District, Chengdu, Shichuan, People's Republic of China and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The general meetings of the Company provide a forum for communication between the Board and the Shareholders. The Chairman of the Board as well as chairmen of the Audit Committee, Nomination Committee, Remuneration Committee, Corporate Governance Committee and Strategic Investment and Risk Control Committee or, in their absence, other members of the respective committees normally attend the annual general meeting and other relevant Shareholders' meetings to answer questions at Shareholders' meetings. Notices to Shareholders for annual general meetings and all other general meetings will be sent to the Shareholders before such meetings pursuant to the requirement of the Listing Rules.

Information relating to the Company's financial results, corporate details, major projects and events are disseminated through publications of interim and annual reports, announcements, circulars and other corporate communications and publications available on the websites of the Stock Exchange and the Company.

Code Provision A.6.7 of the CG 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.

To promote effective communication, the Company maintains a website at http://www.hh-gltd.com, where up-to-date information and updates on the Company's business operations and developments, financial information, corporate governance practices and other information are available for public access.

REPORT OF THE DIRECTORS

The Board presents this annual report, together with the audited consolidated financial statements of the Group for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

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

RESULTS AND DISTRIBUTION

The results of the Group for the year ended 31 December 2012 are set out in the consolidated financial statements on pages 72 to 162 of this annual report.

The Board recommended a final dividend of HK6 cents per Share for the year ended 31 December 2012.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed during the following periods:

(i) from Wednesday, 15 May 2013 to Wednesday, 22 May 2013, both days inclusive, for the purpose of ascertaining shareholders' entitlement to attend and vote at the forthcoming annual general meeting. In order to be eligible to attend and vote at the forthcoming annual general meeting, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Hong Kong branch share registrar and transfer office of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 14 May 2013; and

(ii) from Thursday, 30 May 2013 to Tuesday, 4 June 2013, both days inclusive, for the purpose of ascertaining shareholder's entitlement to the proposed final dividend. In order to establish entitlements to the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Hong Kong branch share registrar and transfer office of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 29 May 2013.

SHARE CAPITAL

Changes in the share capital of the Company during the Year are set out in Note 30 to the consolidated financial statements.

PRE-EMPTIVE RIGHT

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

PURCHASE, SALE OR REPURCHASE OF THE LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the Year ended 31 December 2012, save for the Trustee of the Restricted Share Award Scheme which are set out in Note 30(d) to the consolidated financial statements.

RESERVES

As of 31 December 2012, the Group has a total of approximately RMB4,156 million worth of reserve. Details of movements in the reserves of the Group during the Year are set out in the consolidated statement of changes in equity in the consolidated financial statements.

SUBSIDIARIES

Details of the Company's subsidiaries as of 31 December 2012 are set out in Note 15 to the consolidated financial statements.

SIGNIFICANT CONTRACT

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

DIRECTORS

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

EXECUTIVE DIRECTORS

Mr. Zhang Mi[2,3,5]	(Chairman, appointed on 18 January 2008)
Mr. Ren Jie[3]	(Appointed on 18 January 2008)
Mr. Liu Zhi[3]	(Appointed on 26 May 2008)

NON-EXECUTIVE DIRECTORS

Mr. Siegfried Meissner	(Appointed on 26 May 2008)
Mr. Popin Su (the alternate director to Mr. Siegfried Meissner)	(Appointed on 27 December 2012)
Mr. Huang Dongyang[3]	(Appointed on 14 April 2010 and resigned on 19 March 2013)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Liu Xiaofeng[1,2,3,4,5]	(Appointed on 18 January 2008)
Mr. Qi Daqing[1,2,4,5]	(Appointed on 18 January 2008)
Mr. Tai Kwok Leung, Alexander[1,4]	(Appointed on 18 January 2008)
Mr. Chen Guoming[1,4]	(Appointed on 18 January 2008)
Mr. Shi Xingquan[1,3,4]	(Appointed on 14 April 2009)
Mr. Guo Yanjun[1]	(Appointed on 20 June 2011)

Notes:

1. Audit Committee Members
2. Remuneration Committee Members
3. Strategic Investment and Risk Control Committee Members
4. Corporate Governance Committee Members (the committee is dismissed with effect from 19 March 2013)
5. Nomination Committee Members (the committee was formed on 17 January 2012 and dismissed with effect from 19 March 2013)

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

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

DIRECTORS' SERVICE CONTRACTS

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

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

DIRECTORS' INTERESTS IN CONTRACTS

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

REMUNERATION FOR DIRECTORS AND SENIOR MANAGEMENT

For the year ended 31 December 2012, details of remuneration for the Directors and Senior Management are set out in Notes 8 and 34(f) to the consolidated financial statements.

The emoluments of the Executive Directors and Senior Management by bands are as follows:

	2012 (Number of individuals)
RMB0 to RMB1,000,000	1
RMB1,000,001 to RMB2,000,000	2
RMB2,000,001 to RMB3,000,000	5
RMB3,000,001 to RMB4,000,000	–
RMB4,000,001 to RMB5,000,000	–
RMB5,000,001 to RMB6,000,000	1

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

At 31 December 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	1,555,711,037(1)(5)	48.14%
Mr. Ren Jie	Long	Personal interest, corporate interest and settlor of a discretionary trust	1,555,711,037(2)(5)	48.14%
Mr. Liu Zhi	Long	Corporate interest and settlor of a discretionary trust	1,555,711,037(3)(5)	48.14%
Mr. Guo Yanjun	Long	Corporate interest	2,100,000(4)	0.06%

(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 8,737,400 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 28,045,800 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 8,737,400 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 28,045,800 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 8,737,400 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 28,045,800 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	26,700,000
Mr. Ren Jie	Long	5,687,000	34,850,000
Mr. Liu Zhi	Long	5,173,000	35,364,000
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 31 December 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 31 December 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.

Name	Long/ Short Position	Number of shares held: Personal interest: Share option	Shares Interest	Corporate interest	Corporate interest and settlor of a discretionary trust	Interest of the Concert Group	Total	% of the issued share capital of the Company
Ally Giant Limited	Long	–	1,337,727,837	–	–	258,520,200	1,596,248,037[1]	49.40%
Ample Chance International Limited	Long	–	–	1,337,727,837	–	258,520,200	1,596,248,037[2]	49.40%
Wealth Afflux Limited	Long	–	–	1,337,727,837	–	258,520,200	1,596,248,037[3]	49.40%
Ally Smooth Investments Limited	Long	–	–	1,337,727,837	–	258,520,200	1,596,248,037[3]	49.40%
Equity Trustee Limited	Long	–	–	–	1,555,006,237	–	1,555,006,237 [3] [5] [6] [9] [10] [14] [20] [22]	48.12%
Charm Moral International Limited	Long	–	–	1,337,727,837	–	258,520,200	1,596,248,037[4]	49.40%
Mowbray Worldwide Limited	Long	–	–	1,337,727,837	–	258,520,200	1,596,248,037[5]	49.40%
Ecotech Enterprises Corporation	Long	–	–	1,337,727,837	–	258,520,200	1,596,248,037[6]	49.40%
Mr. Zheng Yong	Long	2,085,000	11,549,000	1,337,727,837	–	244,886,200	1,596,248,037[7]	49.40%
Beauty Clear Holdings Limited	Long	–	–	1,337,727,837	–	258,520,200	1,596,248,037[8]	49.40%
Mr. Zuo Huixian	Long	1,734,000	–	–	1,349,972,237	244,541,800	1,596,248,037[9]	49.40%
Vast & Fast Corporation	Long	–	–	1,337,727,837	–	258,520,200	1,596,248,037[9]	49.40%
Mr. Zhang Xu	Long	1,833,000	–	–	1,346,465,237	247,949,800	1,596,248,037[10]	49.40%
Cavendish Global Corporation	Long	–	–	1,337,727,837	–	258,520,200	1,596,248,037[10]	49.40%
Elegant Scene International Limited	Long	–	–	1,337,727,837	–	258,520,200	1,596,248,037[11]	49.40%
Mr. Wang Jiangyang	Long	1,191,000	4,772,600	1,337,727,837	–	252,556,600	1,596,248,037[11]	49.40%
Mr. Chen Jun	Long	872,000	2,640,400	1,337,727,837	–	255,007,800	1,596,248,037[12]	49.40%
Believe Power International Limited	Long	–	–	1,337,727,837	–	258,520,200	1,596,248,037[13]	49.40%
Mr. Fan Bing	Long	1,744,000	–	–	1,350,068,837	244,435,200	1,596,248,037[14]	49.40%
Brondesbury Enterprises Limited	Long	–	–	1,337,727,837	–	258,520,200	1,596,248,037[14]	49.40%
Mr. Zhang Yanyong	Long	1,480,000	600	1,337,727,837	–	257,039,600	1,596,248,037[15]	49.40%
Mr. Ao Pei	Long	440,000	400	1,337,727,837	–	258,079,800	1,596,248,037[16]	49.40%
Mr. Tian Diyong	Long	550,000	416,400	1,337,727,837	–	257,553,800	1,596,248,037[17]	49.40%
Mr. Shen Dingjian	Long	262,000	798,000	1,337,727,837	–	257,460,200	1,596,248,037[18]	49.40%
Benefit Way International Limited	Long	–	–	1,337,727,837	–	258,520,200	1,596,248,037[19]	49.40%
Mr. Liu Xuetian (deceased)	Long	–	–	–	1,348,180,237	248,067,800	1,596,248,037[20]	49.40%
Dobson Global Inc.	Long	–	–	1,337,727,837	–	258,520,200	1,596,248,037[20]	49.40%
Ms. Qu Yihong	Long	–	–	1,348,180,237	–	248,067,800	1,596,248,037[21]	49.40%
Ms. Liu Ying	Long	–	–	1,348,180,237	–	248,067,800	1,596,248,037[21]	49.40%
Mr. Zhou Bing	Long	1,445,000	5,689,600	–	1,337,727,837	251,385,600	1,596,248,037[22]	49.40%
Darius Enterprises Limited	Long	–	–	1,337,727,837	–	258,520,200	1,596,248,037[22]	49.40%
Ms. Lv Lan	Long	769,000	1,006,800	1,337,727,837	–	256,744,400	1,596,248,037[23]	49.40%
Mr. Tian Yu	Long	605,000	1,048,000	1,337,727,837	–	256,867,200	1,596,248,037[24]	49.40%

				Number of shares held				
					Corporate interest and settlor of a			% of the issued share
	Long/ Short	Personal interest		Corporate	discretionary	Interest of the		capital of
Name	Position	Share option	Shares Interest	interest	trust	Concert Group	Total	the Company
Mr. Li Hanqiang	Long	345,000	600	1,337,727,837	–	258,174,600	1,596,248,037(25)	49.40%
Mr. Liu Yingguo	Long	242,000	–	1,337,727,837	–	258,278,200	1,596,248,037(26)	49.40%
Ms. Liu Lulu	Long	243,000	123,400	1,337,727,837	–	258,153,800	1,596,248,037(27)	49.40%
Nabors Drilling International II Limited	Long	–	450,000,000	–	–	–	450,000,000(28)	13.92%
Nabors International Management Limited	Long	–	–	450,000,000	–	–	450,000,000(28)	13.92%
Nabors Global Holdings Limited	Long	–	–	450,000,000	–	–	450,000,000(28)	13.92%
Nabors Industries Ltd.	Long	–	–	450,000,000	–	–	450,000,000(28)	13.92%
Carlyle Offshore Partners II. Ltd	Long	–	–	166,841,887	–	–	166,841,887(29)	5.16%
DBD Cayman, Ltd	Long	–	–	166,841,887	–	–	166,841,887(29)	5.16%
TCG Holdings Cayman II, L.P.	Long	–	–	166,841,887	–	–	166,841,887(29)	5.16%
Ms. Yi Langlin	Long	–	2,156,000 1,594,092,037 (family interest)	–	–	–	1,596,248,037(30)	49.40%

(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 Hangqiang, approximately 1.52% by Liu Yingyuo, approximately 1.22% by Liu Lulu and approximately 28.43% by 6 other shareholders.

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

(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) 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.

(29) 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.

(30) Yi Langlin, spouse of Zhang Mi, is deemed to be interested in 1,596,248,037 Shares.

Save as disclosed above, to the best of the Directors and the Chief Executives of the Company's knowledge, as at 31 December 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 31 December 2012, none of the grantees has exercised the share options granted to him under the Pre-IPO share option scheme and 2,911,000 shares options have been lapsed or forfeited.

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 31 December 2012, all 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 of the Company on 21 January 2008, the Company adopted a share option scheme (the "Share Option Scheme"). Details of the Share Option Scheme are as follows:

Purpose

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

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

Participants

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

Total number of Shares available for issue under the Share Option Scheme and % of issued share capital as at the date of this annual report

The total number of Shares available for issue under the Share Option Scheme upon exercise of all outstanding share options granted and yet to be exercised (excluding share options lapsed or forfeited in accordance with the terms of the Share Option Scheme) was 70,311,200 Shares, representing approximately 2.17% of the issued share capital of the Company as at the date of this annual report.

Maximum entitlement of each participant

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

The period in which Shares must be taken up for under the Share Option Scheme

Share option may be exercised at any time during the period expiring tenth anniversary from the date of grant of share option as determined by the Board of Directors, but subject to early termination provisions of the terms of Share Option Scheme.

The minimum period, if any, for which a share option must be held before it can be exercised

Unless otherwise determined by the Board and stated in the offer of grant of share options to the grantee, there is no minimum period for which a share option must be held before it can be exercised.

Amounts to be paid on acceptance of share options

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

Basis of determining the exercise price

The subscription price of the share option granted under the Share Option Scheme is solely determined and notified to the participants by the Board of Directors, but not less than the highest of (i) the closing price of the Company's Shares as stated in the daily quotations sheet of the Stock Exchange on the date of the grant; (ii) the average closing price of the Company's Shares as stated in the Stock Exchange's daily quotations sheet for the five trading days immediately preceding the date of the grant; and (iii) the nominal value of the Company's Shares as at date of grant.

Condition and Termination of the share options

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

The remaining life of the Share Option Scheme

Subject to early termination of the Share Option Scheme pursuant to the terms thereof, the Share Option Scheme shall remain valid and effective for 10 years commencing on the date of its adoption on 21 January 2008.

On 15 April 2009, share options to subscribe for 60,000,000 Shares were granted to the eligible participants at an exercise price of HK$1.27 per Share under the Share Option Scheme. The share options are exercisable on or after 1 December 2009 by the grantees in the following manners: (1) up to 30% of the share options granted to each grantee from 1 December 2009 to 14 April 2010; (2) up to 60% of the share options granted to each grantee on or before 14 April 2011; (3) all the remaining share options granted to each grantee on or after 15 April 2011, and in each case, not later than 14 April 2009. The valid period of the share options is up to 14 April 2019.

