



宏华集团有限公司
HONGHUA GROUP LIMITED

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

2015

INTERIM REPORT

创意

大智造





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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

Chen Guoming

Shi Xingquan

Guo Yanjun

SECRETARY OF BOARD OF DIRECTORS

He Bin

BOARD COMMITTEES

Audit Committee

Qi Daqing (*Committee Chairman*)

Liu Xiaofeng

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

(Resigned with effect from 7 July 2015)

Lee Mei Yi

(Appointed with effect from 7 July 2015)

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

Industrial Bank Co., Ltd.

AUDITOR

KPMG

(Resigned with effect from 27 May 2015)

PricewaterhouseCoopers

(Appointed with effect from 27 May 2015)

Certified Public Accountants

CORPORATE INFORMATION

REGISTERED OFFICE

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

HEAD OFFICE

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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>



FINANCIAL HIGHLIGHTS

OPERATING RESULTS

	Six months ended 30 June		
	2015 RMB'000	2014 RMB'000	Change %
Turnover	2,228,807	3,838,879	-41.9%
Profit from operations	19,049	365,698	-94.8%
Profit before taxation	-37,695	269,200	-114.0%
Profit attributable to equity shareholders of the Company	-29,874	199,745	-115.0%
Figures per Share			
Earnings per Share — Basic (RMB cents)	-0.940	6.286	-115.0%
Earnings per Share — Diluted (RMB cents)	-0.940	6.235	-115.1%

FINANCIAL POSITION

	30 June 2015		
	30 June 2015 RMB'000	31 December 2014 RMB'000	Change %
Total non-current assets	5,066,234	5,238,168	-3.3%
Total current assets	8,695,762	10,260,172	-15.2%
Total assets	13,761,996	15,498,340	-11.2%
Total current liabilities	6,611,341	8,205,237	-19.4%
Total non-current liabilities	2,222,722	2,329,333	-4.6%
Total liabilities	8,834,063	10,534,570	-16.1%
Total equity	4,927,933	4,963,770	-0.7%

FINANCIAL HIGHLIGHTS

KEY FINANCIAL RATIOS*

	Six months ended 30 June		
	2015	2014	Change %
Gross Margin	23.7%	23.0%	3.0%
Net Margin	-1.3%	5.2%	-125.0%
Return on average assets	-0.2%	1.4%	-114.3%
Return on average equity	-0.6%	4.2%	-114.3%

	30 June	31 December	Change %
	2015	2014	
Current ratio	1.32	1.25	5.6%
Quick ratio	0.94	0.89	5.6%
Total debt/Total assets	34.0%	33.1%	2.7%
Total liabilities/Total assets	64.2%	68.0%	-5.6%

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

MANAGEMENT DISCUSSION AND ANALYSIS

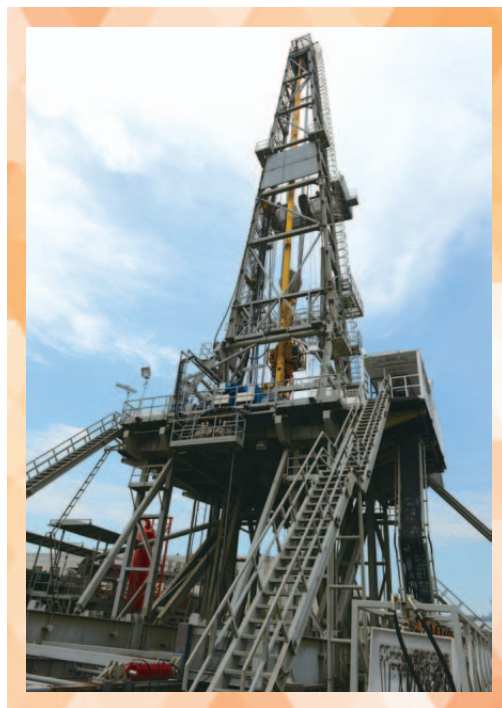


In the first half of 2015, the Group's revenue amounted to approximately RMB2.229 billion, representing a decrease of 41.9% from RMB3.839 billion in the corresponding period last year; gross profit was approximately RMB528 million, representing a decrease of 40.3% from RMB885 million in the corresponding period last year; and earnings attributable to equity shareholders was approximately RMB-30 million, representing a decrease of 115.0% from RMB200 million in the corresponding period last year.

MARKET REVIEW

In the first half of 2015, the global economic recovery was slow and the recovery rates were obviously different in various economies, while geopolitical conflicts also increased slightly. With the rebound of the crude oil demand in China and other developing countries as well as the slowdown in the supply of shale oil in the United States and the oil supply in other oil-producing countries, international oil prices has bottomed out from the lowest point at the beginning of 2015 after oil prices sharply fell in 2014. During the Period, crude oil prices tended to stabilize after rising in turbulence. Brent and WTI crude oil prices had been recovering since they bottomed out in January 2015, and their average prices had been hovering below US\$60 per barrel. However, the global oversupply situation of crude oil did not change fundamentally during the Period, narrowing the rebound rate of oil prices. The trend of oil prices hovering at low levels is still affecting the exploration activity in the global oil and gas industry. According to Baker Hughes statistics, as of June 2015, there were 1,827 sets of land drilling rigs (excluding those in China and Russia) and 309 sets of offshore drilling platforms continuously operating worldwide on average. Against this backdrop, the investment climate of the global oil and gas exploring and production equipment and oilfield service market has improved, especially in the developed oil markets such as the Middle East and Russia. Meanwhile, Africa and Southeast Asia markets are actively developing their offshore oil resources and may become the focus of the market.

In order to take the initiative to tackle with the profound changes of the global situation and promote the GDP to keep growing at an annual growth rate of 7%, the Chinese government continued to implement the "One Belt and One Road" strategy in the first half of 2015, creating a brightest outlook for many industries, including the oil and gas industry. For example, this move has promoted cross-border cooperation in the oil and gas exploration and production field, as well as the interconnection of energy networks in different countries, thus enabling oil and gas equipment manufacturing and oil and gas field service enterprises, which master the core technology and have rich experience in the industry, further expand its business layout covering those markets under the "One Belt and One Road" strategy. In the past few years, we have already developed its international market layout, which was in line with the China's "One Belt and One Road" strategy. Among 65 countries included in the "One Belt and One Road" strategy, we have achieved sales in 29 countries, and its oilfield service teams are operating in Russia and the Middle East, thus laying a solid foundation for its future business expansion and regional coverage.



BUSINESS REVIEW

I. Land Drilling Rig and Related Products Businesses

In the first half of 2015, crude oil prices still hovered at low levels and oil enterprises slashed its exploration and production investment, leading to that the global market demand for drilling rigs declined significantly as compared



with the same period last year. We adopted technology-driven sales and integrated marketing approaches to open up new markets and recommended the Group's new products and other diversified product series, such as auxiliary components for drilling rigs to customers worldwide.

In the aspect of land drilling rig sales, we signed sales contracts for a total of 9 sets of land drilling rigs during the Period, with an aggregate amount of US\$72 million. In the African market, we strived to explore new customers and successfully signed with a new Nigerian customer a sales contract of US\$15 million for a set of land drilling rig, and we

also acquired a sales contract of US\$10 million from our Egyptian client for a set of land drilling rig. In the Middle East market, we continued to maintain close contact with our existing clients, namely National Drilling Company ("NDC") and Kuwait Drilling Company ("KDC") and signed with KDC a sales contract for 2 sets of land drilling rigs amounted to US\$18 million. In Asian and European markets, we signed with Russian clients and other customers sales contracts for 3 sets of land drilling rigs, including 1 set of polar drilling rig. In the domestic market, we successfully broke through the weak market situation and signed with China National Offshore Oil Corporation ("CNOOC") and other customer sales contracts for 2 sets of land drilling rigs.

In the aspect of parts and components, while consolidating our existing regional advantages, we actively developed new markets and new customers and expanded the sales scope of parts and components in the places where our overseas subsidiaries are located. In the first half of 2015, key rig parts and components developed and produced by Honghua independently were sold to customers, including 85 sets of mud pumps, 2 sets of top drivers, 1 set of direct driver and 10 sets of flexible water tanks. Meanwhile, we continued to make full use of our own global procurement network advantages and achieved the new trade and sales of parts and components contracts worth of an aggregate amount of US\$30 million during the Period.

We provided excellent after-sales services while expanding sales. We have a professional technical service team with about 200 people and have set up after-sales service outlets in the United States, Egypt, the United Arab Emirates, Russia, Venezuela and China. The team can install and debug a variety of drilling rigs and tackle with various problems occurring in the use of the rigs on the site. In the first half of 2015, under the severe industry situation, the volume of the after-sales service business decreased by 37.5% compared to the same period of last year and we completed the installation of 32 sets of land drilling rigs and 14 sets of top drivers.

