宏华集团有限公司

HONGHUA GROUP LIMITED

(incorporated in the Cayman Islands with limited liability)

Stock Code: 196

2013 Interim Report


宏华集团
HONGHUA GROUP
SUPERIOR
ENERGY SERVICES
EMERSON

CONTENTS

Financial Highlights

OPERATING RESULTS

	Six months ended 30 June		
	2013 **RMB'000**	2012 RMB'000	Change
Turnover	**2,486,357**	1,969,330	26.3%
Profit from operations	**359,778**	269,335	33.6%
Profit before taxation	**306,099**	278,159	10.0%
Profit attributable to equity Shareholders of the Company	**239,346**	209,660	14.2%
Earnings per Share			
Earnings per Share-Basic (RMB cents)	**7.549**	6.530	15.6%
Earnings per Share-Diluted (RMB cents)	**7.439**	6.527	14.0%

FINANCIAL POSITION

	30 June 2013 **RMB'000**	31 December 2012 RMB'000	Change
Total non-current assets	**3,746,849**	3,227,901	16.1%
Total current assets	**8,890,033**	6,617,975	34.3%
Total assets	**12,636,882**	9,845,876	28.3%
Total current liabilities	**6,934,637**	4,517,478	53.5%
Total non-current liabilities	**1,071,985**	739,671	44.9%
Total liabilities	**8,006,622**	5,257,149	52.3%
Total equity	**4,630,260**	4,588,727	0.9%

KEY FINANCIAL RATIOS*

	Six months ended 30 June		
	2013	2012	Change
Gross Margin	**32.2%**	37.6%	–5.4%
Net Margin	**9.6%**	10.6%	–1.0%
Return on average assets	**2.1%**	2.7%	–0.6%
Return on average equity	**5.4%**	5.1%	0.3%

	30 June 2013	31 December 2012	Change
Current Ratio	**1.28**	1.46	–0.18
Quick ratio	**0.70**	0.86	–0.16
Total debts/Total assets	**32.7%**	20.1%	12.6%
Total liabilities/Total assets	**63.4%**	53.4%	10.0%

* 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 COMMITTEES

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 ADVISOR

As to Hong Kong Law

King & Wood Mallesons

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
China Development Bank

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
PRC
Post code: 610036

PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

STOCK CODE

The Stock Exchange of Hong Kong Limited: 0196

WEBSITE

http://www.hh-gltd.com

Management
Discussion and Analysis

Management Discussion and Analysis

During the Period, the Group's revenue amounted to approximately RMB2,486 million, representing an increase of 26.3% as compared to RMB1,969 million in the same period last year. The Group's gross profit was approximately RMB800 million and profit attributable to equity shareholders of the Company was approximately RMB239 million.

MARKET REVIEW

In the first half of 2013, the slowdown of emerging economies and potential fiscal tightening stifled the recovery of the U.S. economy, causing the overall performance of the global economy to underperform. However, during the Period, prices of New York WTI and London Brent crude oil remained at relatively high levels of US$85 and US$95 per barrel respectively. The increased expenditure of oil and gas exploration continued to stimulate drilling activities around the world. According to a survey by Baker Hughes, although the number of active land rigs in North America slipped year on year, it increased by 6.7% in other areas worldwide in the first half of 2013. The global average number of active land rigs amounted to 3,395 units in the first half of 2013 (Note: not including China and Russia). In regard to offshore oil and gas equipment, the average age of current active jack-up platforms has reached approximately 23 years, which is close to the average retirement age during the past decade. Replacement demand has been constantly increasing as a result of the decline in the utilization rate of old drilling platforms.

Management Discussion and Analysis

BUSINESS REVIEW

Land Drilling Rigs and Related Products Business

During the Period, the Group actively enhanced marketing promotion and participated in a total of 11 large-scale domestic and international oil and gas exhibitions, including the Offshore Technology Conference held at Houston, USA, further strengthening the international brand awareness of Honghua products. At the same time, the Group achieved remarkable success in implementing its strategy of "localization" globally. During the Period, Honghua Golden Coast Equipment FZE (GCE) obtained 9 newly signed land drilling rig contracts. Through active promotion by Honghua Russia Limited, the Group became the only private enterprise to visit Russia with Chinese President Xi Jin Ping, and entered into a cooperation agreement with OJSC VTB Leasing, the largest European leasing company, as well as Scientific and Production Corporation Uralvagonzavod, the leading state-owned military enterprise in Russia. Pursuant to the agreement, the three parties will jointly produce heavy oil and natural gas drilling rigs in Russia with production value estimated at approximately US$400 million, which will further expand the Group's market share in Russia. In addition, Honghua America, LLC completed the design of "Honghua America No.1", purchase of components has been planned and the production process has begun. The Group also prepared for the establishment of a joint venture in Venezuela, in order to lay down a foundation for further expansion in the Americans market.

During the Period, while continuing marketing expansion, the Group constantly improved the quality of its products and provided comprehensive supplementary and value-added services, thus continuously exploring new markets and new customers while also consolidating the customer base in mature markets. During the Period, newly signed agreements of land drilling rigs amounted to 55 units, worth approximately RMB3.3 billion. Of which, significant agreements include: agreement with Kuwait Drilling Company to provide 3 desert drilling rigs worth approximately US$40 million; agreements for 4 land drilling rigs in the two new markets of Serbia and Kenya; agreements for 5 land drilling rigs in China, continuously enlarging the market share within the domestic market. In addition, the Group successfully renewed the agreements for 9 land drilling rigs worth US$135 million with OOO Burovoya Kompaniya Eurasia in July 2013. Last but not least, the agreement for training drilling rigs, worth approximately US$12 million with PDVSA Servicios Petroleros, S.A., extended the Group's business from equipment sales to technical service training. As of the end of July 2013, the Group's onshore drilling rig backlog reached 93 sets, worth approximately RMB7.5 billion and estimated to be delivered between 2013 and 2014.

In terms of parts and components, the Group's self-innovated series of direct top drive products maintained stable sales, 10 sets were sold together with the drilling rigs, 4 sets were sold individually. The Group achieved considerable growth in sales of mud pumps, recording sales of 40 sets. Moreover, the Group actively made full use of its global procurement network to provide integrated procurement services for all clients around the world. During the Period, the Group entered into a directional drilling equipment sales agreement worth approximately US$181 million with PDVSA Servicios Petroleros, S.A..

For production management, the Group still faced capacity constraints in spite of its proactive improvement of productivity during the Period. The Group will continuously expand its production capabilities in the second half of 2013. In addition, the construction of the Group's technology innovation industrial park is under progress. In line with the ideology of "creative manufacturing", the industrial park strives to attain objectives of "new industry", "new technology", "new equipment" and "new craftsmanship", reflecting the Group's endeavor to relentlessly sharpen its competitive edge for continuous development in the second decade of growth since its foundation.

Offshore Engineering Equipment and Related Products Business

The construction process of Honghai crane, the core equipment enshrining the innovative concept of "onshore manufacturing of offshore equipment", is progressing as planned, with steel pipe piles and steel sheet piles hammered in the base. The first crane has started off-site installation, while the production of the second crane and the member axles of 1,200 tons cantilever crane has commenced. The equipment is expected to be delivered in mid-2014.

The Tigers project progressed smoothly. Among which, fixed control equipment has been completed and the quintuple mud pump is expected to be delivered in the third quarter 2013. The Group will accomplish deliveries and subsequent installation and commissioning of all equipment in this and next year.

In terms of market expansion, the Group has proactively participated in tenders of offshore platform and accessory equipment in the domestic and overseas markets, in order to achieve the breakthrough in the first order of offshore drilling platform. As of the end of July 2013, the Group's offshore modules, parts and components backlog reached RMB400 million.

Management Discussion and Analysis

Oil and Gas Engineering Services Business

During the Period, the Group's oil and gas engineering services business achieved rapid growth in both domestic and overseas markets. The Group improved its technological strength through various channels as well as expanded the scale of its service teams. Composed of 18 teams in China and 2 teams overseas, the Group's drilling service teams were increased to 20 by the end of June 2013. The Group's drilling fluids service teams were 30, and 10 teams started to provide directional services with the accumulated personnel amounting to 1,110.

After entering into Xinjiang Province and Iraq last year, the Group successfully developed oilfield markets in Sulige and Yanchang in northern Shanxi region of China. With continuous improvements in operational efficiency, the Group completed a total of 18 wells, including 3 horizontal wells and 5 directional wells, and achieved 72,000 meters of footage drilled. The Group's oil and gas engineering service's revenue target remains at RMB500 million in 2013.

The Group successfully acquired 55% equity interest of Bazhou Company in March 2013. Bazhou Company has accumulated solid experience in high-end water-based drilling fluid technology while carrying out continuous research and development in oil-based drilling fluid, and has extensive business sources. After completion of the acquisition, Bazhou Company vigorously carried out production as well as provided and assumed almost 80% of the domestic drilling fluids and drilling fluids services, efficiently implementing the internal collaboration and driving the steady development of the Group.

Furthermore, the Group continuously focused on the establishment of sound quality, environmental, occupational health and safety management systems. The Group renewed the certificate of International Association of Drilling Contractors (IADC), obtained China Quality Health Safety and Environmental System (QHSE) Certification and Job Qualification approved by Sinopec Headquarters, paving the way for full penetration into the oil and gas services market.

Unconventional Oil and Gas Development Business

The Group communicated with international experts in regard to the technology of flexible water tanks, and has been actively searching for potential clients. During the Period, there were 2 water tanks being delivered to America for promotional purposes. In the meantime, the Group's self-innovated 6000HP fracturing pump completed the commissioning test of the single machine witnessed by Baker Hughes' experts. It is expected to conduct an on-site industrial test at a shale gas fracturing site in America in the second half of this year, laying down a foundation for sales in both domestic and overseas markets. In addition, the electric fracturing blender truck is under prototype trial production, which is expected to be completed in 2013. The on-site test will be started as well.

Since the second round of tendering for shale gas exploration rights, most of the companies that won the bids have not yet to enter into the exploration phase. Therefore, the plan of establishing unconventional oil and gas R&D centers in cooperation with Baker Hughes and Shenhua was delayed.

Zhenhua Project Progress

An indirect wholly-owned subsidiary of the Company, Sichuan Honghua Petroleum Equipment Co., Ltd. ("Honghua Company") and Shanghai Zhenhua Heavy Industries (Group) Limited ("Zhenhua Heavy Industries") through friendly negotiation, signed an agreement on 26 August 2013, to terminate the sales contracts that were signed and remained pending in 2009. Honghua Company and Zhenhua Heavy Industries conducted comprehensive deduction and settlement regarding the sales contracts. According to the settlement, Honghua Company does not need to return the RMB82 million down-payment that was paid to Honghua Company from Zhenhua Heavy Industries. Neither party will bear any responsibility to the other party.