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

On 20 June 2011, share options to subscribe for a total of 7,600,000 shares were granted to the grantees at an exercise price of HK$0.83 per Share under the Share Option Scheme. The 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 year ended 31 December 2012 were as follows:

NUMBER OF SHARE OPTIONS

Name or category of participant	Number of Share Options: Outstanding as at 09/04/2013	Granted during the year ended 31 December 2012	Exercised during the year ended 31 December 2012	Lapsed during the year ended 31 December 2012	Cancelled the year ended 31 December 2012	Outstanding as at 09/04/2013	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	01/12/2009–09/04/2013	1.27	1.29
Mr. Liu Zhi	2,373,000	–	–	–	–	2,373,000	15/04/2009	01/12/2009–09/04/2013	1.27	1.29
Mr. Ren Jie	2,587,000	–	–	–	–	2,587,000	15/04/2009	01/12/2009–09/04/2013	1.27	1.29
Mr. Chen Guoming	750,000	–	–	–	–	750,000	15/04/2009	01/12/2009–09/04/2013	1.27	1.29
	750,000	–	–	–	–	750,000	09/04/2013	09/04/2013–19/06/2021	0.83	0.79
Mr. Liu Xiaofeng	1,000,000	–	–	–	–	1,000,000	15/04/2009	01/12/2009–09/04/2013	1.27	1.29
	1,000,000	–	–	–	–	1,000,000	09/04/2013	09/04/2013–19/06/2021	0.83	0.79
Mr. Qi Daqing	1,000,000	–	–	–	–	1,000,000	15/04/2009	01/12/2009–09/04/2013	1.27	1.29
	1,000,000	–	–	–	–	1,000,000	09/04/2013	09/04/2013–19/06/2021	0.83	0.79
Mr. Tai Kwok Leung,	850,000	–	–	–	–	850,000	15/04/2009	01/12/2009–09/04/2013	1.27	1.29
Alexander	850,000	–	–	–	–	850,000	09/04/2013	09/04/2013–19/06/2021	0.83	0.79
Mr. Shi Xingquan	750,000	–	–	–	–	750,000	15/04/2009	01/12/2009–09/04/2013	1.27	1.29
	750,000	–	–	–	–	750,000	09/04/2013	09/04/2013–19/06/2021	0.83	0.79
Mr. Guo Yanjun	850,000	–	–	–	–	850,000	09/04/2013	09/04/2013–19/06/2021	0.83	0.79
Sub-total	18,447,000	–	–	–	–	18,447,000				
Substantial Shareholders										
Mr. Zheng Yong	695,000	–	–	–	–	695,000	15/04/2009	01/12/2009–09/04/2013	1.27	1.29
Mr. Zuo Huixian	674,000	–	–	–	–	674,000	15/04/2009	01/12/2009–09/04/2013	1.27	1.29
Mr. Zhang Xu	642,000	–	–	–	–	642,000	15/04/2009	01/12/2009–09/04/2013	1.27	1.29
Mr. Wang Jiangyang	301,000	–	–	–	–	301,000	15/04/2009	01/12/2009–09/04/2013	1.27	1.29
	–	250,000	–	–	–	250,000	09/04/2013	09/04/2013–04/04/2022	1.19	1.20
Mr. Chen Jun	332,000	–	–	–	–	332,000	15/04/2009	01/12/2009–09/04/2013	1.27	1.29
Mr. Fan Bing	569,000	–	–	–	–	569,000	15/04/2009	01/12/2009–09/04/2013	1.27	1.29
Mr. Zhang Yanyong	480,000	–	–	–	–	480,000	15/04/2009	01/12/2009–09/04/2013	1.27	1.29
Mr. Ao Pei	243,000	–	243,000	–	–	0	15/04/2009	01/12/2009–09/04/2013	1.27	1.29
Mr. Tian DiYong	195,000	–	–	–	–	195,000	15/04/2009	01/12/2009–09/04/2013	1.27	1.29
Mr. Shen Dingjian	87,000	–	–	–	–	87,000	15/04/2009	01/12/2009–09/04/2013	1.27	1.29
Mr. Zhou Bing	695,000	–	–	–	–	695,000	15/04/2009	01/12/2009–09/04/2013	1.27	1.29
Ms. Lv Lan	174,000	–	–	–	–	174,000	15/04/2009	01/12/2009–09/04/2013	1.27	1.29
	–	250,000	–	–	–	250,000	09/04/2013	09/04/2013–04/04/2022	1.19	1.20
Mr. Tian Yu	275,000	–	–	–	–	275,000	15/04/2009	01/12/2009–09/04/2013	1.27	1.29
	–	90,000	–	–	–	90,000	09/04/2013	09/04/2013–04/04/2022	1.19	1.20
Mr. Li Hanqiang	130,000	–	–	–	–	130,000	15/04/2009	01/12/2009–09/04/2013	1.27	1.29
Mr. Liu Yingguo	117,000	–	–	–	–	117,000	15/04/2009	01/12/2009–09/04/2013	1.27	1.29
Ms. Liu Lulu	108,000	–	–	–	–	108,000	15/04/2009	01/12/2009–09/04/2013	1.27	1.29
Sub-total	5,717,000	590,000	243,000	–	–	6,064,000				
Other										
Employee	37,958,300	–	5,191,200	912,600	–	31,854,500	15/04/2009	01/12/2009–09/04/2013	1.27	1.29
Employee	2,200,000	–	1,800,000	–	–	400,000	09/04/2013	09/04/2013–10/10/2020	1.05	1.01
Employee	2,400,000	–	100,000	–	–	2,300,000	09/04/2013	09/04/2013–19/06/2021	0.83	0.79
Employee	–	14,810,000	–	–	–	14,810,000	09/04/2013	09/04/2013–04/04/2022	1.19	1.20
Sub-total	42,558,300	14,810,000	7,091,200	912,600	–	49,364,500				
Total	66,722,300	15,400,000	7,334,200	912,600	–	73,875,500				

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. As at 31 December 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.

CONTINUING CONNECTED TRANSACTIONS

During the Year, the Group has the following continuing connected transactions which are required to be disclosed in this report in accordance with Chapter 14A of the Listing Rules. For items 1 and 2, disclosure by way of announcement and independent shareholders' approval have been made and obtained in compliance with the requirements of Chapter 14A of the Listing Rules. Nabors Group is not a related party as defined in the Group's accounting policy in note 2(x) to the consolidated financial statements. Accordingly, the transactions with Nabors Group included in items 1 and 2 were not included in the material related party transactions as disclosed in note 34(b) to the consolidated financial statements. For item 3, disclosure by way of announcement has been made in compliance with the requirements of Chapter 14A of the Listing Rules in relation to the Purchase Framework Agreement (as defined below). As it constituted material related party transactions, it has been included and disclosed in note 34(b) to the consolidated financial statements. Certain related parties transactions disclosed in note 34(b) to the consolidated financial statements were not disclosed below as they fulfilled the exemption requirements in Chapter 14A of the Listing Rules.

1. SALES FRAMEWORK AGREEMENT ENTERED INTO WITH NABORS GROUP

Nabors Group comprises of Nabors Industries Ltd. and its subsidiaries. Nabors Group, through Nabors International II Limited, holds approximately 13.92% equity interest in the Company and hence is a connected person of the Company under Chapter 14A of the Listing Rules.

In order to expand the business with the Nabors Group, the Company and Nabors Ltd. Industries entered into a renewal sales framework agreement on 19 November 2010 (the "Renewal Sales Framework Agreement") for a term commencing from 1 January 2011 and ending on 31 December 2013 or when the Nabors Group and its associates ceased to be connected persons of the Company (whichever is the earlier). Pursuant to the Renewal Sales Framework Agreement, the Group shall sell to the Nabors Group certain types of drilling rigs and workover rigs and their parts and components, and provision by the Group to the Nabors Group of the after-sales services and assembly of drilling rigs. The approved annual caps of the Products and Services (as defined in the Renewal Sales Framework Agreement) shall not exceed US$300 million for each of the three years ending 31 December 2013 respectively.

During the Year, the total income received by the Group from the Nabors Group in respect of sales of the Products and provision of the Services amounted to RMB100,667,250.

2. PURCHASES FRAMEWORK AGREEMENT ENTERED INTO WITH NABORS GROUP

In order to expand the business with the Nabors Group, the Company and Nabors Industries Ltd. entered into a renewal purchases framework agreement on 19 November 2010 (the "Renewal Purchases Framework Agreement") for a term commencing from 1 January 2011 and ending on 31 December 2013 or when the Nabors Group and its associates ceased to be connected persons of the Company (whichever is the earlier). Pursuant to the Renewal Purchases Framework Agreement, the Group shall purchase from the Nabors Group rig parts and components which mainly consist of top drives and provision by the Nabors Group to the Group of the after-sales services. The approved annual caps of the Products and Services (as defined in the Renewal Purchases Framework Agreement) shall not exceed US$40 million for each of the three years ending 31 December 2013 respectively.

During the Year, no purchases of the Products and Services was made by the Group from the Nabors Group.

3. PURCHASES FRAMEWORK AGREEMENT ENTERED INTO WITH HONTAI COMPANY

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

Honghua Company entered into a purchase framework agreement on 16 December 2009 (the "Renewal Purchases Framework Agreement") for a term of three years commencing from 1 January 2010 and ending on 31 December 2012.

Pursuant to the Renewal Purchases Framework Agreement, Honghua Company shall purchase low value consumables, auxiliary accessories, tools, welding materials and work-protection items from Hongtai Company. The maximum aggregate annual purchase price payable by Honghua Company to Hongtai Company under the Renewal Purchases Framework Agreement shall not exceed RMB28 million, RMB26 million and RMB26 million for each of the three financial years ending 31 December 2012 respectively.

During the Year, the total purchases made by the Group from Hongtai Company amounted to RMB23,553,506.

In view of the forthcoming expiry of the Renewal Purchase Framework Agreement, Honghua Company and Hongtai Company entered into a purchase framework agreement on 26 June 2012 (the "Purchase Framework Agreement") for a further term of three years commencing from 1 January 2013 and expiring on 31 December 2015. Pursuant to the Purchase Framework Agreement, Honghua Company shall purchase low value consumables, auxiliary accessories, tools, welding materials and worker-protection items from Hongtai Company. It is expected that the maximum aggregate annual purchase price payable by Honghua Company to Hongtai company under the Purchase Framework Agreement shall not exceed RMB26 million for each of the three financial years ending 31 December 2015 respectively. Announcement was published on 26 June 2012 regarding the continuing connected transactions contemplated under the Purchase Framework Agreement in accordance with the Listing Rules.

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

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

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

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

In accordance with Rule 14A.38 of the Listing Rules, the Company is required to obtain a letter from its auditors to confirm that these continuing connected transactions:

(1) have received the approval of the Board;

(2) were made in accordance with the pricing policy of the Company;

(3) were conducted pursuant to the relevant agreements governing these transactions;

(4) have not exceeded the annual cap disclosed in previous relevant announcements.

Accordingly, the Company's auditors were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 *"Assurance Engagements Other Than Audits or Reviews of Historical Financial Information"* and with reference to Practice Note 740 *"Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules"* issued by the Hong Kong Institute of Certified Public Accountants. The auditors have issued to the Board an unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed by the Group in pages 60 to 62 of this annual report in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditors' letter has also been provided to Stock Exchange.

BANK LOANS

Details of our bank loans and other borrowings are set out in Note 23 to the consolidated financial statements.

USE OF PROCEEDS FROM INITIAL PUBLIC OFFERINGS

On 7 March 2008, the Company issued 833,360,000 ordinary shares at a price of HK$3.83 per Share on the main board of the Stock Exchange, raising a net capital (total capital net of underwriting fee and payables for Global Offering) of approximately HK$2.958 billion. In view of the economic and financial situations, and the resources price including land and steel have a big drop, the investment amount of the Group especially budgeted for the offshore equipment project is forecasted to decrease. In order to enhance operation flexibility of the Group, the Company changed the intended use of the net proceeds from IPO (the details are set out in the announcement published on 26 November 2008 and 3 December 2010). Therefore, as of 31 December 2012, the intended use of the net proceeds and the usage status are as follows:

(1) Proceeds of around 33% is to be used for construction of an offshore equipment base in the eastern coastal area of China, which will manufacture auto-lift drilling rigs, fixed drilling rigs and huge hardwares, including acquisition of leasehold coastal area land and coastlines of Shanghai or the nearby province, investment in R&D of new equipments and construction of new factory buildings. This part of fund around HK$975 million has been utilized.

(2) Proceeds of around 12% is to be used for expansion of production capacity, and research and development of new land drilling rigs, among which HK$354 million has been utilized and HK$0 million is retained.

(3) Proceeds of around 20% to be used for provision of products and services for expansion of hydrocarbon exploration, exploitation and sale, oil and gas engineering services, oil and gas resources exploration and development, and other businesses in the interests of the Group. among which HK$592 million has been utilized and HK$0 million is retained.

(4) Other proceeds of HK$1,037 million is to be used for working capital and current expenditure, among which HK$1,037 million has been utilized.

As of 31 December 2012, all the proceeds have been used.

FINANCIAL SUMMARY

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

STAFF RETIREMENT AND BENEFIT SCHEME

Details of the staff retirement and benefit scheme are set out in notes 6(b), 25 & 26 to the consolidated financial statements.

FIXED ASSETS

Details of the changes of the fixed assets of the Group are set out in Note 12 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

1. During the Year, the Group's five largest customers accounted for approximately 58.6% of total sales and the largest customer was PDVSA Servicios Petroleros S.A., accounting for approximately 46.4% of revenue. The others in descending proportions were Eurasia Drilling Company Ltd., China Petroleum Group Chuanqing Drilling Engineering Co., Ltd., Zhongyuan Special Vehicle Co., Ltd. and Leon Kommerz AG, which accounting for approximately 3.5%, 3.0%, 2.9% and 2.8% respectively.

2. During the Year, the Group's five largest suppliers in total accounted for approximately 16.8% of total purchase, and the largest supplier was Chengdu Zhongyeda Co., Ltd accounting for approximately 7.3% of total purchase. The others in descending proportions were Mustang Cat, Huichengxing Technology (Shenzhen) Co., Ltd., Hebei Huabei Petroleum Rongsheng Machinery Manufacturing Co., Ltd. and Laiwu Steel Co., Ltd., which accounting for approximately 3.9%, 1.9%, 1.9% and 1.8% respectively.

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

ENTRUST DEPOSITS AND ENTRUST LOANS

As at 31 December 2012, the Company has no entrust deposits or entrust loans being placed with commercial banks or non-commercial banks and other finance institutions.

TAXATION POLICY

The details of the Group's applicable income taxation policy and payment of income tax are set out in note 7 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITOR

The financial statements of the Group for the year ended 31 December 2012 have been audited by KPMG who will retire at the forthcoming annual general meeting and being eligible, offer themselves for re-appointment. A resolution to renew the appointment of KPMG as auditor of the Company will be proposed at the forthcoming annual general meeting of the Company.

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

Hong Kong, 19 March 2013

CORPORATE SOCIAL RESPONSIBILITY REPORT

The highest priority for an outstanding enterprise is to perform a sense of responsibility and mission as a corporate citizen. The Group believes that only when corporate social responsibility and corporate strategy are fully integrated, the sustainable development of an enterprise can be realized. Since our establishment 15 years ago, the Group has always adhered to our corporate responsibility philosophy of "Grateful, Love, Knowledge, Moral (感恩, 懂愛, 知學, 明道)" and our corporate value of "Feeling grateful, Repaying the community (知恩圖報 回饋社會)" so as to proactively promote different public, education and corporate-cultural activities, and strive to the unity of corporate growth and social responsibility, showing the harmonious and sustainable development of an enterprise with the society in reality.

FULFILLING SOCIAL RESPONSIBILITY WITH ACTIONS IN PUBLIC SERVICES

Being one of the largest oil drilling rig package export enterprises in China and one of the biggest land oil drilling rig manufacturers in the world, the Group has always assumed its responsibilities and obligations in education, public services and disaster relief in the way of a large-scale listed company, which strongly demonstrates the value of the Group as a social citizen.

In November 2012, the Group donated RMB2.0 million to Jiuquan Satellite Launch Centre for the establishment of "Honghua Library (宏華圖書館)". The fund was mainly used to purchase books to enrich the collections available in Jiuquan Satellite Launch Centre and to satisfy the desire in reading of the officers in their leisure time.

In November 2011, the Honghua Chinese Labor Union (宏華中國工會) visited two primary schools, 阿洛小學 and 附小鄭洛小學, in Luoha Town, Xide, Liangshan, Sichuang Province, and brought supplies and donations to children in this impoverished mountainous areas. Children are the hope to pass on care and love in the society, and every child should grow up with a smiley face. The Company wishes to bring children in this area a healthy and happy upbringing with their assistance in terms of living and other material, sharing the warmth of the society with the children and passing the meaning of love from generation to generation.

On 12 May 2008, a magnitude 8 earthquake occurred in Wenchuan, Sichuan. The Group immediately formed a professional technical team to provide aid in the epicenter and made donation in an aggregate of RMB15.4 million. We have also donated certain relief houses.

Education in Guanghan of Sichuan has suffered from a serious destroy, while many school constructions were badly damaged in the "512 Earthquake". In August 2008, the Group made a contribution of RMB12.0 million to build Honghua Foreign Language School (廣漢宏華外國語學校). During the first five years after the completion of building of the school, the Group donates over RMB1 million annually as a general operation capital for the school. In order to improve the quality of education, the Group and Guanghan Government set up a management team comprising 4 persons from Qidong, Jiangsu, the origin of education, to take charge of the planning and management of the school. Currently, Honghua Foreign Language School has already achieved several "The first" in the history of Guanghan's education, for instance, "the first school to be qualified to employ foreign teacher", "the only school being recommended to be supervised and assessed by provincial government in Guanghan", "the first school in education and scientific research in Guanghan", etc.

SUPPORTING EDUCATION AND HOPE OF THE NATION

"Education is the foundation of a nation; talent cultivation is on the top priority of a government". As education system is the base of a country, the Group consecutive pays attention on education with a proactive contribution of resources in a long-run.

In 2010, the Group made its first donation of RMB666,666 to Honghua Foreign Language School for the "International Exchange — Dream Expand Plan (國際交流 — 夢想擴展計劃)". The donation was made in a period of three years for the expenses for the international exchange matters of the school. In 2011, 12 teachers and students participated in a 12-days unforgettable summer camp in the Mountain School at Vermont, Northeast of the U.S.