In the first half of 2015, we continued to take “zero defect” as the operation standard, strengthen production management and improve production efficiency. The one-time delivery-check qualified rate of our products improved to 98.82% during the Period, which was highly appraised by domestic and international customers’ supervisors.

II. Oil and Gas Engineering Service Business

Facing a retrenchment of global oil companies and in-depth adjustments in the oil and gas industry, the oil and gas engineering service business committed to expand and consolidate its market shares towards the domestic and overseas markets and made a breakthrough despite the downturn of industry. By the end of June 2015, we had a total of 16 oilfield service teams in operation. During the Period, we drilled 26 wells (16 wells were completed) and the footage drilled amounted to approximately 77,000 meters, representing an increase of 4.6% as compared with the same period of last year.

In domestic market, based on the enhancement and basic formation of the layout, the oil and gas engineering service business continues to operate in Xinjiang, Northeastern China, Sichuan and Inner Mongolia. In overseas markets, with the positive influence brought by the good Sino-Russian relation, which is embodied in signing and implementation of Sino-Russian oil and gas agreement and cross-border pipelines covering oil production areas, our project has successfully started in Russia while two drilling rigs subsequently started to operate in the second quarter this year. As the Iraqi market has been gradually recovering, together with the brand effect of our oil and gas engineering services in Iraq, we also acquired a new contract for two drilling rigs which will subsequently start operating in the near future.

Benefiting from the stringent cost control and project management policies, the drilling and construction standard has also been improving while the production efficiency of the team reached 90.56%, representing an increase of 15.0% as compared with the same period of last year.

III. Offshore Engineering Equipment and Related Products Business

In the first half of 2015, Phase I of our offshore base located in Qidong, Jiangsu Province, was completed. The construction of Honghai Crane, a type of large lifting equipment was 80% completed, which is expected to fully complete and pass the quality check in the end of September 2015.

In terms of production, Tiger-I, the first deep-water drilling package for drillship in China we produced, was successfully delivered and debugged in 2014. Tiger-II is scheduled to be shipped in August 2015, and Tiger-III and Tiger-IV are in the production as scheduled.

Facing the current low oil prices level and the challenging offshore engineering market situation, we manage the progress of our existing projects under the premise of risks and cash flow control. Subsequent to the successful delivery of the drilling package, together with taking deep-water drilling packages and semi-submersible rigs as our key businesses, we actively expand the market. To cater the outsourcing demand of ship enterprises, we have formed long-term outsourcing partnership with large and medium-sized ship enterprises in Shanghai, Jiangsu, Zhejiang and other places. Meanwhile, leveraging on our advantages of largest lifting equipment and advanced production base, we undertake ship hull manufacturing, anticorrosion, venue lease and large equipment installation by lifting to expand our sources of income.

IV. Unconventional Oil and Gas Development Business

Our oilfield service team has accumulated very rich experience through participating in the exploration of unconventional oil and gas resources in complex geological conditions. After implementing the shale gas project we won in Yibin, Sichuan province in 2014, the teams have owned China's leading shale gas exploration technologies and equipment manufacturing experience, as well as proficiently mastered the coordination of on-site drilling processes (referring to the shaft engineering), the directional technology and the oil-based mudding in the shale gas exploitation.

During the Period, the flexible water tank developed by us independently achieved continued sales shortly while the in-house developed 6,000 horsepower fracturing pump has completed the second industrial test in the United States under the testimony of Baker Hughes. Baker Hughes and the users are quite satisfactory about the testing results and are waiting for further more in-depth and greater power tests. The shale gas-specific drilling rig developed by us independently has completed design and is ready to be put into production. This drilling rig is a new type of low-cost shale gas drilling rig, which can better adapt to the geological conditions and site requirements of shale gas exploitation in China.

In the first half of 2015, we continued to implement strategic cooperation with General Electric (GE) and introduced GE's gas-powered products to utilize unconventional natural gas or oilfield-associated gas generated in the oil and gas drilling and production process to provide energy for the drilling rig to achieve energy saving and emission reduction and green production. The first field test demonstrating the change of power of the drilling rig from oil to gas will be conducted in Sichuan in August, which indicates the major parts of the integrated solution for Shale Gas will be under field test.

QUALITY MANAGEMENT AND RESEARCH AND DEVELOPMENT

During the Period, we continued to improve our quality management and R&D capabilities and successfully obtained application of various qualifications. Our products have successfully obtained from Norwegian Det Norske Veritas (“DNV”) the approval of ISO 9001 quality system certification, HSE certification, API certification, ABB transmission system integration certification and related electrical product explosion-proof certification. In production of land drilling equipment business, we have passed the annual HSE review in the first half of 2015. In the oil and gas engineering services segment, we have renewed the safety production license, Grade II work safety standardization conducted by State Administration of Work Safety, ISO9001 quality management system certification, ISO4001 environmental management system certification, OHSAS18001 occupational health and safety management system certification and the membership of the International Association of Drilling Contractors (“IADC”). Also, we completed the registration for the SOC oilfield in southern Iraq and obtained the operation qualifications of large independent contractor and drilling services sub-contractor to solidify our leading position in the Middle East and expand our local business. In terms of offshore equipment manufacture, we are successfully awarded as the “Provincial high-tech enterprises”, and realized the advanced technology level of our offshore production base while will bring premium tax-free to the offshore segment.

In the aspect of intelligent manufacturing, we plan to introduce specific robots, namely Ear-shape welding robots and Box-shape welding robots to minimize our labour force and enhance the precision of our technology application and production processes. In the future, with the broader application of industrial informationization and artificial intelligence, we will consider introducing more intelligent manufacturing applications into a wide range of manufacturing procedures, including manufacturing process (production) planning, production adjustment, process monitoring to realize the entire process of intelligentization.

In the research and development of new products, the amount invested in R & D reached approximately RMB48 million during the Period. Especially, we have obtained outstanding achievements in the research and development of new-type high-end land drilling rigs. The smart rig, which we are developing will integrate a number of new technologies that will enable us to produce a wide range of mechanized, automated and informational land drilling rigs, featuring safety and high operational efficiency, as well as monitoring the operation in real time. Meanwhile, it can also reduce the number of drilling workers and operating costs. At present, the research and development of the smart drilling rig have entered into the prototype stage. And in June 2015, Honghua’s polar drilling rig has debuted at the 13th Moscow International Oil and Gas Exhibition (“MIOGE”). Honghua is the world’s second enterprise owning the technologies applied in polar drilling rig, which the Group has developed for the Russia’s arctic environment and it is China’s first polar rig. This new type drilling rig can be used under the stormy weather, ultra-low temperature and other harsh climatic environments which can well fit the operational demand in Russia’s extremely cold areas. In the first half of 2015, a set of polar drilling rig was sold to a foreign customer. As of 30 June 2015, we had obtained 301 and 18 patents in land and offshore equipment manufacturing segments respectively.

HUMAN RESOURCE MANAGEMENT

We continued to adjust and optimize our human resources management, especially the performance appraisal system, and strengthen the technological talents introduction to achieve the strategic deployment of optimizing human resources allocation and efficiency improvement. As of 30 June 2015, the total number of the Group's employees was 6,293, representing a decrease of 14.71% compared with the same period last year, in which the number of R & D staffs reached 673, representing an increase of 4.83%. During the Period, on top of layoff and labour costs reduction, we focused on adjusting our personnel structure, strengthening the construction of our training system and improving our efficiency. We organized a total of approximately 300 training programs, which covered products, equipment, standardized operation, the Internet, finance and other areas. In addition, with the support of the Group's innovative entrepreneurship platform, we encouraged innovative thinking, transformed management approaches, formulated incentive mechanism, made good use of the individual advantages of employees and motivated their work enthusiasm. In 2015, under the industry trend of the "Internet plus manufacturing" and intelligent manufacturing, we will actively explore new forms of human resource management mechanism to reserve human resources for the Group's innovation and transformation in the future.

OUTLOOK

In 2015, the whole industry is still expected to embrace a prudent attitude. However, the market environment of the year is expected to be more stable than it in the second half of 2014. J.P. Morgan reset the average price forecasts of North America crude oil to US\$50 per barrel for the second half of 2015. The global oil supply and demand still needs a certain period of time to reach a new balance. In the medium and long term, oil and gas will still retain their important roles in the energy mix and all kinds of exploration and production activities will gradually recover along with the development of the global economy. The industry outlook remains promising. The accelerating replacement of outdated land drilling rigs and offshore drilling rigs worldwide will bring a new round of business opportunities.