Quality Management and Research and Development

The Group constantly attaches significance to the enhancement and improvement of its product management system. During the Period, the Group successfully passed the triennial recertification review of the American Petroleum Institute (API) and the HSE certification extension. With next-generation drilling rigs, high value-added components, special equipment for shale gas development and key components of offshore equipment as the mainstay, the Group is always dedicated to its research and development as well as new product optimization. The Group invested a total of RMB34.94 million during the Period. The gear and rack drilling rig has completed assembly testing and is expected to accomplish industrial testing within the year. The automatic hanging pipe-layout machine jointly developed by Jilin University and the Group has successfully passed the test, indicating the substantial progress in R&D of in-depth detection equipment in China. The series 20 and 40 hydraulic and car-loaded top-drives are expected to complete design and industrial testing in 2013 and 2014 respectively. During the Period, 20 out of 40 new patent applications have been approved. As at 30 June 2013, the Group has applied for 262 patents, and 133 of them had been approved, which included hydraulic single derrick trailer, stepwise skidding system for drilling rigs and blowout preventer storage device of deep-sea drilling platform.

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. As of 30 June 2013, the Group had 6,817 employees, among which 590 are research personnel. Apart from team expansion, the Group arranged 679 training programs including annual graduate training, with an aim to enhance employees' professional knowledge and technical skills as well as improve efficiency.

In May 2013, the Group organized the Strategic Talent Forum of oil and gas equipment industry, gathering experience and wisdom and boosting the continuous development of the industrial economy. Through the event, the Group elevated the competitiveness of Honghua brand and talent, further promoted the cooperation between the Group and universities, and deepened the liaison and cooperation among the Group, universities and the government.

Management Discussion and Analysis

OUTLOOK

Despite the sluggish global economic recovery, the entire oil and gas industry still presents an optimistic development trend. Asia, Latin America, Middle East and Russia will witness a substantial increase in demand. To capitalize on the opportunity of onshore oil and gas equipment, the Group will continue to implement its strategy of "localization" and complete joint venture in Russia and the preparation of joint venture in Venezuela in this and next year, and to consolidate its market share in such regions. On the other hand, the Group will impel its sales strategy of "market diversification" and further promote global product sales by means of diversified financing leasing models. In terms of land drilling rigs, the Group will expand the market share in shallow-medium wells by new generation drilling rigs. In regard to parts and components, the Group will increase sales of self-innovated components and after-sale services, while making full use of its customer and global procurement network, to expand the ratio of component trading business and achieve stable and sustainable growth of its land drilling equipment business.

As for offshore engineering equipment, the Group will continue to complete the construction of Honghai crane and the existing Tigers project. At the same time, the Group will proactively use the international offshore companies' recognition towards its engineering, procurement and construction, to keep close communication in regard to fixed and jack-up drilling platforms with customers worldwide. The Group will strive to achieve breakthrough in the second half of 2013.

As for oil and gas engineering service business, the Group will rely on its self-innovated equipment and develop other services driven by its drilling service. The Group will enter into fracturing service in the fourth quarter of 2013 at earliest on a basis of expansion of the existing drilling service (includes vertical well, directional well and horizontal well services) and drilling fluid service, to become the drilling service company with the capability to provide turn-key service. While focusing on proactive exploration of conventional oil and gas services markets, the Group will cooperate with renowned international companies and get well-prepared for the greater development in the unconventional oil and gas industry.

Looking forward, the Group will focus on the base of land drilling and offshore oil and gas equipment businesses while also proactively exploring oil and gas engineering services and unconventional oil and gas development business. The Group will strengthen its overall competitiveness and implement substantial and steady development.

FINANCIAL REVIEW

During the Period, the Group's gross profit and profit attributable to shareholders of the Company amounted to approximately RMB800 million and RMB239 million respectively, and gross margin and net margin amounted to approximately 32.2% and 9.6% respectively; In the same period last year, gross profit and profit attributable to shareholders of the Company amounted to approximately RMB741 million and RMB210 million respectively, gross margin and net margin amounted to approximately 37.6% and 10.6% respectively. During the Period, the increase in the Group's gross profit and profit attributable to shareholders of the Company was due to growth in sales revenue.

Turnover

During the Period, the Group's turnover amounted to approximately RMB2,486 million, representing an increase of RMB517 million or 26.3% as compared to RMB1,969 million in the same period last year. Turnover growth was due to the Group's active market development and the growth in sales revenue from land drilling rig parts and components. The number of land drilling rig sales during the Period increased to 28 units from 22 units in the same period last year.

(a) Revenue by Geographical Areas

The Group's revenue by geographical segment during the Period: (1) The Group's export revenue amounted to approximately RMB1,672 million, accounting for approximately 67.3% of total revenue, representing a decrease of RMB107 million as compared to the same period last year. Among which, the American market's revenue amounted to approximately RMB858 million, representing a decrease of RMB647 million or 43.0% as compared to the same period last year; there were increase in revenue from the European and Central Asia and Middle Eastern markets, while there were decrease in revenue from South and Southeast Asia; (2) Mainland China's revenue amounted to approximately RMB814 million, accounting for approximately 32.7% of total revenue, representing an increase of RMB624 million or 328.4% as compared to the same period last year.

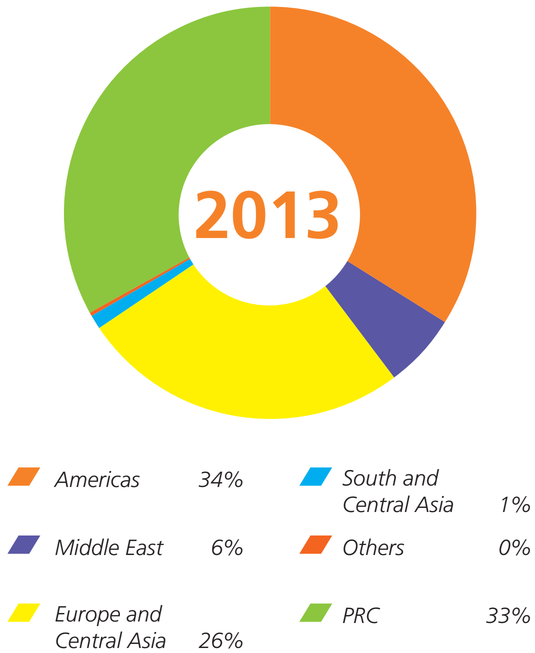
The revenues from different regions are affected by oil and gas exploration activities in various areas of the world. The Group actively explores markets, constantly develops new customers, and gains new purchase orders, ensuring the sustained growth of sales revenue.

Management Discussion and Analysis

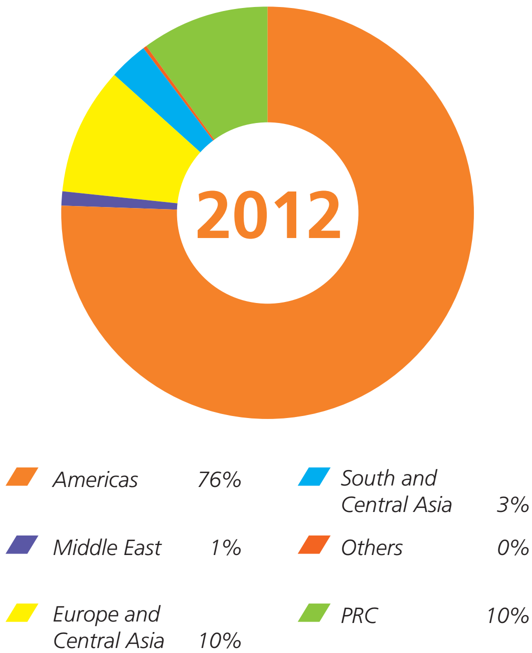
Revenue by Geographical Areas

Expressed in RMB'million

For the six months ended 30 June 2013



For the six months ended 30 June 2012



(b) Revenue by product 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 Period, external revenue from land drilling rigs amounted to approximately RMB1,750 million, representing an increase of RMB140 million or 8.7% as compared to RMB1,610 million in the same period last year. The increase in revenue from land drilling rigs was mainly due to the increase in sales volume of drilling rigs from 22 units in the same period last year to 28 units during the Period.

During the Period, external revenue from land drilling rig parts and components amounted to approximately RMB614 million, representing an increase of RMB298 million or 94.3% as compared to RMB316 million in the same period last year. The increase in land drilling rig parts and components' revenue was mainly due to active market exploration and new product sales. Among which, revenue from pipeline system was RMB133 million; revenue from rig and component transformation was RMB81 million; revenue from drill stem amounted to RMB56 million; revenue from sales of 4 sets of top drive amounted to RMB30 million; revenue from sales of 2 sets of translational device amounted to RMB30 million.

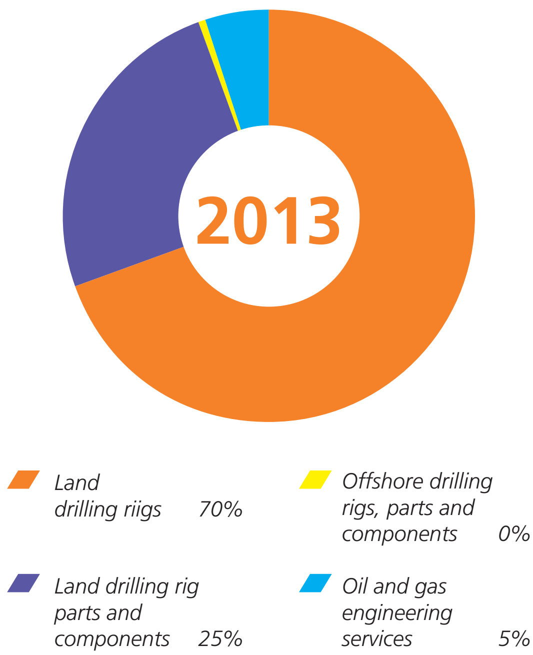
During the Period, there was no external revenue from offshore drilling rigs, parts and components, while the revenue amounted to RMB13 million in the same period last year.

During the Period, revenue from oil and gas engineering services amounted to approximately RMB122 million, representing an increase of RMB92 million or 306.7% as compared to RMB30 million in the same period last year. The Group actively explores markets of oil and gas engineering services. Oil and gas engineering services have a total of 20 drilling crew in the first half of 2013, which operate in 5 areas, such as Xinjiang, Northeast China, Inner Mongolia, Kazakhstan and Iraq. In these areas, the Group completed 18 wells in the first half of 2013.

