



宏华集团有限公司

HONGHUA GROUP LIMITED

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

创意大智造

INTERIM REPORT
2014





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FINANCIAL HIGHLIGHTS

OPERATING RESULTS

	Six months ended 30 June		
	2014 RMB'000	2013 RMB'000	Change
Turnover	3,838,879	2,486,357	54.4%
Profit from operations	365,698	359,778	1.6%
Profit before taxation	269,200	306,099	-12.1%
Profit attributable to equity Shareholders of the Company	199,745	239,346	-16.5%
Earnings per Share			
Earnings per Share — Basic (RMB cents)	6.286	7.549	-16.7%
Earnings per Share — Diluted (RMB cents)	6.235	7.439	-16.2%

FINANCIAL POSITION

	30 June 2014 RMB'000	31 December 2013 RMB'000	Change
	Total non-current assets	4,664,289	
Total current assets	10,399,811	9,680,684	7.4%
Total assets	15,064,100	14,229,055	5.9%
Total current liabilities	8,543,800	7,761,845	10.1%
Total non-current liabilities	1,478,047	1,508,564	-2.0%
Total liabilities	10,021,847	9,270,409	8.1%
Total equity	5,042,253	4,958,646	1.7%



FINANCIAL HIGHLIGHTS

KEY FINANCIAL RATIOS*

	Six months ended 30 June		
	2014	2013	Change
Gross Margin	23.0%	32.20%	-9.2%
Net Margin	5.2%	9.6%	-4.4%
Return on average assets	1.4%	2.1%	-0.7%
Return on average equity	4.2%	5.4%	-1.2%

	30 June 2014		
	31 December 2013	Change	
Current Ratio	1.22	-0.03	
Quick Ratio	0.87	-0.02	
Total debts/Total assets	33.1%	-0.2%	
Total liabilities/Total assets	66.5%	1.3%	

* 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)

Independent Non-executive Directors

Liu Xiaofeng
Qi Daqing
Tai Kwok Leung, Alexander
(Resigned with effect from 19 March 2014)
Chen Guoming
Shi Xingquan
Guo Yanjun

SECRETARY OF BOARD OF DIRECTORS

He Bin

BOARD COMMITTEES

Audit Committee

Qi Daqing (*Committee Chairman*)
Liu Xiaofeng
Tai Kwok Leung, Alexander
(Resigned with effect from 19 March 2014)
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
Shi Xingquan
Liu Xiaofeng

JOINT COMPANY SECRETARIES

He Bin
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



CORPORATE INFORMATION

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

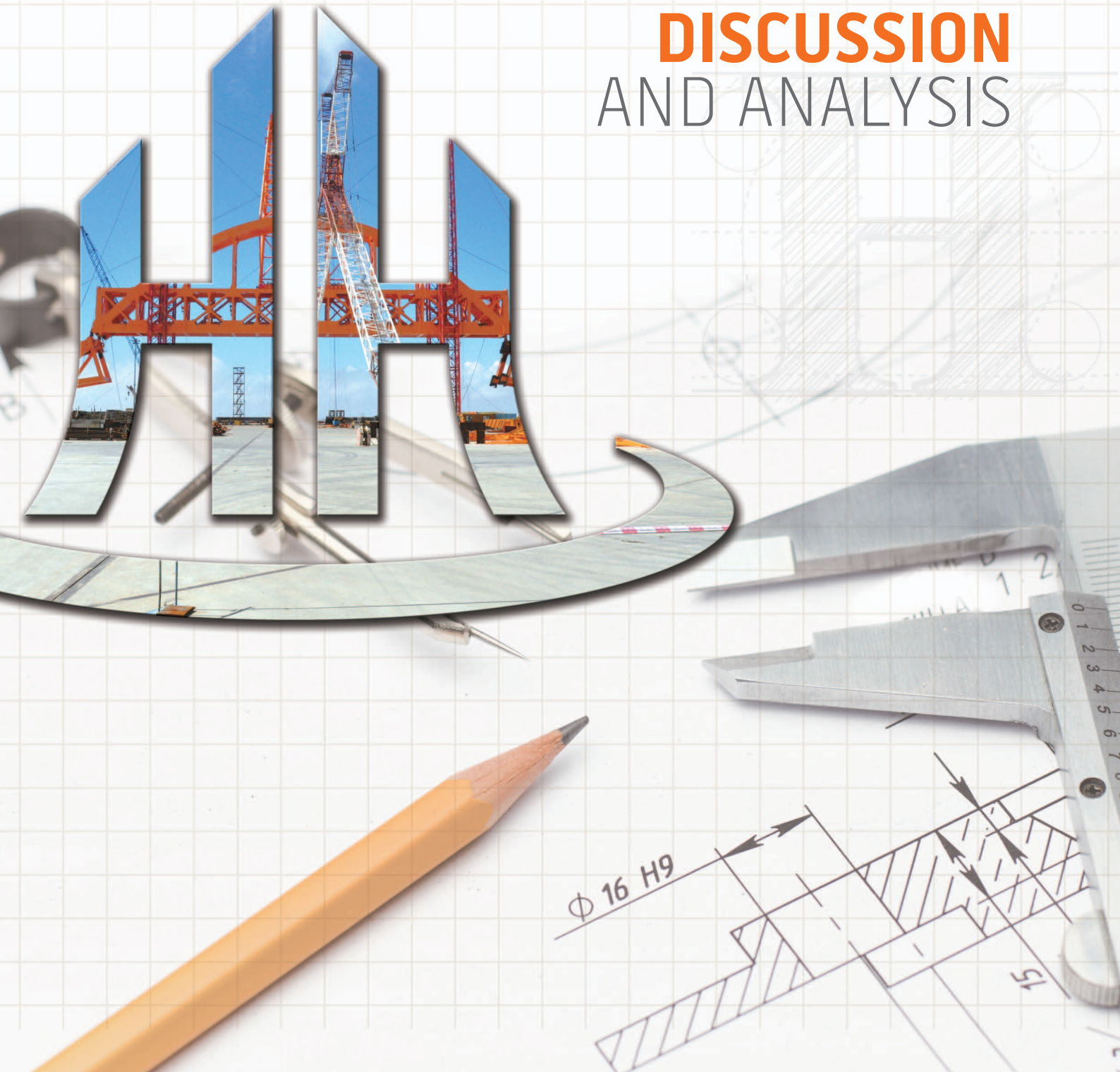
The Stock Exchange of Hong Kong Limited: 0196

WEBSITE

<http://www.hh-gltd.com>



MANAGEMENT DISCUSSION AND ANALYSIS





In the first half of 2014, the Group's revenue amounted to RMB3,839 million, representing an increase of 54.4% as compared to RMB2,486 million in the same period last year. The gross profit was approximately RMB885 million, representing an increase of 10.6% as compared to RMB800 million in the same period last year. The profit attributable to shareholders of the Company was approximately RMB200 million, representing a decrease of 16.5% as compared to RMB239 million in the same period last year.

MARKET REVIEW

The first half of 2014 witnessed a sustainable global economy recovery. US economy showed a sign of resilience, while the European economy recovered slightly. The emerging economies that boosted the growth of global economy after the economic crisis slowed down moderately. During the Period, the international oil prices rose slightly due to the political unrest in Ukraine and Iraq. The prices of New York WTI and London Brent crude oil remained at relatively high levels of US\$91.36 and US\$103.37 per barrel respectively. Barclays Capital estimated that the expenditure of global oil and gas exploration will reach US\$723 billion in 2014, representing a growth of 6.1% as compared with 2013. This will stimulate drilling activities around the world. According to a survey by Baker Hughes, the global average number of active land rigs amounted to 3,523 units in the first half of 2014 (Note: not including China and Russia), representing a growth of nearly 4% as compared with the same period last year. On the other hand, the numbers of active land rigs in North America and other areas both grew. With regard to offshore oil and gas equipment, the average age of current active jack-up platforms has reached approximately 18 years. Replacement demand has been constantly increasing as a result of the declining utilization rate of old drilling platforms.

BUSINESS REVIEW

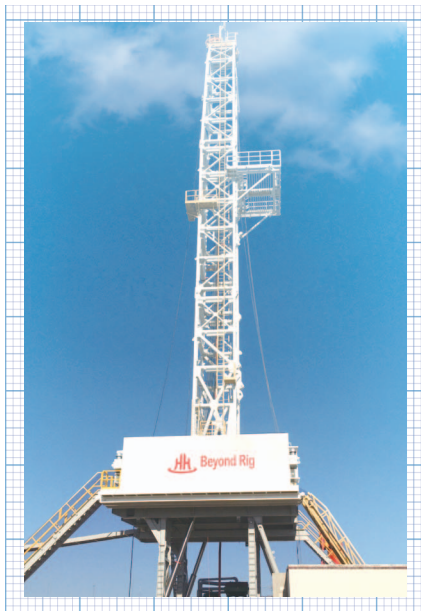
As our guiding principle, “creative manufacturing” runs through our strategy and project execution. While improving our high quality “creative manufacturing” system, we have kept “creativity” and “innovation” in mind. We constantly develop new leading products, and endeavor to maintain our global competitiveness in project execution, product quality and innovative development, providing a wider range of customized products to create higher value for clients. During the Period, we significantly expanded the production, sales and trading of self-developed parts and components to meet the market demands while continuing the sales and production of rigs. After the NDC (National Drilling Company) Phase 1 project was completed successfully, the Middle East market brought us new orders continuously. Moreover, the self-developed quintuple mud pump and other new products achieved further sales breakthroughs in North American market, enabling us to expand our footprints in the local market again. During the Period, we actively enhanced promotion of new products, new programs and the company brand. We promoted many new products with wide concern, such as the full hydraulic high-speed top drive and the automatic hanging full hydraulic pipe-layout machine at ten exhibitions, including Offshore Technology Conference and China International Petroleum & Petrochemical Technology and Equipment Exhibition. At the exhibitions, the Tiger series drilling packages for drilling ships which are used in deep water operation and equipped with many self-developed products stimulated clients' strong interests in our offshore equipment.

Land Drilling Equipment and Relevant Products

In terms of the sales of land drilling rigs, we continued to promote the “localization” strategy in the European, Asian, Middle Eastern, African and Chinese markets. We insisted on strengthening communication with clients through our local factories, sales offices and high-quality agents. With a worldwide client resource base, we obtained many sales contracts with existing clients again during the Period. In the Eurasian market, we successfully renewed a sales contract of land rigs worth approximately US\$32 million with a subsidiary of Eriell Group. In the Middle Eastern market, we renewed sales contracts of three land rigs worth US\$14 million and US\$32 million with Kuwait Drilling Company K.S.C and Abraj Energy Services LLC respectively subsequent to the success of our first signed contract. In addition, we made breakthroughs in



new markets as we entered Africa and Malaysia. In the African market, we signed a contract of two 1,500HP land rigs with the new client Sino-Tharwa Drilling Company after four months' efforts. In Asia, we adopted the sales strategy of "diversity" to open new markets, and successfully led three high-end 8,000m rigs into the Malaysian market through an innovative mode of finance lease. During the Period, domestic orders dropped due to falling demand from state-owned enterprises. To maneuver in this difficult situation, our sales force shifted the focus to private companies again. We successfully sold two land rigs under fierce market competition. During the Period, our accumulated newly signed agreements of land rigs amounted to 21 units, worth approximately US\$200 million.



During the Period, we made significant progress in the production and sales of self-developed parts and components. As clients were satisfied with our products, the sales of our self-innovated series of direct-drive top drive products reached 6 sets as part of the drilling rigs and 8 sets individual sales during the Period. Based on the strong demand in North America, 57 mud pumps were sold, representing a growth of 42.5% as compared with the same period last year. Our innovative product — quintuple mud pump entered the US market

further, 15 sets were sold, and 21 sets of direct-driven mud pump were also sold. Moreover, we actively made full use of our global procurement network to provide integrated procurement services for international clients. During the Period, our new trade orders for parts and components amounted to approximately US\$178 million.