"Products and businesses innovation, costs reduction and efficiency enhancement and liquidity maintenance" will be the focus of our work. With the support of the national policy and funding, as well as the growth driver brought by the "One Belt and One Road" strategy, we will actively participate in more "One Belt and One Road" projects. In the Chinese market, we will continue to pay attention to the mixed ownership reform of the state-owned oil and gas companies and other reform measures, in order to enhance our market shares in the domestic market in the fields of drilling equipment and oil and gas engineering services.

As of 12 August 2015, we have had approximately 24 sets of land drilling rig backlogs, with an aggregate amount of approximately RMB1,367 million, which are expected to be delivered successively in 2015 and 2016.

As of 12 August 2015, we have had parts and components backlogs worth approximately RMB1,210 million.

As of 12 August 2015, we have had offshore engineering equipment backlogs worth approximately RMB5,026 million.

As of 12 August 2015, we have had oil and gas engineering service contracts worth approximately RMB353 million.

FINANCIAL REVIEW

During the Period, the Group's gross profit and loss attributable to shareholders of the Company amounted to approximately RMB528 million and RMB30 million respectively, and gross margin and net margin amounted to approximately 23.7% and -1.3% respectively; In the same period last year, gross profit and profit attributable to shareholders of the Company amounted to approximately RMB885 million and RMB200 million respectively, gross margin and net margin amounted to approximately 23.0% and 5.2% respectively. During the Period, the decrease in the Group's gross profit and profit attributable to shareholders of the Company was mainly attributable to the fact that there is no significant improvement in the global oil and gas market and the oil and gas industry is under a deep adjustment.

Turnover

During the Period, the Group's turnover amounted to approximately RMB2,229 million, representing an decrease of RMB1,610 million or 41.9% as compared to RMB3,839 million in the same period last year. The decrease was mainly attributable to the declined demand for oil equipment due to the relating low level of the oil price. The number of drilling rigs sold during the year decreased to 23 units from 34 units in the same period last year.

(a) Revenue by Geographical Areas

The Group's revenue by geographical segment during the Period: (1) The Group's export revenue amounted to approximately RMB1,891 million, accounting for approximately 84.8% of total revenue, representing a decrease of RMB1,518 million as compared to the same period last year; (2) Mainland China's revenue amounted to approximately RMB338 million, accounting for approximately 15.2% of total revenue.

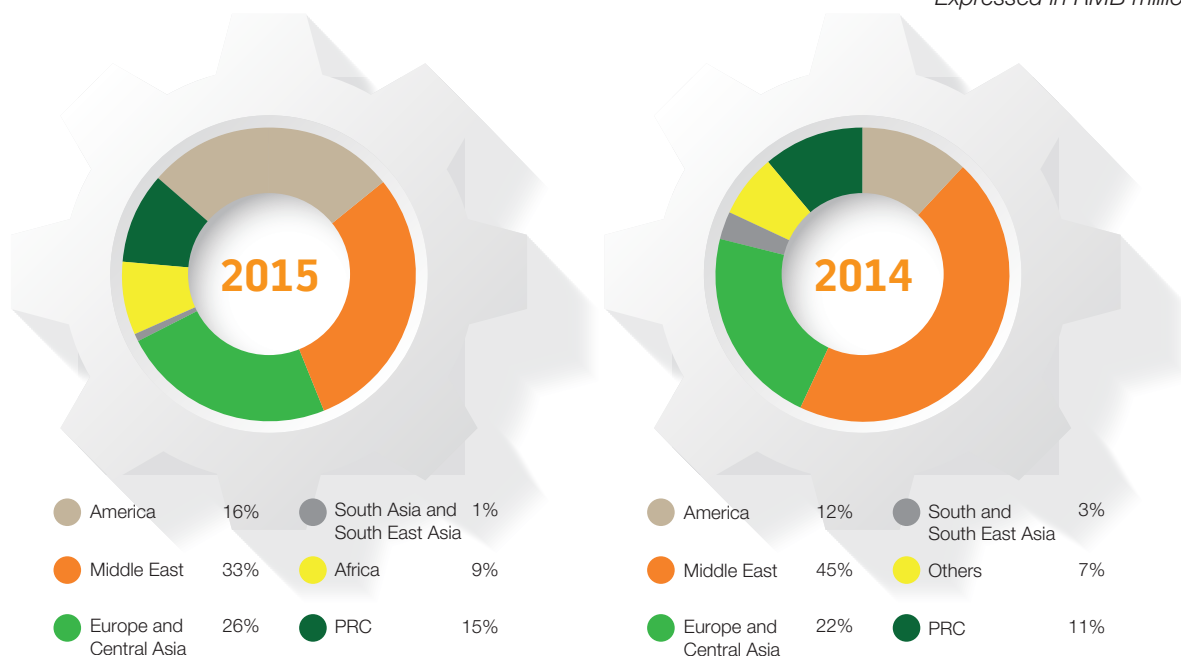
The revenues from different regions are affected by oil and gas exploration activities in various areas of the world. The Group actively explores markets, constantly develops new customers, and gains new purchase orders, ensuring the sustained growth of sales revenue.

Revenue by Geographical Areas

For the six months ended 30 June 2015

For the six months ended 30 June 2014

Expressed in RMB'million



(b) Revenue by product categories

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

During the Period, external revenue from land drilling rigs amounted to approximately RMB1,491 million, representing a decrease of RMB1,233 million or 45.3% as compared to RMB2,724 million in the same period last year. The decrease in land drilling rig sales revenue was mainly attributable to the decrease in the number of sales volume from 34 units to 23 units.

During the Period, external revenue from offshore drilling rigs amounted to approximately RMB-10 million, and there was amounted to approximately RMB53 million external revenue in the same period last year. The reason for the negative revenue is that a vessel returned to the Group with the amount of approximately RMB129 million was debited to revenue. A contract of this vessel has been signed after this period.

During the Period, external revenue from land drilling rig parts and components amounted to approximately RMB601 million, representing a decrease of RMB257 million or 30.0% as compared to RMB858 million in the same period last year.

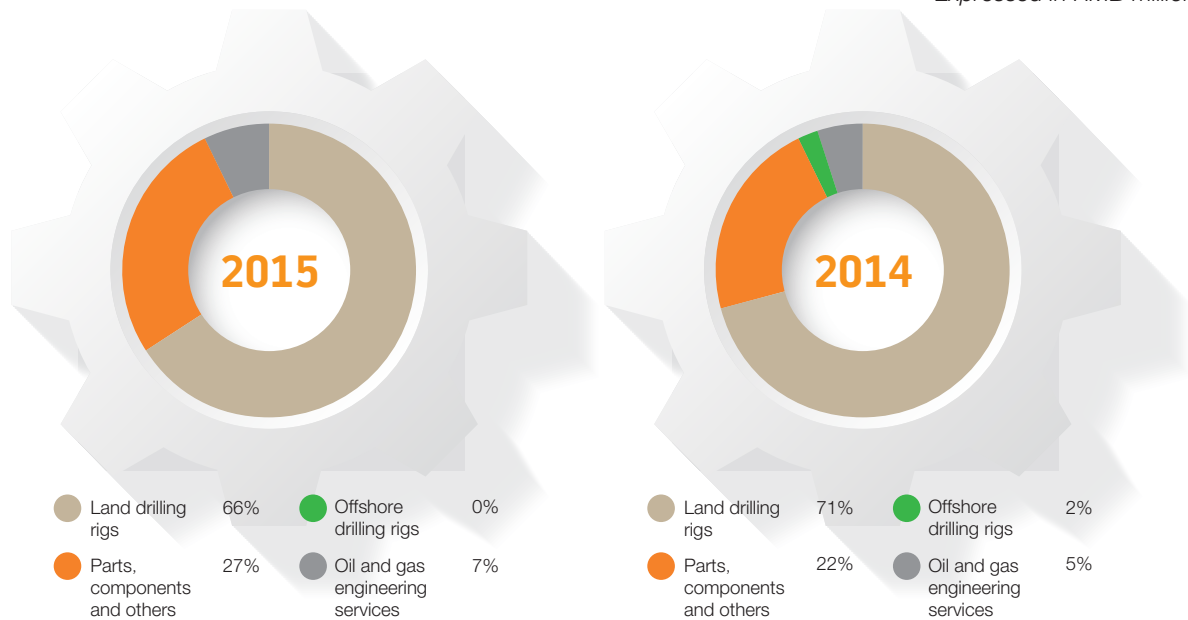
During the Period, revenue from oil and gas engineering services amounted to approximately RMB147 million, representing a decrease of RMB57 million or 27.9% as compared to RMB204 million in the same period last year.