In September 2011, Honghua Company was honored to be granted the award of "尊師重教先進集體 (Outstanding Group on Respecting Teachers and Valuing Education)" by the municipal party committee and municipal government of Guanghan.

In 2012, the Group contributed another RMB4.5 million for the "Honghua Elite Program (宏華英才班)" co-organized with Guanghan municipal government as a form of support to the tertiary education development of Guanghan and contribution to the local education. The Group plans to cultivate more talents for Guanghan through the program, enhance the image of Guanghan in education, and expedite the development progress of Guanghan.

In order to facilitate the development of tertiary education and to train talents, the Group has established close school-corporate relationships with universities, such as China University of Petroleum, Southwest Petroleum University and Jilin University. From 2008 to 2011, the Group made yearly contribution of RMB1.0 million to Southwest Petroleum University as scholarship and subsidies for students who achieved outstanding academic results or outstanding performance in extra-curricular activities, and it also acted as a financial aid to students who have financial difficulties in paying tuition fee. In 2011, the Group donated RMB1.80 million to Jilin University for "Honghua Award, Subsidies and Award for Young Teachers", so as to encourage talents development. As a base for internship and social practices, the Group also offered opportunity of internship to university students free of charge and provided them with some fund to support them in social practices, technological innovation and social activities.

Meanwhile, the Group placed emphasis on international exchange via school-enterprise cooperation. In November 2012, 16 year-two students in their master degree majoring in Petroleum Engineering and 2 leading teachers from Technical University of Delft of Holland visited our industrial base in Guanghan City.

DEVELOPING CORPORATE CULTURE AND PROMOTING SPIRIT OF INNOVATION

A profound culture precipitation is essential for the longevity of a corporate. As a leading manufacturer of land oil rigs in the world, the Group has been always paying high attention to the cultivation and development of a corporate culture, and at the same time, being committed to the building of corporate culture and further enhancing cohesion force.

During the first 15 years in its history of development, the Group valued “Innovation, Creation, Harmony and Aggressiveness” as the core of its corporate culture. By leveraging on technological innovation led by DBS and market innovation focused on outward development, the Group has achieved excellent operating results and formed a unique “innovative” culture in its first decade.

Upon the 15th anniversary of the Group’s establishment, the Group pushed the building of its corporate culture to a new level. With over a decade of development and endeavors, the Group currently undergoes a new stage of rapid development after overcoming the difficulties under the financial crisis. Mr. Zhang Mi, President of the Group, has promoted the corporate culture of “Innovation, Creation, Harmony and Aggressiveness” to a new stage of “Innovative Creation, Dreams Come True (創意大智造 夢圓更精彩)”, which serves as the core value of the corporate culture combining the efforts and intelligence of every member of the Group and resulting in glorious achievements. The birth of a series of innovative products such as low-temperature tolerant rigs, ultra-depth rigs, continuous pipe rigs, top drives and the five-cylinder direct-drive mud pump, the introduction of a forward-looking shale gas development solutions, i.e. “to establish substation and electricity transmission network ahead, to exploit gas by using gas, to use gas fired power-gen, day-to-day operation, factory-like production”, the successful research on flexible water tanks and 6000HP fracturing pump, the successful verification of the unprecedented new manufacturing theory of “marine-platform land-based manufacturing (海洋平臺陸地造)”, as well as the design and implementation of a crane with 22,000 tons of lifting capacity, “宏海號 (Hong Hai Hao)”, all together fully demonstrate the philosophy of corporate culture of the Group that has changed its enterprise culture concept from “Innovation” to “Originality” and gradually shifted from a follower to a pioneer in the world in respect of onshore and offshore oil rigs and non-conventional energy solution.

In addition, the Group has begun to publish Honghua People (宏華人) as the internal newsletter of the Company since 2008, and 24 issues have been published by now. Focusing on the core quality of our corporate culture and hot topics among the staff, Honghua People further strengthened internal communications, bringing a positive effect in spreading and promoting corporate culture.

Meanwhile, in 2012, the Group also conducted an internal investigation on corporate culture. Experts in corporate culture were invited to prepare The Handbook of Honghua Group's Corporate Philosophy (宏華集團企業理念解讀手冊) to deeply analyze and describe the concept behind the culture and spirit of the Group — "Innovative Creation, Dreams Come True". Corporate culture of the Group not only refers to innovation and intelligence, but also covers capability, vision, technology, and to excel, to accommodate and to integrate. Wisdom is shown in every stage of work, while innovation is used to enhance the quality and efficiency. By moving forward from an innovative idea to a concrete creation, the Group will become an important impetus for the energy strategy in the world and energy improvement in China. Besides, the Group will also become a platform for all "Honghua People" to realize their dreams.

In the future, the corporate culture of the Group will continue to stand at the frontline of our development to lead the way and show the direction for the Group, and also lay a solid foundation for our sustainable expansion and development.

INDEPENDENT AUDITOR'S REPORT

KPMG

TO THE SHAREHOLDERS OF HONGHUA GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Honghua Group Limited (the "company") and its subsidiaries (together the "group") set out on pages 72 to 162, which comprise the consolidated and company balance sheets as at 31 December 2012, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the company and of the group as at 31 December 2012 and of the group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

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

19 March 2013

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2012 (Expressed in Renminbi)

	Note	2012 RMB'000	2011 RMB'000
Turnover	4(a)	**5,068,447**	3,485,046
Cost of sales		**(3,321,440)**	(2,514,942)
Gross profit		**1,747,007**	970,104
Other revenue	5	**63,333**	27,444
Other net income	5	**2,084**	60,012
Selling expenses		**(553,623)**	(385,532)
General and administrative expenses		**(526,562)**	(408,877)
Other operating expenses		**(59,546)**	(19,295)
Profit from operations		**672,693**	243,856
Finance income		**74,737**	27,291
Finance expenses		**(45,478)**	(77,626)
Net finance income/(expenses)	6(a)	**29,259**	(50,335)
Share of (loss)/profit from jointly controlled entities	16	**(156)**	293
Share of profit from an associate	17	**7,662**	5,398
Profit before taxation	6	**709,458**	199,212
Income tax	7(a)	**(167,683)**	(27,769)
Profit for the year		**541,775**	171,443
Attributable to:			
Equity shareholders of the company		**529,458**	167,984
Non-controlling interests		**12,317**	3,459
Profit for the year		**541,775**	171,443
Earnings per share (RMB cents)	11		
— Basic		**16.58**	5.21
— Diluted		**16.54**	5.21

The notes on pages 82 to 162 form part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2012 (Expressed in Renminbi)

	2012 RMB'000	2011 RMB'000
Profit for the year	**541,775**	171,443
Other comprehensive income for the year:		
Exchange differences on translation of financial statements of operations outside the PRC, net of tax	**(10,967)**	(30,422)
Less: Reclassification adjustment for translation reserves transferred to profit or loss upon liquidation of a subsidiary	**–**	(50,430)
	(10,967)	(80,852)
Total comprehensive income for the year	**530,808**	90,591
Attributable to:		
Equity shareholders of the company	**518,452**	87,463
Non-controlling interests	**12,356**	3,128
Total comprehensive income for the year	**530,808**	90,591

The notes on pages 82 to 162 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

at 31 December 2012 (Expressed in Renminbi)

	Note	2012 RMB'000	2011 RMB'000
Non-current assets			
Fixed assets			
— Property, plant and equipment	12	**1,142,122**	678,597
— Interests in leasehold land held for own use under operating leases	12	**303,410**	181,189
— Freehold land	12	**5,068**	5,080
	12	**1,450,600**	864,866
Deposits paid for acquisition of leasehold land		**152,006**	192,830
Construction in progress	13	**827,290**	402,065
Intangible assets	14	**201,806**	235,994
Interests in jointly controlled entities	16	**57,181**	38,919
Interest in an associate	17	**—**	63,405
Other investment	17	**72,609**	—
Trade and other receivables	19	**370,002**	—
Deferred tax assets	27(b)	**96,407**	84,253
Total non-current assets		**3,227,901**	1,882,332
Current assets			
Inventories	18	**2,730,940**	1,544,127
Trade and other receivables	19	**2,105,804**	1,562,410
Amounts due from related companies	34(c)	**55,970**	64,854
Current tax recoverable	27(a)	**1,502**	34,418
Other financial assets	20	**315,036**	678,000
Pledged bank deposits	21	**424,592**	65,612
Bank deposits maturing over three months		**—**	9,100
Cash and cash equivalents	22	**984,131**	851,847
Total current assets		**6,617,975**	4,810,368

CONSOLIDATED BALANCE SHEET

at 31 December 2012 (Expressed in Renminbi)

	Note	2012 RMB'000	2011 RMB'000
Current liabilities			
Interest-bearing borrowings	23	**1,245,505**	499,738
Trade and other payables	24	**3,112,337**	1,531,323
Amounts due to related companies	34(d)	**5,593**	28,290
Current tax payable	27(a)	**96,311**	38,543
Provisions	28	**57,732**	21,243
Total current liabilities		**4,517,478**	2,119,137
Net current assets		**2,100,497**	2,691,231
Total assets less current liabilities		**5,328,398**	4,573,563
Non-current liabilities			
Interest-bearing borrowings	23	**737,514**	380,000
Deferred tax liabilities	27(b)	**2,157**	18,705
Total non-current liabilities		**739,671**	398,705
NET ASSETS		**4,588,727**	4,174,858

CONSOLIDATED BALANCE SHEET

at 31 December 2012 (Expressed in Renminbi)

	Note	**2012 RMB'000**	2011 RMB'000
EQUITY			
Share capital	30(c)	**300,192**	299,593
Reserves		**4,155,819**	3,758,990
Total equity attributable to equity shareholders of the company		**4,456,011**	4,058,583
Non-controlling interests		**132,716**	116,275
TOTAL EQUITY		**4,588,727**	4,174,858

Approved and authorised for issue by the board of directors on 19 March 2013

Zhang Mi
Director

Ren Jie
Director

The notes on pages 82 to 162 form part of these financial statements.

BALANCE SHEET

at 31 December 2012 (Expressed in Renminbi)

	Note	2012 RMB'000	2011 RMB'000
Non-current assets			
Intangible assets	14	**192,005**	225,832
Investments in subsidiaries	15	**2,554,422**	2,580,003
Total non-current assets		**2,746,427**	2,805,835
Current assets			
Other receivables		**90**	118
Amount due from a subsidiary	29	**84,226**	—
Amounts due from related parties		**27**	—
Cash and cash equivalents	22	**22,378**	16,628
Total current assets		**106,721**	16,746
Current liabilities			
Other payables	24	**64,650**	21,582
Amounts due to subsidiaries	29	**—**	31,625
Total current liabilities		**64,650**	53,207
Net current assets/(liabilities)		**42,071**	(36,461)
Net assets		**2,788,498**	2,769,374
Equity	30(a)		
Share capital		**300,192**	299,593
Reserves		**2,488,306**	2,469,781
Total equity		**2,788,498**	2,769,374

Approved and authorised for issue by the board of directors on 19 March 2013

Zhang Mi
Director

Ren Jie
Director

The notes on pages 82 to 162 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2012 (Expressed in Renminbi)

		Attributable to equity shareholders of the company									
	Note	Share capital (note 30(c)) RMB'000	Share premium (note 30(e)(i)) RMB'000	Other reserve (note 30(e)(ii)) RMB'000	Capital reserve (note 30(e)(iii)) RMB'000	Surplus reserve (note 30(e)(iv)) RMB'000	Exchange reserve (note 30(e)(v)) 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
Changes in equity for 2011:											
Profit for the year		–	–	–	–	–	–	167,984	167,984	3,459	171,443
Other comprehensive income		–	–	–	–	–	(80,521)	–	(80,521)	(331)	(80,852)
Total comprehensive income		–	–	–	–	–	(80,521)	167,984	87,463	3,128	90,591
Capital injection by non-controlling interests		–	–	–	–	–	–	–	–	5,886	5,886
Equity-settled share-based transactions	26	–	–	–	7,590	–	–	–	7,590	–	7,590
Options lapsed under share option schemes	26	–	–	–	(2,098)	–	–	2,098	–	–	–
Appropriation to surplus reserve		–	–	–	–	8,482	–	(8,482)	–	–	–
At 31 December 2011		299,593	2,477,519	57,472	493,810	220,033	(193,135)	703,291	4,058,583	116,275	4,174,858

	Note	Attributable to equity shareholders of the company										
		Share capital (note 30(c))	Share premium (note 30(e)(i))	Other reserve (note 30(e)(ii))	Capital reserve (note 30(e)(iii))	Surplus reserve (note 30(e)(iv))	Exchange reserve (note 30(e)(v))	Shares held for share award scheme (note 30(d))	Retained profits	Sub-total	Non-controlling interests	Total equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	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
Changes in equity for 2012:												
Profit for the year		–	–	–	–	–	–	–	529,458	529,458	12,317	541,775
Other comprehensive income		–	–	–	–	–	(11,006)	–	–	(11,006)	39	(10,967)
Total comprehensive income		–	–	–	–	–	(11,006)	–	529,458	518,452	12,356	530,808
Acquisition of a business	32	–	–	–	–	–	–	–	–	–	36,000	36,000
Acquisition of non-controlling interests		–	–	(5,880)	–	–	–	–	–	(5,880)	(23,081)	(28,961)
Liquidation of a subsidiary		–	–	–	–	–	–	–	–	–	981	981
Capital contribution arising on shareholders' indemnity	28(a)	–	–	–	27,469	–	–	–	–	27,469	–	27,469
Equity-settled share-based transactions	26	–	–	–	4,809	–	–	–	–	4,809	–	4,809
Shares purchased under share award scheme	30(d)	–	–	–	–	–	–	(49,973)	–	(49,973)	–	(49,973)
Shares issued under share option schemes	26	599	9,469	–	(2,817)	–	–	–	–	7,251	–	7,251
Options lapsed under share option schemes	26	–	–	–	(736)	–	–	–	736	–	–	–
Dividends approved in respect of the previous financial year	30(b)	–	–	–	–	–	–	–	(104,700)	(104,700)	–	(104,700)
Dividends paid to non-controlling interests		–	–	–	–	–	–	–	–	–	(9,815)	(9,815)
Appropriation to surplus reserve		–	–	–	–	91,448	–	–	(91,448)	–	–	–
At 31 December 2012		300,192	2,486,988	51,592	522,535	311,481	(204,141)	(49,973)	1,037,337	4,456,011	132,716	4,588,727

The notes on pages 82 to 162 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2012 (Expressed in Renminbi)

	Note	2012 RMB'000	2011 RMB'000
Operating activities			
Profit before taxation		**709,458**	199,212
Adjustments for:			
Amortisation and depreciation			
— intangible assets	14	**34,647**	34,741
— leasehold land held for use under operating leases	12(a)	**6,560**	2,018
— other fixed assets	12(a)	**106,796**	69,305
Gain on disposal of other financial assets	6(a)	**(19,654)**	(20,687)
Interest income		**(34,650)**	(6,604)
Interest expenses		**30,791**	36,400
Share of loss/(profit) from jointly controlled entities		**156**	(293)
Share of profit from an associate		**(7,662)**	(5,398)
Loss on disposals of fixed assets	5	**639**	474
Gain on liquidation of a subsidiary	5	**—**	(50,430)
Gain on de-recognition of investment in an associate	5	**(1,542)**	—
Equity-settled share-based payment expenses	6(b)	**4,809**	7,590
Foreign exchange (gain)/loss		**(12,755)**	10,762
Changes in working capital:			
(Increase)/decrease in inventories		**(1,569,399)**	213,674
Increase in trade and other receivables		**(869,450)**	(345,601)
Decrease/(increase) in amounts due from related companies		**8,884**	(39,093)
Increase in pledged bank deposits		**(358,980)**	(36,540)
Increase in trade and other payables		**1,553,207**	177,334
Decrease in amounts due to related companies		**(22,697)**	(19,916)
Increase in provisions		**36,489**	5,505
Cash (used in)/generated from operations		**(404,353)**	232,453
Income tax paid		**(103,601)**	(18,314)
Net cash (used in)/generated from operating activities		**(507,954)**	214,139

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2012 (Expressed in Renminbi)

	Note	2012 RMB'000	2011 RMB'000
Investing activities			
Payment for addition of fixed assets (excluding interests in leasehold land)		(90,099)	(104,576)
Proceeds from disposals of fixed assets		1,185	2,193
Payment for construction in progress		(408,317)	(222,385)
Acquisition of interest in an associate		—	(60,000)
Payment for acquisition of a business	32	(27,000)	—
Payment for development project costs		(406)	(10,234)
Payment for acquisition of leasehold land		(84,792)	(16,995)
Interest received		18,172	6,902
Net proceeds/(payment) from sales and purchase of other financial assets		382,618	(183,633)
Capital contributions to jointly controlled entities		(17,510)	—
Decrease/(increase) in bank deposits maturing over three months		9,100	(5,100)
Net cash used in investing activities		(217,049)	(593,828)
Financing activities			
Proceeds from new bank loans		2,232,505	829,183
Repayment of bank loans		(1,129,104)	(575,397)
Proceeds from shares issued under share option schemes		7,251	—
Payment for purchase of shares under share award scheme	30(d)	(49,973)	—
Capital injection by non-controlling interests		—	5,886
Interest paid		(61,791)	(15,226)
Dividends paid to non-controlling interests		(9,815)	—
Dividends paid to equity shareholders of the company	30(b)	(104,700)	—
Payment for acquisition of non-controlling interests		(28,961)	—
Net cash generated from financing activities		855,412	244,446
Net increase/(decrease) in cash and cash equivalents		130,409	(135,243)
Cash and cash equivalents at 1 January		851,847	1,002,727
Effect of foreign exchange rate changes		1,875	(15,637)
Cash and cash equivalents at 31 December	22	984,131	851,847

The notes on pages 82 to 162 form part of these financial statements.