Hongteng, our subsidiary in Gansu, also achieved sales results during the Period. With the recognition received from the successful completion of three cementing trucks, Hongteng signed a contract of seven cementing trucks with Eriell Group in June 2014. The contract showed Eriell Group's recognition and trust on Hongteng products and its team. It also laid a solid foundation for the transformation and development of this subsidiary.

In the first half of 2014, we achieved the goal of sales and production, and our business volume of after-sales service also rose by 31% as compared with the same period last year. 35 rigs and 15 top drive units were installed. By the end of June 2014, another 15 rigs and 10 top drive units were under installation.

In the first half of 2014, we successfully delivered seven 9,000m rigs of the NDC Phase I project to the client's drilling site, of which the first set was successfully used in Abu Dhabi Island at the end of February. NDC signed the contract of Phase II project of two 9,000m rigs later to reaffirm the success of our Phase I project, and proved our good competitiveness in the global high-end market. NDC project not only showed our success in optimizing global market allocation and the capacity distribution strategy, but also reflected our significant improvements in overall strength. NDC



project enables us to further consolidate the market position while greatly enhances our reputation and competitiveness in the global market. In terms of production operation, NDC project also gave us a rare opportunity of improvement. During the entire project, we enhanced team building and efficient communication, and optimized the sequence and procedures of assembly and testing. The assembly and testing time of the seventh set rig was nearly 70% shorter than the first set. Based on that, we continued to implement the “zero defect” policies during the Period to improve efficiency of production and testing, as well as to control quality and strive to ensure project management and product quality.

Oil and Gas Engineering Service Business

Facing a relatively sluggish domestic market, our oil and gas engineering service achieved steady expansion in the domestic and overseas markets during the Period, especially in terms of outstanding performance in the unconventional oil and gas drilling business. To meet the new market demand, we expanded the market share of shale gas service in Sichuan. In 2013, our first shale gas drilling project was highly recognized by the client. Then in the first half of 2014, we acquired approximately 16 contracts in the Yibin shale gas block, which were located in three drilling pads respectively. Currently, seven drilling teams have successfully moved to the Sichuan shale gas drilling site. They have started field operation and conducted special technique processing according to well situation. For example, they adopted the “PDC + screw + hydraulic pressurizer” process for surface drilling to achieve anti-collision, anti-deviation and acceleration, and adopted the “PDC+bent screw+MWD” process to monitor during drilling of intermediate hole, so as to achieve anti-deviation and acceleration.

We lay emphasis on innovation while expanding business. We continued to enhance technical strength through different channels and minimize potential risk. During the Period, we enhanced employee training including HSE, well control and professional English to improve the oil and gas service team’s safety awareness and professional skills. With accumulation of experience and technical innovation, the operational efficiency of the oil and gas service business was further improved.

By the end of June 2014, we had 23 drilling service teams, of which 15 teams provided directional services. We also had 25 drilling fluids service teams. The accumulated personnel amounted to approximately 1,300. During the Period, we drilled 31 wells, including 11 horizontal wells and 2 directional wells, and the footage drilled amounted to approximately 73,900 meters.

Offshore Engineering Equipment and Related Products Business

In the first half of 2014, construction of the offshore engineering equipment base proceeded as scheduled, and we also made breakthroughs in production. In terms of base construction, the harbor basin which is 150m long and 110m wide was completed in early January 2014, and was accepted by Nantong Port Quality Supervision Station and water resources and fire departments. The construction process of Honghai crane, the core equipment enshrining the innovative concept of “onshore manufacturing of offshore equipment”, is progressing as planned, with the production of member axles and painting completed. The first Honghai crane started integral lifting as scheduled at the end of July, and the assembly and testing will be completed in the third quarter of 2014. Production of segments of the second crane is completed, and the general assembly will begin after the first crane is lifted and slid. It is expected that the overall lifting will be completed at the end of 2014, and “Honghai crane” will be delivered in early 2015.

In terms of production, the 565-ton derrick, the core part of the Tiger-1 drilling package for drilling ship, started installation in Shanghai Shipyard in January 2014, and the integral hoisting and hoisting of the pipe-layout machine was completed at the end of May. This marks that the assembly of machines and tools of the Tiger-1 project is completed



and enters into testing stage, symbolizing another solid step towards completion of the entire project. Tiger-2 has entered the assembly and commissioning stage, and will be shipped at the end of 2014. Over 80% of the PSV project has been completed. Now it has entered into the final stage of general assembly, which is scheduled in the third quarter of 2014, and the trial trip will be available in early 2015.



In terms of market expansion, we insist on promoting the innovative concept of “onshore manufacturing of offshore equipment” through OTC and other international exhibitions. In July, we entered into a sales and purchase agreement with Shanghai Shipyard Co., Ltd. (“Shanghai Shipyard”) for the sale of two sets of drilling packages for Tiger series drilling ships, Tiger-3 and Tiger-4, worth approximately US\$56 million. Since August, we subsequently signed a shipbuilding contract with UDIN Engineering Co., Ltd. worth over US\$200 million and a Letter of Award with Orion Engineering and Management Ltd. for a semi-sub drilling rig worth approximately

US\$320 million. These further strengthen the close cooperation among Honghua and international offshore industry companies, and prove Honghua’s innovative construction model, powerful self-research and development capabilities and production techniques in offshore sector once again received recognition from the market. In addition, we have maintained long-term communication with some potential marine clients, further boosting their confidence on our innovative concept and product quality.

Unconventional Oil and Gas Development Business

Our oil and gas service teams have participated in the exploration activities of unconventional oil and gas since 2013, and completed the exploration of first shale gas well with drilling depth of 4,115m and horizontal section length of 1,350m in December 2013. It was highly recognized by the client, and we also got precious construction experience. As mentioned in Oil and Gas Engineering Service Business section, we have got approximately 16 contracts in the Yibin shale gas block in 2014, and seven rigs are in operation in the block. Besides, our 6000HP fracturing pump completed the “smoking test” and the well site industrial test witnessed by Baker Hughes’ experts during the Period, and the basic condition of the equipment was tested. In addition, our self-innovated electric fracturing blender truck is under prototype trial production.



Besides increasing our strength, we also actively seek cooperation opportunities with internationally renowned companies. During the Period, we entered into an MOU for strategic cooperation with GE to jointly build an efficient and energy-saving integrated shale gas solution. According to the MOU, Honghua will install GE gas power products, including aero derivative gas turbine and gas engine in its



self-developed and manufactured innovative oil & gas drilling equipment, and will complete the integration in the Group's production base in China. This equipment will be developed as an integrated on-site power solution for well drilling, well completion and output production by using conventional/unconventional natural gas or associated gas in the field.

QUALITY MANAGEMENT AND RESEARCH AND DEVELOPMENT

In the first half of 2014, we continued to strengthen construction of the quality management system and improve application of various qualifications. In production of land drilling equipment business, our overseas subsidiary EPHH successfully passed the recertification review of API Q1 and API 4F in April 2014, after months' preparation. It created conditions for promotion of sales after entering African market. In oil and gas engineering service business, we got the drilling permit for the Biryuk and Mukhin blocks of Sakha (Yakutia) Republic, and re-integrated the QHSE management system built in 2012. We started to implement the quality management system documents in compliance with API Q2 standard in China that was launched earlier and passed the Grade II enterprise review for work safety standardization conducted by State Administration of Work Safety in June. In terms of offshore equipment manufacture we got the ISO9001, ISO14001 and OSAHS18001 certifications issued by ABS QE, further improving the QHSE management system.

During the Period, the accumulated amount invested in research and development reached approximately RMB44 million, and the results were significant. We displayed the new generation "Honghua America No.1" rig at OTC in May. The rig features fast lifting, less transportation modules and high automation, resulting in higher operation safety, lower costs and faster installation, thus increasing its economic value. The trial production of the rack and pinion drilling rig is being tested smoothly. As at 30 June 2014, we filed application of 367 patents, and 220 patents were obtained.

HUMAN RESOURCES MANAGEMENT

We have been considering how to optimize the effective support of staff on strategic development of subsidiaries while improving the work environment and performance culture. To achieve this goal, we focus on integration of global resources and strengthening of strategic support. During the Period, we organized 381 training programs including strengthening of the use of SAP information system, effectively improving the staff's professional skills and work efficiency. To motivate excellent staff, we granted a total of 40,575,000 share options to about 400 middle and senior managers, core technical staff and old shareholders in early July 2014. We recruited 423 new employees during the Period, most of them are technical personnel, while improving the value of existing employees. As of 30 June 2014, the Group had 7,378 employees, among which 642 are research personnel.



OUTLOOK

Throughout the overall development trend of oil and gas industry, the demands in Asia, Latin America, Middle East and Russia are generally stable. We will seize the opportunities in the future. In the field of onshore oil and gas equipment, we will continue to implement the strategy of “localization” to consolidate the market share in each region of the world. We will impel the sales strategy of “market diversification”, supported by our financial leasing firms to provide diversified financing channel to clients and further promote product sales in domestic and global market. By 19 August 2014, our onshore drilling rig about 54 sets, worth approximately RMB4,400 million and estimated to be delivered between 2014 and 2015.

As for the oil and gas engineering service business, we will rely on our self-produced equipment and develop other services driven by our drilling service. While focusing on expanding conventional oil and gas services markets worldwide, we will cooperate with renowned international oil and gas services companies and get well-prepared for the large scale development in the unconventional oil and gas industry. By 19 August 2014, oil and gas service backlog reached approximately RMB150 million.

In terms of offshore engineering equipment, we will continue to complete the construction of “Honghai crane” and the existing Tiger and PSV ship projects etc. At the same time, we will insist on the competitive advantage of innovative development and self-production. We will proactively make use of the international offshore companies’ recognition towards our engineering, procurement and construction, to keep close communication in regard to fixed and jack-up drilling platforms and other offshore products with international clients. By 19 August 2014, our offshore engineering equipment backlog reached approximately RMB2,130 million.

Looking forward, we will adhere to the concept of “creative manufacturing”, and 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 exploration business. We will strengthen our overall competitiveness; achieve sustainable and steady development, thus creating higher return for Shareholders.

FINANCIAL REVIEW

During the Period, the Group’s gross profit and profit attributable to equity shareholders of the Company amounted to approximately RMB885 million and RMB200 million respectively, and gross margin and net margin amounted to approximately 23.0% and 5.2% respectively. In the same period last year, gross profit and profit attributable to equity shareholders of the Company amounted to approximately RMB800 million and RMB239 million respectively, gross margin and net margin amounted to approximately 32.2% and 9.6% respectively. During the Period, the Group’s gross profit represented an increase of 10.6%, the decrease in profit attributable to equity shareholders of the Company was mainly due to the decrease in gross profit margin.

Turnover

During the Period, the Group’s turnover amounted to approximately RMB3,839 million, representing an increase of RMB1,353 million or 54.4% as compared to RMB2,486 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 rigs parts and components. The number of land drilling rig sales during the Period increased to 34 units from 28 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 RMB3,409 million, accounting for approximately 88.8% of total revenue, representing an increase of RMB1,737 million as compared to the same period last year. Among which, the Middle Eastern market's revenue amounted to approximately RMB1,720 million, representing an increase of RMB1,571 million or 1,054.4% as compared to the same period last year; the European and Central Asia market's revenue amounted to approximately RMB855 million, representing an increase of RMB215 million or 33.6% as compared to the same period last year; the American market's revenue amounted to approximately RMB452 million, representing a decrease of RMB406 million or 47.3% as compared to the same period last year; the South and Southeast Asia market's revenue amounted to approximately RMB101 million, representing an increase of RMB80 million or 381.0% as compared to the same period last year; and the others market's revenue amounted to approximately RMB281 million, representing an increase of RMB277 million as compared to the same period last year; (2) Mainland China's revenue amounted to approximately RMB430 million, accounting for approximately 11.2% of total revenue.