Revenue by business categories was as follows:

For the six months ended 30 June 2015

For the six months ended 30 June 2014

Expressed in RMB'million



Cost of Sales

During the Period, the Group's cost of sales amounted to approximately RMB1,700 million, representing a decrease of approximately 42.5% or RMB1,254 million as compared to the same period last year, mainly due to the decrease in sales of rigs.

Gross profit and Gross Margin

During the Period, the Group's gross profit amounted to approximately RMB528 million, representing a decrease of RMB357 million or 40.3% as compared to the same period last year.

During the Period, the Group's overall gross margin was 23.7%, representing an increase of 0.7 percentage points as compared to 23.0% in the same period last year. This was mainly due to the Group's production efficiency improvement and cost reduction.

Expenses in the period

During the Period, the Group's selling expenses amounted to approximately RMB260 million, representing a decrease of RMB25 million or 8.8% as compared to RMB285 million in the same period last year. This was mainly attributable to decreased transportation costs brought on by the declined sales revenue and the Group's cost reduction strategy.

During the Period, the Group's general and administration expenses amounted to approximately RMB289 million, representing an increase of RMB19 million or 7.0% as compared to RMB270 million in the same period last year. This was mainly attributable to capacity of the operating business as not fully used, resulting in parts of fixed costs that cannot be allocated increasing.

During the Period, the Group's net financing expenses amounted to approximately RMB54 million, representing a decrease of RMB41 million as compared to net financing expense of RMB95 million in the same period last year. This was mainly attributable to the increasingly net foreign exchange gain.

(Loss)/Profit before Taxation

During the Period, loss before taxation of the Group amounted to approximately RMB38 million, representing a decrease of RMB307 million or 114.1% compared to profit before taxation of RMB269 million in the same period last year. The decrease was mainly attributable to the decreased revenues for the period.

Income Tax Expenses

During the Period, the Group's income tax expense amounted to approximately RMB-11 million as compared to the income tax expense of approximately RMB57 million in the same period last year.

(Loss)/Profit for the period

During the Period, the Group's loss amounted to approximately RMB27 million, as compared to a profit of approximately RMB212 million in the same period last year. Among which, loss attributable to equity shareholders of the Company was approximately RMB30 million, while profit attributable to non-controlling interests was approximately RMB3 million. During the Period, net margin was -1.3%, as compared to a net margin of 5.2% in the same period last year, which was mainly attributable to the decrease of gross margin.

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

During the Period, EBITDA amounted to RMB199 million, as compared to approximately RMB519 million in the same period last year, which was mainly attributable to the marked decrease in operating profit brought on by the decrease in revenue. The EBITDA margin was 8.9%, as compared to 13.5% in the same period last year, which was mainly attributable to the decrease in the proportion of selling.

Dividends

For the period ended 30 June 2015, 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, bank borrowings and securities financing.

As at 30 June 2015, the Group's bank borrowings and senior notes amounted to approximately RMB4,682 million, representing a decrease of approximately RMB445 million as compared to 31 December 2014. Among which, borrowings repayable within one year amounted to approximately RMB2,493 million, representing a decrease of RMB314 million as compared to 31 December 2014.

Deposits and cash flow

As at 30 June 2015, the Group's cash and cash equivalents amounted approximately RMB1,066 million, representing a decrease of approximately RMB376 million as compared to 31 December 2014.

During the Period, the Group's net operating cash inflow from operations amounted to approximately RMB47 million; net cash inflow from investing assets, during the Period amounted to approximately RMB205 million; net cash outflow from financing activities amounted to approximately RMB626 million.

Assets structure and changes thereof

As at 30 June 2015, the Group's total assets amounted to approximately RMB13,762 million, representing a decrease of approximately RMB1,736 million or 11.2% as compared to 31 December 2014. Among which, current assets amounted to approximately RMB8,696 million, accounting for approximately 63.2% of total assets, representing a decrease of RMB1,564 million as compared to 31 December 2014, which were mainly decrease of inventories, cash and cash equivalent. Non-current assets amounted to approximately RMB5,066 million, accounting for approximately 36.8% of total assets, representing a decrease of approximately RMB172 million as compared to 31 December 2014, and were mainly attributable to the decrease in long term trade receivables.

Liabilities

As at 30 June 2015, the Group's total liabilities amounted to approximately RMB8,834 million, representing a decrease of approximately RMB1,701 million as compared to 31 December 2014. Among which, current liabilities amounted to approximately RMB6,611 million, accounting for approximately 74.8% of total liabilities, representing an increase of approximately RMB1,594 million as compared to 31 December 2014. Non-current liabilities amounted to approximately RMB2,223 million, accounting for approximately 25.2% of total liabilities, presenting a decrease of approximately RMB107 million as compared to 31 December 2014. As at 30 June 2015, the Group's total liabilities/total assets ratio was approximately 64.2%, representing a decrease of 3.8 percentage points as compared to 31 December 2014.

Equity

As at 30 June 2015, total equity amounted to RMB4,928 million, representing a decrease of RMB36 million as compared to 31 December 2014. Total equity attributable to equity shareholders of the Company amounted to approximately RMB4,690 million, representing a decrease of RMB39 million as compared to 31 December 2014. Non-controlling interests totaled to approximately RMB238 million, representing an increase of RMB3 million as compared to 31 December 2014. Net asset value reached approximately RMB1.48 per Share. During the Period, the Group's basic earnings per Share were RMB-0.940 cents, and diluted earnings per Share were RMB-0.940 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. On 21 October 2013, UAE Federal Court affirmed the original judgement. 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 2015. 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.

Capital Expenditure, Major Investment and Capital Commitments

During the Period, capital expenditure of the Group on infrastructure and technical improvements amounted to approximately RMB211 million, representing a decrease of approximately RMB69 million as compared to the same period last year.

As at 30 June 2015, the Group had capital commitments of approximately RMB348 million, which will be used for the construction of Jiangsu Qigong 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 6,293. The total amount of remuneration and benefit was about RMB297 million, decreased by RMB136 million or 31.4% as compared to that of 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.

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 2015 to 30 June 2015, except for the deviations of the Code Provisions A.2.1 and A.5.1 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.

CORPORATE GOVERNANCE REPORT

3. 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.

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 2015.

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.

4. INDEPENDENT NON-EXECUTIVE DIRECTORS

During the six months ended 30 June 2015, 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 five Independent Non-executive Directors with two 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.

5. 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 comprises all the five Independent Non-executive Directors, namely Qi Daqing (Chairman), Liu Xiaofeng, Chen Guoming, Shi Xingquan and Guo Yanjun. Two of Independent Non-executive Directors possess the appropriate professional qualifications or accounting or related financial management expertise.

The Audit Committee shall hold at least two meetings a year and review opinions of internal auditors, internal control, risk management and financial reporting. The Audit Committee has reviewed the unaudited financial reports for the six months ended 30 June 2015 of the Company and the Group.

6. 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, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

At 30 June 2015, the interests and short positions of each Director and Chief Executive in the Shares, underlying Shares and debentures 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	1,505,604,620 ⁽¹⁾⁽⁴⁾	46.45%
Mr. Ren Jie	Long	Personal interest, corporate interest and settlor of a discretionary trust	1,505,604,620 ⁽²⁾⁽⁴⁾	46.45%
Mr. Liu Zhi	Long	Personal interest, corporate interest and settlor of a discretionary trust	1,505,604,620 ⁽³⁾⁽⁴⁾	46.45%

- (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 23,105,000 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 38,491,697 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 23,105,000 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 38,491,697 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 23,105,000 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 38,491,697 Shares.

- (4) 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	16,217,000	32,197,000
Mr. Ren Jie	Long	7,457,000	40,957,000
Mr. Liu Zhi	Long	6,623,000	41,791,000
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	–

(C) Interests in Debentures of the Company

	Nature of interest	Total amount of debentures interested
Mr. Ren Jie	Settlor of a discretionary trust ⁽¹⁾	USD200,000
Mr. Liu Zhi	Corporate interest ⁽²⁾	USD500,000

(1) 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 debentures with amount of USD200,000.

(2) Liu Zhi owns debentures with amount of USD500,000 through his directly 95%-owned company, Long Joy (HK) Limited.

Saved as disclosed above, at 30 June 2015, 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 2015, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors and Chief Executives of the Company.