1 GENERAL INFORMATION

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

The consolidated financial statements for the year ended 31 December 2012 comprise the company and its subsidiaries (collectively referred to as the "group") and the group's interests in an associate and jointly controlled entities.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the group and the company. Note 2(c) provides information on any changes in accounting policies resulting from the initial application of these developments to the extent that they are relevant to the group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The financial statements are presented in Renminbi ("RMB"), rounded to the nearest thousand yuan. Items included in the financial statements of each entity in the group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("functional currency"). The company has its functional currency in Hong Kong dollars ("HKD"). Most of the companies comprising the group are operating in The People's Republic of China ("PRC") and their functional currency is RMB, hence, RMB is used as the presentation currency of the group.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of preparation of the financial statements (continued)

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

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

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 3.

(c) 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. Of these, the following developments are relevant to the group's financial statements:

— Amendments to IFRS 7, Financial instruments: Disclosures-Transfers of financial assets

— Amendments to IAS 12, Income taxes-Deferred tax: Recovery of underlying assets

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

The impacts of other developments are discussed below:

— *Amendments to IFRS 7, Financial instruments: Disclosures*

The amendments to IFRS 7 require certain disclosures to be included in the financial statements in respect of transferred financial assets that are not derecognised in their entirety and for any continuing involvement in transferred financial assets that are derecognised in their entirety, irrespective of when the related transfer transaction occurred. The group did not have any significant transfers of financial assets in previous periods or the current period which require disclosure in the current accounting period under the amendments.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies (continued)

— *Amendments to IAS 12, Income taxes*

The amendments to IAS 12 introduced a rebuttable presumption that the carrying amount of investment property carried at fair value under IAS 40, *Investment property*, will be recovered through sale. This presumption is rebutted on a property-by-property basis if the investment property in question is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. These amendments do not have any material impact on income taxes of the group in previous or the current period as the group does not have any investment property.

(d) Subsidiaries and non-controlling interests

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

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the company, and in respect of which the group has not agreed any additional terms with the holders of those interests which would result in the group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the company. Non-controlling interests in the results of the group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the company.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Subsidiaries and non-controlling interests (continued)

Changes in the group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or jointly controlled entity (see note 2(e)).

In the company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 2(k)).

(e) Associates and jointly controlled entities

An associate is an entity in which the group or company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

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

An investment in an associate or a jointly controlled entity is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost, adjusted for any excess of the group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the group's share of the investee's net assets and any impairment loss relating to the investment (see note 2(k)). Any acquisition-date excess over cost, the group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated income statement, whereas the group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Associates and jointly controlled entities (continued)

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

When the group ceases to have significant influence over an associate or joint control over a jointly controlled entity, it is accounted for as a disposal of the entire interest in that associate or jointly controlled entity, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former associate or jointly controlled entity at the date when joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate.

In the company's balance sheet, investments in associates and jointly controlled entities are stated at cost less impairment losses (see note 2(k)).

(f) Other investments in debt and equity securities

The group's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and jointly controlled entities, are as follows:

Investments in debt and equity securities are initially stated at fair value, which is their transaction price unless fair value can be more reliably estimate using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At the balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any dividends or interest earned on these investments as these are recognised in accordance with the policies set out in notes 2(t)(vi) and 2(t)(ii).

Dated debt securities that the group has the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated at amortised cost less impairment losses (see note 2(k)).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Other investments in debt and equity securities (continued)

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 2(k)).

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At the balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve, except foreign exchange gains and losses resulting from changes in the amortised cost of monetary items such as debt securities which are recognised directly in profit or loss. Dividend income from these investments is recognised in profit or loss in accordance with the policy set out in note 2 (t)(vi) and, where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss in accordance with the policy set out in note 2(t)(ii). When these investments are derecognised or impaired (see note 2(k)), the cumulative gain or loss is reclassified from equity to profit or loss.

Investments are recognised/derecognised on the date the group commits to purchase/sell the investments or they expire.

(g) Fixed assets and depreciation

Items of fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 2(k)).

The cost of self-constructed items of fixed assets includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 2(v)).

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Fixed assets and depreciation (continued)

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

— Freehold land . . . . Not depreciated
— Leasehold land. . . . . Over the respective periods of the rights
— Buildings held for own use . . . . 20–35 years
— Plant and machinery. . . . . 5–10 years
— Fixtures, fittings and equipment . . . . 5–10 years
— Motor vehicles . . . . 5–6 years

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

(h) Construction in progress

Construction in progress represents fixed assets under construction and equipment pending installation, and is stated at cost less impairment losses (see note 2(k)). Cost comprises direct costs of construction. Capitalisation of these costs ceases and the construction in progress is transferred to fixed assets when substantially all of the activities necessary to prepare the assets for their intended use are complete.

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

(i) Intangible assets

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable (see note 2(v)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 2(k)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets represent the technology licences granted by the holding company and are stated in the balance sheet at cost less accumulated amortisation and impairment losses (see note 2(k)).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Intangible assets (continued)

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

— Capitalised development costs	10 years
— Technical know-how	10 years

Both the period and method of amortisation are reviewed annually.

(j) Operating lease charges

Leases which do not transfer substantially all the risks and rewards of ownership of assets to the group are accounted for as operating leases.

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

(k) Impairment of assets

(i) Impairment of investments in debt and equity securities and other receivables

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Impairment of assets (continued)

(i) Impairment of investments in debt and equity securities and other receivables (continued)

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

— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

— For investments in subsidiaries, associates and jointly controlled entities (including those recognised using the equity method (see note 2(e)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 2(k)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2(k)(ii).

— For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

— For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Impairment of assets (continued)

(i) *Impairment of investments in debt and equity securities and other receivables* (continued)

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

— For available-for-sale securities, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Impairment of assets (continued)

(ii) Impairment of other assets

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

— fixed assets;

— construction in progress;

— intangible assets; and

— deposits paid for acquisition of leasehold land.

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

— Calculation of recoverable amount

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

— Recognition of impairment losses

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

— Reversals of impairment losses

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

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

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the group is required to prepare an interim financial report in compliance with IAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 2(k)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill, available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not profit or loss.

(l) Inventories

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Inventories (continued)

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

(m) Trade and other receivables

Trade and other receivables (including amounts due from related companies) are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 2(k)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(n) Interest-bearing borrowings

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

(o) Trade and other payables

Trade and other payables (including amounts due from related companies) are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(p) Cash and cash equivalents

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

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

(ii) Share-based payments

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

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

Share-based payment transactions in which the company grants share options to subsidiaries’ employees are accounted for as an increase in value of investment in subsidiary in the company’s balance sheet which is eliminated on consolidation.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

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

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

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

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Income tax (continued)

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

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

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

— in the case of current tax assets and liabilities, the group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(s)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the group under the guarantee, and (ii) the amount of that claim on the group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other provisions and contingent liabilities

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

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

(ii) Interest income

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

(iii) Government grants

Government grants are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that the group will comply with the conditions attaching to them. Grants that compensate the group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(iv) Rendering of oil and gas engineering services

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to surveys of work performed.

(v) Rendering of repairing services

Revenue is recognised when the service has been rendered.

(vi) Dividend income

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Translation of foreign currencies

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

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

The results of operations outside the PRC are translated into the presentation currency at the exchange rates approximating the foreign exchange rates ruling at the transaction dates. Balance sheet items are translated into the presentation currency at the closing foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of an operation outside the PRC, the cumulative amount of the exchange differences relating to that operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(v) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(w) Warranty costs

A provision for warranties is recognised when the underlying products are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Related parties

(a) A person, or a close member of that person's family, is related to the group if that person:

(i) has control or joint control over the group;

(ii) has significant influence over the group; or

(iii) is a member of the key management personnel of the group or the group's parent.

(b) An entity is related to the group if any of the following conditions applies:

(i) The entity and the group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the group or an entity related to the group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regularly environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

Key sources of estimation uncertainty

Note 26 contains information about the assumptions relating to the determination of fair value of share options granted. Other sources of estimation uncertainties are as follows:

(a) Impairments

(i) Impairment of trade and other receivables

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

3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(a) Impairments (continued)

(ii) Impairment of intangible assets, fixed assets and construction in progress

If circumstances indicate that the carrying value of intangible assets, fixed assets and construction in progress may not be recoverable, these assets may be considered impaired, and an impairment loss may be recognised in accordance with IAS 36 *Impairment of Assets*. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the net selling prices and the value in use. It is difficult to estimate precisely selling prices because quoted market prices for the group's assets are not readily available. In determining that value in use, expected cash flows generated by the assets are discounted to their present value, which requires significant judgement relating to revenue and amount of operating costs. The group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and amount of operating costs.

(b) Write down of inventories

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

(c) Warranty provision

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

3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(d) Depreciation and amortisation

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

(e) Provision for deferred tax

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The management evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets for tax losses not yet used and temporary deductible differences can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

4 TURNOVER AND SEGMENT REPORTING

(a) Turnover

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

For the year ended 31 December 2012, the group's customer base includes one customer (2011: three customers) with whom transactions have exceeded 10% of the group's revenue. In 2012, revenue from sales of land drilling rigs and related parts and components to this customer (2011: three customers), amounted to approximately RMB2,350 million (2011: RMB1,446 million) and arose in the Americas (2011: Americas, Europe and Central Asia).

4 TURNOVER AND SEGMENT REPORTING (continued)

(b) Segment reporting

The group manages its business by divisions, which are organised by business lines (land drilling rigs, offshore drilling rigs, parts and components and oil and gas engineering services). In a manner consistent with the way in which information is reported internally to the group's most senior executive management for the purposes of resource allocation and performance assessment, the group has presented the following four reportable segments. No operating segments have been aggregated to form the following reportable segments.

Land drilling rigs	—	This segment manufactures and sells land drilling rigs.
Offshore drilling rigs	—	This segment manufactures and sells offshore drilling rigs and related parts and components.
Parts and components	—	This segment manufactures and sells parts and components of land drilling rigs.
Oil and gas engineering services	—	This segment provides oil and gas engineering services.

(i) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception of interests in an associate and jointly controlled entities, other investment, deferred tax assets, current tax recoverable, other financial assets and other corporate assets. Segment liabilities include trade payables, accruals, provision for product warranties and bills payable attributable to the manufacturing and sales activities of the individual segments.

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

The measure used for reporting segment profit is "adjusted profit from operations". To arrive at adjusted profit from operations, the group's profit from operations are further adjusted for items not specifically attributed to individual segments, such as directors' remuneration and other head office or corporate administration costs.

4 TURNOVER AND SEGMENT REPORTING (continued)

(b) Segment reporting (continued)

(i) *Segment results, assets and liabilities* (continued)

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

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 years ended 31 December 2012 and 2011 is set out below.

	Land drilling rigs		Offshore drilling rigs		Parts and components		Oil and gas engineering services		Total	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers	3,750,575	2,543,003	157,275	80,030	988,586	862,013	172,011	–	5,068,447	3,485,046
Inter-segment revenue	–	–	–	–	1,108,763	959,580	–	–	1,108,763	959,580
Reportable segment revenue	3,750,575	2,543,003	157,275	80,030	2,097,349	1,821,593	172,011	–	6,177,210	4,444,626
Reportable segment profit/(loss)	779,856	392,765	(35,439)	(79,633)	74,365	5,067	14,001	–	832,783	318,199
Depreciation and amortisation for the year	40,918	36,709	42,875	38,616	30,164	29,587	33,311	–	147,268	104,912
Impairment of trade and other receivables	15,810	11,709	–	–	16,846	2,117	4,766	–	37,422	13,826
Write-down of inventories	9,284	10,991	–	–	13,196	8,503	–	–	22,480	19,494
Reportable segment assets	3,288,992	2,461,847	1,605,724	960,013	2,263,578	1,516,210	628,033	–	7,786,327	4,938,070
Additions to non-current segment assets during the year	83,470	21,577	598,282	68,726	60,090	157,478	386,827	–	1,128,669	247,781
Reportable segment liabilities	1,988,432	1,142,449	520,246	179,854	650,598	525,600	91,564	–	3,250,840	1,847,903

4 TURNOVER AND SEGMENT REPORTING (continued)

(b) Segment reporting (continued)

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

	2012 RMB'000	2011 RMB'000
Profit		
Reportable segment profit	**832,783**	318,199
Elimination of inter-segment profits	**(100,287)**	(104,634)
Reportable segment profit derived from group's external customers	**732,496**	213,565
Share of profit from an associate	**7,662**	5,398
Share of (loss)/profit from jointly controlled entities	**(156)**	293
Other revenue, other net income and other operating expenses	**5,871**	68,161
Net finance income/(expenses)	**29,259**	(50,335)
Unallocated head office and corporate expenses	**(65,674)**	(37,870)
Consolidated profit before taxation	**709,458**	199,212
Assets		
Reportable segment assets	**7,786,327**	4,938,070
Elimination of inter-segment receivables	**(409,590)**	(574,949)
	7,376,737	4,363,121
Interests in jointly controlled entities	**57,181**	38,919
Interest in an associate	**—**	63,405
Current tax recoverable	**1,502**	34,418
Deferred tax assets	**96,407**	84,253
Other investment	**72,609**	—
Other financial assets	**315,036**	678,000
Unallocated head office and corporate assets	**1,926,404**	1,430,584
Consolidated total assets	**9,845,876**	6,692,700
Liabilities		
Reportable segment liabilities	**3,250,840**	1,847,903
Elimination of inter-segment payables	**(409,590)**	(574,949)
	2,841,250	1,272,954
Current tax payable	**96,311**	38,543
Deferred tax liabilities	**2,157**	18,705
Unallocated head office and corporate liabilities	**2,317,431**	1,187,640
Consolidated total liabilities	**5,257,149**	2,517,842

4 TURNOVER AND SEGMENT REPORTING (continued)

(b) Segment reporting (continued)

(iii) Geographic information

The following table sets out information about the geographical location of (i) the group's revenue from external customers and (ii) the group's fixed assets, construction in progress, intangible assets and deposits paid for acquisition of leasehold land ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or the goods are delivered. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment, and the location of the operation to which they are allocated, in the case of intangible assets.

	Revenue from external customers		Specified non-current assets	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
PRC (country of domicile)	**1,032,161**	335,150	**2,324,904**	1,499,804
Americas	**2,791,664**	1,425,665	**57,089**	47,047
Middle East	**46,917**	232,066	**169,076**	18,997
Europe and Central Asia	**763,895**	1,160,933	**80,270**	90,859
South Asia and South East Asia	**219,177**	253,456	**—**	—
Others	**214,633**	77,776	**363**	39,048
	5,068,447	3,485,046	**2,631,702**	1,695,755

5 OTHER REVENUE AND OTHER NET INCOME

	2012 RMB'000	2011 RMB'000
Other revenue		
Repair services income	**16,507**	18,874
Government grants (note)	**32,166**	7,054
Rental income	**8,232**	963
Others	**6,428**	553
	63,333	27,444

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

	2012 RMB'000	2011 RMB'000
Other net income		
Loss on disposals of fixed assets	**(639)**	(474)
Gain on liquidation of a subsidiary (note)	**—**	50,430
Gain on derecognition of investment in an associate (note 17)	**1,542**	—
Net gain on forward foreign exchange contracts	**1,411**	12,457
Others	**(230)**	(2,401)
	2,084	60,012

Note: On 8 August 2011, the group de-registered a wholly-owned subsidiary, Sichuan Hongcheng Business Trading Co., Ltd. The subsidiary had remained dormant and derived no revenue since its establishment through its de-registration. The cumulative exchange differences were reclassified from equity to profit and loss upon the liquidation of that subsidiary.