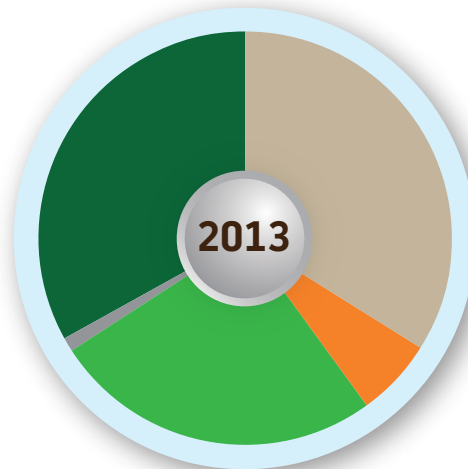
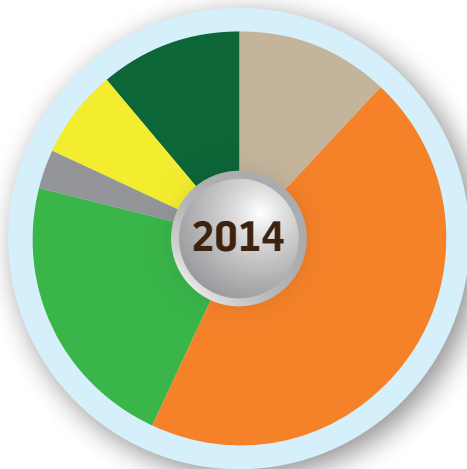
The revenues from different regions are affected by oil and gas exploration activities in various areas of the world. The Group actively explores new markets, constantly develops new customers and gains new purchase orders to ensure the sustained growth of sales revenue.

Revenue by Geographical Areas

For the six months ended 30 June 2014

For the six months ended 30 June 2013

Expressed in RMB'million



American	12%	South and Southeast Asia	3%
Middle Eastern	45%	Others	7%
Europe and Central Asia	22%	PRC	11%

American	34%	South and Southeast Asia	1%
Middle Eastern	6%	Others	0%
Europe and Central Asia	26%	PRC	33%



(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 RMB2,724 million, representing an increase of RMB974 million or 55.7% as compared to RMB1,750 million in the same period last year. The increase in revenue from land drilling rigs was mainly due to the added value of the drilling rigs sold and the selling price increased approximately 29%, as well as the increase in sales volume of drilling rigs from 28 units in the same period last year to 34 units during the Period.

During the Period, external revenue from offshore drilling rigs amounted to approximately RMB53 million, and there was no external revenue in the same period last year.

During the Period, external revenue from land drilling rig parts and components amounted to approximately RMB858 million, representing an increase of RMB244 million or 39.7% as compared to RMB614 million in the same period last year. The increase of land drilling rig parts and components' revenue was mainly due to active market exploration and new product sales. Among which, revenue from materials was RMB224 million; revenue from sales of 8 sets of top drive amounted to RMB72 million; revenue from drill stem amounted to RMB38 million; revenue from rig and component transformation was RMB35 million.

During the Period, revenue from oil and gas engineering services amounted to approximately RMB204 million, representing an increase of RMB82 million or 67.2% as compared to RMB122 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 23 drilling crew in the first half of 2014, which operate in 5 areas, such as Sichuan, Xinjiang, Northeast China, Inner Mongolia, and Iraq.

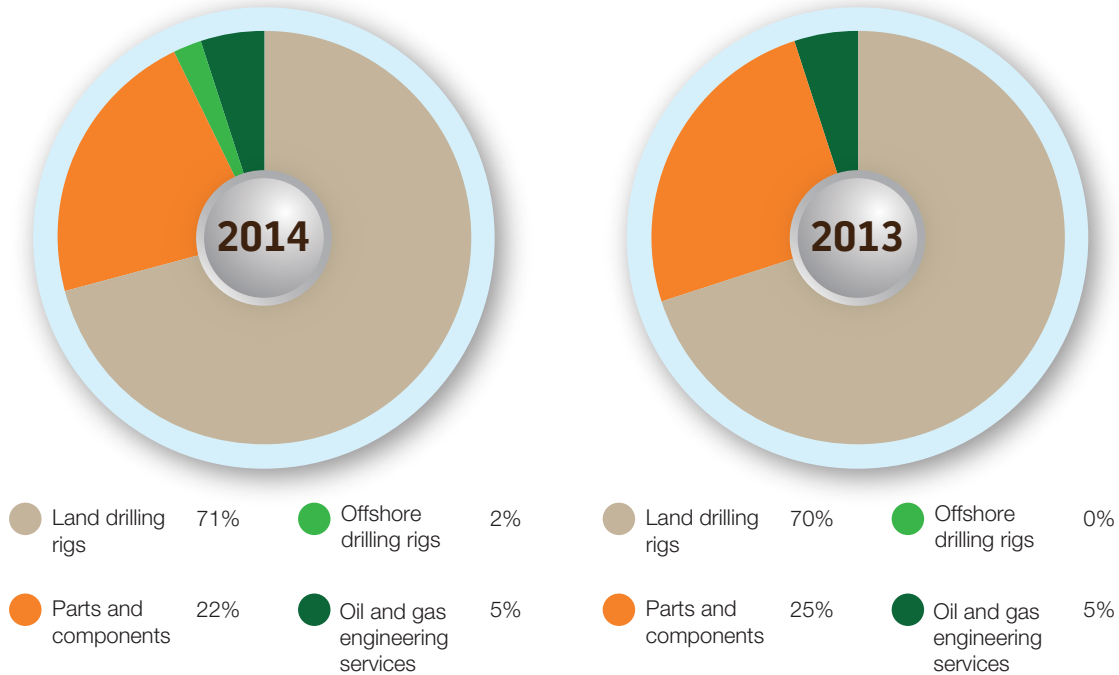


Revenue by business categories

For the six months ended 30 June 2014

For the six months ended 30 June 2013

Expressed in RMB'million



Cost of Sales

During the Period, the Group's cost of sales amounted to approximately RMB2,954 million, representing an increase of approximately 75.1% or RMB1,267 million as compared to the same period last year, mainly due to an increase in sales revenue.

Gross profit and Gross Margin

During the Period, the Group's gross profit amounted to approximately RMB885 million, representing an increase of RMB85 million or 10.6% as compared to the same period last year.

During the Period, the Group's overall gross margin was 23.0%, representing a decrease of 9.2 percentage points as compared to 32.2% in the same period last year. This was mainly due to the Group's in proactive market development and taking the initiative to benefit customers in some markets.



Expenses in the Period

During the Period, the Group's selling expenses amounted to approximately RMB285 million, representing an increase of RMB38 million as compared to RMB247 million in the same period last year, as the result of substantial increase in sales revenue which led to an increase in transportation fees and service fees etc.

During the Period, the Group's general and administration expenses amounted to approximately RMB270 million, representing an increase of RMB40 million or 17.4% as compared to RMB230 million in the same period last year, which was mainly because the Group invested in research and development and more tenants are recruited for business expansion.

During the Period, the Group's net finance expenses amounted to approximately RMB95 million, representing an increase of RMB46 million as compared to net finance expenses of RMB49 million in the same period last year. The increase in net finance expense was mainly attributable to the increase in interest expenses which was in line with the increase in bank borrowings.

Profit before Taxation

During the Period, profit before taxation of the Group amounted to approximately RMB269 million, representing a decrease of RMB37 million as compared to RMB306 million in the same period last year. The decrease was mainly resulted from the increased expenses for the Period.

Income Tax Expenses

During the Period, the Group's income tax expense amounted to approximately RMB57 million as compared to the income tax expense of approximately RMB50 million in the same period last year.

Profit for the Period

During the Period, the Group's profit amounted to approximately RMB212 million, as compared to a profit of approximately RMB256 million in the same period last year. Among which, profit attributable to equity shareholders of the Company was approximately RMB200 million, while earnings attributable to non-controlling interests was approximately RMB12 million. During the Period, net margin was 5.2%, as compared to net margin of 9.6% in the same period last year, which was mainly resulted from the increased expenses for the Period.

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

During the Period, EBITDA amounted to RMB519 million, as compared to approximately RMB458 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 13.5%, as compared to 18.4% in the same period last year, which was mainly resulted from the decrease in the gross margin.

Dividends

For the period ended at 30 June 2014, 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 2014, the Group's bank borrowings amounted to approximately RMB4,989 million, representing an increase of approximately RMB258 million as compared to 31 December 2013. Among which, borrowings repayable within one year amounted to approximately RMB3,561 million, representing an increase of RMB288 million as compared to 31 December 2013.

Deposits and cash flow

As at 30 June 2014, the Group's cash and cash equivalents amounted approximately RMB1,540 million, representing an increase of approximately RMB265 million as compared to 31 December 2013.

During the Period, the Group's net operating cash outflow from operations amounted to approximately RMB40 million; net cash inflow from investing activities, during the Period amounted to approximately RMB338 million; net cash outflow from financing activities amounted to approximately RMB39 million.

Assets structure and changes thereof

As at 30 June 2014, the Group's total assets amounted to approximately RMB15,064 million, representing an increase of approximately RMB835 million or 5.9% as compared to 31 December 2013. Among which, current assets amounted to approximately RMB10,400 million, accounting for approximately 69.0% of total assets, representing an increase of RMB719 million as compared to 31 December 2013, which were mainly increase of inventories, trade and other receivables and monetary funds. Non-current assets amounted to approximately RMB4,664 million, accounting for approximately 31.0% of total assets, representing an increase of approximately RMB116 million as compared to 31 December 2013, and was mainly attributable to the increase in construction in progress.

Liabilities

As at 30 June 2014, the Group's total liabilities amounted to approximately RMB10,022 million, representing an increase of approximately RMB751 million as compared to 31 December 2013. Among which, current liabilities amounted to approximately RMB8,544 million, accounting for approximately 85.3% of total liabilities, representing an increase of approximately RMB782 million as compared to 31 December 2013. Non-current liabilities amounted to approximately RMB1,478 million, accounting for approximately 14.7% of total liabilities, representing a decrease of approximately RMB31 million as compared to 31 December 2013. As at 30 June 2014, the Group's total liabilities/total assets ratio was approximately 66.5%, representing an increase of 1.3 percentage points as compared to 31 December 2013.

Equity

As at 30 June 2014, total equity amounted to RMB5,042 million, representing an increase of RMB84 million as compared to 31 December 2013. Total equity attributable to equity shareholders of the Company amounted to approximately RMB4,836 million, representing an increase of RMB73 million as compared to 31 December 2013. Non-controlling interests amounted to approximately RMB206 million, representing an increase of RMB11 million as compared to 31 December 2013. Net asset value reached approximately RMB1.56 per Share as at 30 June 2014. During the Period, the Group's basic earnings per Share was RMB6.286 cents, and diluted earnings per Share was RMB6.235 cents.



Contingent liabilities

A sales agency filed lawsuits against the subsidiaries of the Company, alleged that it was owed commission in excess of US\$18,000,000 in relation to their services to the Group.

On 24 April 2013, the United Arab Emirates (“UAE”) Federal Court of First Instance ordered the termination of the agency agreement and dismissed all claims from the sales agency. The sales agency filed an appeal to the UAE Federal Court of Appeal on the court’s decision and hearing is yet to be made as at 30 June 2014.

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 this lawsuit.