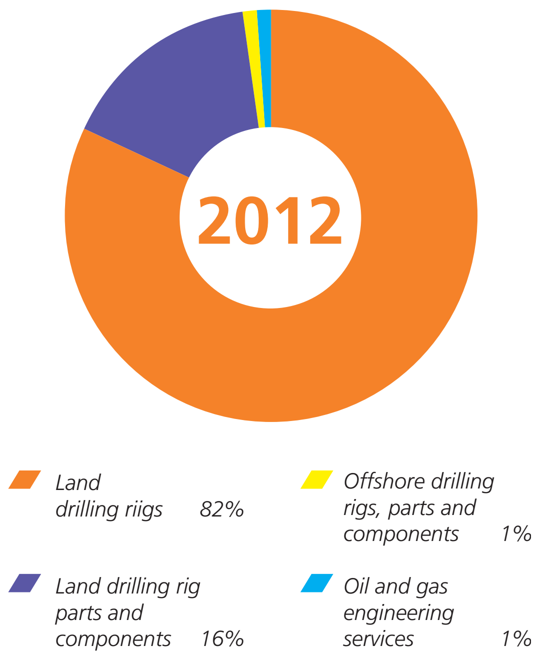
Revenue by business categories was as follows:

Expressed in RMB'million

For the six months ended 30 June 2013



For the six months ended 30 June 2012



Cost of Sales

During the Period, the Group's cost of sales amounted to approximately RMB1,687 million, representing an increase of approximately 37.3% or RMB458 million as compared to the same period last year, mainly due to an increase in sales revenue.

Management Discussion and Analysis

Gross Profit and Gross Margin

During the Period, the Group's gross profit amounted to approximately RMB800 million, representing an increase of RMB59 million or 7.9% as compared to the same period last year.

During the Period, the Group's overall gross margin was 32.2%, representing a decrease of 5.4 percentage points as compared to 37.6% in the same period last year. This was mainly attributable to the relative appreciation of the Renminbi against the US dollar and the decrease of high configuration rig's export sales in the Group.

Expenses in the Period

During the Period, the Group's selling expenses amounted to approximately RMB247 million, representing no big changes as compared to RMB244 million in the same period last year.

During the Period, the Group's general and administration expenses amounted to approximately RMB230 million, representing an increase of RMB21 million or 10.0% as compared to RMB209 million in the same period last year, which was mainly attributable to an increase in labor costs in order to adapt to span development and correspondingly active introduction of management talent.

During the Period, the Group's net financing expenses amounted to approximately RMB49 million as compared to net financing income of RMB10 million in the same period last year. The increase in net finance expense was mainly attributable to an increase of RMB50 million from net interest expenses and bank charges, which was caused by Group business rapid expansion and corresponding increase of bank loans.

Profit before Taxation

During the Period, profit before taxation of the Group amounted to approximately RMB306 million, representing an increase of RMB28 million compared to the same period last year. The increase was mainly attributable to the increase in revenue and the decrease in the proportion of selling and general and administrative expenses accounted for sales revenue.

Income Tax Expenses

During the Period, the Group's income tax expense amounted to approximately RMB50 million as compared to the income tax expense of approximately RMB62 million in the same period last year.

Profit for the Period

During the Period, the Group's profit amounted to approximately RMB256 million, as compared to a profit of approximately RMB216 million in the same period last year. Among which, profit attributable to equity shareholders of the Company was approximately RMB239 million, while earnings attributable to non-controlling interests was approximately RMB17 million. During the Period, net margin was 9.6%, as compared to a net margin of 10.6% in the same period last year, which was mainly attributable to a decrease of gross margin.

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

During the Period, EBITDA amounted to RMB458 million, as compared to approximately RMB329 million in the same period last year, which was mainly attributable to the marked increase in operating profit brought on by the increase in revenue. The EBITDA margin was 18.4%, as compared to 16.7% in the same period last year, which was mainly attributable to the decrease in the proportion of selling and general and administrative expenses accounted for sales revenue.

Dividends

For the period ended at 30 June 2013, the Board does not recommend the payment of interim dividend.

Source of capital and borrowings

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

As at 30 June 2013, the Group's bank borrowings amounted to approximately RMB4,132 million, representing an increase of approximately RMB2,149 million as compared to 31 December 2012. Among which, borrowings repayable within one year amounted to approximately RMB3,097 million, representing an increase of RMB1,851 million as compared to 31 December 2012. The increase of loan is mainly attributable to the rapid expansion of our Company's scale of production and operation and the increase of working capital and equity type investment.

Deposits and cash flow

As at 30 June 2013, the Group's cash and cash equivalents amounted approximately RMB1,239 million, representing an increase of approximately RMB255 million as compared to 31 December 2012.

During the Period, due to a large purchase of raw material for expansion in sales, net operating cash outflow from operations amounted to approximately RMB1,334 million; net cash outflow from investing assets, mainly in offshore construction projects, during the Period amounted to approximately RMB223 million; net cash inflow from financing activities amounted to approximately RMB1,816 million, mainly got loans to support business expansion, including a US$150 million syndicated loan.

Management Discussion and Analysis

Assets structure and changes thereof

As at 30 June 2013, the Group's total assets amounted to approximately RMB12,637 million, representing an increase of approximately RMB2,791 million or 28.3% as compared to 31 December 2012. Among which, current assets amounted to approximately RMB8,890 million, accounting for approximately 70.3% of total assets, representing an increase of RMB2,272 million as compared to 31 December 2012, which were mainly increase of pecuniary resources, inventories and trade and other receivables. Non-current assets amounted to approximately RMB3,747 million, accounting for approximately 29.7% of total assets, representing an increase of approximately RMB519 million as compared to 31 December 2012, and was mainly attributable to the increase in fixed assets.

Liabilities

As at 30 June 2013, the Group's total liabilities amounted to approximately RMB8,007 million, representing an increase of approximately RMB2,749 million as compared to 31 December 2012. Among which, current liabilities amounted to approximately RMB6,935 million, accounting for approximately 86.6% of total liabilities, representing an increase of approximately RMB2,417 million as compared to 31 December 2012. Non-current liabilities amounted to approximately RMB1,072 million, accounting for approximately 13.4% of total liabilities, presenting an increase of approximately RMB332 million as compared to 30 June 2013. As at 30 June 2013, the Group's total liabilities/ total assets ratio was approximately 63.4%, representing an increase of 10 percentage points as compared to 31 December 2012 and was mainly attributable to an increase in the loans.

Equity

As at 30 June 2013, total equity amounted to RMB4,630 million, representing an increase of RMB42 million as compared to 31 December 2012. Total equity attributable to equity shareholders of the Company amounted to approximately RMB4,449 million, representing a decrease of RMB7 million as compared to 31 December 2012. Non-controlling interests totalled to approximately RMB181 million, representing an increase of RMB48 million as compared to 31 December 2012. Net asset value reached approximately RMB1.37 per Share. During the Period, the Group's basic earnings per Share was RMB7.549 cents, and diluted earnings per Share was RMB7.439 cents.

Contingent liabilities

Several sales agencies filed lawsuits against the subsidiaries of the Company, alleged that they were owed commissions in excess of US$100,000,000 in relation to their services to the Group. The lawsuits are being processed. 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 unfavorable to the Group. No provision was made for the potential claims under these lawsuits.

Capital Expenditure, Major Investment and Capital Commitments

During the Period, capital expenditure of the Group on infrastructure and technical improvements amounted to approximately RMB462 million, representing an increase of approximately RMB35 million as compared to the same period last year. This was mainly due to the construction of offshore base.

As at 30 June 2013, the Group had capital commitments of approximately RMB1,940 million, which will be used for the construction of Jiangsu Qidong offshore manufacturing base and expansion of the Group's business as well as its production capacity.

Foreign Currency Risk

The Group has certain foreign currency deposits. As at 30 June 2013, the Group's foreign currency deposits were equivalent to approximately RMB830 million, trade receivables and other receivables denominated in foreign currency were equivalent to approximately RMB560 million and interest bearing borrowing denominated in foreign currency were equivalent to approximately RMB1,121 million. Exports and foreign currencies settled business exposed the Group to exchange risk.

Use of Proceeds from the Initial Public Offerings

As at 31 December 2012, proceeds from the initial public offerings of the Company have been used up.

Employee Remuneration and Benefits

During the Period, the average number of the Group's employees was 6,281. The total remuneration and benefits amounted to approximately RMB319 million, representing an increase of RMB118 million or approximately 58.7% as compared to the same period last year.

The strategy of the Group talent management is to keep the performance culture consistent with the corporate culture, with HR allocation and diversified remuneration system, managing to improve the Group's operation as well as the employees' development. During the Period, the Group reinforces the management on the organization performance and the employee performance, implementing the performance target according to the post and determining the bonus according to the performance of organizational target; besides, the employee remuneration is adjusted according to his performance, ability, working attitude and the market situation. Meanwhile, for the employees with low performance, improvement program and professional training are provided to enhance their knowledge, ability, skill and sense of belonging. There is also a stock incentive plan, which aims at the core talents, the outstanding employees and the senior management, to encourage the employees to grow with the Group. The Group will keep increasing the employees' working enthusiasm, as well as stimulating their potential, so as to improve the competitive advantage of the Group talents.

Corporate Governance Report

1. OVERVIEW OF CORPORATE GOVERNANCE AND COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

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

The Company has applied the principles and code provisions as set out in the Corporate Governance Code (the "CG Code") as contained in Appendix 14 to the Listing Rules.

The Company has complied with the code provisions of the CG Code throughout the six months period from 1 January 2013 to 30 June 2013, except for the deviations of the Code Provisions A.2.1 and A.6.7 of the CG Code as mentioned below.

2. CHAIRMAN AND PRESIDENT (CHIEF EXECUTIVE)

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

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

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

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

3. ATTENDANCE OF GENERAL MEETINGS

Code Provision A.6.7 of the CG Code stipulates that Independent Non-executive Directors and Non-executive Directors should attend general meetings. Four Independent Non-executive Directors and one Non-executive Director were absent from the last annual general meeting of the Company held in May 2013 due to their respective other important engagements at the relevant time.

4. MODEL CODE FOR SECURITIES TRANSACTIONS

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

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with both the Company's Code and the Model Code throughout the reporting period for the six months ended 30 June 2013.

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

5. INDEPENDENT NON-EXECUTIVE DIRECTORS

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

Corporate Governance Report

6. AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") with written terms of reference in compliance with Rules 3.21 and 3.22 of the Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Company and provide advices and comments to the Board. The Audit Committee has also taken over the duties of the Corporate Governance Committee which was dismissed with effect from 19 March 2013 as mentioned below.

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

The Audit Committee shall hold at least two meetings a year and review opinions of internal auditors, internal control, risk management and financial reporting. The Audit Committee has reviewed the unaudited financial reports for the six months ended 30 June 2013 of the Company and the Group.

7. DISMISSAL OF NOMINATION COMMITTEE AND CORPORATE GOVERNANCE COMMITTEE

For improving work efficiency, both Nomination Committee and Corporate Governance Committee were dismissed with effect from 19 March 2013.

The Board has taken over the duties of Nomination Committee and reviewed 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.

The Audit Committee has taken over the duties of the Corporate Governance Committee and would be responsible for reviewing the compliance of the corporate governance issues, the corporate governance report and the corporate governance policy.