6 PROFIT BEFORE TAXATION

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

	2012 RMB'000	2011 RMB'000
(a) Net finance (income)/expenses		
Foreign exchange (gain)/loss, net	**(20,434)**	33,723
Interest income on bank deposits	**(23,830)**	(6,604)
Interest income from long-term receivables	**(10,820)**	—
Gain on disposal of other financial assets	**(19,654)**	(20,687)
Interest on interest-bearing borrowings wholly repayable within five years	**62,858**	54,751
Bank charges	**13,847**	6,924
Others	**841**	579
	2,808	68,686
Less: Interest expense capitalised into assets under construction*	**(32,067)**	(18,351)
	(29,259)	50,335

* The borrowing costs have been capitalised at a rate of per annum 1.17% to 7.04% (2011: 2.35% to 7.70%).

6 PROFIT BEFORE TAXATION (continued)

	2012 RMB'000	2011 RMB'000
(b) Staff costs		
Contributions to defined contribution retirement schemes	**57,996**	44,079
Equity-settled share-based payment expenses (note 26)	**4,809**	7,590
Salaries, wages and other benefits	**515,198**	339,091
	578,003	390,760
(c) Other items		
Operating lease charges: properties	**8,193**	5,674
Provision for a legal claim (note 28(a))	**32,317**	—
Amortisation and depreciation		
— leasehold land held for use under operating leases	**6,560**	2,018
— property, plant and equipment	**106,796**	69,305
— intangible assets	**34,647**	34,741
	148,003	106,064
Auditors' remuneration		
— audit services	**2,511**	2,463
— tax services	**40**	100
— other services	**700**	680
	3,251	3,243
Research and development costs*	**58,053**	55,728
Less: Amount capitalised into intangible assets	**(406)**	(10,234)
	57,647	45,494

* The amounts included staff costs of the research and development department of RMB45,193,000 (2011: RMB37,221,000), which are included in the total staff costs as disclosed in note 6(b).

7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2012 RMB'000	2011 RMB'000
Current tax — Hong Kong Profits Tax		
Provision for the year	3,583	39
Current tax — PRC		
Provision for the year	190,176	41,757
Under/(over)-provision in respect of prior years	828	(6,358)
Sub-total	191,004	35,399
Current tax — other jurisdictions		
Provision for the year	1,774	834
Current tax — total	196,361	36,272
Deferred tax		
Origination and reversal of temporary differences (note 27(b))	(28,678)	(8,503)
Income tax expenses	167,683	27,769

(i) Hong Kong

The provision for Hong Kong Profits Tax for 2012 is calculated at 16.5% (2011: 16.5%) of the estimated assessable profits of the subsidiaries incorporated in Hong Kong for the year.

(ii) PRC

Pursuant to the income tax rules and regulations of the PRC, the subsidiaries in the PRC are liable to PRC enterprise income tax at a rate of 25% (2011: 25%) during the year ended 31 December 2012, except for the following companies:

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

Income tax for Honghua Company is provided at a tax rate of 15% (2011: 15%) applicable for Hi-Tech Enterprises pursuant to the relevant PRC tax rules and regulations during the year ended 31 December 2012.

7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT (continued)

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

(ii) ***PRC*** (continued)

(b) *Chengdu Hongtian Electric Drive Engineering Co., Ltd. ("Hongtian 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 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 the subsidiary will continue to be granted with the Tax Concession upon its application for renewal, and accordingly provision for PRC enterprise income tax for the subsidiary was made at the preferential rate of 15% in this financial report.

(iii) ***Others***

Taxation for other entities is charged at the appropriate current rates of taxation 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.

7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT (continued)

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

	2012 RMB'000	2011 RMB'000
Profit before taxation	709,458	199,212
Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned	115,715	33,140
Tax effect of non-deductible expenses	9,440	2,544
Tax effect of non-taxable income	(669)	(9,057)
Unrecognised tax losses	3,585	1,091
Withholding tax on expected profits distribution from PRC subsidiaries	38,784	6,409
Under/(over)-provision in respect of prior years	828	(6,358)
Actual tax expenses	167,683	27,769

8 DIRECTORS' REMUNERATION

Details of directors' remuneration are set out below:

	2012					
	Fees RMB'000	Basic salaries, allowances and other benefits in kind RMB'000	Contributions to defined contribution retirement scheme RMB'000	Discretionary bonuses RMB'000	Equity-settled share-based payment expenses RMB'000	Total RMB'000
Chairman and Executive Director						
Zhang Mi	–	1,079	38	3,811	324	5,252
Executive Directors						
Ren Jie	–	882	37	1,788	101	2,808
Liu Zhi	–	929	37	1,413	92	2,471
Non-executive Directors						
Siegfried Meissner	–	–	–	–	–	–
Huang Dongyang	–	–	–	–	–	–
Popin Su (the alternate director to Siegfried Meissner)	–	–	–	–	–	–
Independent Non-executive Directors						
Qi Daqing	163	–	–	–	181	344
Liu Xiaofeng	163	–	–	–	181	344
Chen Guoming	81	–	–	–	125	206
Tai Kwok Leung, Alexander	122	–	–	–	154	276
Shi Xingquan	81	–	–	–	136	217
Guo Yanjun	122	–	–	–	136	258
Total	732	2,890	112	7,012	1,430	12,176

8 DIRECTORS' REMUNERATION (continued)

	2011					
	Fees	Basic salaries, allowances and other benefits in kind	Contributions to defined contribution retirement scheme	Discretionary bonuses	Equity-settled share-based payment expenses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Chairman and Executive Director						
Zhang Mi	–	950	27	1,756	807	3,540
Executive Directors						
Ren Jie	–	486	26	1,074	291	1,877
Liu Zhi	–	469	28	694	264	1,455
Non-executive Directors						
Siegfried Meissner	–	–	–	–	–	–
Huang Dongyang	–	–	–	–	–	–
Popin Su	–	–	–	–	–	–
Independent Non-executive Directors						
Qi Daqing	166	–	–	–	142	308
Liu Xiaofeng	166	–	–	–	142	308
Chen Guoming	83	–	–	–	118	201
Wang Li (resigned on 20 June 2011)	39	–	–	–	9	48
Tai Kwok Leung, Alexander	124	–	–	–	121	245
Shi Xingquan	83	–	–	–	106	189
Guo Yanjun (appointed on 20 June 2011)	66	–	–	–	50	116
Total	727	1,905	81	3,524	2,050	8,287

During the year, no amount was paid or payable by the group to the directors or any of the five highest paid individuals set out in note 9 below as an inducement to join or upon joining the group or as compensation for loss of office. Except for Siegfried Meissner who has waived to receive his remuneration amounting to RMB122,000 (2011: RMB124,000), there was no arrangement under which a director waived or agreed to waive any remuneration during the year (2011: RMB Nil).

9 INDIVIDUAL WITH HIGHEST EMOLUMENTS

The five highest paid individuals of the group include three directors during the year ended 31 December 2012 (2011: three) whose emoluments are disclosed in note 8. Details of remuneration paid to the remaining two (2011: two) highest individuals of the group are as follows:

	2012 RMB'000	2011 RMB'000
Basic salaries, allowances and other benefits in kind	1,497	1,046
Discretionary bonuses	2,963	1,803
Contributions to defined contribution retirement schemes	53	38
Share-based payments	194	385
	4,707	3,272

The emoluments of these two (2011: two) individuals with highest emoluments are within the following bands:

	2012	2011
HKD1,500,001 to HKD2,000,000	—	1
HKD2,000,001 to HKD2,500,000	—	1
HKD2,500,001 to HKD3,000,000	2	—

10 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the company includes a loss of RMB82,405,000 (2011: loss of RMB62,864,000) which has been dealt with in the financial statements of the company.

10 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY (continued)

Reconciliation of the above amount to the company's profit/(loss) for the year:

	2012 RMB'000	2011 RMB'000
Amount of consolidated loss attributable to equity shareholders dealt with in the company's financial statements	**(82,405)**	(62,864)
Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	**244,251**	—
Company's profit/(loss) for the year (note 30(a))	**161,846**	(62,864)

Details of dividends paid and payable to equity shareholders of the company are set out in note 30(b).

11 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the company of RMB529,458,000 (2011: RMB167,984,000) and the weighted average number of 3,193,875,790 (2011: 3,223,798,400) ordinary shares in issue during the year, calculated as follows:

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	**(30,625,762)**	—
Effect of share options exercised	**703,152**	—
Weighted average number of ordinary shares at 31 December	**3,193,875,790**	3,223,798,400

11 EARNINGS PER SHARE (continued)

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the company of RMB529,458,000 (2011: RMB167,984,000) and the weighted average number of 3,201,347,587 (2011: 3,223,908,400) ordinary shares, calculated as follows:

Weighted average number of ordinary shares (diluted)

	2012	2011
Weighted average number of ordinary shares at 31 December	**3,193,875,790**	3,223,798,400
Effect of deemed issue of shares under the company's share option scheme for nil consideration	**7,471,797**	110,000
Weighted average number of ordinary shares (diluted) at 31 December	**3,201,347,587**	3,223,908,400

12 FIXED ASSETS

(a) The group

	Freehold land RMB'000	Interests in leasehold land held for own use under operating leases RMB'000	Buildings held for own use RMB'000	Plant and machinery RMB'000	Fixtures, fitting and equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost:							
At 1 January 2011	5,339	147,605	356,865	155,954	149,082	43,541	858,386
Additions	—	43,149	3,489	143,242	27,175	6,680	223,735
Transfer from construction in progress (note 13)	—	—	40,309	2,911	3,103	—	46,323
Disposals	—	—	(348)	(324)	(4,868)	(573)	(6,113)
Exchange difference	(259)	—	(2,616)	(3,479)	(354)	(256)	(6,964)
At 31 December 2011	5,080	190,754	397,699	298,304	174,138	49,392	1,115,367
Accumulated amortisation and depreciation:							
At 1 January 2011	—	7,547	45,966	53,552	56,350	20,000	183,415
Charge for the year	—	2,018	18,108	23,114	21,455	6,628	71,323
Written back on disposals	—	—	(33)	(123)	(2,854)	(435)	(3,445)
Exchange difference	—	—	(286)	(382)	(84)	(40)	(792)
At 31 December 2011	—	9,565	63,755	76,161	74,867	26,153	250,501
Net book value:							
At 31 December 2011	5,080	181,189	333,944	222,143	99,271	23,239	864,866

12 FIXED ASSETS (continued)

(a) The group (continued)

	Freehold land RMB'000	Interests in leasehold land held for own use under operating leases RMB'000	Buildings held for own use RMB'000	Plant and machinery RMB'000	Fixtures, fitting and equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost:							
At 1 January 2012	5,080	190,754	397,699	298,304	174,138	49,392	1,115,367
Additions	—	98,629	5,521	53,119	46,129	15,482	218,880
Acquisition of a business (note 32)	—	30,152	5,980	38,133	258	477	75,000
Transfer from construction in progress (note 13)	—	—	26,862	9,132	504	—	36,498
Transfer from inventories	—	—	—	366,760	6,030	—	372,790
Disposals	—	—	(2,072)	(210)	(2,385)	(3,415)	(8,082)
Exchange difference	(12)	—	(238)	(2,103)	(154)	(28)	(2,535)
At 31 December 2012	5,068	319,535	433,752	763,135	224,520	61,908	1,807,918
Accumulated amortisation and depreciation:							
At 1 January 2012	—	9,565	63,755	76,161	74,867	26,153	250,501
Charge for the year	—	6,560	21,943	49,354	28,209	7,290	113,356
Written back on disposals	—	—	(1,446)	(159)	(2,035)	(2,618)	(6,258)
Exchange difference	—	—	(30)	(214)	(28)	(9)	(281)
At 31 December 2012	—	16,125	84,222	125,142	101,013	30,816	357,318
Net book value:							
At 31 December 2012	5,068	303,410	349,530	637,993	123,507	31,092	1,450,600

12 FIXED ASSETS (continued)

(b) The analysis of net book value of properties is as follows:

	The group	
	2012	2011
	RMB'000	RMB'000
Outside Hong Kong		
— freehold	**5,068**	5,080
— medium-term leases	**652,940**	515,133
	658,008	520,213
Representing:		
Freehold land	**5,068**	5,080
Interest in leasehold land held for own use under operating leases	**303,410**	181,189
Buildings held for own use	**349,530**	333,944
	658,008	520,213

13 CONSTRUCTION IN PROGRESS

	The group	
	2012	2011
	RMB'000	RMB'000
At 1 January	**402,065**	77,144
Additions	**461,753**	371,444
Transfer to fixed assets (note 12)	**(36,498)**	(46,323)
Exchange difference	**(30)**	(200)
At 31 December	**827,290**	402,065

14 INTANGIBLE ASSETS

	The group			The company
	Technical know-how RMB'000	Development cost RMB'000	Total RMB'000	Technical know-how RMB'000
Cost:				
At 1 January 2011	355,546	—	355,546	355,546
Addition through internal development	—	10,234	10,234	—
Exchange difference	(16,797)	—	(16,797)	(16,797)
At 31 December 2011	338,749	10,234	348,983	338,749
At 1 January 2012	338,749	10,234	348,983	338,749
Addition through internal development	—	406	406	—
Exchange difference	84	—	84	84
At 31 December 2012	338,833	10,640	349,473	338,833
Accumulated amortisation:				
At 1 January 2011	82,961	—	82,961	82,961
Charge for the year	34,669	72	34,741	34,669
Exchange difference	(4,713)	—	(4,713)	(4,713)
At 31 December 2011	112,917	72	112,989	112,917
At 1 January 2012	112,917	72	112,989	112,917
Charge for the year	33,880	767	34,647	33,880
Exchange difference	31	—	31	31
At 31 December 2012	146,828	839	147,667	146,828
Net book value:				
At 31 December 2012	192,005	9,801	201,806	192,005
At 31 December 2011	225,832	10,162	235,994	225,832

The amortisation charge for the year is included in "general and administrative expenses" in the consolidated income statement.

15 INVESTMENTS IN SUBSIDIARIES

	The company	
	2012 RMB'000	2011 RMB'000
Unlisted equities, at cost	**202,713**	202,675
Cumulative fair value of share options granted to employees of subsidiaries	**86,736**	84,907
Long-term receivables from subsidiaries	**2,264,973**	2,292,421
	2,554,422	2,580,003

The long-term receivables from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The company has given undertaking not to demand for repayment within one year from the balance sheet date.

Details of the principal subsidiaries at 31 December 2012 are set out below:

Name of company	Place of incorporation/ establishment and operation	Issued and paid-up capital	Attributable equity interest		Principal activities
			Direct	Indirect	
Honghua Holdings Limited ("Honghua Holdings") (宏華控股有限公司)	Hong Kong	HKD1	100%	–	Investment holding
Honghua Company (四川宏華石油設備有限公司) (notes (ii), (iii))	The PRC	RMB750,000,000	–	100%	Manufacturing of petroleum equipment
Hongtian Company (成都宏天電傳工程有限公司) (notes (i), (iii))	The PRC	RMB100,000,000	–	80%	Manufacturing of panel of drilling rigs
Honghua International Co., Ltd (四川宏華國際科貿有限公司) (notes (i), (iii))	The PRC	RMB51,200,000	–	85%	Trading of drilling rigs and related parts
Honghua America LLC ("Honghua America") (宏華美國有限責任公司)	United States of America ("US")	USD3,414,407	–	85%	Trading of drilling rigs and related parts

(Expressed in Renminbi unless otherwise indicated)

15 INVESTMENTS IN SUBSIDIARIES (continued)

Name of company	Place of incorporation/ establishment and operation	Issued and paid-up capital	Attributable equity interest		Principal activities
			Direct	Indirect	
Golden Coast Company (宏華金海岸設備有限公司)	United Arab Emirates	AED1,000,000	–	100%	Trading of drilling rigs and related parts
Newco (H.K.) Limited (新順(香港)有限公司)	Hong Kong	HKD1,000	–	100%	Trading of drilling rigs and related parts
Honghua Offshore Oil and Gas Equipment (Jiangsu) Co., Ltd. (宏華海洋油氣裝備(江蘇)有限公司) (notes (i), (iii))	The PRC	RMB874,992,609	–	100%	Manufacturing of offshore drilling platform and related products
Honghua Oil & Gas Engineering and Technology Services (Sichuan) Co., Ltd. 宏華油氣工程技術服務(四川)有限公司 (notes (i), (iii))	The PRC	RMB210,000,000	–	100%	Oil and gas engineering services
Honghua (China) Investment Co., Ltd. 宏華(中國)投資有限公司 (notes (ii), (iii))	The PRC	USD200,000,000	–	100%	Investment holding
Honghua Oil & Gas Engineering Services Co., Ltd (宏華油氣工程服務有限公司)	Hong Kong	USD10,000,000	–	100%	Oil and gas engineering services
Russia Honghua Co., Ltd. (俄羅斯宏華有限公司)	Russia Federation	RUB10,000	–	100%	Trading of drilling rigs and related parties

Notes:

(i) These entities are domestic limited liability companies established in the PRC.