Capital Expenditure, Major Investment and Capital Commitments

During the Period, capital expenditure of the Group on infrastructure and technical improvements amounted to approximately RMB280 million, representing a decrease of approximately RMB182 million as compared to the same period last year.

As at 30 June 2014, the Group had capital commitments of approximately RMB737 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.

Employee Remuneration and Benefits

During the Period, the average employee number of the Group was 7,554. The total amount of remuneration and benefit was about RMB433 million, increased by RMB114 million or 35.7% as compared to the same period last year.

The strategy of human resource management of the Group is the consistency between performance culture and enterprise culture. To realize a win-win situation between the development of the Group and the development of staff, the Group have built a future-oriented resources plan, attracting talents with high-performance and high-potential, establishing diverse salary incentive policies and reinforcing the training as well as the career planning of employees. During the Period, the Group develops the performance systems by breaking down the performance objectives into posts that matters most. It develops the compensation system by offering bonus to each subsidiary based on the completion of performance target and by adjusting employees’ salary based on performance, capability, attitude and market situation. It develops the training system by providing performance improvement program and specialized training for low performance employees, so as to improve their knowledge, capability, skill and sense of belonging. The Group has also set up a share option scheme and a restricted share award scheme as a long-term incentive mechanism for core talented employee and excellent staff and senior and middle management in order to encourage them to grow with the Group. To improve the competitive advantage of human resource, the Group will enhance the passion, potential and spirit of employees by perfecting the system and procedure, emphasizing the employee relationship management and developing personalized training plan for the years to come.



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 2014 to 30 June 2014, except for the deviations of the Code Provisions A.2.1, A.5.1 and E.1.2 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 E.1.2 of the CG Code stipulates that the Chairman of the Board should attend annual general meetings. Mr. Zhang Mi, the Chairman of the Board, was absent from the last annual general meeting of the Company held in May 2014 due to his important business trip at the relevant time.

4. MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted its own code of conduct regarding Directors' dealings 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.



CORPORATE GOVERNANCE REPORT

Specific enquiry has been made of all Directors and all Directors have confirmed that they have complied with the Company's Code and the Model Code throughout the reporting period for the six months ended 30 June 2014.

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

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

5. INDEPENDENT NON-EXECUTIVE DIRECTORS

During the six months ended 30 June 2014, the Board at all times met the requirements of the Listing Rules relating to the appointment of independent non-executive directors representing at least one-third of the board. The Company had six Independent Non-executive Directors with three of whom possessing appropriate professional qualifications or accounting or related financial management expertise so that there is a strong independent element on the Board, which can effectively make independent judgment. One of the Independent Non-executive Directors possessing appropriate professional qualification or accounting or related financial management expertise resigned with effect from 19 March 2014.

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 is also responsible for reviewing the compliance of the corporate governance issues, the corporate governance report and the corporate governance policy.

The Audit Committee comprised all the six Independent Non-executive Directors, namely Qi Daqing (Chairman), Liu Xiaofeng, Tai Kwok Leung, Alexander who resigned on 19 March 2014, Chen Guoming, Shi Xingquan and Guo Yanjun. Upon the resignation of Tai Kwok Leung, Alexander, the number of Independent Non-executive Directors who possess the appropriate professional qualifications or accounting or related financial management expertise was reduced from three to two.

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 interim financial report for the six months ended 30 June 2014 of the Company and the Group.

7. NOMINATION COMMITTEE

Code Provision A.5.1 of the CG Code stipulates that Nomination Committee should be established with the Chairman of the Board or Independent Non-executive Director to be the chairman of the Nomination Committee.

For improving work efficiency, the Nomination Committee of the Group was dismissed with effect from 19 March 2013 and that its duties were taken over by the Board for reviewing its own structure, size and composition regularly (including taking into account of the board diversity policy of the Company) to ensure that it has a balance of expertise, skills and experience board members appropriate for the requirements of the business of the Company.



REPORT OF THE BOARD

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 2014, 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	1,514,774,620 ⁽¹⁾⁽⁵⁾	46.74%
Mr. Ren Jie	Long	Personal interest, corporate interest and settlor of a discretionary trust	1,514,774,620 ⁽²⁾⁽⁵⁾	46.74%
Mr. Liu Zhi	Long	Personal interest, corporate interest and settlor of a discretionary trust	1,514,774,620 ⁽³⁾⁽⁵⁾	46.74%
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 1,187,727,837 Shares. The Trustee of The ZYL Family Trust owns 157,800,000 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 33,227,200 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 23,150,000 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 18,581,000 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 18,804,400 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 12,686 Shares. The Trustee of The Hong Xu Family Trust owns 13,557,400 Shares. The Trustee of a discretionary trust, The LXYY Family Trust, whose settlor is Liu Xuetian (deceased), another member of the Concert Group, owns 6,052,400 Shares. The other members of the Concert Group totally own 47,616,697 Shares.



REPORT OF THE BOARD

- (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 1,187,727,837 Shares. The Trustee of The RJDJ Victory Trust owns 33,227,200 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 157,800,000 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 23,150,000 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 18,581,000 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 18,804,400 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 12,686 Shares. The Trustee of The Hong Xu Family Trust owns 13,557,400 Shares. The Trustee of a discretionary trust, The LXYY Family Trust, whose settlor is Liu Xuetian (deceased), another member of the Concert Group, owns 6,052,400 Shares. The other members of the Concert Group totally own 47,616,697 Shares.

- (3) Liu Zhi individually owns 1,250,000 Shares. Liu Zhi is a member of the Concert Group. He is the settlor of a discretionary trust, The LZWM Family Trust, whose trustee, through Ecotech Enterprises Corporation, holds approximately 29.33% of the issued share capital of Charm Moral International Limited, which in turn is the beneficial owner of approximately 19.09% of the issued share capital of Ample Chance International Limited, which in turn is the beneficial owner of the entire issued share capital of Ally Giant Limited which holds 1,187,727,837 Shares. The Trustee of The LZWM Family Trust owns 23,150,000 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 191,027,200 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 18,581,000 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 18,804,400 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 12,686 Shares. The Trustee of The Hong Xu Family Trust owns 13,557,400 Shares. The Trustee of a discretionary trust, The LXYY Family Trust, whose settlor is Liu Xuetian (deceased), another member of the Concert Group, owns 6,052,400 Shares. The other members of the Concert Group totally own 47,616,697 Shares.

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



REPORT OF THE BOARD

(B) Share Options of the Company

	Long/Short Position	Number of options held – Personal interest	Number of options held – Interest of the Concert Group
Mr. Zhang Mi	Long	13,837,000	26,034,000
Mr. Ren Jie	Long	5,687,000	34,184,000
Mr. Liu Zhi	Long	5,173,000	34,698,000
Mr. Qi Daqing	Long	2,750,000	–
Mr. Liu Xiaofeng	Long	2,750,000	–
Mr. Chen Guoming	Long	2,050,000	–
Mr. Shi Xingquan	Long	2,050,000	–
Mr. Guo Yanjun	Long	1,450,000	–

Saved as disclosed above, at 30 June 2014, none of the Directors and Chief Executives (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for Shares (or warrants or debentures, if applicable) of the Company and its associated corporations required to be disclosed pursuant to the SFO.



REPORT OF THE BOARD

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

The register of substantial shareholders required to be kept under section 336 of Part XV of the SFO shows that, at 30 June 2014, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors and Chief Executives of the Company.

Name	Long/Short Position	Number of Shares held						% of the issued share capital of the Company	
		Share option	Shares Interest	Personal interest	Corporate interest	corporate interest and settlor of a discretionary trust	Interest of the Concert Group		Total
Ally Giant Limited	Long	-	1,187,727,837	-	-	-	366,917,783	1,554,645,620 ⁽¹⁾	47.97%
Ample Chance International Limited	Long	-	-	1,187,727,837	-	-	366,917,783	1,554,645,620 ⁽²⁾	47.97%
Wealth Afflux Limited	Long	-	-	1,187,727,837	-	-	366,917,783	1,554,645,620 ⁽³⁾	47.97%
Ally Smooth Investments Limited	Long	-	-	1,187,727,837	-	-	366,917,783	1,554,645,620 ⁽³⁾	47.97%
Equity Trustee Limited	Long	-	-	-	1,504,258,237	-	-	1,504,258,237 ⁽³⁾	46.42%
<small>(5)(6)(9)(10)(14)(20)(22)</small>									
Charm Moral International Limited	Long	-	-	1,187,727,837	-	-	366,917,783	1,554,645,620 ⁽⁴⁾	47.97%
Mowbray Worldwide Limited	Long	-	-	1,187,727,837	-	-	366,917,783	1,554,645,620 ⁽⁵⁾	47.97%
Ecotech Enterprises Corporation	Long	-	-	1,187,727,837	-	-	366,917,783	1,554,645,620 ⁽⁶⁾	47.97%
Mr. Zheng Yong	Long	2,085,000	20,020,950	1,187,727,837	-	-	344,811,833	1,554,645,620 ⁽⁷⁾	47.97%
Beauty Clear Holdings Limited	Long	-	-	1,187,727,837	-	-	366,917,783	1,554,645,620 ⁽⁸⁾	47.97%
Mr. Zuo Huixian	Long	1,734,000	210,000	-	1,206,532,237	-	346,169,383	1,554,645,620 ⁽⁹⁾	47.97%
Vast & Fast Corporation	Long	-	-	1,187,727,837	-	-	366,917,783	1,554,645,620 ⁽⁹⁾	47.97%
Mr. Zhang Xu	Long	1,833,000	12,686	-	1,201,285,237	-	351,514,697	1,554,645,620 ⁽¹⁰⁾	47.97%
Cavendish Global Corporation	Long	-	-	1,187,727,837	-	-	366,917,783	1,554,645,620 ⁽¹⁰⁾	47.97%
Elegant Scene International Limited	Long	-	-	1,187,727,837	-	-	366,917,783	1,554,645,620 ⁽¹¹⁾	47.97%
Mr. Wang Jiangyang	Long	1,191,000	6,752,600	1,187,727,837	-	-	358,974,183	1,554,645,620 ⁽¹¹⁾	47.97%
Mr. Chen Jun	Long	872,000	2,074,599	1,187,727,837	-	-	363,971,184	1,554,645,620 ⁽¹²⁾	47.97%
Believe Power International Limited	Long	-	-	1,187,727,837	-	-	366,917,783	1,554,645,620 ⁽¹³⁾	47.97%
Mr. Fan Bing	Long	1,744,000	30,000	-	1,206,308,837	-	346,562,783	1,554,645,620 ⁽¹⁴⁾	47.97%
Brondesbury Enterprises Limited	Long	-	-	1,187,727,837	-	-	366,917,783	1,554,645,620 ⁽¹⁴⁾	47.97%
Mr. Zhang Yanyong	Long	1,480,000	3,061,720	1,187,727,837	-	-	362,376,063	1,554,645,620 ⁽¹⁵⁾	47.97%
Mr. Ao Pei	Long	440,000	1,442,308	1,187,727,837	-	-	365,035,475	1,554,645,620 ⁽¹⁶⁾	47.97%
Mr. Tian Diyong	Long	538,000	1,045,400	1,187,727,837	-	-	365,334,383	1,554,645,620 ⁽¹⁷⁾	47.97%
Mr. Shen Dingjian	Long	262,000	1,285,720	1,187,727,837	-	-	365,370,063	1,554,645,620 ⁽¹⁸⁾	47.97%
Benefit Way International Limited	Long	-	-	1,187,727,837	-	-	366,917,783	1,554,645,620 ⁽¹⁹⁾	47.97%
Mr. Liu Xuetian (deceased)	Long	-	-	-	1,193,780,237	-	360,865,383	1,554,645,620 ⁽²⁰⁾	47.97%
Dobson Global Inc.	Long	-	-	1,187,727,837	-	-	366,917,783	1,554,645,620 ⁽²⁰⁾	47.97%
Ms. Qu Yihong	Long	-	-	1,193,780,237	-	-	360,865,383	1,554,645,620 ⁽²¹⁾	47.97%
Ms. Liu Ying	Long	-	-	1,193,780,237	-	-	360,865,383	1,554,645,620 ⁽²¹⁾	47.97%
Mr. Zhou Bing	Long	1,445,000	8,856,714	-	1,187,727,837	-	356,616,069	1,554,645,620 ⁽²²⁾	47.97%