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

At 30 June 2013, 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	1,546,912,971[(1)(5)]	47.76%
Mr. Ren Jie	Long	Personal interest, corporate interest and settlor of a discretionary trust	1,546,912,971[(2)(5)]	47.76%
Mr. Liu Zhi	Long	Personal interest, Corporate interest and settlor of a discretionary trust	1,546,912,971[(3)(5)]	47.76%
Mr. Guo Yanjun	Long	Corporate interest	2,100,000[(4)]	0.06%

(1) Zhang Mi individually owns 3,050,000 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 1,549,000 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, individually owns 1,250,000 Shares. The Trustee of The LZWM Family Trust owns 14,750,000 Shares. The Trustee of a discretionary trust, The FBX Family Trust, whose settlor is Fan Bing, another member of the Concert Group, individually owns 30,000 Shares. The Trustee of The FBX Family Trust 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, individually owns 210,000 Shares. The Trustee of The ZHH Family Trust 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, individually owns 22,118 Shares. The Trustee of The Hong Xu Family Trust owns 7,237,400 Shares. The Trustee of a discretionary trust, The LXYY Family Trust, whose settlor is Liu Xuetian (deceased), another member of the Concert Group, owns 452,400 Shares. The other members of the Concert Group totally own 28,705,616 Shares.

(2) Ren Jie individually owns 1,549,000 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 3,050,000 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, individually owns 1,250,000 Shares. The Trustee of The LZWM Family Trust owns 14,750,000 Shares. The Trustee of a discretionary trust, The FBX Family Trust, whose settlor is Fan Bing, another member of the Concert Group, individually owns 30,000 Shares. The Trustee of The FBX Family Trust 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, individually owns 210,000 Shares. The Trustee of The ZHH Family Trust 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, individually owns 22,118 Shares. The Trustee of The Hong Xu Family Trust owns 7,237,400 Shares. The Trustee of a discretionary trust, The LXYY Family Trust, whose settlor is Liu Xuetian (deceased), another member of the Concert Group, owns 452,400 Shares. The other members of the Concert Group totally own 28,705,616 Shares.

(3) Liu Zhi individually owns 1,250,000 Shares. He 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 14,750,000 Shares.

Zhang Mi and Ren Jie, the other two members of the Concert Group, collectively hold 4,599,000 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, individually owns 30,000 Shares. The Trustee of The FBX Family Trust 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, individually owns 210,000 Shares. The Trustee of The ZHH Family Trust 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, individually owns 22,118 Shares. The Trustee of The Hong Xu Family Trust owns 7,237,400 Shares. The Trustee of a discretionary trust, The LXYY Family Trust, whose settlor is Liu Xuetian (deceased), another member of the Concert Group, owns 452,400 Shares. The other members of the Concert Group totally own 28,705,616 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	26,046,000
Mr. Ren Jie	Long	5,687,000	34,196,000
Mr. Liu Zhi	Long	5,173,000	34,710,000
Mr. Qi Daqing	Long	2,000,000	–
Mr. Liu Xiaofeng	Long	2,000,000	–
Mr. Tai Kwok Leung, Alexander	Long	1,700,000	–
Mr. Chen Guoming	Long	1,500,000	–
Mr. Shi Xingquan	Long	1,500,000	–
Mr. Guo Yanjun	Long	850,000	–

Saved as disclosed above, at 30 June 2013, none of the Directors and Chief Executives (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for Shares or warrants or debentures, (if applicable) of the Company and its associated corporations required to be disclosed pursuant to the SFO.

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

The register of substantial shareholders required to be kept under section 336 of Part XV of the SFO shows that, at 30 June 2013, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors and Chief Executives of the Company.

		Number of Shares held						
		Personal interest						
Name	Long/ Short Position	Share option	Shares interest	Corporate interest	Corporate interest and settlor of a discretionary trust	Interest of the Concert Group	Total	% of the issued share capital of the Company
Ally Giant Limited	Long	–	1,337,727,837	–	–	249,068,134	1,586,795,971[1]	48.99%
Ample Chance International Limited	Long	–	–	1,337,727,837	–	249,068,134	1,586,795,971[2]	48.99%
Wealth Afflux Limited	Long	–	–	1,337,727,837	–	249,068,134	1,586,795,971[3]	48.99%
Ally Smooth Investments Limited	Long	–	–	1,337,727,837	–	249,068,134	1,586,795,971[3]	48.99%
Equity Trustee Limited	Long	–	–	–	1,539,706,237	–	1,539,706,237 [3][5][6][9][10][14][20][22]	47.54%
Charm Moral International Limited	Long	–	–	1,337,727,837	–	249,068,134	1,586,795,971[4]	48.99%
Mowbray Worldwide Limited	Long	–	–	1,337,727,837	–	249,068,134	1,586,795,971[5]	48.99%
Ecotech Enterprises Corporation	Long	–	–	1,337,727,837	–	249,068,134	1,586,795,971[6]	48.99%
Mr. Zheng Yong	Long	2,085,000	11,700,903	1,337,727,837	–	235,282,231	1,586,795,971[7]	48.99%
Beauty Clear Holdings Limited	Long	–	–	1,337,727,837	–	249,068,134	1,586,795,971[8]	48.99%
Mr. Zuo Huixian	Long	1,734,000	210,000	–	1,349,972,237	234,879,734	1,586,795,971[9]	48.99%
Vast & Fast Corporation	Long	–	–	1,337,727,837	–	249,068,134	1,586,795,971[9]	48.99%
Mr. Zhang Xu	Long	1,833,000	22,118	–	1,344,965,237	239,975,616	1,586,795,971[10]	48.99%
Cavendish Global Corporation	Long	–	–	1,337,727,837	–	249,068,134	1,586,795,971[10]	48.99%
Elegant Scene International Limited	Long	–	–	1,337,727,837	–	249,068,134	1,586,795,971[11]	48.99%
Mr. Wang Jiangyang	Long	1,191,000	5,152,600	1,337,727,837	–	242,724,534	1,586,795,971[11]	48.99%
Mr. Chen Jun	Long	872,000	2,677,277	1,337,727,837	–	245,518,857	1,586,795,971[12]	48.99%
Believe Power International Limited	Long	–	–	1,337,727,837	–	249,068,134	1,586,795,971[13]	48.99%
Mr. Fan Bing	Long	1,744,000	30,000	–	1,350,068,837	234,953,134	1,586,795,971[14]	48.99%
Brondesbury Enterprises Limited	Long	–	–	1,337,727,837	–	249,068,134	1,586,795,971[14]	48.99%
Mr. Zhang Yanyong	Long	1,480,000	600	1,337,727,837	–	247,587,534	1,586,795,971[15]	48.99%
Mr. Ao Pei	Long	440,000	101,730	1,337,727,837	–	248,526,404	1,586,795,971[16]	48.99%
Mr. Tian Diyong	Long	550,000	506,400	1,337,727,837	–	248,011,734	1,586,795,971[17]	48.99%
Mr. Shen Dingjian	Long	262,000	858,000	1,337,727,837	–	247,948,134	1,586,795,971[18]	48.99%
Benefit Way International Limited	Long	–	–	1,337,727,837	–	249,068,134	1,586,795,971[19]	48.99%
Mr. Liu Xuetian (deceased)	Long	–	–	–	1,338,180,237	248,615,734	1,586,795,971[20]	48.99%
Dobson Global Inc.	Long	–	–	1,337,727,837	–	249,068,134	1,586,795,971[20]	48.99%
Ms. Qu Yihong	Long	–	–	1,338,180,237	–	248,615,734	1,586,795,971[21]	48.99%
Ms. Liu Ying	Long	–	–	1,338,180,237	–	248,615,734	1,586,795,971[21]	48.99%
Mr. Zhou Bing	Long	1,445,000	5,990,974	–	1,337,727,837	241,632,160	1,586,795,971[22]	48.99%
Darius Enterprises Limited	Long	–	–	1,337,727,837	–	249,068,134	1,586,795,971[22]	48.99%
Ms. Lv Lan	Long	520,000	374,332	1,337,727,837	–	248,173,802	1,586,795,971[23]	48.99%
Mr. Tian Yu	Long	330,000	1,007,800	1,337,727,837	–	247,730,334	1,586,795,971[24]	48.99%
Mr. Li Hanqiang	Long	215,000	60,600	1,337,727,837	–	248,792,534	1,586,795,971[25]	48.99%
Mr. Liu Yingguo	Long	242,000	–	1,337,727,837	–	248,826,134	1,586,795,971[26]	48.99%
Mrs. Liu Lulu	Long	243,000	274,400	1,337,727,837	–	248,550,734	1,586,795,971[27]	48.99%
The Capital Group Companies, Inc.	Long	–	–	230,071,000	–	–	230,071,000[28]	7.10%
Yi Langlin	Long	–	2,156,000 1,584,639,971 (family interest)	–	–	–	1,586,795,971[29]	48.99%

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

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

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

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

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

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

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

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

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

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

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

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

(13) Believe Power International Limited is owned approximately 32.72% by Brondesbury Enterprises Limited, approximately 29.16% by Zhang Yanyong, approximately 7.30% by Ao Pei, approximately 2.85% by Tian Diyong, approximately 2.24% by Shen Dingjian, and a total of approximately 25.73% by 4 other shareholders.

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

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

(16) Ao Pei is the beneficial owner of approximately 7.30% of the issued share capital of Believe Power International Limited, which in turn is the beneficial owner of approximately 12.71% of the issued share capital of Ample Chance International Limited. Ao Pei is a member of the Concert Group.

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

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

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

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

(21) Qu Yihong and Liu Ying, family members of Liu Xuetian (deceased), are deemed to be interested in 1,338,180,237 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 Yingguo is the beneficial owner of approximately 1.52% of the issued share capital of Benefit Way International Limited, which in turn is the beneficial owner of approximately 10.50% of 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) The Capital Group Companies, Inc. is the holding company of Capital Group International, Inc., which is the holding company of various subsidiaries collectively holding 230,071,000 Shares.

(29) Yi Langlin, spouse of Zhang Mi, is deemed to be interested in 1,586,795,971 Shares.

Save as disclosed above, to the best of the Directors and the Chief Executives of the Company's knowledge, as at 30 June 2013, none of the persons, other than the Directors or the Chief Executives of the Company, had interests or short positions in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or recorded in the register as required under Section 336 of the SFO.

SHARE OPTION SCHEME

(A) PRE-IPO SHARE OPTION SCHEME

The principal terms of Pre-IPO share option scheme have been approved by resolutions in writing by all the Shareholders on 21 January 2008. As at the date of this report, a total of 270 eligible participants have been conditionally granted share options to subscribe for an aggregate of 60,000,000 Shares at an exercise price of offer price of HK$3.83 per Share. As at 30 June 2013, none of the grantees has exercised the share options granted to him under the Pre-IPO share option scheme and 2,946,000 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 30 June 2013, 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").

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. The Share Options are exercisable on or after 5 April 2013 by the grantees with details as follows: (1) up to 30% of the Share Options granted to each grantee from 5 April 2013 to 4 April 2014; (2) up to 60% of the Share Options granted to each grantee on or before 4 April 2015; (3) all the remaining Share Options granted to each grantee on or after 5 April 2015; and in each case, not later than 4 April 2022. The valid period of the share options is up to 4 April 2022.