(ii) These entities are wholly-owned foreign invested enterprises established in the PRC.

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

16 INTERESTS IN JOINTLY CONTROLLED ENTITIES

	The group	
	2012	2011
	RMB'000	RMB'000
Share of net assets	**57,181**	38,919

Details of the group's interests in jointly controlled entities are as follows:

Name of company	Place of establishment	Issued capital	Paid up capital	Group's effective interest held by a subsidiary	Principal activities
Egyptian Petroleum HH Rigs Manufacturing Co. S.A.E. ("HH Egyptian Company")	Egypt	USD18,000,000	USD18,000,000	50%	Manufacturing and sale of drilling rigs, parts and components
Honghua — Ukraine Limited	Ukraine	Ukraine Hryvnia 51,500	Ukraine Hryvnia 51,500	50%	Trading of drilling rigs, parts and components
Honghua Oil Equipment Company (宏華石油設備貿易有限公司)	Hong Kong	USD1,290	USD1,290	50%	Trading of drilling rigs, parts and components
Honghua CIS Ltd.	Russia Federation	RUB32,000,000	RUB32,000,000	50%	Manufacturing and sale of drilling rigs, parts and components

16 INTERESTS IN JOINTLY CONTROLLED ENTITIES (continued)

Summary financial information on the jointly controlled entities — group's effective interest

	The group	
	2012	2011
	RMB'000	RMB'000
Non-current assets	**52,575**	53,622
Current assets	**34,730**	62,908
Current liabilities	**(30,124)**	(67,753)
Non-current liabilities	**—**	(9,858)
	57,181	38,919
Income	**99,321**	45,576
Expenses	**(99,477)**	(45,283)
	(156)	293

17 INTEREST IN AN ASSOCIATE

	The group	
	2012	2011
	RMB'000	RMB'000
Share of net assets (note)	**—**	63,405

Note: On 18 October 2012, Chengdu Jinkong Financial Leasing Co., Ltd ("Chengdu Jinkong"), the associate of the group, increased its registered capital from RMB233,330,000 to RMB500,000,000. As a result of the increase of new capital of RMB266,670,000 by other investors, the group's effective interest in Chengdu Jinkong decreased from 25.71% to 13.83% and the group no longer had significant influence over Chengdu Jinkong. Accordingly, the group derecognised the investment in an associate and the difference between the carrying amount of the interest in an associate and the fair value of the share of equity interest in Chengdu Jinkong held by the group as at 18 October 2012 of RMB1,542,000 was recognised in profit or loss (see note 5). On the same date, the equity interest in Chengdu Jinkong held by the group was classified as other investment. For the period from 1 January 2012 to 17 October 2012, the group shared profit of RMB7,662,000 from the investment in Chengdu Jinkong.

17 INTEREST IN AN ASSOCIATE (continued)

Particulars of the associate as at 31 December 2011, which is an unlisted corporate entity, were as follows:

Name of company	Place of establishment	Issued capital	Paid up capital	Group's effective interest held by a subsidiary	Principal activities
Chengdu Jinkong (成都金控融資租賃有限公司) (note)	The PRC	RMB233,330,000	RMB233,330,000	25.71%	Lease financing

Note: The official name of the company is in Chinese. The English translation of the company name is for reference only.

Summary financial information on the associate:

	Assets RMB'000	Liabilities RMB'000	Equity RMB'000	Revenue RMB'000	Profit RMB'000
2011					
100 per cent	777,659	523,193	254,466	52,599	20,997
Group's effective interest	193,768	130,363	63,405	13,526	5,398

18 INVENTORIES

(a) Inventories in the consolidated balance sheet comprise:

	The group	
	2012 RMB'000	2011 RMB'000
Raw materials	**884,862**	520,732
Work in progress	**1,070,858**	586,965
Finished goods	**420,135**	425,912
Goods in transit	**355,085**	10,518
	2,730,940	1,544,127

18 INVENTORIES (continued)

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

	The group	
	2012	2011
	RMB'000	RMB'000
Carrying amount of inventories sold	**3,267,497**	2,468,536
Write-down of inventories	**22,480**	19,494
	3,289,977	2,488,030

19 TRADE AND OTHER RECEIVABLES

	The group	
	2012	2011
	RMB'000	RMB'000
Trade receivables	**1,627,568**	1,235,780
Bills receivable	**80,769**	1,700
Less: Allowance for doubtful debts (note 19(b))	**(167,151)**	(140,099)
Sub-total	**1,541,186**	1,097,381
Value-added tax recoverable	**245,567**	223,019
Prepayments	**520,365**	120,734
Other receivables (note (i))	**168,688**	121,276
	2,475,806	1,562,410
Representing:		
Current portion	**2,105,804**	1,562,410
Non-current portion (note (ii))	**370,002**	—
	2,475,806	1,562,410

19 TRADE AND OTHER RECEIVABLES (continued)

Notes:

(i) Included in other receivables of the group as at 31 December 2012 is an amount of RMB32,317,000 (2011: RMB Nil), being the amount indemnified by certain shareholders in relation to a legal claim, details of which are set in note 28(a).

(ii) Non-current trade and other receivables represent trade receivables and bills receivable of RMB306,126,000 from instalment sales receivable after 1 year from the balance sheet date and prepayments for acquisition of fixed assets of RMB63,876,000.

The current trade and other receivables are expected to be recovered within one year.

(a) Ageing analysis

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

	The group	
	2012	2011
	RMB'000	RMB'000
Current	**1,246,810**	770,419
Less than 1 month past due	**24,433**	12,017
1 to 3 months past due	**25,139**	25,136
More than 3 months but less than 12 months past due	**110,244**	213,628
More than 1 year past due	**134,560**	76,181
	1,541,186	1,097,381

Trade receivables are due for payment upon the group presenting the bills to customers. Further details on the group's credit policy are set out in note 31(a).

19 TRADE AND OTHER RECEIVABLES (continued)

(b) Allowance for doubtful debts

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 (see note 2(k)).

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

	The group	
	2012	2011
	RMB'000	RMB'000
At 1 January	**140,099**	126,273
Provision for impairment losses	**37,422**	13,826
Uncollectible amounts written off	**(10,370)**	—
At 31 December	**167,151**	140,099

At 31 December 2012, the group's trade debtors and bills receivable of RMB259,698,000 (2011: RMB216,280,000) were individually determined to be impaired. The individually impaired receivables relate to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of RMB167,151,000 (2011: RMB140,099,000) were recognised. The group does not hold any collateral over these balances.

19 TRADE AND OTHER RECEIVABLES (continued)

(c) Trade receivables that are not impaired

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

	The group	
	2012	2011
	RMB'000	RMB'000
Neither past due nor impaired	**1,246,810**	770,419
Less than 1 month past due	**24,433**	12,017
1 to 3 months past due	**25,139**	25,136
More than 3 months but less than 12 months past due	**110,244**	213,628
More than 1 year past due	**42,013**	—
	201,829	250,781

Receivables that were neither past due nor impaired (disclosed as current in the table given in note 19(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.

20 OTHER FINANCIAL ASSETS

As at 31 December 2012, other financial assets consisted of principal-protected structural deposits placed in several commercial banks in the PRC.

21 PLEDGED BANK DEPOSITS

The deposits are pledged to banks as security against interest bearing borrowings (see note 23), bills payable (see note 24) and letters of credit issued by the group.

22 CASH AND CASH EQUIVALENTS

	The group		The company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and in hand	**984,131**	851,847	**22,378**	16,628

As at 31 December 2012, deposits that were placed with banks in the PRC and included in the cash and cash equivalents above amounted to RMB678,768,000 (2011: RMB708,511,000). Remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

23 INTEREST-BEARING BORROWINGS

	The group	
	2012	2011
	RMB'000	RMB'000
Bank loans		
— secured	**535,435**	—
— unsecured	**1,434,384**	866,506
	1,969,819	866,506
Loan from other financial institution		
— secured	**13,200**	13,232
Total	**1,983,019**	879,738

Interest-bearing borrowings of RMB548,635,000 (2011: RMB13,232,000) were secured by land use rights of RMB99,474,000 (2011: RMB Nil), fixed assets of RMB96,844,000 (2011: Nil), deposits of RMB213,200,000 (2011: RMB Nil), and all assets of a subsidiary with an aggregate carrying value of RMB290,993,000 (2011: RMB328,934,000).

23 INTEREST-BEARING BORROWINGS (continued)

The interest-bearing borrowings were repayable as follows:

	The group	
	2012	2011
	RMB'000	RMB'000
Within 1 year	**1,245,505**	499,738
After 1 year but within 2 years	**623,768**	150,000
After 2 years but within 5 years	**113,746**	230,000
	737,514	380,000
Total	**1,983,019**	879,738

Certain banking facilities of the group are subject to the fulfilment 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. Further details of the group's management of liquidity risk are set out in note 31(b). As at 31 December 2012 and 2011, none of the covenants relating to drawn down facilities had been breached.

24 TRADE AND OTHER PAYABLES

	The group		The company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables	**779,873**	596,907	**—**	—
Bills payable	**504,291**	289,439	**—**	—
Receipts in advance	**1,332,245**	256,804	**—**	—
Other payables	**495,928**	388,173	**64,650**	21,582
	3,112,337	1,531,323	**64,650**	21,582

Bills payable as at 31 December 2012 and 2011 were secured by certain pledged bank deposits as disclosed in note 21. All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

24 TRADE AND OTHER PAYABLES (continued)

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

	The group	
	2012	2011
	RMB'000	RMB'000
Within 3 months	**880,065**	527,180
3 months to 6 months	**242,885**	172,924
6 months to 1 year	**69,397**	63,170
Over 1 year	**91,817**	123,072
	1,284,164	886,346

25 EMPLOYEE RETIREMENT BENEFITS

Defined contribution schemes

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiaries now comprising the group participates in defined contribution retirement benefit schemes (the "Schemes") organised by the PRC municipal government authorities whereby the group is required to make contributions to the Schemes at the rate of 20% to 22% (2011: 20% to 22%) of the standard wages determined by the relevant authorities in the PRC during the year ended 31 December 2012. The local government authority is responsible for the entire pension obligations payable to retired employees.

The group operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF Scheme, the group and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HKD25,000. Contributions to the scheme vest immediately.

The group has no other material obligation for the payment of pension benefits associated with the Schemes and the MPF scheme beyond the annual contributions described above. The group has no material obligation for the payment of overseas pension benefits.

26 EQUITY-SETTLED SHARE-BASED PAYMENTS

(a) Pre-IPO Share Option Scheme

(i) The company adopted a pre-IPO share option scheme ("the Pre-IPO Option Scheme") on 21 January 2008 whereby employees of the group were given the options to subscribe for shares in the company. 60,000,000 options were granted on 21 January 2008.

(ii) Each 20% of options granted under the Pre-IPO Option Scheme will vest each year commencing from the listing date and the options are exercisable for a period of ten years. The group has no legal or constructive obligation to repurchase or settle the options in cash. Any vested option will be lapsed if not exercised by the employees in one month after they left the group.

(iii) The number and weighted average exercise prices of share options granted under the Pre-IPO Option Scheme are as follows:

	2012		2011	
	Exercise price	**Number of options ('000)**	Exercise price	Number of options ('000)
Outstanding at the beginning of the year	**HKD3.83**	**57,344**	HKD3.83	59,085
Forfeited during the year	**HKD3.83**	**—**	HKD3.83	(389)
Lapsed during the year	**HKD3.83**	**(255)**	HKD3.83	(1,352)
Outstanding at the end of the year	**HKD3.83**	**57,089**	HKD3.83	57,344
Exercisable at the end of the year	**HKD3.83**	**57,089**	HKD3.83	45,875

The options outstanding at 31 December 2012 had a weighted average remaining contractual life of 5.08 years (2011: 6.08 years).

26 EQUITY-SETTLED SHARE-BASED PAYMENTS (continued)

(b) Share Option Scheme

(i) The company also adopted a share option scheme ("the Share Option Scheme") on 21 January 2008 for any eligible employees of the entities within the group. The terms and conditions of the grants that existed during the year are as follows, whereby all options are settled by physical delivery of shares:

	Number of options ('000)	Vesting conditions	Contractual life of options
Options granted:			
— on 15 April 2009	60,000	(i) 30% on 1 December 2009 (ii) 30% on 14 April 2010 (iii) 40% on 15 April 2011	10 years
— on 11 October 2010	2,200	(i) 40% on 25 October 2010 (ii) 30% on 11 October 2011 (iii) 30% on 11 October 2012	10 years
— on 20 June 2011	7,600*	(i) 30% on 19 July 2011 (ii) 30% on 19 June 2012 (iii) 40% on 20 June 2013	10 years
— on 5 April 2012	15,400	(i) 30% on 5 April 2013 (ii) 30% on 5 April 2014 (iii) 40% on 5 April 2015	10 years
Total share options	85,200		

* 5,200,000 options are granted to the directors of the group.

26 EQUITY-SETTLED SHARE-BASED PAYMENTS (continued)

(b) Share Option Scheme (continued)

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

	2012		2011	
	Weighted average exercise price	Number of options ('000)	Weighted average exercise price	Number of options ('000)
Outstanding at the beginning of the year	HKD1.21	66,723	HKD1.26	60,435
Granted during the year	HKD1.19	15,400	HKD0.83	7,600
Exercised during the year	HKD1.21	(7,334)	HKD1.27	—
Forfeited during the year	—	—	HKD1.27	(119)
Lapsed during the year	HKD1.27	(913)	HKD1.27	(1,193)
Outstanding at the end of the year	HKD1.21	73,876	HKD1.21	66,723
Exercisable at the end of the year	HKD1.23	55,436	HKD1.25	60,742

The options outstanding at 31 December 2012 had an exercise price in the range of HKD0.83 to HKD1.27 (2011: HKD0.83 to HKD1.27) and a weighted average remaining contractual life of 7.14 years (2011: 7.59 years).

The weighted average share price at the date of exercise for share options exercised during the year ended 31 December 2012 was HKD2.23.

(c) Fair value of share options and assumptions

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

26 EQUITY-SETTLED SHARE-BASED PAYMENTS (continued)

(c) Fair value of share options and assumptions (continued)

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

Fair value of share options and assumptions

	Share options granted in	
	2012	2011
Fair value at measurement date	**HKD0.50**	HKD0.39
Share price	**HKD1.19**	HKD0.78
Exercise price	**HKD1.19**	HKD0.83
Expected volatility (expressed as weighted average volatility used in the modelling under Binomial Lattice Model)	**56.5%**	58.2%
Option life (expressed as weighted average life used in the modelling under Binomial Option Pricing Model)	**10 years**	10 years
Expected dividends	**3.36%**	0.00%
Risk-free interest rate	**1.33%**	2.26%

27 INCOME TAX IN THE BALANCE SHEET

(a) Current taxation in the balance sheet represents:

	The group	
	2012	2011
	RMB'000	RMB'000
Current tax recoverable	**(1,502)**	(34,418)
Current tax payable	**96,311**	38,543
	94,809	4,125

27 INCOME TAX IN THE BALANCE SHEET (continued)

(b) Deferred tax assets and liabilities recognised

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

	Write-down of inventories RMB'000	Provision for product warranties RMB'000	Unrealised profit on inventories RMB'000	Allowance for doubtful debts RMB'000	Accruals RMB'000	Tax losses RMB'000	Withholding tax on dividends RMB'000	Insurance premium paid RMB'000	Total RMB'000
Deferred tax arising from:									
At 1 January 2011	14,989	2,360	13,771	18,240	–	19,981	(8,283)	(4,203)	56,855
Credited/(charged) to profit or loss (note 7(a))	3,774	583	5,841	2,416	1,906	392	(6,409)	–	8,503
Exchange difference	–	–	–	–	–	–	–	190	190
At 31 December 2011	18,763	2,943	19,612	20,656	1,906	20,373	(14,692)	(4,013)	65,548
At 1 January 2012	**18,763**	**2,943**	**19,612**	**20,656**	**1,906**	**20,373**	**(14,692)**	**(4,013)**	**65,548**
Credited/(charged) to profit or loss (note 7(a))	**639**	**120**	**27,647**	**2,831**	**27,374**	**8,851**	**(38,784)**	**–**	**28,678**
Exchange difference	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**24**	**24**
At 31 December 2012	**19,402**	**3,063**	**47,259**	**23,487**	**29,280**	**29,224**	**(53,476)**	**(3,989)**	**94,250**

	The group	
	2012 RMB'000	2011 RMB'000
Deferred tax assets recognised on the balance sheet	**96,407**	84,253
Deferred tax liabilities recognised on the balance sheet	**(2,157)**	(18,705)
	94,250	65,548

27 INCOME TAX IN THE BALANCE SHEET (continued)

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 2(r), the group has not recognised deferred tax assets in respect of tax losses of RMB56,631,000 as at 31 December 2012 (2011: RMB36,655,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdictions and entities. The tax losses of RMB41,475,000 (2011: RMB32,216,000) would be expired in 5 to 10 years while the tax losses of RMB15,156,000 (2011: RMB 4,439,000) do not expire under current tax legislations of the entities.