REPORT OF THE BOARD

Name	Long/Short Position	Personal interest		Number of Shares held			Total	% of the issued share capital of the Company
		Share option	Shares Interest	Corporate interest	corporate interest and settlor of a discretionary trust	Interest of the Concert Group		
Darius Enterprises Limited	Long	-	-	1,187,727,837	-	366,917,783	1,554,645,620 ⁽²⁾	47.97%
Ms. Lv Lan	Long	520,000	250,808	1,187,727,837	-	366,146,975	1,554,645,620 ⁽³⁾	47.97%
Mr. Tian Yu	Long	330,000	1,508,478	1,187,727,837	-	365,079,305	1,554,645,620 ⁽⁴⁾	47.97%
Mr. Li Hanqiang	Long	215,000	611,000	1,187,727,837	-	366,091,783	1,554,645,620 ⁽⁵⁾	47.97%
Mr. Liu Yingguo	Long	242,000	240,000	1,187,727,837	-	366,435,783	1,554,645,620 ⁽⁶⁾	47.97%
Mrs. Liu Lulu	Long	243,000	466,400	1,187,727,837	-	366,208,383	1,554,645,620 ⁽⁷⁾	47.97%
The Capital Group Companies, Inc.	Long	-	-	230,071,000	-	-	230,071,000 ⁽⁸⁾	7.09%
Yi Langlin	Long	-	2,156,000	-	-	-	1,554,645,620 ⁽⁹⁾	47.97%
			1,552,489,620 (family interest)					

- (1) Ally Giant Limited is wholly-owned by Ample Chance International Limited and holds 1,187,727,837 Shares.
- (2) Ample Chance International Limited is owned approximately 36% by Ally Smooth Investments Limited, approximately 19.09% by Charm Moral International Limited, approximately 18.51% by Beauty Clear Holdings Limited, approximately 12.71% by Believe Power International Limited, approximately 10.50% by Benefit Way International Limited and approximately 3.19% by a corporation.
- (3) The entire issued share capital of Ally Smooth Investments Limited is owned by Wealth Afflux Limited, which in turn is held by Equity Trustee Limited as trustee of The ZYL Family Trust. The ZYL Family Trust is a discretionary trust established by Zhang Mi as settlor, with Equity Trustee Limited as trustee. The beneficiaries under The ZYL Family Trust are Zhang Mi and his family members. Zhang Mi is a member of the Concert Group.
- (4) Charm Moral International Limited is owned approximately 41.34% by Mowbray Worldwide Limited, approximately 29.33% by Ecotech Enterprises Corporation and approximately 29.33% by Zheng Yong.
- (5) Approximately 41.34% of the issued share capital of Charm Moral International Limited is owned by Mowbray Worldwide Limited, which in turn is held by Equity Trustee Limited as trustee of The RJDJ Victory Trust. The RJDJ Victory Trust is a discretionary trust established by Ren Jie as settlor, with Equity Trustee Limited as trustee. The beneficiaries under The RJDJ Victory Trust are Ren Jie and his family members. Ren Jie is a member of the Concert Group.
- (6) Approximately 29.33% of the issued share capital of Charm Moral International Limited is held by Ecotech Enterprises Corporation, which in turn is held by Equity Trustee Limited as trustee of The LZWM Family Trust. The LZWM Family Trust is a discretionary trust, established by Liu Zhi as settlor, with Equity Trustee Limited as trustee. The beneficiaries under The LZWM Family Trust are Liu Zhi and his family members. Liu Zhi is a member of the Concert Group.
- (7) Zheng Yong is the beneficial owner of approximately 29.33% of the issued share capital of Charm Moral International Limited, which is in turn the beneficial owner of approximately 19.09% of the issued share capital of Ample Chance International Limited. Zheng Yong is a member of the Concert Group.



REPORT OF THE BOARD

- (8) Beauty Clear Holdings Limited is owned approximately 23.63% by Vast & Fast Corporation, approximately 22.77% by Cavendish Global Corporation, approximately 5.76% by Elegant Scene International Limited, approximately 5.10% by Chen Jun, and a total of approximately 42.74% by 3 other shareholders.
- (9) Approximately 23.63% of issued share capital of Beauty Clear Holdings Limited is owned by Vast & Fast Corporation, which in turn is held by Equity Trustee Limited as trustee of The ZHH Family Trust. The ZHH Family Trust is a discretionary trust, established by Zuo Huixian as settlor, with Equity Trustee Limited as trustee. The beneficiaries under The ZHH Family Trust are Zuo Huixian and his family members. Zuo Huixian is a member of the Concert Group.
- (10) Approximately 22.77% of the issued share capital of Beauty Clear Holdings Limited is held by Cavendish Global Corporation, which in turn is held by Equity Trustee Limited as trustee of The Hong Xu Family Trust. The Hong Xu Family Trust is a discretionary trust, established by Zhang Xu as settlor, with Equity Trustee Limited as trustee. The beneficiaries under The Hong Xu Family Trust are Zhang Xu and his family members. Zhang Xu is a member of the Concert Group.
- (11) Approximately 5.76% of the issued share capital of Beauty Clear Holdings Limited is held by Elegant Scene International Limited, which in turn is wholly-owned by Wang Jiangyang. Beauty Clear Holdings Limited is the beneficial owner of approximately 18.51% of the issued share capital of Ample Chance International Limited. Wang Jiangyang is a member of the Concert Group.
- (12) Chen Jun is the beneficial owner of approximately 5.10% of the issued share capital of Beauty Clear Holdings Limited, which in turn is the beneficial owner of approximately 18.51% of the issued share capital of Ample Chance International Limited. Chen Jun is a member of the Concert Group.
- (13) Believe Power International Limited is owned approximately 32.72% by Brondesbury Enterprises Limited, approximately 29.16% by Zhang Yanyong, approximately 7.30% by Ao Pei, approximately 2.85% by Tian Diyong, approximately 2.24% by Shen Dingjian, and a total of approximately 25.73% by 4 other shareholders.
- (14) Approximately 32.72% of the issued share capital of Believe Power International Limited is held by Brondesbury Enterprises Limited, which in turn is held by Equity Trustee Limited as trustee of The FBX Family Trust. The FBX Family Trust is a discretionary trust, established by Fan Bing as settlor, with Equity Trustee Limited as trustee. The beneficiaries under The FBX Family Trust are Fan Bing and his family members. Fan Bing is a member of the Concert Group.
- (15) Zhang Yanyong is the beneficial owner of approximately 29.16% of the issued share capital of Believe Power International Limited, which in turn is the beneficial owner of approximately 12.71% of the issued share capital of Ample Chance International Limited. Zhang Yanyong is a member of the Concert Group.
- (16) Ao Pei is the beneficial owner of approximately 7.30% of the issued share capital of Believe Power International Limited, which in turn is the beneficial owner of approximately 12.71% of the issued share capital of Ample Chance International Limited. Ao Pei is a member of the Concert Group.
- (17) Tian Diyong is the beneficial owner of approximately 2.85% of the issued share capital of Believe Power International Limited, which in turn is the beneficial owner of approximately 12.71% of the issued share capital of Ample Chance International Limited. Tian Diyong is a member of the Concert Group.
- (18) Shen Dingjian is the beneficial owner of approximately 2.24% of the issued share capital of Believe Power International Limited, which in turn is the beneficial owner of approximately 12.71% of the issued share capital of Ample Chance International Limited. Shen Dingjian is a member of the Concert Group.
- (19) Benefit Way International Limited is owned approximately 35.57% by Dobson Global Inc., approximately 19.36% by Darius Enterprises Limited, approximately 6.49% by Lv Lan, approximately 3.91% by Tian Yu, approximately 3.50% by Li Hangqiang, approximately 1.52% by Liu Yingyuo, approximately 1.22% by Liu Lulu and approximately 28.43% by 6 other shareholders.



REPORT OF THE BOARD

- (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 LXYX Family Trust. The LXYX Family Trust is a discretionary trust, established by Liu Xuetian (deceased) as settlor, with Equity Trustee Limited as trustee. The beneficiaries under The LXYX 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 1,193,780,237 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 through various directly wholly-owned subsidiaries collectively holds 230,071,000 Shares.
- (29) Yi Langlin, spouse of Zhang Mi, is deemed to be interested in 1,554,645,620 Shares.

Save as disclosed above, to the best of the Directors and the Chief Executives of the Company's knowledge, as at 30 June 2014, 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.



REPORT OF THE BOARD

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 2014, none of the grantees has exercised the share options granted to him under the Pre-IPO share option scheme and 3,466,000 shares options have been lapsed.

Each share option granted under the Pre-IPO share option scheme is exercisable within a period of five years commencing from 7 March 2008 (the "Listing Date") and the vesting period is ten years from the date of grant. As at 30 June 2014, the total number of the share options granted (if not cancelled) can be exercised under the Pre-IPO share option scheme.

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

(B) Share Option Scheme after Listing

Upon conditional approval by resolution in writing by all shareholders of the Company on 21 January 2008, the Company adopted a share option scheme (the "Share Option Scheme"). Details of the grant under the Share Option Scheme as at 30 June 2014 were as follows:

Date of grant	Number of share options granted	Exercise price per Share HK\$	Exercise period of share options	Valid period of the share options
15 April 2009	60,000,000	1.27	up to 30% of the share options granted to each grantee from 1 December 2009 to 14 April 2010; up to 60% of the share options granted to each grantee on or before 14 April 2011; all the remaining share options granted to each grantee on or after 15 April 2011	up to 14 April 2019
11 October 2010	2,200,000	1.05	up to 40% of the share options granted to each grantee from 25 October 2010 to 10 October 2011; up to 70% of the share options granted to each grantee on or before 10 October 2012; all the remaining share options granted to each grantee on or after 11 October 2012	up to 10 October 2020



REPORT OF THE BOARD

Date of grant	Number of share options granted	Exercise price per Share HK\$	Exercise period of share options	Valid period of the share options
20 June 2011	7,600,000	0.83	up to 30% of the share options granted to each grantee from 19 July 2011 to 19 June 2012; up to 60% of the share options granted to each grantee on or before 19 June 2013; all the remaining share options granted to each grantee on or after 20 June 2013	up to 19 June 2021
5 April 2012	15,400,000	1.19	Up to 30% of the share options granted to each grantee from 5 April 2013 to 4 April 2014; up to 60% of the share options granted to each grantee on or before 4 April 2015; all the remaining share options granted to each grantee on or after 5 April 2015	up to 4 April 2022
24 March 2014	3,200,000	2.024	up to 30% of the share options granted to each grantee from 24 April 2014 to 23 April 2015 ; up to 60% of the share options granted to each grantee on or before 23 April 2016 ;all the remaining share options granted to each grantee on or after 24 April 2016	up to 23 March 2024



REPORT OF THE BOARD

Particulars and movements of share options under the Share Option Scheme during the six months ended 30 June 2014 were as follows:

Name or category of participant	Outstanding as at 01/01/2014	Number of share options				Outstanding as at 30/06/2014	Date of grant (DD/MM/YY)	Exercise period (DD/MM/YY)	Exercise price per Share HK\$	Price per Share immediately preceding the grant HK\$
		Granted during the six months ended 30 June 2014	Exercised during the six months ended 30 June 2014	Lapsed during the six months ended 30 June 2014	Cancelled during the six months ended 30 June 2014					
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
	-	550,000	-	-	-	550,000	24/03/2014	24/04/2014-23/03/2024	2.024	2.02
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
	-	750,000	-	-	-	750,000	24/03/2014	24/04/2014-23/03/2024	2.024	2.02
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
	-	750,000	-	-	-	750,000	24/03/2014	24/04/2014-23/03/2024	2.024	2.02
Mr. Tai Kwok Leung, Alexander	850,000	-	850,000	-	-	0	15/04/2009	01/12/2009-14/04/2019	1.27	1.29
(Resigned with effect from 19 March 2014)	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
	-	550,000	-	-	-	550,000	24/03/2014	24/04/2014-23/03/2024	2.024	2.02
Mr. Guo Yanjun	850,000	-	-	-	-	850,000	20/06/2011	19/07/2011-19/06/2021	0.83	0.79
	-	600,000	-	-	-	600,000	24/03/2014	24/04/2014-23/03/2024	2.024	2.02
Sub-total	18,447,000	3,200,000	850,000	-	-	20,797,000				



REPORT OF THE BOARD

Name or category of participant	Outstanding as at 01/01/2014	Number of share options				Outstanding as at 30/06/2014	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\$
		Granted during the six months ended 30 June 2014	Exercised during the six months ended 30 June 2014	Lapsed during the six months ended 30 June 2014	Cancelled during the six months ended 30 June 2014					
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 Di Yong	195,000	-	12,000	-	-	183,000	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	175,000	-	-	-	-	175,000	05/04/2012	05/04/2013-04/04/2022	1.19	1.20
Mr. Tian Yu	90,000	-	-	-	-	90,000	05/04/2012	05/04/2013-04/04/2022	1.19	1.20
Mr. Liu Yingguo	117,000	-	-	-	-	117,000	15/04/2009	01/12/2009-14/04/2019	1.27	1.29
Ms. Liu Lulu	108,000	-	-	-	-	108,000	15/04/2009	01/12/2009-14/04/2019	1.27	1.29
Sub-total	5,410,000	-	12,000	-	-	5,398,000				
Other										
Employee	25,170,200	-	371,000	-	-	24,799,200	15/04/2009	01/12/2009-14/04/2019	1.27	1.29
Employee	251,000	-	-	-	-	251,000	11/10/2010	25/10/2010-10/10/2020	1.05	1.01
Employee	2,093,000	-	-	-	-	2,093,000	20/06/2011	19/07/2011-19/06/2021	0.83	0.79
Employee	14,303,000	-	135,000	-	-	14,168,000	05/04/2012	05/04/2013-04/04/2022	1.19	1.20
Sub-total	41,817,200	-	506,000	-	-	41,311,200				
Total	65,674,200	3,200,000	1,368,000	-	-	67,506,200				



REPORT OF THE BOARD

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 2014, the Trustee has purchased 97,817,000 of the Company's Shares, accounting for 3.01% of the issued share capital of the Company; a total of 35,917,700 Shares were granted to the Selected Participants and out of which 190,000 Shares were subsequently cancelled.

Particulars and movements of the Shares held under the Restricted Share Award Scheme during the six months ended 30 June 2014 were as follows:

	Number of Shares					Outstanding as at 30/06/2014
	Purchased during the six months ended 30 June 2014	Granted during the six months ended 30 June 2014	Vested during the six months ended 30 June 2014	Cancelled during the six months ended 30 June 2014	Outstanding as at 30/06/2014	
Total	62,089,300	-	-	-	-	62,089,300

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's Shares during the six months ended 30 June 2014.

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

Hong Kong, 21 August 2014



REVIEW REPORT



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 34 to 62 which comprises the consolidated statement of financial position of Honghua Group Limited as at 30 June 2014 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-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard (“IAS”) 34, *Interim financial reporting*, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with IAS 34.

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

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2014 is not prepared, in all material respects, in accordance with IAS 34, *Interim financial reporting*.

KPMG

Certified Public Accountants

8th Floor, Prince’s Building

10 Chater Road

Central, Hong Kong

21 August 2014



CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the six months ended 30 June 2014 — unaudited • (Expressed in Renminbi)

	Note	Six months ended 30 June	
		2014 RMB'000	2013 RMB'000
Turnover	3	3,838,879	2,486,357
Cost of sales		(2,954,341)	(1,686,534)
Gross profit		884,538	799,823
Other revenue	4	32,782	38,764
Other net (expenses)/income		(25,370)	2,482
Selling expenses		(284,874)	(246,911)
General and administrative expenses		(269,666)	(229,717)
Other operating income/(expenses)	4	28,288	(4,663)
Profit from operations		365,698	359,778
Finance income		53,299	23,397
Finance expenses		(148,289)	(72,539)
Net finance expenses	5(a)	(94,990)	(49,142)
Share of loss from joint ventures		(1,508)	(4,537)
Profit before taxation	5	269,200	306,099
Income tax expenses	6	(56,868)	(49,753)
Profit for the period		212,332	256,346
Attributable to:			
Equity shareholders of the Company		199,745	239,346
Non-controlling interests		12,587	17,000
Profit for the period		212,332	256,346
Earnings per share (RMB cents)			
Basic	7(a)	6.286	7.549
Diluted	7(b)	6.235	7.439

The notes on pages 41 to 62 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 2014 — unaudited • (Expressed in Renminbi)

	Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
Profit for the period	212,332	256,346
Other comprehensive income for the period:		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Net movement in the fair value reserve of available-for-sales securities	(195)	–
Exchange differences on translation of financial statements of operations outside the People's Republic of China ("PRC"), net of tax	22,609	(26,637)
Total comprehensive income for the period	234,746	229,709
Attributable to:		
Equity shareholders of the Company	220,940	212,580
Non-controlling interests	13,806	17,129
Total comprehensive income for the period	234,746	229,709

The notes on pages 41 to 62 form part of this interim financial report.



CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2014 — unaudited • (Expressed in Renminbi)

	Note	30 June 2014 RMB'000	31 December 2013 RMB'000
Non-current assets			
Fixed assets	8		
— Property, plant and equipment		2,181,879	2,148,103
— Interests in leasehold land held for own use under operating leases		358,370	361,890
— Freehold land		4,961	4,916
		2,545,210	2,514,909
Deposits paid for acquisition of leasehold land		162,823	147,320
Construction in progress		822,324	728,019
Intangible assets	9	205,223	213,637
Goodwill		13,484	13,484
Interests in joint ventures		46,393	47,924
Interest in an associate		9,000	9,000
Other investment		74,053	74,053
Trade and other receivables	11	636,135	676,050
Deferred tax assets		149,644	123,975
		4,664,289	4,548,371
Current assets			
Inventories	10	2,924,094	2,801,307
Trade and other receivables	11	4,542,962	3,961,427
Gross amount due from customers for contract work	12	215,847	176,158
Amounts due from related companies		42,658	44,819
Current tax recoverable		9,544	16,406
Other financial assets		190,757	804,102
Pledged bank deposits	13	925,183	593,337
Bank deposits maturing over three months		9,191	8,619
Cash and cash equivalents		1,539,575	1,274,509
		10,399,811	9,680,684
Current liabilities			
Interest-bearing borrowings	14	3,561,268	3,273,544
Trade and other payables	15	4,810,329	4,240,962
Amounts due to related companies		23,554	27,465
Current tax payable		74,058	51,453
Provisions	16	74,591	168,421
		8,543,800	7,761,845



CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2014 — unaudited • (Expressed in Renminbi)

	Note	30 June 2014 RMB'000	31 December 2013 RMB'000
Net current assets		1,856,011	1,918,839
Total assets less current liabilities		6,520,300	6,467,210
Non-current liabilities			
Interest-bearing borrowings	14	1,427,742	1,457,953
Deferred tax liabilities		41,919	50,611
Trade and other payables	15	8,386	—
Total non-current liabilities		1,478,047	1,508,564
NET ASSETS		5,042,253	4,958,646
EQUITY	17		
Share capital		300,942	300,833
Reserves		4,535,359	4,462,518
Total equity attributable to equity shareholders of the Company		4,836,301	4,763,351
Non-controlling interests		205,952	195,295
TOTAL EQUITY		5,042,253	4,958,646

Approved and authorised for issue by the board of directors on 21 August 2014

Zhang Mi
Director

Ren Jie
Director

The notes on pages 41 to 62 form part of this interim financial report.



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2014 — unaudited • (Expressed in Renminbi)

	Note	Attributable to equity shareholders of the Company											Total Equity RMB'000
		Share Capital RMB'000	Share premium RMB'000	Other reserve RMB'000	Capital reserve RMB'000	Surplus reserve RMB'000	Exchange reserve RMB'000	Fair value reserve RMB'000	Shares held for award scheme RMB'000	Retained profits RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	
At 1 January 2014		300,833	2,497,699	51,210	521,110	349,748	(258,001)	555	(124,618)	1,424,815	4,763,351	195,295	4,958,646
Changes in equity for the six months ended 30 June 2014													
Profit for the period		-	-	-	-	-	-	-	-	199,745	199,745	12,587	212,332
Other comprehensive income		-	-	-	-	-	21,416	(221)	-	-	21,195	1,219	22,414
Total comprehensive income		-	-	-	-	-	21,416	(221)	-	199,745	220,940	13,806	234,746
Equity-settled share-based transactions	17(a)	-	-	-	1,590	-	-	-	-	-	1,590	-	1,590
Shares issued under share option scheme	17(a)	109	1,830	-	(573)	-	-	-	-	-	1,366	-	1,366
Options lapsed under share option schemes		-	-	-	(181)	-	-	-	-	181	-	-	-
Dividend paid to non-controlling interests		-	-	-	-	-	-	-	-	-	-	(3,149)	(3,149)
Dividends approved in respect of the previous financial year	17(c)	-	-	-	-	-	-	-	-	(150,946)	(150,946)	-	(150,946)
At 30 June 2014		300,942	2,499,529	51,210	521,946	349,748	(236,585)	334	(124,618)	1,473,795	4,836,301	205,952	5,042,253



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2014 — unaudited • (Expressed in Renminbi)

	Note	Attributable to equity shareholders of the Company											Total Equity RMB'000
		Share Capital RMB'000	Share premium RMB'000	Other reserve RMB'000	Capital reserve RMB'000	Surplus reserve RMB'000	Exchange reserve RMB'000	Fair value reserve RMB'000	Shares held for share award scheme RMB'000	Retained profits RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	
At 1 January 2013		300,192	2,486,988	51,592	522,535	311,481	(204,141)	-	(49,973)	1,037,337	4,456,011	132,716	4,588,727
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		-	-	-	-	-	-	-	-	-	-	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)	-	-	-	34,379	19,470	17,490	-	17,490
Equity-settled share-based transactions	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)	-	(161,827)	1,146,134	4,449,487	180,773	4,630,260

The notes on pages 41 to 62 form part of this interim financial report.



CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2014 — unaudited • (Expressed in Renminbi)

	Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
Operating activities		
Cash generated from/(used in) operations	21,971	(1,213,906)
Income tax paid	(61,720)	(120,388)
Net cash used in operating activities	(39,749)	(1,334,294)
Investing activities		
Payment for addition of fixed assets and construction in progress	(306,353)	(257,026)
Net proceeds from sales and purchase of other financial assets	618,034	108,492
Other cash flows arising from investing activities	25,957	(74,360)
Net cash generated from/(used in) investing activities	337,638	(222,894)
Financing activities		
Dividends paid to equity shareholders of the Company	(150,946)	(150,102)
Net proceeds from new and repayment of bank loans	244,093	2,167,895
Other cash flows arising from financing activities	(131,729)	(201,894)
Net cash (used in)/generated from financing activities	(38,582)	1,815,899
Net increase in cash and cash equivalents	259,307	258,711
Cash and cash equivalents at 1 January	1,274,509	984,131
Effect of foreign exchange rates changes	5,759	(4,158)
Cash and cash equivalents at 30 June	1,539,575	1,238,684

The notes on pages 41 to 62 form part of this interim financial report.