Particulars and movements of share options under the Share Option Scheme during the six months ended 30 June 2013 were as follows:

	Number of Share Options									
Name or category of participant	Outstanding as at 01/01/2013	Granted during the six months ended 30 June 2013	Exercised during the six months ended 30 June 2013	Lapsed during the six months ended 30 June 2013	Cancelled during the six months ended 30 June 2013	Outstanding as at 30/06/2013	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	01/12/2009-14/04/2019	1.27	1.29
Mr. Liu Zhi	2,373,000	–	–	–	–	2,373,000	15/04/2009	01/12/2009-14/04/2019	1.27	1.29
Mr. Ren Jie	2,587,000	–	–	–	–	2,587,000	15/04/2009	01/12/2009-14/04/2019	1.27	1.29
Mr. Chen Guoming	750,000	–	–	–	–	750,000	15/04/2009	01/12/2009-14/04/2019	1.27	1.29
	750,000	–	–	–	–	750,000	20/06/2011	19/07/2011-19/06/2021	0.83	0.79
Mr. Liu Xiaofeng	1,000,000	–	–	–	–	1,000,000	15/04/2009	01/12/2009-14/04/2019	1.27	1.29
	1,000,000	–	–	–	–	1,000,000	20/06/2011	19/07/2011-19/06/2021	0.83	0.79
Mr. Qi Daqing	1,000,000	–	–	–	–	1,000,000	15/04/2009	01/12/2009-14/04/2019	1.27	1.29
	1,000,000	–	–	–	–	1,000,000	20/06/2011	19/07/2011-19/06/2021	0.83	0.79
Mr. Tai Kwok Leung, Alexander	850,000	–	–	–	–	850,000	15/04/2009	01/12/2009-14/04/2019	1.27	1.29
	850,000	–	–	–	–	850,000	20/06/2011	19/07/2011-19/06/2021	0.83	0.79
Mr. Shi Xingquan	750,000	–	–	–	–	750,000	15/04/2009	01/12/2009-14/04/2019	1.27	1.29
	750,000	–	–	–	–	750,000	20/06/2011	19/07/2011-19/06/2021	0.83	0.79
Mr. Guo Yanjun	850,000	–	–	–	–	850,000	20/06/2011	19/07/2011-19/06/2021	0.83	0.79
Sub-total	18,447,000	–	–	–	–	18,447,000				

	Number of Share Options									
Name or category of participant	Outstanding as at 01/01/2013	Granted during the six months ended 30 June 2013	Exercised during the six months ended 30 June 2013	Lapsed during the six months ended 30 June 2013	Cancelled during the six months ended 30 June 2013	Outstanding as at 30/06/2013	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$
Substantial Shareholders										
Mr. Zheng Yong	695,000	–	–	–	–	695,000	15/04/2009	01/12/2009-14/04/2019	1.27	1.29
Mr. Zuo Huixian	674,000	–	–	–	–	674,000	15/04/2009	01/12/2009-14/04/2019	1.27	1.29
Mr. Zhang Xu	642,000	–	–	–	–	642,000	15/04/2009	01/12/2009-14/04/2019	1.27	1.29
Mr. Wang Jiangyang	301,000	–	–	–	–	301,000	15/04/2009	01/12/2009-14/04/2019	1.27	1.29
	250,000	–	–	–	–	250,000	05/04/2012	05/04/2013-04/04/2022	1.19	1.20
Mr. Chen Jun	332,000	–	–	–	–	332,000	15/04/2009	01/12/2009-14/04/2019	1.27	1.29
Mr. Fan Bing	569,000	–	–	–	–	569,000	15/04/2009	01/12/2009-14/04/2019	1.27	1.29
Mr. Zhang Yanyong	480,000	–	–	–	–	480,000	15/04/2009	01/12/2009-14/04/2019	1.27	1.29
Mr. Tian Diyong	195,000	–	–	–	–	195,000	15/04/2009	01/12/2009-14/04/2019	1.27	1.29
Mr. Shen Dingjian	87,000	–	–	–	–	87,000	15/04/2009	01/12/2009-14/04/2019	1.27	1.29
Mr. Zhou Bing	695,000	–	–	–	–	695,000	15/04/2009	01/12/2009-14/04/2019	1.27	1.29
Ms. Lv Lan	174,000	–	174,000	–	–	0	15/04/2009	01/12/2009-14/04/2019	1.27	1.29
	250,000	–	75,000	–	–	175,000	05/04/2012	05/04/2013-04/04/2022	1.19	1.20
Mr. Tian Yu	275,000	–	275,000	–	–	0	15/04/2009	01/12/2009-14/04/2019	1.27	1.29
	90,000	–	–	–	–	90,000	05/04/2012	05/04/2013-04/04/2022	1.19	1.20
Mr. Li Hanqiang	130,000	–	130,000	–	–	0	15/04/2009	01/12/2009-14/04/2019	1.27	1.29
Mr. Liu Yingguo	117,000	–	–	–	–	117,000	15/04/2009	01/12/2009-14/04/2019	1.27	1.29
Ms. Liu Lulu	108,000	–	–	–	–	108,000	15/04/2009	01/12/2009-14/04/2019	1.27	1.29
Sub-total	6,064,000	–	654,000	–	–	5,410,000				
Other										
Employee	31,854,500	–	6,181,300	48,000	–	25,625,200	15/04/2009	01/12/2009-14/04/2019	1.27	1.29
Employee	400,000	–	149,000	–	–	251,000	11/10/2010	25/10/2010-10/10/2020	1.05	1.01
Employee	2,300,000	–	–	–	–	2,300,000	20/06/2011	19/07/2011-19/06/2021	0.83	0.79
Employee	14,810,000	–	289,000	63,000	–	14,458,000	05/04/2012	05/04/2013-04/04/2022	1.19	1.20
Sub-total	49,364,500		6,619,300	111,000	–	42,634,200				
Total	73,875,500		7,273,300	111,000	–	66,491,200				

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 30 June 2013, the Trustee has purchased 97,817,000 of the Company's Shares, accounting for 3.02% of the issued share capital of the Company and total of 34,917,700 Shares were granted to the Selected Participants.

Particulars and movements of the Restricted Share Award Scheme during the six months ended 30 June 2013 were as follows:

		Number of Shares						
Date of grant	**Grant price Per Share HK$**	**Outstanding as at 01/01/2013**	**Purchased during the six months ended 30 June 2013**	**Granted during the six months ended 30 June 2013**	**Vested during the six months ended 30 June 2013**	**Cancelled during the six months ended 30 June 2013**	**Outstanding as at 30/06/2013**	**Vesting period**
20/03/2013	1.27	47,817,000	50,000,000	34,917,700	17,428,850	60,000	80,388,150	50% of the Restricted Shares granted were vested on 20 May 2013; the remaining 50% shall be vested on 20 December 2013
Total		47,817,000	50,000,000	34,917,700	17,428,850	60,000	80,388,150	

Report of the Board

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

Save for the Trustee of the Restricted Share Award Scheme, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's Shares during the six months ended 30 June 2013.

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

Hong Kong, 28 August 2013

Independent Review Report

Independent review report to the board of directors of Honghua Group Limited
(Incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial report set out on pages 36 to 66 which comprises the consolidated statement of financial position of Honghua Group Limited as at 30 June 2013 and the related consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the condensed consolidated cash flow statement for the six months then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim financial reporting*, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2013 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim financial reporting*.

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

28 August 2013

Consolidated Statement of Profit or Loss

for the six months ended 30 June 2013 – unaudited
(Expressed in Renminbi)

	Note	Six months ended 30 June 2013 RMB'000	Six months ended 30 June 2012 RMB'000
Turnover	3	**2,486,357**	1,969,330
Cost of sales		**(1,686,534)**	(1,228,300)
Gross profit		**799,823**	741,030
Other revenue	5	**38,764**	15,945
Other net income		**2,482**	2,098
Selling expenses		**(246,911)**	(243,608)
General and administrative expenses		**(229,717)**	(208,783)
Other operating expenses		**(4,663)**	(37,347)
Profit from operations		**359,778**	269,335
Finance income		**23,397**	33,481
Finance expenses		**(72,539)**	(22,995)
Net finance (expenses)/income	6(a)	**(49,142)**	10,486
Share of profit from an associate		**—**	4,484
Share of loss from joint ventures		**(4,537)**	(6,146)
Profit before taxation	6	**306,099**	278,159
Income tax expenses	7	**(49,753)**	(62,149)
Profit for the period		**256,346**	216,010
Attributable to:			
Equity shareholders of the company		**239,346**	209,660
Non-controlling interests		**17,000**	6,350
Profit for the period		**256,346**	216,010
Earnings per share (RMB cents)			
– Basic	8(a)	**7.549**	6.530
– Diluted	8(b)	**7.439**	6.527

The notes on pages 43 to 66 form part of this interim financial report. Details of dividends payable to equity shareholders of the company are set out in note 17(c).

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the six months ended 30 June 2013 – unaudited
(Expressed in Renminbi)

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Profit for the period	**256,346**	216,010
Other comprehensive income for the period:		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of operations outside PRC, net of tax	**(26,637)**	(4,307)
Total comprehensive income for the period	**229,709**	211,703
Attributable to:		
Equity shareholders of the company	**212,580**	205,358
Non-controlling interests	**17,129**	6,345
Total comprehensive income for the period	**229,709**	211,703

The notes on pages 43 to 66 form part of this interim financial report.

Consolidated Statement of Financial Position

at 30 June 2013 – unaudited
(Expressed in Renminbi)

	Note	30 June 2013 RMB'000	31 December 2012 RMB'000
Non-current assets			
Fixed assets	9		
— Property, plant and equipment		**1,798,919**	1,142,122
— Interests in leasehold land held for own use under operating leases		**319,089**	303,410
— Freehold land		**4,982**	5,068
		2,122,990	1,450,600
Deposits paid for acquisition of leasehold land		**179,784**	152,006
Construction in progress		**597,191**	827,290
Intangible assets	10	**218,811**	201,806
Goodwill	4	**13,484**	—
Interests in joint ventures		**51,414**	57,181
Other investment		**72,609**	72,609
Trade and other receivables	12	**374,384**	370,002
Deferred tax assets		**116,182**	96,407
Total non-current assets		**3,746,849**	3,227,901
Current assets			
Inventories	11	**4,033,676**	2,730,940
Trade and other receivables	12	**2,877,954**	2,105,804
Amounts due from related companies		**54,255**	55,970
Current tax recoverable		**5,846**	1,502
Other financial assets		**207,900**	315,036
Pledged bank deposits	13	**471,718**	424,592
Cash and cash equivalents		**1,238,684**	984,131
Total current assets		**8,890,033**	6,617,975
Current liabilities			
Interest-bearing borrowings	14	**3,096,629**	1,245,505
Trade and other payables	15	**3,738,972**	3,112,337
Amounts due to related companies		**17,008**	5,593
Current tax payable		**29,804**	96,311
Provisions	16	**52,224**	57,732
Total current liabilities		**6,934,637**	4,517,478

Consolidated Statement of Financial Position

at 30 June 2013 – unaudited
(Expressed in Renminbi)

	Note	30 June 2013 RMB'000	31 December 2012 RMB'000
Net current assets		**1,955,396**	2,100,497
Total assets less current liabilities		**5,702,245**	5,328,398
Non-current liabilities			
Interest-bearing borrowings	14	**1,035,744**	737,514
Deferred tax liabilities		**36,241**	2,157
Total non-current liabilities		**1,071,985**	739,671
NET ASSETS		**4,630,260**	4,588,727
EQUITY	17		
Share capital		**300,777**	300,192
Reserves		**4,148,710**	4,155,819
Total equity attributable to equity shareholders of the company		**4,449,487**	4,456,011
Non-controlling interests		**180,773**	132,716
TOTAL EQUITY		**4,630,260**	4,588,727

Approved and authorised for issue by the board of directors on 28 August 2013.