Name	Long/Short Position	Number of shares held							% of the issued share capital of the Company
		Personal interest			Corporate interest and settlor of a discretionary trust				
		Share option	Shares Interest	Corporate interest	Interest of the Concert Group	Total			
Ally Giant Limited	Long	—	1,187,727,837	—	—	366,290,783	1,554,018,620 ⁽¹⁾	47.94%	
Ample Chance International Limited	Long	—	—	1,187,727,837	—	366,290,783	1,554,018,620 ⁽²⁾	47.94%	
Wealth Afflux Limited	Long	—	—	1,187,727,837	—	366,290,783	1,554,018,620 ⁽³⁾	47.94%	
Ally Smooth Investments Limited	Long	—	—	1,187,727,837	—	366,290,783	1,554,018,620 ⁽³⁾	47.94%	
Equity Trustee Limited	Long	—	—	—	1,504,513,237	—	1,504,513,237 ⁽³⁾	46.42%	
							⁽⁵⁾⁽⁶⁾⁽⁹⁾⁽¹⁰⁾⁽¹⁴⁾⁽²⁰⁾⁽²²⁾		
Charm Moral International Limited	Long	—	—	1,187,727,837	—	366,290,783	1,554,018,620 ⁽⁴⁾	47.94%	
Mowbray Worldwide Limited	Long	—	—	1,187,727,837	—	366,290,783	1,554,018,620 ⁽⁵⁾	47.94%	
Ecotech Enterprises Corporation	Long	—	—	1,187,727,837	—	366,290,783	1,554,018,620 ⁽⁶⁾	47.94%	
Mr. Zheng Yong	Long	2,263,000	20,020,950	1,187,727,837	—	344,006,833	1,554,018,620 ⁽⁷⁾	47.94%	
Beauty Clear Holdings Limited	Long	—	—	1,187,727,837	—	366,290,783	1,554,018,620 ⁽⁸⁾	47.94%	
Mr. Zuo Huixian	Long	2,264,000	210,000	—	1,206,532,237	345,012,383	1,554,018,620 ⁽⁹⁾	47.94%	
Vast & Fast Corporation	Long	—	—	1,187,727,837	—	366,290,783	1,554,018,620 ⁽⁹⁾	47.94%	
Mr. Zhang Xu	Long	1,899,000	12,686	—	1,201,285,237	350,821,697	1,554,018,620 ⁽¹⁰⁾	47.94%	
Cavendish Global Corporation	Long	—	—	1,187,727,837	—	366,290,783	1,554,018,620 ⁽¹⁰⁾	47.94%	
Elegant Scene International Limited	Long	—	—	1,187,727,837	—	366,290,783	1,554,018,620 ⁽¹¹⁾	47.94%	
Mr. Wang Jiangyang	Long	1,611,000	6,752,600	1,187,727,837	—	357,927,183	1,554,018,620 ⁽¹¹⁾	47.94%	
Mr. Chen Jun	Long	922,000	2,074,599	1,187,727,837	—	363,294,184	1,554,018,620 ⁽¹²⁾	47.94%	
Believe Power International Limited	Long	—	—	1,187,727,837	—	366,290,783	1,554,018,620 ⁽¹³⁾	47.94%	
Mr. Fan Bing	Long	1,744,000	30,000	—	1,206,308,837	345,935,783	1,554,018,620 ⁽¹⁴⁾	47.94%	
Brondesbury Enterprises Limited	Long	—	—	1,187,727,837	—	366,290,783	1,554,018,620 ⁽¹⁴⁾	47.94%	
Mr. Zhang Yanyong	Long	1,500,000	501,720	1,187,727,837	—	364,289,063	1,554,018,620 ⁽¹⁵⁾	47.94%	
Mr. Ao Pei	Long	537,000	962,308	1,187,727,837	—	364,791,475	1,554,018,620 ⁽¹⁶⁾	47.94%	
Mr. Tian Diyong	Long	608,000	260,400	1,187,727,837	—	365,422,383	1,554,018,620 ⁽¹⁷⁾	47.94%	
Mr. Shen Dingjian	Long	304,000	1,285,720	1,187,727,837	—	364,701,063	1,554,018,620 ⁽¹⁸⁾	47.94%	
Benefit Way International Limited	Long	—	—	1,187,727,837	—	366,290,783	1,554,018,620 ⁽¹⁹⁾	47.94%	
Mr. Liu Xuetian (deceased)	Long	—	—	—	1,193,780,237	360,238,383	1,554,018,620 ⁽²⁰⁾	47.94%	
Dobson Global Inc.	Long	—	—	1,187,727,837	—	366,290,783	1,554,018,620 ⁽²⁰⁾	47.94%	
Ms. Qu Yihong	Long	—	—	1,193,780,237	—	360,238,383	1,554,018,620 ⁽²¹⁾	47.94%	
Ms. Liu Ying	Long	—	—	1,193,780,237	—	360,238,383	1,554,018,620 ⁽²¹⁾	47.94%	
Mr. Zhou Bing	Long	1,805,000	3,856,714	—	1,187,727,837	360,629,069	1,554,018,620 ⁽²²⁾	47.94%	
Darius Enterprises Limited	Long	—	—	1,187,727,837	—	366,290,783	1,554,018,620 ⁽²²⁾	47.94%	
Ms. Lv Lan	Long	883,000	250,808	1,187,727,837	—	365,156,975	1,554,018,620 ⁽²³⁾	47.94%	

REPORT OF THE BOARD

Name	Long/Short Position	Personal interest		Number of shares held					% 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	Total		
Mr. Tian Yu	Long	780,000	1,508,478	1,187,727,837	–	364,002,305	1,554,018,620 ⁽²⁴⁾	47.94%	
Mr. Li Hanqiang	Long	281,000	311,000	1,187,727,837	–	365,698,783	1,554,018,620 ⁽²⁵⁾	47.94%	
Mr. Liu Yingguo	Long	242,000	240,000	1,187,727,837	–	365,808,783	1,554,018,620 ⁽²⁶⁾	47.94%	
Mrs. Liu Lulu	Long	474,000	466,400	1,187,727,837	–	365,350,383	1,554,018,620 ⁽²⁷⁾	47.94%	
Yi Langlin	Long	–	2,156,000	–	–	–	1,554,018,620 ⁽²⁸⁾	47.94%	
			1,551,862,620 (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.
- (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.

REPORT OF THE BOARD

- (10) Approximately 22.77% of the issued share capital of Beauty Clear Holdings Limited is held by Cavendish Global Corporation, which in turn is held by Equity Trustee Limited as trustee of The Hong Xu Family Trust. The Hong Xu Family Trust is a discretionary trust, established by Zhang Xu as settlor, with Equity Trustee Limited as trustee. The beneficiaries under The Hong Xu Family Trust are Zhang Xu and his family members. Zhang Xu is a member of the Concert Group.
- (11) Approximately 5.76% of the issued share capital of Beauty Clear Holdings Limited is held by Elegant Scene International Limited, which in turn is wholly-owned by Wang Jiangyang. Beauty Clear Holdings Limited is the beneficial owner of approximately 18.51% of the issued share capital of Ample Chance International Limited. Wang Jiangyang is a member of the Concert Group.
- (12) Chen Jun is the beneficial owner of approximately 5.10% of the issued share capital of Beauty Clear Holdings Limited, which in turn is the beneficial owner of approximately 18.51% of the issued share capital of Ample Chance International Limited. Chen Jun is a member of the Concert Group.
- (13) Believe Power International Limited is owned approximately 32.72% by Brondesbury Enterprises Limited, approximately 29.16% by Zhang Yanyong, approximately 7.30% by Ao Pei, approximately 2.85% by Tian Diyong, approximately 2.24% by Shen Dingjian, and a total of approximately 25.73% by 4 other shareholders.
- (14) Approximately 32.72% of the issued share capital of Believe Power International Limited is held by Brondesbury Enterprises Limited, which in turn is held by Equity Trustee Limited as trustee of The FBX Family Trust. The FBX Family Trust is a discretionary trust, established by Fan Bing as settlor, with Equity Trustee Limited as trustee. The beneficiaries under The FBX Family Trust are Fan Bing and his family members. Fan Bing is a member of the Concert Group.
- (15) Zhang Yanyong is the beneficial owner of approximately 29.16% of the issued share capital of Believe Power International Limited, which in turn is the beneficial owner of approximately 12.71% of the issued share capital of Ample Chance International Limited. Zhang Yanyong is a member of the Concert Group.
- (16) Ao Pei is the beneficial owner of approximately 7.30% of the issued share capital of Believe Power International Limited, which in turn is the beneficial owner of approximately 12.71% of the issued share capital of Ample Chance International Limited. Ao Pei is a member of the Concert Group.
- (17) Tian Diyong is the beneficial owner of approximately 2.85% of the issued share capital of Believe Power International Limited, which in turn is the beneficial owner of approximately 12.71% of the issued share capital of Ample Chance International Limited. Tian Diyong is a member of the Concert Group.
- (18) Shen Dingjian is the beneficial owner of approximately 2.24% of the issued share capital of Believe Power International Limited, which in turn is the beneficial owner of approximately 12.71% of the issued share capital of Ample Chance International Limited. Shen Dingjian is a member of the Concert Group.
- (19) Benefit Way International Limited is owned approximately 35.57% by Dobson Global Inc., approximately 19.36% by Darius Enterprises Limited, approximately 6.49% by Lv Lan, approximately 3.91% by Tian Yu, approximately 3.50% by Li Hangqiang, approximately 1.52% by Liu Yingyuo, approximately 1.22% by Liu Lulu and approximately 28.43% by 6 other shareholders.
- (20) Approximately 35.57% of the issued share capital of Benefit Way International Limited is held by Dobson Global Inc., which in turn is held by Equity Trustee Limited as trustee of The LXYY Family Trust. The LXYY Family Trust is a discretionary trust, established by Liu Xuetian (deceased) as settlor, with Equity Trustee Limited as trustee. The beneficiaries under The LXYY Family Trust are Liu Xuetian (deceased) and his family members. Liu Xuetian (deceased) was a member of the Concert Group and passed away on 23 January 2008.
- (21) Qu Yihong and Liu Ying, family members of Liu Xuetian (deceased), are deemed to be interested in 1,193,780,237 Shares as directors of Dobson Global Inc..