(d) Deferred tax liabilities not recognised

At 31 December 2012, temporary differences relating to the undistributed profits of subsidiaries amounted to RMB1,531,350,000 (2011: RMB734,530,000). Deferred tax liabilities of RMB99,659,000 (2011: RMB58,761,000) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the company controls the dividend policy of these subsidiaries and it has been determined that it is probable that profits will not be distributed in the foreseeable future.

28 PROVISIONS

	The group	
	2012	2011
	RMB'000	RMB'000
Provision for a legal claim	**32,317**	—
Provision for product warranties	**25,415**	21,243
	57,732	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.

28 PROVISIONS (continued)

(a) Provision for a legal claim (continued)

Honghua Company entered into a share purchase agreement with the 11 registered shareholders on 12 January 2006, under which, with the written consent of the 11 registered shareholders, it agreed to pay the share purchase price directly to the 728 original investors. The capital reduction process with the competent PRC government authority was completed on 26 April 2006. 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.

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 legal basis under the PRC law to appeal. 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 by the court has been held in November 2012, the result of the hearing is expected to be issued in 2013.

28 PROVISIONS (continued)

(a) Provision for a legal claim (continued)

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 favour 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 result of the legal proceedings initiated by the 57 plaintiffs or the dispute with the 64 individuals.

As a result of the unfavourable judgement made by the court, a provision for the above legal claim of RMB32,317,000 has been made during 2012. 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

	The group	
	2012	2011
	RMB'000	RMB'000
At 1 January	**21,243**	15,738
Provision made	**25,508**	26,912
Utilised during the year	**(21,336)**	(21,407)
At 31 December	**25,415**	21,243

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.

29 AMOUNTS DUE FROM/(TO) SUBSIDIARIES

The amounts due from/(to) subsidiaries are unsecured, interest-free and repayable on demand.

30 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the group's consolidated equity is set out in the consolidated statement of changes in equity. Details of changes in the company's individual components of equity between the beginning and the end of the year are set out below:

The company

	Note	Share capital (note 30(c)) RMB'000	Share premium (note 30(e)(i)) RMB'000	Other reserve (note 30(e)(ii)) RMB'000	Capital reserve (note 30(e)(iii)) RMB'000	Exchange reserve (note 30(e)(v)) RMB'000	Shares held for share award scheme (note 30(d)) RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2011		299,593	2,477,519	389,691	89,608	(239,764)	–	(52,864)	2,963,783
Changes in equity for 2011:									
Profit for the year		–	–	–	–	–	–	(62,864)	(62,864)
Comprehensive income for the year		–	–	–	–	(139,135)	–	–	(139,135)
Total comprehensive income for the year		–	–	–	–	(139,135)	–	(62,864)	(201,999)
Equity-settled share-based transactions	26	–	–	–	7,590	–	–	–	7,590
Options lapsed under share option schemes	26	–	–	–	(2,098)	–	–	2,098	–
At 31 December 2011		299,593	2,477,519	389,691	95,100	(378,899)	–	(113,630)	2,769,374
At 1 January 2012		**299,593**	**2,477,519**	**389,691**	**95,100**	**(378,899)**	**–**	**(113,630)**	**2,769,374**
Changes in equity for 2012:									
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**161,846**	**161,846**
Comprehensive income for the year		**–**	**–**	**–**	**–**	**627**	**–**	**–**	**627**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**627**	**–**	**161,846**	**162,473**
Equity-settled share-based transactions	26	**–**	**–**	**–**	**4,809**	**–**	**–**	**–**	**4,809**
Shares purchased under share award scheme	26	**–**	**–**	**–**	**–**	**–**	**(49,973)**	**–**	**(49,973)**
Shares issued under share option schemes	26	**599**	**9,469**	**–**	**(2,817)**	**–**	**–**	**–**	**7,251**
Options lapsed under share option schemes	26	**–**	**–**	**–**	**(736)**	**–**	**–**	**–**	**(736)**
Dividends approved in respect of the previous year	30(b)	**–**	**–**	**–**	**–**	**–**	**–**	**(104,700)**	**(104,700)**
At 31 December 2012		**300,192**	**2,486,988**	**389,691**	**96,356**	**(378,272)**	**(49,973)**	**(56,484)**	**2,788,498**

30 CAPITAL, RESERVES AND DIVIDENDS (continued)

(b) Dividends

(i) Dividends payable to equity shareholders of the company attributable to the year:

	2012 RMB'000	2011 RMB'000
Final dividend proposed after the balance sheet date of HK6 cents (2011: HK4 cents) per ordinary share	**154,882**	104,700

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

(ii) Dividends payable to equity shareholders of the company attributable to the previous financial year, approved and paid during the year:

	2012 RMB'000	2011 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK4 cents (2011: Nil) per ordinary share	**104,700**	—

(c) Share capital

Authorised and issued share capital

	2012 Number of shares	2012 Amount '000	2011 Number of shares	2011 Amount '000
Authorised:				
Ordinary shares of HKD0.1 each	**10,000,000,000**	**HKD1,000,000**	10,000,000,000	HKD1,000,000
Equivalent to:		**RMB968,739**		RMB968,739

30 CAPITAL, RESERVES AND DIVIDENDS (continued)

(c) Share capital (continued)

Authorised and issued share capital (continued)

	2012		2011	
	Number of shares	Amount '000	Number of shares	Amount '000
Ordinary shares, issued and fully paid:				
		RMB'000		RMB'000
At 1 January	3,223,798,400	299,593	3,223,798,400	299,593
Shares issued under share option schemes (note 26(b)(ii))	7,363,600	599	—	—
At 31 December	3,231,162,000	300,192	3,223,798,400	299,593

(d) 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 specified consideration.

Pursuant to the Scheme rules, existing shares will be purchased by Computershare Hong Kong Trustees 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.

For the year ended 31 December 2012, 47,817,000 shares were acquired by the Trustee of the Scheme through purchases from the open market according to the instructions of the board of directors, at a total cost of approximately RMB49,973,000 (equivalent to HKD61,518,000).

30 CAPITAL, RESERVES AND DIVIDENDS (continued)

(d) Share award scheme (continued)

For the year ended 31 December 2012, the Trustee of the Scheme purchased the Company's ordinary shares on The Stock Exchange of Hong Kong Limited as follows:

Month/year	Number of shares purchased	Highest price paid per share HKD	Lowest price paid per share HKD	Aggregate price paid HKD'000
April 2012	15,635,000	1.40	1.19	19,999
May 2012	22,622,000	1.40	1.13	29,410
June 2012	9,560,000	1.31	1.21	12,109
				61,518

As at 31 December 2012, the purchased shares have not been granted to the relevant selected participants.

(e) Nature and purpose of reserves

(i) Share premium

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

(ii) Other reserve

The other reserve represents the difference between the nominal value of share of the subsidiaries acquired over the nominal value of the shares issued by the company in exchange; the difference between acquisitions of non-controlling interests and entities under common control over the consideration given; and the contribution of technology licenses by a shareholder.

(iii) Capital reserve

Capital reserve represents the value of employee services in respect of share options granted under the Pre-IPO Options Scheme and the Share Option Scheme as set out in note 26, waiver of debts by the immediate holding company and capital contribution arising on shareholders' indemnity.

30 CAPITAL, RESERVES AND DIVIDENDS (continued)

(e) Nature and purpose of reserves (continued)

(iv) Surplus reserve

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

(v) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside the PRC which are dealt with in accordance with the accounting policies as set out in note 2(u).

(f) Distributability of reserves

The company's reserves available for distribution to its shareholders amounted to RMB2,538,279,000 as at 31 December 2012 (2011: RMB2,469,781,000). Under the Companies Law (Revised) of the Cayman Islands, the share premium of the company is available for paying distributions or dividends to shareholders subject to the provisions of its memorandum and articles of association and provided that immediately following the payment of distribution or dividends, the company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the company's articles of association, distributions shall be payable out of the profits or other reserves, including the share premium account, of the company.

(g) Capital management

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

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

30 CAPITAL, RESERVES AND DIVIDENDS (continued)

(g) Capital management (continued)

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

During 2012, the group's strategy, which was unchanged from 2011, was to maintain sufficient capital to cover any net debt position by adjusting the amount of dividends paid to shareholders or issue new shares. The net debt-to-equity ratios as at 31 December 2012 and 2011 are 1.14 and 0.62 respectively.

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

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUE

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

(a) Credit risk

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The group maintains different billing policies for different customers based on the negotiated terms with each of the customers. The group will issue progress billing 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. The group negotiates with those debtors with overdue balances to agree a repayment schedule by both parties and regularly evaluates the credit quality of its debtors to assess the necessity to revise the credit term. Debtors with balances that are more than 24 months past due are requested to settle all outstanding balances before any further credit is granted.

The group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concerns of credit risk primarily due to significant exposure to individual customers. At the balance sheet date, 22% (2011: 30%) and 46% (2011: 51%) of the total trade receivables was due from the group's largest debtor and the five largest debtors respectively.

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(a) Credit risk (continued)

Except for the financial guarantee given by the group as set out in note 36(b), the group does not provide any other guarantees which would expose the group or the company to credit risk. The maximum exposure to credit risk in respect of the financial guarantee at the balance sheet date is disclosed in note 36(b).

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

(b) Liquidity risk

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

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

The contractual undiscounted cash flows of the interest-bearing borrowings (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and earliest date the group can be required to pay are as follows:

The group

	2012 **RMB'000**	2011 RMB'000
Within 1 year	**1,442,952**	535,668
More than 1 year but less than 2 years	**647,333**	156,134
More than 2 years but less than 5 years	**121,602**	239,329
Total contractual undiscounted cash outflow	**2,211,887**	931,131
Balance sheet carrying value	**1,983,019**	879,738

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(b) Liquidity risk (continued)

Same as above, the group's and the company's other financial liabilities are required to be settled within one year or on demand and the total contractual undiscounted cash flows of these financial liabilities approximate to their carrying amounts on the balance sheets.

(c) Interest rate risk

The group has interest-bearing assets carrying at floating rate as set out in the table below. The group's policy is to manage its interest rate risk to ensure there are no undue exposures to significant interest rate movements. The group does not use derivative financial instruments to hedge its fixed and floating rate debt obligations. Most of the interest-bearing borrowings of the group as of 31 December 2012 are variable rate instruments. The group's management consider that the net exposure on interest rate risk is not significant and the increase in interest rates at the balance sheet date would not significantly affect the group's profit or loss.

(i) Interest rate profile

The following table details the interest rate profile of the group's and the company's interest-bearing assets and liabilities at the balance sheet date.

	The group			
	2012		2011	
	Effective interest rate %	Amount RMB'000	Effective interest rate %	Amount RMB'000
Fixed rate borrowings:				
Interest-bearing borrowings	3.50%–6.50%	459,985	6.50%–7.70%	143,232
Variable rate borrowings:				
Interest-bearing borrowings	1.17%–6.72 %	1,523,034	2.29%–7.22%	736,506
Interest-bearing assets:				
Pledged bank deposits	0.00%–3.75%	424,592	0.00%–3.30%	65,612
Bank deposits maturing over three months	–	–	3.00%–3.30%	9,100
Cash and cash equivalents	0.00%–2.85%	984,131	0.00%–0.70%	851,847

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(c) Interest rate risk (continued)

(i) *Interest rate profile* (continued)

	The company			
	2012		2011	
	Effective interest rate %	**Amount RMB'000**	Effective interest rate %	Amount RMB'000
Interest-bearing assets:				
Cash and cash equivalents	**0.00%**	**22,378**	0.00%	16,628

(ii) *Sensitivity analysis*

At 31 December 2012, it is estimated that a general change of 50 basis points in interest rates, with all other variables held constant, would have decreased/increased the group's profit after tax by approximately RMB2,461,000 (2011: increased/decreased RMB2,967,000).

The sensitivity analysis above indicates the instantaneous change in the group's profit after tax (and retained profits) that would arise assuming that the change in interest rates had occurred at the balance sheet date and had been applied to re-measure those financial instruments held by the group which expose the group to fair value interest rate risk at the balance sheet date. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the group at the balance sheet date, the impact on the group's profit after tax (and retained profits) is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for 2011.

(d) Currency risk

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

The group's investments in certain companies incorporated outside the PRC also expose the group to foreign currency risk mainly resulting from fluctuation of USD.

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(d) Currency risk (continued)

An appreciation of RMB against USD or EUR may have the effect of rendering exports from the group in the PRC more expensive and less competitive than products from other countries.

RMB is not freely convertible into foreign currencies. All foreign exchange transactions involving RMB must take place through the People's Bank of China or other institutions authorised to buy and sell foreign currencies. The exchange rate adopted for the foreign exchange transactions are the rates of exchange quoted by the commercial banks that are based on the middle price quoted by People's Bank of China and determined largely by supply and demand.

The following table details the group's and the company's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate at the year-end date.

The group

	2012 Exposure to foreign currencies (expressed in RMB'000)		
	USD	**EUR**	**RMB**
Cash and cash equivalents	330,432	12,635	35,242
Trade and other receivables	1,472,148	44,803	—
Interest-bearing borrowings	(943,962)	—	—
Trade and other payables	(848,806)	—	(389,882)
Overall net exposure	9,812	57,438	(354,640)

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(d) Currency risk (continued)

The group (continued)

	2011 Exposure to foreign currencies (expressed in RMB'000) USD	EUR	RMB
Cash and cash equivalents	138,954	7,780	—
Trade and other receivables	756,511	59,436	—
Interest-bearing borrowings	(117,719)	—	—
Trade and other payables	(301,491)	—	—
Overall net exposure	476,255	67,216	—

Sensitivity analysis

The following table indicates the instantaneous change in the group's profit after tax (and retained profits) that would arise if foreign exchange rates to which the group has significant exposure at the balance sheet date had changed at that date, assuming all other risk variables remained constant.

	The group					
	2012			2011		
	Weakening/ (Strengthening) of functional currency against these currencies	Increase/ (decrease) on profit after tax RMB'000	Increase/ (decrease) on retained profits RMB'000	Weakening/ (Strengthening) of functional currency against these currencies	Increase/ (decrease) on profit after tax RMB'000	Increase/ (decrease) on retained profits RMB'000
USD	5%	417	417	5%	12,039	12,039
	(5)%	(417)	(417)	(5)%	(12,039)	(12,039)
EUR	5%	2,325	2,325	5%	2,764	2,764
	(5)%	(2,325)	(2,325)	(5)%	(2,764)	(2,764)
RMB	5%	(13,331)	(13,331)	5%	–	–
	(5)%	13,331	13,331	(5)%	–	–

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(d) Currency risk (continued)

Sensitivity analysis (continued)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the group entities' profit/loss after tax and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the balance sheet date for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the group which expose the group to foreign currency risk at the balance sheet date, including inter-company payables and receivables within the group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the group's presentation currency. The analysis is performed on the same basis for 2011.

(e) Fair values

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

(i) Cash and cash equivalents, bank deposits maturing over three months, pledged bank deposits, other financial assets, trade and other receivables and trade and other payables

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

(ii) Interest-bearing borrowings

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

(iii) Amounts due from/to related companies

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

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(e) Fair values (continued)

(iv) Assets acquired through a business combination

The fair value of fixed assets and interests in leasehold land held for own use under operating lease recognised as a result of a business combination is the estimated amount for which the fixed assets and interests in leasehold land held for own use under operating lease could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably. The fair value of items of fixed assets and interests in leasehold land held for own use under operating lease is based on the market approach and cost approaches using quoted market prices for similar items when available and depreciated replacement cost when appropriate. Depreciated replacement cost reflects adjustments for physical deterioration as well as functional and economic obsolescence.

(f) Business risk

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

32 BUSINESS COMBINATION

Pursuant to an agreement entered into between Honghua Company, a wholly-owned subsidiary within the group, 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 containers and equipment in relation to oil rigging, mining drilling, refining and chemicals engineering at a total consideration of RMB75,000,000. The total consideration consists of RMB39,000,000 in cash and fair value of 30% equity interests of the acquired business, which is determined as RMB36,000,000, issued to Gansu Huateng. As a result, the group held 70% effective interest and voting interests in the acquired business.