Zhang Mi
Director

Ren Jie
Director

The notes on pages 43 to 66 form part of this interim financial report.

Consolidated Statement of Changes in Equity

for the six months ended 30 June 2013 – unaudited
(Expressed in Renminbi)

		Attributable to equity shareholders of the company										
	Note	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000	Capital reserve RMB'000	Surplus reserve RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Shares held for share award scheme RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2013		300,192	2,486,988	51,592	522,535	311,481	(204,141)	1,037,337	(49,973)	4,456,011	132,716	4,588,727
Changes in equity for the six months ended 30 June 2013												
Profit for the period		–	–	–	–	–	–	239,346	–	239,346	17,000	256,346
Other comprehensive income		–	–	–	–	–	(26,766)	–	–	(26,766)	129	(26,637)
Total comprehensive income		–	–	–	–	–	(26,766)	239,346	–	212,580	17,129	229,709
Acquisition of subsidiaries	4	–	–	–	–	–	–	–	–	–	31,432	31,432
Disposal of a subsidiary		–	–	(382)	–	–	–	–	–	(382)	1,399	1,017
Liquidation of a subsidiary		–	–	–	–	–	–	–	–	–	(1,903)	(1,903)
Shares purchased under share award scheme	17(b)	–	–	–	–	–	–	–	(146,233)	(146,233)	–	(146,233)
Amortisation arising from share award scheme	17(b)	–	–	–	50,734	–	–	–	–	50,734	–	50,734
Vested shares transferred under the share award scheme	17(b)	–	–	–	(36,359)	–	–	19,470	34,379	17,490	–	17,490
Equity-settled share-based transactions arising from the share option scheme	17(a)	–	–	–	2,009	–	–	–	–	2,009	–	2,009
Shares issued under share option scheme	17(a)	585	10,027	–	(3,232)	–	–	–	–	7,380	–	7,380
Options lapsed under share option schemes		–	–	–	(83)	–	–	83	–	–	–	–
Dividends approved in respect of the previous financial year	17(c)	–	–	–	–	–	–	(150,102)	–	(150,102)	–	(150,102)
At 30 June 2013		300,777	2,497,015	51,210	535,604	311,481	(230,907)	1,146,134	(161,827)	4,449,487	180,773	4,630,260

Consolidated Statement of Changes in Equity

for the six months ended 30 June 2013 – unaudited
(Expressed in Renminbi)

		Attributable to equity shareholders of the company										
	Note	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000	Capital reserve RMB'000	Surplus reserve RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Shares held for share award scheme RMB'000	Subtotal RMB'000	Non–controlling interests RMB'000	Total equity RMB'000
At 1 January 2012		299,593	2,477,519	57,472	493,810	220,033	(193,135)	703,291	—	4,058,583	116,275	4,174,858
Changes in equity for the six months ended 30 June 2012												
Profit for the period		—	—	—	—	—	—	209,660	—	209,660	6,350	216,010
Other comprehensive income		—	—	—	—	—	(4,302)	—	—	(4,302)	(5)	(4,307)
Total comprehensive income		—	—	—	—	—	(4,302)	209,660	—	205,358	6,345	211,703
Acquisition of a business		—	—	—	—	—	—	—	—	—	36,000	36,000
Capital contribution arising on shareholders' indemnity	16(a)	—	—	—	26,933	—	—	—	—	26,933	—	26,933
Acquisition of non-controlling interests		—	—	(5,880)	—	—	—	—	—	(5,880)	(23,081)	(28,961)
Liquidation of a subsidiary		—	—	—	—	—	—	—	—	—	981	981
Shares purchased under share award scheme	17(b)	—	—	—	—	—	—	—	(49,973)	(49,973)	—	(49,973)
Equity-settled share-based transactions arising from the share option scheme	17(a)	—	—	—	2,773	—	—	—	—	2,773	—	2,773
Shares issued under share option scheme	17(a)	9	98	—	—	—	—	—	—	107	—	107
Options lapsed under share option schemes		—	—	—	(148)	—	—	148	—	—	—	—
Dividends approved in respect of the previous financial year	17(c)	—	—	—	—	—	—	(104,700)	—	(104,700)	—	(104,700)
At 30 June 2012		299,602	2,477,617	51,592	523,368	220,033	(197,437)	808,399	(49,973)	4,133,201	136,520	4,269,721

The notes on pages 43 to 66 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

for the six months ended 30 June 2013 – unaudited
(Expressed in Renminbi)

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Cash (used in)/generated from operations	**(1,213,906)**	1,378,105
Income tax paid	**(120,388)**	(79,246)
Net cash (used in)/generated from operating activities	**(1,334,294)**	1,298,859
Net cash (used in)/generated from investing activities	**(222,894)**	20,815
Net cash generated from/(used in) financing activities	**1,815,899**	(193,005)
Net increase in cash and cash equivalents	**258,711**	1,126,669
Cash and cash equivalents at 1 January	**984,131**	851,847
Effect of foreign exchange rates changes	**(4,158)**	3,277
Cash and cash equivalents at 30 June	**1,238,684**	1,981,793

The notes on pages 43 to 66 form part of this interim financial report.

1 Basis of presentation and preparation

(a) General information

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

The interim financial report for the six months ended 30 June 2013 comprises the company and its subsidiaries (collectively referred to as the "group") and the group's interests in joint ventures.

On 25 March 2013, Honghua Oil & Gas Engineering and Technology Services (Sichuan) Co., Ltd. ("Honghua Oil and Gas"), a subsidiary of the group, entered into an acquisition agreement, pursuant to which Honghua Oil and Gas obtained control over Bazhou Honghua Petroleum Applied Chemistry Co., Ltd ("Bazhou Company") (formerly known as "Bazhou Anton Chang Xiang Applied Chemical Technology Co., Ltd.") and its subsidiaries. Details of the acquisition of subsidiaries are set out in note 4.

On 8 January 2013, the group completed the de-registration of HS Offshore Pte Ltd., a previously 70% owned subsidiary of the group. On 3 April 2013, the group disposed of its equity interests in Alpha Advance Limited, a previously 90% owned subsidiary of the group. These subsidiaries were dormant before the de-registration or disposal.

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

(b) Basis of preparation

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard 34, *Interim financial reporting*, adopted by the International Accounting Standards Board. It was authorised for issuance on 28 August 2013.

The interim financial report has been prepared in accordance with the same accounting policies adopted by the group in the 2012 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2013 annual financial statements. Details of these changes in accounting policies are set out in note 2.

1 Basis of presentation and preparation (continued)

(b) Basis of preparation (continued)

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the group since the 2012 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs").

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). KPMG's independent review report to the board of directors is included on page 35.

The financial information relating to the financial year ended 31 December 2012 that is included in the interim financial report as being previously reported information does not constitute the company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2012 are available from the company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 19 March 2013.

2 Changes in accounting policies

The IASB has issued a number of new IFRSs and 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 IAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*

— IFRS 10, *Consolidated financial statements*

— IFRS 11, *Joint arrangements*

— IFRS 12, *Disclosure of interests in other entities*

— IFRS 13, *Fair value measurement*

— Amendments to IFRS 7 – *Disclosures – Offsetting financial assets and financial liabilities*

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

Amendments to IAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*

The amendments to IAS 1 require entities to present the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met separately from those that would never be reclassified to profit or loss. The group's presentation of other comprehensive income in these financial statements has been modified accordingly.

IFRS 10, *Consolidated financial statements*

IFRS 10 replaces the requirements in IAS 27, *Consolidated and separate financial statements* relating to the preparation of consolidated financial statements and SIC 12 *Consolidation – Special purpose entities*. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

As a result of the adoption of IFRS 10, the group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the group in respect of its involvement with other entities as at 1 January 2013.

2 Changes in accounting policies (continued)

IFRS 11, *Joint arrangements*

IFRS 11, which replaces IAS 31, *Interests in joint ventures*, divides joint arrangements into joint operations and joint ventures. Entities are required to determine the type of an arrangement by considering the structure, legal form, contractual terms and other facts and circumstances relevant to their rights and obligations under the arrangement. Joint arrangements which are classified as joint operations under IFRS 11 are recognised on a line-by-line basis to the extent of the joint operator's interest in the joint operation. All other joint arrangements are classified as joint ventures under IFRS 11 and are required to be accounted for using the equity method in the group's consolidated financial statements. Proportionate consolidation is no longer allowed as an accounting policy choice.

As a result of the adoption of IFRS 11, the group has reclassified the investment from jointly controlled entity to joint venture. The investment continues to be accounted for using the equity method and therefore this reclassification does not have any material impact on the financial position and the financial result of the group.

IFRS 12, *Disclosure of interests in other entities*

IFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by IFRS 12 are generally more extensive than those previously required by the respective standards. Since those disclosure requirements only apply to a full set of financial statements, the group has not made additional disclosures in this interim financial report as a result of adopting IFRS 12.

IFRS 13, *Fair value measurement*

IFRS 13 replaces existing guidance in individual IFRSs with a single source of fair value measurement guidance. IFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. The adoption of IFRS 13 does not have any material impact on the fair value measurements of the group's assets and liabilities.

2 Changes in accounting policies (continued)

Amendments to IFRS 7 – *Disclosures – Offsetting financial assets and financial liabilities*

The amendments introduce new disclosures in respect of offsetting financial assets and financial liabilities. Those new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32, *Financial instruments: Presentation* and those that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether the financial instruments are set off in accordance with IAS 32.

The adoption of the amendments does not have an impact on the group's interim financial report because the group has not offset financial instruments, nor has it entered into master netting arrangement or similar agreement which is subject to the disclosures of IFRS 7.

3 Turnover and segment reporting

(a) Turnover

The principal activities of the group are manufacturing, sale and trading of land drilling rigs, offshore drilling rigs, 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 six months ended 30 June 2013, the group's customer base includes three customers (six months ended 30 June 2012: one customer) with whom transactions have exceeded 10% of the group's revenue and representing a total of 52% (six months ended 30 June 2012: 64%) of the group's revenue. For the six months ended 30 June 2013, revenues from sales of land drilling rigs and related parts and components to these customers arose in the PRC, Americas, and Europe and Central Asia regions (six months ended 30 June 2012: Americas region).