REPORT OF THE BOARD

- (22) Approximately 19.36% of the issued share capital of Benefit Way International Limited is held by Darius Enterprises Limited, which in turn is held by Equity Trustee Limited as trustee of The Fang Zhou Family Trust. The Fang Zhou Family Trust is a discretionary trust, established by Zhou Bing as settlor, with Equity Trustee Limited as trustee. The beneficiaries under The Fang Zhou Family Trust are Zhou Bing and his family members. Zhou Bing is a member of the Concert Group.
- (23) Lv Lan is the beneficial owner of approximately 6.49% of the issued share capital of Benefit Way International Limited, which in turn is the beneficial owner of approximately 10.50% of issued share capital of Ample Chance International Limited. Lv Lan is a member of the Concert Group.
- (24) Tian Yu is the beneficial owner of approximately 3.91% of the issued share capital of Benefit Way International Limited, which in turn is the beneficial owner of approximately 10.50% of issued share capital of Ample Chance International Limited. Tian Yu is a member of the Concert Group.
- (25) Li Hanqiang is the beneficial owner of approximately 3.50% of the issued share capital of Benefit Way International Limited, which in turn is the beneficial owner of approximately 10.50% of issued share capital of Ample Chance International Limited. Li Hanqiang is a member of the Concert Group.
- (26) Liu Yingyuo is the beneficial owner of approximately 1.52% of the issued share capital of Benefit Way International Limited, which in turn is the beneficial owner of approximately 10.50% of issued share capital of Ample Chance International Limited. Liu Yingyuo is a member of the Concert Group.
- (27) Liu Lulu is the beneficial owner of approximately 1.22% of the issued share capital of Benefit Way International Limited, which in turn is the beneficial owner of approximately 10.50% of issued share capital of Ample Chance International Limited. Liu Lulu is a member of the Concert Group.
- (28) Yi Langlin, spouse of Zhang Mi, is deemed to be interested in 1,554,018,620 Shares.

Save as disclosed above, to the best of the Directors and the Chief Executives of the Company's knowledge, as at 30 June 2015, none of the persons, other than the Directors or the Chief Executives of the Company, had interests or short positions in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or recorded in the register as required under Section 336 of the SFO.

SHARE OPTION SCHEME

(A) Pre-Ipo Share Option Scheme

The principal terms of Pre-IPO share option scheme have been approved by resolutions in writing by all the Shareholders on 21 January 2008. As at the date of this report, a total of 270 eligible participants have been conditionally granted share options to subscribe for an aggregate of 60,000,000 Shares at an exercise price of offer price of HK\$3.83 per Share. As at 30 June 2015, none of the grantees has exercised the share options granted to him under the Pre-IPO share option scheme and 5,369,000 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 2015, 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.

REPORT OF THE BOARD

(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 ended 30 June 2015 were as follows:

Date of grant	Number of grant (shares)	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
20 June 2011	7,600,000	0.78	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

REPORT OF THE BOARD

Date of grant	Number of grant (shares)	Exercise price per Share (HK\$)	Exercise period of share options	Valid period of the share options
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
2 July 2014	40,575,000	1.96	vesting of the share options is conditional upon the achievement of corporate goals of the Company and the individual performance of the respective Grantees. The share options or any portion thereof shall lapse if the relevant corporate goals cannot be achieved. Up to 30% of the share options granted to each grantee after April 2015; up to 60% of the share options granted to each grantee after April 2016; all the remaining share options granted to each grantee after April 2017	up to 1 July 2024

REPORT OF THE BOARD

Particulars and movements of share options under the Share Option Scheme during the six months ended 30 June 2015 were as follows:

Name or category of participant	Number of share options					Outstanding as at 30/06/2015	Date of grant (DD/MM/YY)	Exercise period (DD/MM/YY)	Exercise price per Share HK\$	Price immediately preceding the grant date of share options HK\$
	Granted	Exercised	Lapsed	Cancelled	Outstanding					
	during the six months ended 30 June 2015	during the six months ended 30 June 2015	during the six months ended 30 June 2015	during the six months ended 30 June 2015	during the six months ended 30 June 2015					
Directors										
Mr. Zhang Mi	3,937,000	-	-	-	-	3,937,000	15/04/2009	01/12/2009-14/04/2019	1.27	1.29
	2,380,000	-	-	-	-	2,380,000	02/07/2014	02/07/2014-01/07/2024	1.96	1.92
Mr. Liu Zhi	2,373,000	-	-	-	-	2,373,000	15/04/2009	01/12/2009-14/04/2019	1.27	1.29
	1,450,000	-	-	-	-	1,450,000	02/07/2014	02/07/2014-01/07/2024	1.96	1.92
Mr. Ren Jie	2,587,000	-	-	-	-	2,587,000	15/04/2009	01/12/2009-14/04/2019	1.27	1.29
	1,770,000	-	-	-	-	1,770,000	02/07/2014	02/07/2014-01/07/2024	1.96	1.92
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. 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	25,547,000	-	-	-	-	25,547,000				

REPORT OF THE BOARD

Name or category of participant	Outstanding as at 01/01/2015	Number of share options				Outstanding as at 30/06/2015	Date of grant (DD/MM/YY)	Exercise period (DD/MM/YY)	Exercise price per Share HK\$	Price immediately preceding the grant date of share options HK\$
		Granted during the six months ended 30 June 2015	Exercised during the six months ended 30 June 2015	Lapsed during the six months ended 30 June 2015	Cancelled during the six months ended 30 June 2015					
Substantial Shareholders										
Mr. Zheng Yong	695,000	-	-	-	-	695,000	15/04/2009	01/12/2009-14/04/2019	1.27	1.29
	178,000	-	-	-	-	178,000	02/07/2014	02/07/2014-01/07/2024	1.96	1.92
Mr. Zuo Huixian	674,000	-	-	-	-	674,000	15/04/2009	01/12/2009-14/04/2019	1.27	1.29
	530,000	-	-	-	-	530,000	02/07/2014	02/07/2014-01/07/2024	1.96	1.92
Mr. Zhang Xu	642,000	-	-	-	-	642,000	15/04/2009	01/12/2009-14/04/2019	1.27	1.29
	66,000	-	-	-	-	66,000	02/07/2014	02/07/2014-01/07/2024	1.96	1.92
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
	420,000	-	-	-	-	420,000	02/07/2014	02/07/2014-01/07/2024	1.96	1.92
Mr. Chen Jun	332,000	-	-	-	-	332,000	15/04/2009	01/12/2009-14/04/2019	1.27	1.29
	50,000	-	-	-	-	50,000	02/07/2014	02/07/2014-01/07/2024	1.96	1.92
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
	20,000	-	-	-	-	20,000	02/07/2014	02/07/2014-01/07/2024	1.96	1.92
Mr. Tian Di Yong	183,000	-	-	-	-	183,000	15/04/2009	01/12/2009-14/04/2019	1.27	1.29
	70,000	-	-	-	-	70,000	02/07/2014	02/07/2014-01/07/2024	1.96	1.92
Mr. Shen Dingjian	87,000	-	-	-	-	87,000	15/04/2009	01/12/2009-14/04/2019	1.27	1.29
	42,000	-	-	-	-	42,000	02/07/2014	02/07/2014-01/07/2024	1.96	1.92
Mr. Zhou Bing	695,000	-	-	-	-	695,000	15/04/2009	01/12/2009-14/04/2019	1.27	1.29
	360,000	-	-	-	-	360,000	02/07/2014	02/07/2014-01/07/2024	1.96	1.92
Ms. Lv Lan	175,000	-	-	-	-	175,000	05/04/2012	05/04/2013-04/04/2022	1.19	1.20
	363,000	-	-	-	-	363,000	02/07/2014	02/07/2014-01/07/2024	1.96	1.92
Mr. Tian Yu	90,000	-	-	-	-	90,000	05/04/2012	05/04/2013-04/04/2022	1.19	1.20
	450,000	-	-	-	-	450,000	02/07/2014	02/07/2014-01/07/2024	1.96	1.92
Mr. Ao Pei	97,000	-	-	-	-	97,000	02/07/2014	02/07/2014-01/07/2024	1.96	1.92
Mr. Li Hanqiang	66,000	-	-	-	-	66,000	02/07/2014	02/07/2014-01/07/2024	1.96	1.92
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
	231,000	-	-	-	-	231,000	02/07/2014	02/07/2014-01/07/2024	1.96	1.92
Sub-total	8,341,000	-	-	-	-	8,341,000				