Taking control of the acquired business will enable the group to get into its production process of special vehicles, pressure containers and equipments. The acquisition is expected to provide the group with a good foundation to enter into the area of exploration of shale gas and other unconventional energy through access to the production process of the acquire business. The group also expects to reduce costs through economies of scale.

32 BUSINESS COMBINATION (continued)

For the period from 17 February 2012 to 31 December 2012, the acquired business contributed revenue of RMB52,607,000 and profit of RMB359,000 to the group's results. If the acquisition had occurred on 1 January 2012, management estimates that consolidated revenue would have been RMB5,068,447,000 and consolidated profit for the year would have been RMB541,231,000. In determining these amounts, management have assumed that the fair value adjustments determined by the independent valuation that arose on the acquisition date would have been the same if the acquisition had occurred on 1 January 2012.

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

	Fair value of net identifiable assets acquired as at the acquisition date RMB'000
Fixed assets	
— property, plant and equipment	44,848
— interests in leasehold land held for own use under operating lease	30,152
Total net identifiable assets at fair value	75,000

The fair values are determined based on a valuation performed by an independent third party valuer.

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

Notes:

(i) The group has chosen to measure the non-controlling interests ("NCI") in Gansu Huateng at fair value for this acquisition. The fair value of the NCI of RMB36,000,000 is determined based on the valuation.

(ii) The cash outflow as at 31 December 2012 amounted to RMB27,000,000 and the remaining cash consideration of RMB12,000,000, which is due for payment in 2013 has been recorded in other payables in note 24.

33 COMMITMENTS

(a) Capital commitments

Capital commitments outstanding at 31 December 2012 not provided for in the financial statements were as follows:

	The group	
	2012	2011
	RMB'000	RMB'000
Contracted for	**504,277**	355,533
Authorised but not contracted for	**307,721**	1,244,058
	811,998	1,599,591

(b) Operating lease commitments

At 31 December 2012, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The group	
	2012	2011
	RMB'000	RMB'000
Within 1 year	**5,339**	4,399
After 1 year but within 5 years	**5,567**	5,064
After 5 years	**7,320**	8,566
	18,226	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.

34 MATERIAL RELATED PARTY TRANSACTIONS

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

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

Name of party	Relationship
Guanghan Hongtai Business Trading Co. Ltd ("Hongtai Company")	Hongtai Company is a party which spouses of certain directors and management have equity interest.
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 ("Luzhou Jianming Company")	Luzhou Jianming Company is a party which the brother of the spouse of a director of a group's subsidiary is the legal representative.
Guanghan Huite Fluid Appendix Co. Ltd ("Guanghan Huite Company")	Guanghan Huite Company is a party which the brother of a director of a group's subsidiary has equity interest.
Chengdu Juzhong Technology Co., Ltd ("Chengdu Juzhong Company")	Chengdu Juzhong Company is a party which the brother-in-law and brother-in-law's wife of a director of a group's subsidiary have equity interest.
Sichuan Shenyuan Drilling Rig Equipment Company ("Sichuan Shenyuan Company")	Sichuan Shenyuan Company is a party which the spouse of the director has equity interest.
Chengdu Jinkong	Former associate
HH Egyptian Company	Jointly controlled entity
Honghua — Ukraine Limited	Jointly controlled entity
Honghua Oil Equipment Company Ltd.	Jointly controlled entity
Honghua CIS Ltd.	Jointly controlled entity

34 MATERIAL RELATED PARTY TRANSACTIONS (continued)

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

	The group	
	2012	2011
	RMB'000	RMB'000
Purchases of parts and components		
Related companies	**26,794**	17,480
Financial guarantees issued (see note 36(b))		
A former associate	**–**	25,710
Sale of drilling rigs, parts and components		
Jointly controlled entities	**89,732**	63,529

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

(c) Amounts due from related companies

	The group	
	2012	2011
	RMB'000	RMB'000
Trade		
Jointly controlled entities	**51,588**	59,950
Non-trade		
Related companies	**2,174**	2,167
Jointly controlled entities	**2,178**	2,708
Immediate/ultimate holding company	**30**	29
	4,382	4,904
	55,970	64,854

The amounts due from related companies are unsecured, interest free and have no fixed repayment terms. No provision was made against the amounts due from related companies at 31 December 2012 (2011: RMB Nil).

34 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(d) Amounts due to related companies

	The group	
	2012	2011
	RMB'000	RMB'000
Trade		
Related companies	**5,523**	7,234
Jointly controlled entities	**70**	6,674
	5,593	13,908
Non-trade		
Related companies	**–**	205
Jointly controlled entities	**–**	14,177
	–	14,382
	5,593	28,290

The amounts due to related companies are unsecured, interest free and have no fixed repayment terms.

(e) Amounts due from certain shareholders

The amounts due from certain shareholders as at 31 December 2012 is an amount of RMB32,317,000 (2011: RMB Nil), being the amount indemnified by certain shareholders in relation to a legal claim, details of which are set in note 28(a).

34 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(f) Key management personnel remuneration

Remuneration for key management personnel of the group, including amounts paid to the company's directors as disclosed in note 8 and certain of the key management personnel as disclosed in note 9, is as follows:

	The group	
	2012	2011
	RMB'000	RMB'000
Basic salaries, allowances and other benefits in kind	**6,442**	4,920
Contributions to defined contribution retirement schemes	**240**	175
Discretionary bonus	**12,982**	6,506
Share-based payments	**2,043**	2,802
	21,707	14,403

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

35 IMMEDIATE AND ULTIMATE HOLDING COMPANY

The directors consider the immediate holding company and the ultimate holding company as at 31 December 2012 are Ally Giant Limited and Ample Chance International Limited respectively, which are incorporated in the British Virgin Islands. These entities do not produce financial statements available for public use.

36 CONTINGENT LIABILITIES

(a) Contingent liabilities in respect of legal claim

Lawsuits with sales agencies

Several sales agencies filed lawsuits against the subsidiaries of the company, alleged that they were owed commissions in excess of USD100,000,000 in relation to their services to the group. The lawsuits are in the preliminary stage. Having consulted the group's legal advisors, management considered that the group had legal and factual merit to defend in the lawsuits. Accordingly, management determined that it was not probable that the outcome of the lawsuits will be unfavourable to the group. No provision was made for the potential claims under these lawsuits.

(b) Financial guarantees issued

As at 31 December 2011, 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.

(Expressed in Renminbi unless otherwise indicated)

37 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2012

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and five new standards which are not yet effective for the year ended 31 December 2012 and which have not been adopted in these financial statements. These include the following which may be relevant to the group.

	Effective for accounting periods beginning on or after
Amendments to IAS 1, *Presentation of financial statements* *Presentation of items of other comprehensive income*	1 July 2012
IFRS 10, *Consolidated financial statements*	1 January 2013
IFRS 11, *Joint arrangements*	1 January 2013
IFRS 12, *Disclosure of interests in other entities*	1 January 2013
IFRS 13, *Fair value measurement*	1 January 2013
IAS 27, *Separate financial statements (2011)*	1 January 2013
IAS 28, *Investments in associates and joint ventures*	1 January 2013
Revised IAS 19, *Employee benefits*	1 January 2013
Annual Improvements to IFRSs 2009-2011 Cycle	1 January 2013
Amendments to IFRS 7, *Financial instruments: Disclosures* Disclosures — Offsetting financial assets and financial liabilities	1 January 2013
Amendments to IAS 32, *Financial instruments:* Presentation — *Offsetting financial assets and financial liabilities*	1 January 2014
IFRS 9, *Financial instruments*	1 January 2015

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

FIVE-YEAR FINANCIAL HIGHLIGHTS

	2012 RMB'000	2011 RMB'000	2010 RMB'000	2009 RMB'000 (restated)	2008 RMB'000 (restated)
Consolidated Income Statement					
Turnover	**5,068,447**	3,485,046	1,877,931	1,961,517	4,737,532
Cost of sales	**(3,321,440)**	(2,514,942)	(1,497,453)	(1,444,081)	(3,385,626)
Gross profit	**1,747,007**	970,104	380,478	517,436	1,351,906
Other revenue	**63,333**	27,444	29,900	7,085	5,375
Other net income/(loss)	**2,084**	60,012	(5,274)	9,234	13,662
Selling expenses	**(553,623)**	(385,532)	(180,642)	(179,980)	(369,787)
General and administrative expenses	**(526,562)**	(408,877)	(340,360)	(474,334)	(261,207)
Other operating expenses	**(59,546)**	(19,295)	(3,905)	(803)	(6,970)
Profit/(loss) from operations	**672,693**	243,856	(119,803)	(121,362)	732,979
Net finance income/(expenses)	**29,259**	(50,335)	(59,441)	(3,709)	(88,701)
Share of (loss)/profit from jointly controlled entities	**(156)**	293	2,801	(4,766)	7,332
Share of profit from an associate	**7,662**	5,398	—	—	—
Profit/(loss) before taxation	**709,458**	199,212	(176,443)	(129,837)	651,610
Income tax (expenses)/credit	**(167,683)**	(27,769)	4,372	7,126	(115,560)
Profit/(loss) for the year	**541,775**	171,443	(172,071)	(122,711)	536,050
Attributable to:					
Equity shareholders of the Company	**529,458**	167,984	(184,165)	(127,963)	508,078
Non-controlling interests	**12,317**	3,459	12,094	5,252	27,972
Figures per share					
Earnings/(loss) per share (RMB cents)					
— Basic	**16.58**	5.21	(5.71)	(3.97)	16.1
— Diluted	**16.54**	5.21	(5.71)	(3.97)	16.1
Dividend					
Dividends declared and paid	**—**	—	—	—	287,671
Dividends declared and paid per share	**—**	—	—	—	HK$0.10
Dividend proposed after balance sheet date	**154,882**	104,700	—	—	170,371
Dividend proposed after balance sheet date per share	**HK$0.06**	HK$0.04	—	—	HK$0.06

FIVE-YEAR FINANCIAL HIGHLIGHTS

	2012 RMB'000	2011 RMB'000	2010 RMB'000	2009 RMB'000 (restated)	2008 RMB'000 (restated)
Consolidated Balance Sheet					
Total non-current assets	**3,227,901**	1,882,332	1,354,893	1,209,071	946,480
Total current assets	**6,617,975**	4,810,368	4,639,753	5,375,375	6,833,547
Total assets	**9,845,876**	6,692,700	5,994,646	6,584,446	7,780,027
Total current liabilities	**4,517,478**	2,119,137	1,729,051	2,062,235	3,232,425
Total non-current liabilities	**739,671**	398,705	194,804	262,804	24,090
Total liabilities	**5,257,149**	2,517,842	1,923,855	2,325,039	3,256,515
Total equity	**4,588,727**	4,174,858	4,070,791	4,259,407	4,523,512

Key financial ratios	2012 RMB'000	2011 RMB'000	2010 RMB'000	2009 RMB'000 (restated)	2008 RMB'000 (restated)
Profitability					
Gross margin	**34.5%**	27.8%	20.3%	26.4%	28.5%
EBITDA margin	**16.3%**	9.8%	(1.5%)	(2.2%)	16.6%
Net margin	**10.4%**	4.8%	(9.8%)	(6.5%)	10.9%
Return					
Return on average equity	**12.4%**	4.2%	(4.5%)	(3.0%)	17.8%
Return on average assets	**6.4%**	2.6%	(2.9%)	(1.8%)	8.7%
Liquidity					
Current ratio	**1.46**	2.27	2.68	2.61	2.11
Quick ratio	**0.86**	1.54	1.61	1.69	1.49
Turnover					
Turnover of average trade and bills receivable	**95**	104	163	217	105
Turnover of average trade and bills payable	**119**	113	145	177	87
Turnover of average inventory	**235**	247	458	497	165
Gearing					
Total debts/Total assets	**20.1%**	13.1%	10.4%	19.7%	20.2%
Total liabilities/Total assets	**53.4%**	37.6%	32.1%	35.3%	41.9%
EBIT/Interest expenses	**8.77**	4.6	(2.5)	(1.9)	11.2

Note:

Profitability

Gross margin	=	Gross profit/Turnover
EBITDA	=	(Loss)/profit from operations + Share of (loss)/profit from jointly controlled entities + share of profit from an associate + Depreciation + Amortization
EBITDA margin	=	EBITDA/Turnover
Net margin	=	(Loss)/profit attributable to equity shareholders of the Company/Turnover

Return

Return on average assets	=	(Loss)/profit attributable to equity shareholders of the Company/Average assets
Return on average equity	=	(Loss)/profit attributable to equity shareholders of the Company/Average equity attributable to equity shareholders of the Company

Liquidity

Current ratio	=	Current assets/Current liabilities
Quick ratio	=	(Current assets-Inventory)/Current liabilities

Turnover

Turnover of average trade and bills receivable	=	365.25*Average trade and bills receivable/Turnover
Turnover of average trade and bills payable	=	365.25*Average trade and bills payable/Cost of sales
Turnover of average inventory	=	365.25*Average inventory/Cost of sales

Gearing

Total debts/Total assets	=	(Long term interest-bearing borrowings + Short term interest-bearing borrowings)/Total assets
Total liabilities/Total assets	=	Total liabilities/Total assets
EBIT/Interest expenses	=	((Loss)/profit from operations + Share of (loss)/profit from jointly controlled entities + share of profit from an associate)/Interest expenses (including the interest expense capitalized into assets under construction)

DEFINITIONS

"Articles of Association"	the Articles of Association of the Company, approved at extraordinary shareholders' meetings of the Company on 21 January 2008, revised and approved at annual general meeting of the Company on 3 June 2009
"Board of Directors" or "Board"	the Board of Directors of the Company
"Companies Ordinance"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
"Company" or "our Company"	Honghua Group Limited, (宏華集團有限公司) an exempted company incorporated in the Cayman Islands with limited liability on 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
"Controlling Shareholder(s)"	has the meaning ascribed thereto under the Listing Rules being, for the time being, Ally Giant Limited, Ample Chance International Limited, Ally Smooth Investments Limited, Charm Moral International Limited, Beauty Clear Holdings Limited, Believe Power International Limited, Benefit Way International Limited, Wealth Afflux Limited, Mowbray Worldwide Limited, Ecotech Enterprises Corporation, Vast & Fast Corporation, Cavendish Global Corporation, Brondesbury Enterprises Limited, Dobson Global Inc, Darius Enterprises Limited, Zhang Mi (張弭), Ren Jie (任杰), Liu Zhi (劉智), Zheng Yong (鄭勇), Zuo Huixian (左輝先), Zhang Xu (張旭), Wang Jiangyang (王江陽), Chen Jun (陳俊), Fan Bing (范兵), Zhang Yanyong (張彥永), Ao Pei (敖沛), Tian Diyong (田弟勇), Shen Dingjian (沈定建), Liu Xuetian (劉學田) (deceased), Zhou Bing (周兵), Lv Lan (呂蘭), Tian Yu (田雨), Li Hanqiang (李漢強), Liu Yingguo (劉映國) and Liu Lulu (劉露璐). Contracts executed by the Controlling Shareholders after Liu Xuetian's death were executed by his legal successors
"Director(s)"	member(s) of the Board of Directors of the Company

"During the Year"	for the year ended 31 December 2012
"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
"Honghua Company"	Sichuan Honghua Petroleum Equipment Co., Ltd. (四川宏華石油設備有限公司), formerly known as Chuanyou Guanghan Honghua Co., Ltd. (川油廣漢宏華有限公司), a limited liability company established in the PRC on 31 December 1997, and a wholly-owned subsidiary of Honghua Holdings Limited
"Hongtai Company"	Guanghan Hongtai Business Trading Co., Ltd (廣漢市宏泰商貿有限公司), a limited liability company established in the PRC on 21 June 2002
"Last Year"	for the year ended 31 December 2011
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
"PRC" or "China"	the People's Republic of China and, except where the context requires and only for the purpose of this Annual Report, references in this Annual Report to the PRC or China do not apply to Taiwan or Hong Kong and Macau Special Administrative Regions
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"Russia"	The Russian Federation
"Securities and Futures Commission" or "SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary shares issued by the Company, with a nominal value of HK$0.10 each

"Shareholder(s)"	holder(s) of our Share(s)
"Stock Exchange" or "HKSE"	The Stock Exchange of Hong Kong Limited
"Substantial Shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"SZSE"	Shenzhen Stock Exchange
"UAE"	the United Arab Emirates
"United States", "USA" or "U.S."	the United States of America, including its territories and possessions
"US$" or "U.S. dollars" or "USD"	United States dollars, the lawful currency of the United States

夢圓更精彩

宏华集团有限公司
HONGHUA GROUP LIMITED