(b) Segment reporting

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

3 Turnover and segment reporting (continued)

(b) Segment reporting (continued)

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

	Land drilling rigs Six months ended 30 June		Offshore drilling rigs Six months ended 30 June		Parts and components Six months ended 30 June		Oil and gas engineering services Six months ended 30 June		Total Six months ended 30 June	
	2013 RMB'000	2012 RMB'000	**2013 RMB'000**	2012 RMB'000	**2013 RMB'000**	2012 RMB'000	**2013 RMB'000**	2012 RMB'000	**2013 RMB'000**	2012 RMB'000
Revenue from external customers	**1,750,438**	1,610,219	**—**	13,323	**614,002**	315,938	**121,917**	29,850	**2,486,357**	1,969,330
Inter-segment revenue	**—**	—	**10,008**	—	**551,660**	517,128	**—**	—	**561,668**	517,128
Reportable segment revenue	**1,750,438**	1,610,219	**10,008**	13,323	**1,165,662**	833,066	**121,917**	29,850	**3,048,025**	2,486,458
Reportable segment profit/(loss)	**310,391**	387,503	**(28,596)**	(26,312)	**76,311**	27,680	**(2,980)**	(8,521)	**355,126**	380,350

	30 June 2013 RMB'000	31 December 2012 RMB'000	**30 June 2013 RMB'000**	31 December 2012 RMB'000	**30 June 2013 RMB'000**	31 December 2012 RMB'000	**30 June 2013 RMB'000**	31 December 2012 RMB'000	**30 June 2013 RMB'000**	31 December 2012 RMB'000
Reportable segment assets	**4,639,692**	3,288,992	**1,807,851**	1,605,724	**2,824,040**	2,263,578	**1,016,824**	628,033	**10,288,407**	7,786,327
Reportable segment liabilities	**2,271,144**	1,988,432	**783,321**	520,246	**1,073,048**	650,598	**418,766**	91,564	**4,546,279**	3,250,840

3 Turnover and segment reporting (continued)

(b) Segment reporting (continued)

(i) Reconciliation of reportable segment profit

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Profit		
Reportable segment profit	**355,126**	380,350
Elimination of inter-segment profits	**(13,597)**	(89,803)
Reportable segment profit derived from group's external customers	**341,529**	290,547
Share of profit from an associate	**—**	4,484
Share of loss from joint ventures	**(4,537)**	(6,146)
Other revenue, other operating expenses and other net income	**36,583**	(19,304)
Net finance (expenses)/income	**(49,142)**	10,486
Unallocated head office and corporate expenses	**(18,334)**	(1,908)
Consolidated profit before taxation	**306,099**	278,159

(ii) Seasonality of operations

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

4 Acquisition of subsidiaries

On 25 March 2013, the group completed the acquisition of 55% equity interests in Bazhou Company and its subsidiaries at a cash consideration of RMB51,900,000. Bazhou Company is principally engaged in manufacturing drilling fluid material and related drilling services. The group expects that the acquisition will enhance the group's technology level in oil-based drilling and enable the group to access to the acquiree's technical talent, so as to raise the profitability in oil and gas engineering services segment.

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

	Provisional fair value of net identifiable assets acquired as at the acquisition date RMB'000
Fixed assets — property, plant and equipment	48,353
Construction in progress	41,911
Intangible assets	21,200
Trade and other receivables	37,886
Inventories	65,605
Cash and cash equivalents	3,801
Trade and other payables	(134,747)
Current tax payable	(10,981)
Deferred tax liabilities	(3,180)
Total net identifiable assets at provisional fair value	69,848
Goodwill arising from the acquisition	
Total consideration transferred	51,900
Non-controlling interests, based on their proportionate interest in the net identifiable assets of Bazhou Company	31,432
Fair value of net identifiable assets	(69,848)
Goodwill	13,484

4 Acquisition of subsidiaries (continued)

	RMB'000
Cash consideration	51,900
Cash and cash equivalent balances acquired	3,801
Net cash outflow arising from acquisition	48,099

Notes:

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

2 The goodwill is attributable mainly to the skills and technical talent of Bazhou Company's work force, and the synergies expected to be achieved from integrating the company into the group's existing oil and gas engineering services.

3 For the period from date of acquisition to 30 June 2013, Bazhou Company contributed a revenue of RMB24,286,000 and loss of RMB4,323,000 to the group's results. If the acquisition had occurred on 1 January 2013, management estimates that consolidated revenue would have been RMB2,493,922,000 and consolidated profit for the period would have been RMB252,415,000. 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 2013.

5 Other revenue

	Six months ended 30 June	
	2013 **RMB'000**	2012 RMB'000
Sales of scrap materials	**15,475**	289
Government grants (note)	**8,863**	11,936
Rental income	**5,939**	26
Repair services income	**3,158**	3,312
Others	**5,329**	382
	38,764	15,945

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

6 Profit before taxation

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

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
(a) Net finance expenses/(income)		
Interest income on bank deposits	**(12,438)**	(14,390)
Interest income from long-term receivables	**(8,896)**	—
Gain on disposal of other financial assets	**(1,356)**	(16,320)
Net foreign exchange gain	**(707)**	(2,771)
Finance income	**(23,397)**	(33,481)
Bank charges	**18,094**	6,199
Interest on interest-bearing borrowings wholly repayable within five years	**72,953**	32,760
Less: interest expense capitalised into assets under construction *	**(18,508)**	(15,964)
Finance expenses	**72,539**	22,995
Net finance expenses/(income)	**49,142**	(10,486)

* The borrowing costs have been capitalised at a rate of 1.17% – 7.78% per annum (six months ended 30 June 2012: 1.97% – 7.70%).

6 Profit before taxation (continued)

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

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
(b) Staff costs		
Contributions to defined contribution retirement schemes	**42,691**	26,137
Equity-settled share-based payment expenses	**52,743**	2,773
Salaries, wages and other benefits	**223,117**	172,124
	318,551	201,034
(c) Other items		
Amortisation and depreciation		
— leasehold land held for own use under operating leases	**3,191**	1,345
— other fixed assets	**82,773**	42,824
— intangible assets	**17,191**	17,608
Impairment losses on trade and other receivables	**15,937**	28,811
Provision for a legal claim (note 16)	**—**	31,686
Research and development costs other than amortisation costs	**18,478**	18,546

7 Income tax expenses

(a) Taxation in the consolidated statement of profit or loss represents:

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Current tax — Hong Kong Profits Tax		
Provision for the period	**2,229**	—
Current tax — PRC		
Provision for the period	**29,655**	79,214
Under-provision in respect of prior years	**97**	1,660
	29,752	80,874
Current tax — Other jurisdictions		
Provision for the period	**3,070**	817
Under-provision in respect of prior years	**3,573**	—
	6,643	817
Current tax — total	**38,624**	81,691
Deferred tax		
Origination and reversal of temporary differences, net	**11,129**	(19,542)
Income tax expenses	**49,753**	62,149

7 Income tax expenses (continued)

(a) Taxation in the consolidated statement of profit or loss represents: (continued)

(i) Hong Kong

The provision for Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits of the subsidiaries of the group incorporated in Hong Kong during the six months ended 30 June 2013.

(ii) PRC

Pursuant to the income tax rules and regulations of the PRC, the subsidiaries of the group in the PRC are liable to PRC enterprise income tax at a rate of 25% during the six months ended 30 June 2012 and 2013, except for the following companies:

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

Income tax is accrued at a tax rate of 15% applicable for Hi-Tech Enterprises pursuant to the relevant PRC tax rules and regulations during the six months ended 30 June 2012 and 2013.

(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 year ended 31 December 2012. The directors of the company assess that it is highly probable that the subsidiary will continue to be granted with the Tax Concession upon their application for renewal, and accordingly provision for PRC enterprise income tax for the subsidiary were made at the preferential rate of 15% in this interim financial report.

(Expressed in Renminbi)

7 Income tax expenses (continued)

(a) Taxation in the consolidated statement of profit or loss represents: (continued)

(iii) Others

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

(b) Withholding tax

Under the PRC tax law and its implementation rules, dividends receivable by non-PRC resident enterprises from PRC enterprises are subject to withholding tax at a rate of 10%, unless reduced by tax treaties or arrangements, for profits earned since 1 January 2008. Pursuant to a tax arrangement between the PRC and Hong Kong, a qualified Hong Kong tax resident will be liable for withholding tax at a reduced rate of 5% for dividend income derived from the PRC. Deferred tax liabilities have been recognised for undistributed retained profits of its subsidiaries established in the PRC earned since 1 January 2008 to the extent that profits are likely to be distributed in the foreseeable future.

8 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2013 is based on the profit attributable to equity shareholders of the company for the period of RMB239,346,000 (six months ended 30 June 2012: RMB209,660,000) and the weighted average number of shares of 3,170,607,000 (six months ended 30 June 2012: 3,210,765,000 shares) in issue during the interim period.

Weighted average number of ordinary shares

	30 June 2013	30 June 2012
Issued ordinary shares at 1 January	**3,231,132,000**	3,223,798,000
Effect of the share award scheme (see note 17(b))	**(64,594,000)**	(13,077,000)
Effect of share options exercised	**4,069,000**	44,000
Weighted average number of ordinary shares at 30 June	**3,170,607,000**	3,210,765,000

(Expressed in Renminbi)

8 Earnings per share (continued)

(b) Diluted earnings per share

The calculation of diluted earnings per share for the six months ended 30 June 2013 is based on the profit attributable to equity shareholders of the company of RMB239,346,000 (six months ended 30 June 2012: RMB209,660,000) and the weighted average number of shares of 3,217,379,000 (six months ended 30 June 2012: 3,212,351,000 shares), calculated as follows:

Weighted average number of ordinary shares (diluted)

	30 June 2013	30 June 2012
Weighted average number of ordinary shares at 30 June	**3,170,607,000**	3,210,765,000
Effect of deemed distribution of shares under the share award scheme	**606,000**	—
Effect of deemed issue of shares under the company's share option scheme	**46,166,000**	1,586,000
Weighted average number of ordinary shares (diluted) at 30 June	**3,217,379,000**	3,212,351,000

9 Fixed assets

During the six months ended 30 June 2013, the group acquired items of fixed assets with a cost of RMB278,857,000 (six months ended 30 June 2012: RMB136,527,000), primarily in respect of machineries used for production. Items of buildings, plant and machinery were transferred from construction in progress with a cost of RMB442,197,000 (six months ended 30 June 2012: RMB6,809,000). Items of fixed assets, primarily in respect of leasehold land and building, with provisional fair value of RMB48,353,000 (six months ended 30 June 2012: RMB57,214,000), were acquired through acquisition of Bazhou Company.