REPORT OF THE BOARD

Name or category of participant	Outstanding as at 01/01/2015	Number of share options				Outstanding as at 30/06/2015	Date of grant (DD/MM/YY)	Exercise period (DD/MM/YY)	Exercise price per Share HK\$	Price immediately preceding the grant date of share options HK\$
		Granted during the six months ended 30 June 2015	Exercised during the six months ended 30 June 2015	Lapsed during the six months ended 30 June 2015	Cancelled during the six months ended 30 June 2015					
Other										
Employee	24,143,500	-	-	450,000	-	23,693,500	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	2,943,000	-	-	-	-	2,943,000	20/06/2011	19/07/2011-19/06/2021	0.83	0.79
Employee	14,040,000	-	-	89,000	-	13,951,000	05/04/2012	05/04/2013-04/04/2022	1.19	1.20
Employee	31,418,000	-	-	1,341,380	-	30,076,620	02/07/2014	02/07/2014-01/07/2024	1.96	1.92
Sub-total	72,795,500	-	-	1,880,380	-	70,915,120				
Total	106,683,500	-	-	1,880,380	-	104,803,120				

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 2015, the Trustee has purchased 97,817,000 of the Company's Shares, accounting for 3.01% of the issued share capital of the Company and total of 36,917,700 shares were granted to the Selected Participants and out of which 190,000 Shares were subsequently cancelled.

REPORT OF THE BOARD

Particulars and movements of the Restricted Share Award Scheme during the six months ended 30 June 2015 were as follows:

	Number of Shares				Outstanding as at 30/06/2015
	Purchased during the six months ended 30 June 2015	Granted during the six months ended 30 June 2015	Vested during the six months ended 30 June 2015	Cancelled during the six months ended 30 June 2015	
Total	61,089,300	-	-	-	61,089,300

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 2015.

On behalf of the Board of

Honghua Group Limited

Zhang Mi

Chairman

Hong Kong, 19 August 2015

REVIEW REPORT



羅兵咸永道

INDEPENDENT PRACTITIONER'S REVIEW REPORT TO THE BOARD OF DIRECTORS OF HONGHUA GROUP LIMITED

(Incorporated in the Cayman Island with limited liability)

We have reviewed the interim financial information of Honghua Group Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 36 to 70 that comprise the interim condensed consolidated statement of financial position as at 30 June 2015, and the interim condensed consolidated statement of profit or loss, the interim condensed consolidated statement of other comprehensive income, interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE INTERIM FINANCIAL INFORMATION

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Company are responsible for the preparation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting", and for such internal control as directors determine is necessary to enable the preparation of interim financial information that is free from material misstatement, whether due to fraud or error.

PRACTITIONER'S RESPONSIBILITY

Our responsibility is to express a conclusion on the interim financial information 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.

We conducted our review in accordance with Hong Kong Standard on Review Engagements ("HKSRE") 2400 (Revised), "Engagements to Review Historical Financial Statements" issued by the Hong Kong Institute of Certified Public Accountants. HKSRE 2400 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the interim financial information, taken as a whole, is not prepared in all material respects in accordance with the applicable financial reporting framework. This Standard also requires us to comply with relevant ethical requirements.

A review of financial statements in accordance with HKSRE 2400 (Revised) is a limited assurance engagement. The practitioner performs procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with Hong Kong Standards on Auditing. Accordingly, we do not express an audit opinion on this interim financial information.

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REVIEW REPORT

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that interim financial information is not prepared, in all material respects, in accordance with the International Accounting Standard 34 “Interim Financial Reporting”.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 19 August 2015

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2015

	Note	Unaudited Six months ended 30 June	
		2015 RMB'000	2014 RMB'000
Revenue	7	2,228,807	3,838,879
Cost of sales		(1,700,425)	(2,954,341)
Gross profit		528,382	884,538
Other revenue	8	27,569	32,782
Other operating (expenses)/income	8	(12,906)	28,288
Other income/(expenses)		25,248	(25,370)
Distribution costs		(259,917)	(284,874)
Administrative expenses		(289,327)	(269,666)
Operating profit		19,049	365,698
Finance income	9(a)	103,275	53,299
Finance costs	9(a)	(157,110)	(148,289)
Net finance expenses		(53,835)	(94,990)
Share of post-tax profits of associates		340	–
Share of losses of joint ventures		(3,249)	(1,508)
(Loss)/Profit before income tax	7, 9	(37,695)	269,200
Income tax expense	10	10,770	(56,868)
(Loss)/Profit for the period		(26,925)	212,332
(Loss)/Profit attributable to:			
– Owners of the Company		(29,874)	199,745
– Non-controlling interests		2,949	12,587
		(26,925)	212,332
(Loss)/Earnings per share for profit attributable to owners of the Company (expressed in RMB cents per share)			
(Loss)/Basic earnings per share	11(a)	(0.940)	6.286
(Loss)/Diluted earnings per share	11(b)	(0.940)	6.235

The notes on pages 43 to 70 form an integral part of this interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2015

	Unaudited	
	Six months ended 30 June	
	2015 RMB'000	2014 RMB'000
(Loss)/Profit for the period	(26,925)	212,332
Other comprehensive income		
<u>Items that may be reclassified to profit or loss</u>		
Fair value losses on available-for-sale financial assets, net of tax	(826)	(195)
Currency translation differences	(11,748)	22,609
Other comprehensive income for the period, net of tax	(12,574)	22,414
Total comprehensive income for the period	(39,499)	234,746
Total comprehensive income attributable to:		
— Owners of the Company	(42,643)	220,940
— Non-controlling interests	3,144	13,806
	(39,499)	234,746

The notes on pages 43 to 70 form an integral part of this interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2015

	Note	Unaudited 30 June 2015 RMB'000	Audited 31 December 2014 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	13	2,855,696	2,837,994
Interests in leasehold land held for own use under operating leases	13	414,595	402,784
Freehold land	13	4,929	4,934
Deposits for acquisition of interests in leasehold land held for own use under operating leases		157,320	163,192
Construction in progress		353,853	362,312
Goodwill	13	13,484	13,484
Intangible assets	13	205,564	212,829
Investments in associates	24	50,678	9,000
Investments in joint ventures	24	43,698	86,914
Deferred income tax assets		272,298	201,189
Other investment		118,377	118,091
Trade and other receivables	14	575,742	825,445
Total non-current assets		5,066,234	5,238,168
Current assets			
Inventories		2,497,081	2,980,996
Trade and other receivables	14	4,719,439	4,663,587
Amount due from customers for contract work	15	80,545	217,001
Current tax recoverable		2,587	8,002
Other financial assets		–	331,826
Pledged bank deposits	16	330,285	612,743
Bank deposits maturing over three months		–	4,003
Cash and cash equivalents		1,065,825	1,442,014
Total current assets		8,695,762	10,260,172
Total assets		13,761,996	15,498,340