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT

(Expressed in Renminbi)

1 BASIS OF PRESENTATION AND PREPARATION

(a) General information

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 2014 comprises the company and its subsidiaries (collectively referred to as the “group”) and the group’s interests in joint ventures and an associate.

There are no significant changes in composition of the group that 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 (“IAS”) 34, *Interim financial reporting*, issued by the International Accounting Standards Board (“IASB”). It was authorised for issue on 21 August 2014.

The interim financial report has been prepared in accordance with the same accounting policies adopted by the group in the 2013 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2014 annual financial statements. Details of any changes in accounting policies are set out in note 2.

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

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 2013 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”).



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT

(Expressed in Renminbi)

1 BASIS OF PRESENTATION AND PREPARATION (continued)

(b) Basis of preparation (continued)

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 review report to the board of directors is included on page 33.

The financial information relating to the financial year ended 31 December 2013 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 2013 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 2014.

2 CHANGES IN ACCOUNTING POLICIES

The IASB has issued a number of amendments to IFRSs and one new Interpretation that are first effective for the current accounting period of the group and the company. Of these, the following developments are relevant to the group’s financial statements:

- Amendments to IFRS 10, IFRS 12 and IAS 27, *Investment entities*
- Amendments to IAS 32, *Offsetting financial assets and financial liabilities*
- Amendments to IAS 36, *Recoverable amount disclosures for non-financial assets*

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

Amendments to IFRS 10, IFRS 12 and IAS 27, *Investment entities*

The amendments provide consolidation relief to those parents which qualify to be an investment entity as defined in the amended IFRS 10. Investment entities are required to measure their subsidiaries at fair value through profit and loss. These amendments do not have an impact on the group’s interim financial report as Honghua Group Limited does not qualify to be an investment entity.

Amendments to IAS 32, *Offsetting financial assets and financial liabilities*

The amendments to IAS 32 clarify the offsetting criteria in IAS 32. The amendments do not have an impact on the group’s interim financial report as they are consistent with policies already adopted by the group.

Amendments to IAS 36, *Recoverable amount disclosures for non-financial assets*

The amendments to IAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or CGU whose recoverable amount is based on fair value less costs of disposal. The group has not early adopted the amendments and the initial adoption in 2014 has no material impact on the interim financial report.



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT

(Expressed in Renminbi)

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 mainly represents revenue recognised for the sales value of goods supplied, revenue from construction contracts 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 2014, the group's customer base includes two customers (six months ended 30 June 2013: three customers) with whom transactions have exceeded 10% of the group's revenue and representing a total of 38% (six months ended 30 June 2013: 52%) of the group's revenue. For the six months ended 30 June 2014, revenues from sales of land drilling rigs and related parts and components to these customers arose in the Europe and Central Asia regions and Middle East (six months ended 30 June 2013: PRC, Americas, and Europe and Central Asia regions).

(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 chief operating decision maker 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.

Information regarding the group's reportable segments as provided to the group's chief operating decision maker for the purposes of resource allocation and assessment of segment performance for the period is set out below.

	Land drilling rigs		Offshore drilling rigs		Parts and components		Oil and gas engineering services		Total	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
Revenue from external customers	2,723,901	1,750,438	52,776	-	857,769	614,002	204,433	121,917	3,838,879	2,486,357
Inter-segment revenue	-	-	299	10,008	604,006	551,660	25,641	-	629,946	561,668
Reportable segment revenue	2,723,901	1,750,438	53,075	10,008	1,461,775	1,165,662	230,074	121,917	4,468,825	3,048,025
Reportable segment profit/(loss)	426,032	310,391	(46,672)	(28,596)	43,914	76,311	(60,917)	(2,980)	362,357	355,126

Given the manufacturing processes of the group's business are in a form of vertical integration, the group's chief operating decision maker considered segment assets and liabilities information was not relevant in assessing performance of and allocating resources to the operating segments. In the first half of 2014, such information was not reviewed by the group's chief operating decision maker. Accordingly, no segment assets and liabilities are presented.



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT

(Expressed in Renminbi)

3 TURNOVER AND SEGMENT REPORTING (continued)

(b) Segment reporting (continued)

(i) Reconciliation of reportable segment profit

	Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
Profit		
Reportable segment profit	362,357	355,126
Elimination of inter-segment profits	3,419	(13,597)
Reportable segment profit derived from group's external customers	365,776	341,529
Share of loss from joint ventures	(1,508)	(4,537)
Other revenue, other operating expenses and other net (expense)/income	35,700	36,583
Net finance expenses	(94,990)	(49,142)
Unallocated head office and corporate expenses	(35,778)	(18,334)
Consolidated profit before taxation	269,200	306,099

(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.



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT

(Expressed in Renminbi)

4 OTHER REVENUE AND OTHER OPERATING INCOME/(EXPENSES)

Other revenue

	Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
Sales of scrap materials	10,154	15,475
Government grants (note)	13,738	8,863
Rental income	–	5,939
Repair services income	2,833	3,158
Others	6,057	5,329
	32,782	38,764

Note: Government grants are subsidies received from government mainly for expenses reimbursement of certain projects or industry development encouragement.

Other operating income/(expenses)

	Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
Reversal of provision for a legal claim with former sales agency (note 16(b))	33,241	–
Others	(4,953)	(4,663)
	28,288	(4,663)



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT

(Expressed in Renminbi)

5 PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
(a) Net finance expenses		
Interest income on bank deposits	(27,488)	(12,438)
Interest income from long-term receivables	(20,927)	(8,896)
Net gain on disposal of other financial assets	(4,884)	(1,356)
Net foreign exchange gain	–	(707)
Finance income	(53,299)	(23,397)
Net foreign exchange loss	26,242	–
Bank charges	29,202	18,094
Interest on interest-bearing borrowings wholly repayable within five years	115,261	72,953
Less: interest expense capitalised into assets under construction*	(22,416)	(18,508)
Finance expenses	148,289	72,539
Net finance expenses	94,990	49,142

* The borrowing costs have been capitalised at a rate of 1.83% – 7.80% per annum (six months ended 30 June 2013: 1.17% – 7.78%).



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT

(Expressed in Renminbi)

5 PROFIT BEFORE TAXATION (continued)

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

	Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
(b) Staff costs		
Contributions to defined contribution retirement schemes	66,005	42,691
Equity-settled share-based payment expenses	1,590	52,743
Salaries, wages and other benefits	365,389	223,117
	432,984	318,551
(c) Other items		
Amortisation and depreciation		
– leasehold land held for own use under operating leases	3,531	3,191
– property, plant and equipment	130,502	82,773
– intangible assets	20,296	17,191
(Reversal of)/impairment losses on trade and other receivables	(2,523)	15,937
Reversal of provision for a legal claim with former sales agency (note 16(b))	(33,241)	–
Research and development costs other than amortisation costs	32,770	18,478



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT

(Expressed in Renminbi)

6 INCOME TAX EXPENSES

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

	Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
Current tax – Hong Kong Profits Tax		
Provision for the period	2,842	2,229
Current tax – PRC		
Provision for the period	81,463	29,655
(Over)/under-provision in respect of prior years	(240)	97
	81,223	29,752
Current tax – Other jurisdictions		
Provision for the period	5,701	3,070
Under-provision in respect of prior years	1,423	3,573
	7,124	6,643
Current tax – total	91,189	38,624
Deferred tax		
(Reversal)/origination of temporary differences	(34,321)	11,129
Income tax expenses	56,868	49,753



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT

(Expressed in Renminbi)

6 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 2014.

(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 2013 and 2014, 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 2013 and 2014.

(b) *Sichuan Honghua Electric Co., Ltd. ("Honghua Electric")*

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. Honghua Electric applied for and successfully obtained the Tax Concession with 15% preferential income tax rate during the year ended 31 December 2013. 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.

(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. During the year ended 31 December 2013, the company's PRC subsidiary obtained approval from the respective tax authority for paying withholding tax of dividend income at the reduced tax rate of 5%. 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.



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT

(Expressed in Renminbi)

7 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2014 is based on the profit attributable to equity shareholders of the company for the period of RMB199,745,000 (six months ended 30 June 2013: RMB239,346,000) and the weighted average number of shares of 3,177,556,000 (six months ended 30 June 2013: 3,170,607,000 shares) in issue during the interim period.

Weighted average number of ordinary shares

	Six months ended 30 June	
	2014 '000	2013 '000
Issued ordinary shares at 1 January	3,239,167	3,231,132
Effect of the share award scheme (see note 17(b))	(62,089)	(64,594)
Effect of share options exercised	478	4,069
Weighted average number of ordinary shares at 30 June	3,177,556	3,170,607

(b) Diluted earnings per share

The calculation of diluted earnings per share for the six months ended 30 June 2014 is based on the profit attributable to equity shareholders of the company of RMB199,745,000 (six months ended 30 June 2013: RMB239,346,000) and the weighted average number of shares of 3,203,594,000 (six months ended 30 June 2013: 3,217,379,000 shares), calculated as follows:

Weighted average number of ordinary shares (diluted)

	Six months ended 30 June	
	2014 '000	2013 '000
Weighted average number of ordinary shares at 30 June	3,177,556	3,170,607
Effect of deemed distribution of shares under the share award scheme	–	606
Effect of deemed issue of shares under the share option scheme	26,038	46,166
Weighted average number of ordinary shares (diluted) at 30 June	3,203,594	3,217,379

8 FIXED ASSETS

During the six months ended 30 June 2014, the group acquired items of fixed assets with a cost of RMB67,747,000 (six months ended 30 June 2013: RMB103,107,000), primarily in respect of plants and machineries used for production. In additions, certain items of buildings, plant and machineries were transferred from construction in progress and inventories at their respective carrying amount of RMB78,953,000 and RMB17,301,000 (six months ended 30 June 2013: RMB442,197,000 and RMB175,750,000).



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT

(Expressed in Renminbi)

9 INTANGIBLE ASSETS

During the six months ended 30 June 2014, the group capitalised development cost of RMB9,645,000 (six months ended 30 June 2013: RMB16,232,000).

10 INVENTORIES

During the six months ended 30 June 2014, write-down of inventories to estimated net realisable value of RMB39,467,000 has been recognised as expense in profit or loss.

During the six months ended 30 June 2013, provision for obsolete inventories of RMB10,291,000 was reversed. 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.

11 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 2014 RMB'000	31 December 2013 RMB'000
Within 3 months	2,671,027	2,052,095
3 to 12 months	439,797	719,894
Over 1 year	385,565	344,785
Trade debtors and bills receivable, net of allowance for doubtful debts (note (i))	3,496,389	3,116,774
Finance lease receivable	100,138	–
Value-added tax recoverable	354,749	275,664
Prepayments	938,800	899,616
Other receivables (note (ii))	289,021	345,423
	5,179,097	4,637,477
Representing:		
Current portion	4,542,962	3,961,427
Non-current portion (note (iii))	636,135	676,050
	5,179,097	4,637,477



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT

(Expressed in Renminbi)

11 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 issues progress billing at different stages such as upon the signing of contracts and upon the delivery of products. The exact percentage of each part of payment varies from contract to contract. Trade receivables are due for payment within 90 days from the date of billing.
- (ii) Included in other receivables of the group as at 30 June 2014 is an amount of RMB32,317,000 (31 December 2013: RMB32,317,000) to be indemnified by some beneficiary owners of the company ("Indemnifiers") in relation to a legal claim, details of which are set in note 16(a).
- (iii) Non-current trade and other receivables as at 30 June 2014 include receivables of RMB376,857,000 (31 December 2013: RMB441,908,000) arising from instalment sales which are due for payment 1 year after the end of the reporting period and are discounted at market interest rate, finance lease receivables of RMB69,669,000 (31 December 2013: Nil), prepayment for acquisition of fixed assets of RMB146,549,000 (31 December 2013: RMB 191,673,000) and deposit placed as security for borrowings of RMB43,060,000 (31 December 2013: RMB42,469,000).
- (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.