10 Intangible assets

During the six months ended 30 June 2013, the group capitalised research and development cost of RMB16,232,000 (six months ended 30 June 2012: RMB516,000) and acquired technical know-how with provisional fair value of RMB21,200,000 (six months ended 30 June 2012: Nil) through acquisition of Bazhou Company (note 4).

11 Inventories

During the six months ended 30 June 2013, provision for obsolete inventories of RMB10,291,000 was reversed (2012: write down of inventories of RMB50,605,000). The reversal arose due to an increase in the estimated net realisable value of certain inventories as a result of a change in the usage of these inventories in new business line.

12 Trade and other receivables

As of the end of the reporting period, the ageing analysis of trade debtors and bills receivable (which are included in trade and other receivables), based on the invoice date (or date of revenue recognition, if earlier) and net of allowance for doubtful debts, is as follows:

	30 June 2013 RMB'000	31 December 2012 RMB'000
0 to 3 months	**1,606,961**	1,296,382
3 to 12 months	**267,564**	110,244
Over 1 year	**123,811**	134,560
Trade debtors and bills receivable, net of allowance for doubtful debts (note (i))	**1,998,336**	1,541,186
Value-added tax recoverable	**261,400**	245,567
Prepayments	**774,892**	520,365
Other receivables (note (ii))	**217,710**	168,688
	3,252,338	2,475,806
Representing:		
Current portion	**2,877,954**	2,105,804
Non-current portion (note (iii))	**374,384**	370,002
	3,252,338	2,475,806

12 Trade and other receivables (continued)

Notes:

(i) The group maintains different billing policies for different customers based on the negotiated terms with each of the customers. The group will bill different percentages of the contract price at different stages such as upon the signing of contracts and upon the delivery of products. The exact percentage of each part of payment varies from contract to contract. Trade receivables are due for payment within 90 days upon the group presenting the bills to the customers.

(ii) Included in other receivables of the group as at 30 June 2013, RMB32,317,000 (31 December 2012: RMB32,317,000) is the amount to be indemnified by some beneficiary owners of the company (the "Indemnifiers") in relation to a legal claim, details of which are set out in note 16.

(iii) Non-current trade and other receivables represent trade receivables and bills receivable of RMB289,961,000 (31 December 2012: RMB306,126,000) from instalment sale receivables that are due for settlement 1 year after the financial year/period end and prepayments for acquisition of fixed assets of RMB84,423,000 (31 December 2012: RMB63,876,000).

(iv) Except for the non-current trade and other receivables, all of the other trade and other receivables are expected to be recovered within one year.

13 Pledged bank deposits

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

14 Interest-bearing borrowings

The interest-bearing borrowings were as follows:

	30 June 2013 RMB'000	31 December 2012 RMB'000
Bank loans — secured	**1,258,735**	535,435
Bank loans — unsecured	**2,860,663**	1,434,384
	4,119,398	1,969,819
Loan from other financial institution — secured	**12,975**	13,200
Total	**4,132,373**	1,983,019

14 Interest-bearing borrowings (continued)

Interest-bearing borrowings of RMB1,271,710,000 (31 December 2012: RMB548,635,000) were secured by all assets of a subsidiary with an aggregate carrying value of RMB218,814,000 (31 December 2012: RMB290,993,000) and land use rights of RMB99,474,000 (31 December 2012: RMB99,474,000), fixed assets of RMB230,180,000 (31 December 2012: RMB96,844,000), deposits of RMB363,427,000 (31 December 2012: RMB213,200,000), trade receivables of RMB217,151,000 (31 December 2012: Nil) of other group entities.

The interest-bearing borrowings at 30 June 2013 bear annual interest ranging from 1.17% – 7.78% (31 December 2012: 1.97% – 7.70%).

15 Trade and other payables

	30 June 2013 RMB'000	31 December 2012 RMB'000
Trade payables	**1,162,757**	779,873
Bills payable	**564,958**	504,291
Receipts in advance	**1,695,317**	1,332,245
Other payables	**315,940**	495,928
	3,738,972	3,112,337

Bills payable as at 30 June 2013 and 31 December 2012 were secured by pledged bank deposits (see note 13).

All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

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

	30 June 2013 RMB'000	31 December 2012 RMB'000
Within 3 months	**1,032,010**	880,065
3 months to 6 months	**369,049**	242,885
6 months to 1 year	**182,818**	69,397
Over 1 year	**143,838**	91,817
	1,727,715	1,284,164

16 Provisions

	30 June 2013 RMB'000	31 December 2012 RMB'000
Provision for a legal claim (note)	**32,317**	32,317
Provision for product warranties	**19,907**	25,415
	52,224	57,732

Note: Details of the legal claim had been disclosed in note 28(a) of the 2012 annual financial statements. There was no recent development of this case during the period.

In view of the unfavorable judgement made by the court and the existence of the deed of indemnity, a provision for the above legal claim of RMB32,317,000 and receivables from the Indemnifiers of the same amount has been made in the 2012 annual financial statements.

17 Share capital, reserves and dividends

(a) Share option scheme

During the six months ended 30 June 2013, no equity-settled share options were granted to the directors, senior management and employees of the group.

During the six months ended 30 June 2013, 7,273,300 ordinary shares were issued as a result of the exercise of vested options arising from a share option scheme granted to key management and employees in 2009, 2010 and 2012 with a weighted average exercise price of HK$1.26.

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

During the six months ended 30 June 2012, 100,000 ordinary shares were issued as a result of the exercise of vested options arising from the share option scheme granted to key management and employees in 2011 with exercise price of HK$0.83.

17 Share capital, reserves and dividends (continued)

(b) Share award scheme

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

During the period ended 30 June 2012 and 2013, the Trustee acquired 47,817,000 and 50,000,000 shares of the company through purchases from the open market according to the instructions of the board of directors, at a total cost of approximately RMB49,973,000 and RMB146,233,000 respectively.

On 20 March 2013, the company granted restricted shares in respect of a total of 34,917,700 ordinary shares of the company to selected participants at a price of HK$1.27 each. 50% of the restricted shares were vested on 20 May 2013 and the remaining 50% shall be vested on 20 December 2013.

The fair value of restricted shares granted to employees is measured based on the closing price of the ordinary share of the company at the grant date and recognised as staff costs with a corresponding increase in the capital reserve within equity.

(c) Dividends

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

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, approved and paid during the following interim period, of HK$0.06 per share (six months ended 30 June 2012: HK$0.04 per share)	**150,102**	104,700

The board of directors does not recommend the payment of dividends attributable to the six months ended 30 June 2013 (six months ended 30 June 2012: Nil).

18 Commitments

(a) Capital commitments

Capital commitments outstanding at 30 June 2013 not provided for in the interim financial report were as follows:

	30 June 2013 RMB'000	31 December 2012 RMB'000
Contracted for	**642,413**	504,277
Authorised but not contracted for	**1,297,368**	307,721
	1,939,781	811,998

(b) Operating lease commitments

At 30 June 2013, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	30 June 2013 RMB'000	31 December 2012 RMB'000
Within 1 year	**4,446**	5,339
After 1 year but within 5 years	**5,974**	5,567
After 5 years	**6,680**	7,320
	17,100	18,226

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.

19 Material related party transactions

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

Name of party	Relationship
Guanghan Hongtai Business Trading Co., Ltd. (廣漢市宏泰商貿有限公司) ("Hongtai")	Hongtai is a party over which spouses of certain directors and management have equity interests
Luzhou City Jianming Decorating Design Company (瀘州市劍鳴裝飾設計公司) ("Luzhou Jianming")	Luzhou Jianming is a party of which the brother of the spouse of a subsidiary's director is its legal representative
Chengdu Juzhong Technology Co., Ltd. (成都巨中科技有限公司) ("Chengdu Juzhong")	Chengdu Juzhong is a party over which the brother-in-law and brother-in-law's wife of a subsidiary's director has equity interests
Sichuan Deep & Fast Oil Drilling Tools Co., Ltd. (四川深遠石油鑽井工具有限公司) ("Sichuan Shenyuan")	Sichuan Shenyuan is a party of which spouse of a certain director has equity interests
HH Egyptian Company	Joint venture
Mr. Li Ming (黎明)	A non-controlling interest

19 Material related party transactions (continued)

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

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Purchases of parts and components		
— Hongtai	**12,229**	11,671
— Chengdu Juzhong	**268**	330
— Sichuan Shenyuan	**—**	1,433
	12,497	13,434
Sale of drilling rigs, parts and components		
— HH Egyptian Company	**3,283**	3,390
Decoration service received		
— Luzhou Jianming	**547**	—
Loan to		
— Mr. Li Ming	**6,016**	—

Key management personnel remuneration

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

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Basic salaries, allowances and other benefits in kind	**3,962**	3,410
Contributions to defined contribution retirement schemes	**142**	19
Share-based payments	**12,888**	1,373
	16,992	4,802

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

20 Contingent liabilities

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 being processed. 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.

Definitions

"Board of Directors" or "Board"	the Board of Directors of the Company
"Company" or "our Company"	Honghua Group Limited (宏華集團有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 15 June 2007
"Concert Group"	several shareholders of Honghua Company forming a concert group as set out in the "Company History and Reorganisation-Ownership Continuity and Control" section of the prospectus of the Company dated 25 February 2008, namely, Zhang Mi (張弭), Ren Jie (任杰), Liu Zhi (劉智), Zheng Yong (鄭勇), Zuo Huixian (左輝先), Zhang Xu (張旭), Wang Jiangyang (王江陽), Chen Jun (陳俊), Fan Bing (范兵), Zhang Yanyong (張彥永), Ao Pei (敖沛), Tian Diyong (田弟勇), Shen Dingjian (沈定建), Liu Xuetian (劉學田) (deceased), Zhou Bing (周兵), Lv Lan (呂蘭), Tian Yu (田雨), Li Hanqiang (李漢強), Liu Yingguo (劉映國), Liu Lulu (劉露璐), He Guangfu (何光福), Zhang Zongyou (張宗友) and Chen Zongliang (陳宗良), out of which He Guangfu (何光福), Zhang Zongyou (張宗友) and Chen Zongliang (陳宗良) transferred an aggregate of approximately 9.1325% equity interests in Honghua Company to the other members of the Concert Group. The transfers were completed on 17 February 2006
"Director(s)"	member(s) of the Board of Directors of the Company
"Group" or "we" or "us"	the Company and its subsidiaries, and, for the period before the Company became the holding company for such subsidiaries, the entities which carried on the business of the Group
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
"Period"	the six months ended 30 June 2013
"PRC" or "China"	the People's Republic of China and, except where the context requires and only for the purpose of this Interim Report, references in this Interim Report to the PRC or China do not apply to Taiwan or Hong Kong and Macau Special Administrative Region of the PRC

Definitions

"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary shares issued by the Company, with a nominal value of HK$0.10 each
"Shareholder(s)"	holder(s) of our Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Substantial Shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"United States", "USA" or "U.S."	the United States of America, including its territories and possessions
"US$" or "USD"	United States dollars, the lawful currency of the United States

宏华集团有限公司
HONGHUA GROUP LIMITED