12 CONSTRUCTION CONTRACTS

The revenue from contract work performed recognised during six months ended 30 June 2014 is RMB52,776,000 (six months ended 30 June 2013: Nil). The aggregate amount of costs incurred plus recognised profits less recognised losses to date, included in gross amount due from customers for contract work at 30 June 2014 is RMB249,385,000 (31 December 2013: RMB196,609,000). Advances received from customers under open construction contracts amounted to RMB33,538,000 (31 December 2013: RMB20,451,000).

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.



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT

(Expressed in Renminbi)

14 INTEREST-BEARING BORROWINGS

The interest-bearing borrowings were as follows:

	30 June 2014 RMB'000	31 December 2013 RMB'000
Bank loans — secured	1,467,230	1,294,961
Bank loans — unsecured	3,521,780	3,436,536
Total	4,989,010	4,731,497
Representing:		
Current portion	3,561,268	3,273,544
Non-current portion	1,427,742	1,457,953
Total	4,989,010	4,731,497

Interest-bearing borrowings of RMB1,467,230,000 (31 December 2013: RMB1,294,961,000) were secured by land use rights with a carrying amount of RMB144,626,000 (31 December 2013: RMB146,174,000), property, plant and equipment with a carrying amount of RMB573,240,000 (31 December 2013: RMB571,253,000), bank deposits of RMB180,000,000 (31 December 2013: RMB230,811,000), and trade receivables of RMB511,965,632 (31 December 2013: RMB184,678,000) of the Group.

The interest-bearing borrowings at 30 June 2014 bear annual interest ranging from 1.05% – 7.50% (31 December 2013: 1.05% – 7.22%).



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT

(Expressed in Renminbi)

15 TRADE AND OTHER PAYABLES

	30 June 2014 RMB'000	31 December 2013 RMB'000
Trade payables	1,817,760	1,823,918
Bills payable	1,198,081	937,008
Receipts in advance	1,368,507	1,005,880
Other payables	434,367	474,156
	4,818,715	4,240,962
Representing:		
Current portion	4,810,329	4,240,962
Non-current portion	8,386	–
	4,818,715	4,240,962

Bills payable as at 30 June 2014 and 31 December 2013 were secured by certain pledged bank deposits (see note 13).

Except for the non-current trade and other payables, 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 2014 RMB'000	31 December 2013 RMB'000
Within 3 months	1,622,943	1,793,608
3 months to 6 months	944,775	642,406
6 months to 1 year	246,157	168,282
Over 1 year	201,966	156,630
	3,015,841	2,760,926



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT

(Expressed in Renminbi)

16 PROVISIONS

	30 June 2014 RMB'000	31 December 2013 RMB'000
Provision for a legal claim with former shareholders (note (a))	32,317	32,317
Provision for a legal claim with former sales agency (note (b))	-	99,078
Provision for product warranties	42,274	37,026
	74,591	168,421

Notes:

- (a) Details of the legal claim with former shareholders were disclosed in note 31(a) of the 2013 financial statements. During the period ended 30 June 2014, Sichuan Higher People's Court issued an order (the "Order") ((2012) Chuan Min Zhong Zi No. 442) that the judgement made by Chengdu Intermediate Court of ((2008) Cheng Min Chu Zi No. 53) is set aside and retrial is ordered.
- (b) Details of the legal claim with former sales agency were disclosed in note 31(b) of the 2013 financial statements. Provision of compensation, the related attorney's fees and other fees of approximately USD16,000,000 (equivalent to RMB99,078,000) was made as at 31 December 2013. During the six months ended 30 June 2014, Honghua Company and Honghua America LLC, the subsidiaries of the Group and the former sales agency (the "Claimant") reached a Full Settlement and Release Agreement on the claim at a settlement sum of USD10,750,000. In view of the final settlement with the Claimant, a reversal of provision of USD5,250,000 (equivalent to RMB33,241,000) was credited to "other operating income" in the consolidated statement of profit or loss under this lawsuit during the period.

17 SHARE CAPITAL, RESERVES AND DIVIDENDS

(a) Share option scheme

During the six months ended 30 June 2014, equity-settled share options were granted to certain directors of the group to subscribe for 3,200,000 new shares of the company at an exercise price of HK\$2.02 per share.

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 2014, 1,368,000 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 and 2012 with a weighted average exercise price of HK\$1.26.

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 2008, 2010 and 2012 with a weighted average exercise price of HK\$1.26.



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT

(Expressed in Renminbi)

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 six months period ended 30 June 2013, the Trustee acquired 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 RMB146,233,000. No shares were acquired by the Trustee under the Scheme during the six months ended 30 June 2014. As at 30 June 2014, 62,089,000 shares were held by the Trustee under the Scheme (31 December 2013: 62,089,000 shares).

During the year ended 31 December 2013, the company granted restricted shares in respect of a total of 35,917,700 ordinary shares of the company to selected participants at a price of HK\$1.27 each of which 190,000 of the restricted shares granted were subsequently cancelled. 17,428,850 of the restricted shares were vested on 20 May 2013 and 18,298,850 of the restricted shares were vested on 20 December 2013.

The fair value of restricted shares granted to employees is measured based on the closing price of the 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	
	2014 RMB'000	2013 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 2013: HK\$0.06 per share)	150,946	150,102

The board of directors does not recommend the payment of an interim dividend for the six months ended 30 June 2014 (six months ended 30 June 2013: Nil).



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18 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

The following table presents the fair value of the group's other investment and other financial assets measured at the end of the reporting period, categorised into the three-level fair value hierarchy as defined in IFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

Level 3 valuations: Fair value measured using significant unobservable inputs.

The group has an established control framework with respect to the measurement of fair values. The management has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values and reports directly to the management.

The management regularly reviews significant unobservable inputs and valuation adjustments. If third party information is used to measure fair values, then the management assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

The fair value measurement of other financial assets is categorised into Level 3 in the fair value hierarchy.

During the periods ended 30 June 2013 and 2014, there were no transfers into or out of Level 3. The group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.



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18 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

The movements during the period in the balance of these Level 3 fair value measurements are as follows:

	Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
<i>Other financial assets:</i>		
At 1 January	804,102	315,036
Net proceeds from purchases or sales	(618,034)	(45,036)
Gain on disposal recognised in profit or loss	4,884	–
Net unrealised gains recognised in other comprehensive income during the period	(195)	–
At 30 June	190,757	270,000

The gain arising from the disposal of the other financial assets are presented in “net finance expenses” in the consolidated statement of profit or loss.

Given the short-term nature of the other financial assets (with remaining maturity ranged from 7 days to 3 months), an increase/decrease in expected rates of return would not have a significant impact on the fair value and hence the group’s other comprehensive income.

	Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
Changes in fair value recognised during the period	4,689	1,356
Reclassification adjustments for amounts transferred to profit or loss:		
– gain on disposal	(4,884)	(1,356)
Net movement in the fair value reserve during the period recognised in other comprehensive income	(195)	–



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19 COMMITMENTS

(a) Capital commitments

Capital commitments outstanding at 30 June 2014 not provided for in the interim financial report were as follows:

	30 June 2014 RMB'000	31 December 2013 RMB'000
Contracted for	527,960	640,927
Authorised but not contracted for	209,071	736,617
	737,031	1,377,544

(b) Operating lease commitments

At 30 June 2014, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	30 June 2014 RMB'000	31 December 2013 RMB'000
Within 1 year	8,540	8,054
After 1 year but within 5 years	8,377	11,314
After 5 years	5,530	6,014
	22,447	25,382

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.



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20 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 sister and the sister’s husband 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 director has equity interests
Egyptian Petroleum HH Rigs Manufacturing Co. S.A.E (“HH Egyptian Company”)	Joint venture
Honghua Oil Equipment Trading Co., Ltd (“Honghua Oil Equipment”)	Joint venture
Mr. Li Ming (黎明)	A non-controlling interest



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20 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	
	2014 RMB'000	2013 RMB'000
Purchases of parts and components		
– Hongtai	13,018	12,229
– Sichuan Shenyuan	883	–
– Chengdu Juzhong	–	268
Sale of drilling rigs, parts and components		
– Honghua Oil Equipment	13,684	–
– HH Egyptian Company	709	3,283
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	
	2014 RMB'000	2013 RMB'000
Basic salaries, allowances and other benefits in kind	3,176	3,962
Contributions to defined contribution retirement schemes	142	142
Share-based payments	33	12,888
	3,351	16,992

Total remuneration is included in "staff costs" (see note 5(b)).



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21 CONTINGENT LIABILITIES IN RESPECT OF A LEGAL CLAIM

Lawsuit with a former sales agency

A sales agency filed lawsuits against the subsidiary of the company, alleged that it was owed commission in excess of USD18,000,000 in relation to its services to the Group.

On 24 April 2013, the United Arab Emirates (“UAE”) Federal Court of First Instance ordered the termination of the agency agreement and dismissed all claims from the sales agency. The sales agency filed an appeal to the UAE Federal Court of Appeal on the court’s decision and hearing is yet to be made as at 30 June 2014.

Having consulted the Group’s legal advisors, management considered that the Group had legal and factual merit to defend in lawsuit. Accordingly, management determined that it was not probable that the outcome of the lawsuit will be unfavourable to the Group. No provision was made for the potential claims under this lawsuit.



DEFINITIONS

“Board of Directors” or “Board”	the Board of Directors of the Company
“Company” or “our Company”	Honghua Group Limited (宏華集團有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 15 June 2007
“Concert Group”	several shareholders of Honghua Company forming a concert group as set out in the “Company History and Reorganisation-Ownership Continuity and Control” section of the prospectus of the Company dated 25 February 2008, namely, Zhang Mi (張弭), Ren Jie (任杰), Liu Zhi (劉智), Zheng Yong (鄭勇), Zuo Huixian (左輝先), Zhang Xu (張旭), Wang Jiangyang (王江陽), Chen Jun (陳俊), Fan Bing (范兵), Zhang Yanyong (張彥永), Ao Pei (敖沛), Tian Diyong (田弟勇), Shen Dingjian (沈定建), Liu Xuetian (劉學田) (deceased), Zhou Bing (周兵), Lv Lan (呂蘭), Tian Yu (田雨), Li Hanqiang (李漢強), Liu Yingguo (劉映國), Liu Lulu (劉露璐), He Guangfu (何光福), Zhang Zongyou (張宗友) and Chen Zongliang (陳宗良), out of which He Guangfu (何光福), Zhang Zongyou (張宗友) and Chen Zongliang (陳宗良) transferred an aggregate of approximately 9.1325% equity interests in Honghua Company to the other members of the Concert Group. The transfers were completed on 17 February 2006
“Director(s)”	member(s) of the Board of Directors of the Company
“Group” or “we” or “us”	the Company and its subsidiaries, and, for the period before the Company became the holding company for such subsidiaries, the entities which carried on the business of the Group
“HK\$” or “HK dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
“Period”	For the six months ended 30 June 2014
“PRC” or “China”	the People’s Republic of China and, except where the context requires and only for the purpose of this Interim Report, references in this Interim Report to the PRC or China do not apply to Taiwan or Hong Kong and Macau Special Administrative Regions
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC



DEFINITIONS

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



宏华集团有限公司

HONGHUA GROUP LIMITED