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2015

	Note	Unaudited 30 June 2015 RMB'000	Audited 31 December 2014 RMB'000
EQUITY			
Equity attributable to owners of the Company			
Share capital	17	300,983	300,983
Other reserves		2,944,570	2,954,593
Retained profits		1,444,443	1,473,401
		4,689,996	4,728,977
Non-controlling interests		237,937	234,793
Total equity		4,927,933	4,963,770
LIABILITIES			
Non-current liabilities			
Interest-bearing borrowings	18	2,189,194	2,320,097
Trade and other payables	20	33,528	9,236
Total non-current liabilities		2,222,722	2,329,333
Current liabilities			
Trade and other payables	20	3,998,569	5,270,762
Current income tax liabilities		64,787	60,641
Interest-bearing borrowings	18	2,492,588	2,806,956
Provisions for other liabilities and charges	19	55,397	66,878
Total current liabilities		6,611,341	8,205,237
Total liabilities		8,834,063	10,534,570
Total equity and liabilities		13,761,996	15,498,340
Net current assets		2,084,421	2,054,935
Total assets less current liabilities		7,150,655	7,293,103

The notes on pages 43 to 70 form an integral part of this interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2015

	Unaudited											
	Attributable to owners of the Company											
	Share capital	Share premium	Other reserve	Capital reserve	Surplus reserve	Exchange reserve	Fair value reserve	Shares held for share award scheme	Retained profits	Subtotal	Non-controlling interests	Total Equity
Balance at 1 January 2015	300,983	2,349,292	51,210	526,964	394,590	(243,584)	739	(124,618)	1,473,401	4,728,977	234,793	4,963,770
Comprehensive income												
(Loss)/profit for the period	-	-	-	-	-	-	-	-	(29,874)	(29,874)	2,949	(26,925)
Other comprehensive income	-	-	-	-	-	(12,030)	(739)	-	-	(12,769)	195	(12,574)
Total comprehensive income for the period ended 30 June 2015	-	-	-	-	-	(12,030)	(739)	-	(29,874)	(42,643)	3,144	(39,499)
Total transactions with owners, recognised directly in equity												
Equity-settled share-based transactions	-	-	-	3,662	-	-	-	-	-	3,662	-	3,662
Options lapsed under share option schemes	-	-	-	(916)	-	-	-	-	916	-	-	-
Total transactions with owners, recognised directly in equity	-	-	-	2,746	-	-	-	-	916	3,662	-	3,662
Balance at 30 June 2015	300,983	2,349,292	51,210	529,710	394,590	(255,614)	-	(124,618)	1,444,443	4,689,996	237,937	4,927,933

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 June 2015

	Note	Unaudited											
		Attributable to owners of the Company											
		Share capital	Share premium	Other reserve	Capital reserve	Surplus reserve	Exchange reserve	Fair value reserve	Shares held for share award scheme	Retained profits	Subtotal	Non-controlling interests	Total Equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance 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
Comprehensive income													
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 for the period ended 30 June 2014		-	-	-	-	-	21,416	(221)	-	199,745	220,940	13,806	234,746
Total transactions with owners, recognised directly in equity													
Equity-settled share-based transactions		-	-	-	1,590	-	-	-	-	-	1,590	-	1,590
Shares issued under share option scheme	17	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		-	-	-	-	-	-	-	-	(150,946)	(150,946)	-	(150,946)
Total transactions with owners, recognised directly in equity		109	1,830	-	836	-	-	-	-	(150,765)	(147,990)	(3,149)	(151,139)
Balance 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

The notes on pages 43 to 70 form an integral part of this interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2015

	Unaudited	
	Six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
Cash flows from operating activities		
Cash generated from operations	98,144	21,971
Income tax paid	(51,430)	(61,720)
Cash flows from operating activities — net	46,714	(39,749)
Cash flows from investing activities		
Payment for addition of property, plant and equipment and construction in progress	(165,957)	(306,353)
Payment for acquisition of interests in leasehold land held for own use under operating leases	(10,428)	(10,000)
Proceeds on disposal of property, plant and equipment	7,864	2,151
Net proceeds from sales and purchase of other financial assets	333,907	618,034
Interest received	48,207	44,562
Expenditure on development project and other intangible assets	(12,554)	(10,184)
Decrease/(increase) in bank deposits maturing over three months	4,003	(572)
Cash flows from investing activities — net	205,042	337,638
Cash flows from financing activities		
Dividends paid to owners	—	(150,946)
Repayments of interest-bearing borrowings	(1,799,708)	(1,911,907)
Proceeds from interest-bearing borrowings	1,355,812	2,516,000
Interest paid	(182,322)	(129,946)
Dividends paid to non-controlling interests	—	(3,149)
Proceeds from share issued under share option scheme	—	1,366
Cash flows from financing activities — net	(626,218)	(38,582)
Net (decrease)/increase in cash and cash equivalents	(374,462)	259,307
Cash and cash equivalents at the beginning of the period	1,442,014	1,274,509
Currency translation differences	(1,727)	5,759
Cash and cash equivalents at end of the period	1,065,825	1,539,575

The notes on pages 43 to 70 form an integral part of this interim condensed consolidated financial information.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2015

1 GENERAL INFORMATION

Honghua Group Limited (the “Company”) and its subsidiaries (together the “Group”) are principally engaged in manufacturing drilling rigs, offshore engineering, and oil & gas exploitation equipment and providing drilling services.

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 Company has its primary listing on The Stock Exchange of Hong Kong Limited.

This interim condensed consolidated financial information is presented in Chinese Renminbi (“RMB”), unless otherwise stated, and was approved for issue on 19 August 2015.

This interim condensed consolidated financial information has not been audited.

2 BASIS OF PREPARATION

This interim condensed consolidated financial information for the six months ended 30 June 2015 has been prepared in accordance with IAS 34, ‘Interim financial reporting’. The interim condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2014, which have been prepared in accordance with IFRSs.

3 ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2014, as described in those annual financial statements.

Amendments to IFRSs effective for the financial year ending 31 December 2015 do not have a material impact on the Group.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

There are no other amended standards or interpretations that are effective for the first time for this interim period that could be expected to have a material impact on this Group.

4 ESTIMATES

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this interim condensed consolidated financial information, the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2014.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2015

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The interim condensed consolidated financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2014.

There have been no changes in the risk management policies since 31 December 2014.

5.2 Liquidity risk

The contractual maturities of the Group's financial liabilities were as follows:

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total contractual cash flows RMB'000
At 30 June 2015					
Trade and other payables (i)	2,960,460	21,125	–	–	2,981,585
Amounts due to related companies	19,491	–	–	–	19,491
Senior notes	91,093	91,093	1,450,452	–	1,632,638
Interest-bearing borrowings (excluding senior notes)	2,612,571	546,253	415,282	96,240	3,670,346
Total financial liabilities	5,683,615	658,471	1,865,734	96,240	8,304,060
At 31 December 2014					
Trade and other payables (i)	4,145,205	–	9,236	–	4,154,441
Amounts due to related companies	24,250	–	–	–	24,250
Senior notes	91,173	91,173	1,497,319	–	1,679,665
Interest-bearing borrowings (excluding senior notes)	3,136,629	282,672	687,273	–	4,106,574
Total financial liabilities	7,397,257	373,845	2,193,828	–	9,964,930

Note:

(i) Trade and other payables include trade and bills payables and portion of other payables.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2015

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

5.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's financial assets and liabilities that are measured at fair value at 30 June 2015.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Derivative financial instruments embedded in other investments	-	-	324	324
Forward exchange contracts	-	1,127	-	1,127
Total assets	-	1,127	324	1,451
Liabilities				
Forward exchange contracts	-	2,584	-	2,584
Total liabilities	-	2,584	-	2,584

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2015

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

5.3 Fair value estimation (continued)

The following table presents the Group's financial assets and liabilities that are measured at fair value at 31 December 2014.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Other financial assets	–	–	331,826	331,826
Derivative financial instruments embedded in other investments	–	–	324	324
Forward exchange contracts	–	284	–	284
Total assets	–	284	332,150	332,434
Liabilities				
Forward exchange contracts	–	9,695	–	9,695
Total liabilities	–	9,695	–	9,695

There were no transfers among Levels 1, 2 and 3 during the period. There were no other changes in valuation techniques during the period.

5.4 Valuation techniques used to derive Level 2 fair values

The fair value of forward exchange contracts in Level 2 is determined by discounting the contractual forward price and deducting the current spot rate. The discount rate used is derived from the relevant government yield curve as at the end of the reporting period plus an adequate constant credit spread.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2015

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

5.5 Fair value measurements using significant unobservable inputs (Level 3)

	30 June 2015 RMB'000	30 June 2014 RMB'000
Other financial assets		
Opening balance at 1 January	331,826	804,102
Net proceeds from sales	(333,907)	(618,034)
Gain on disposal recognised in profit or loss	2,081	4,884
Net unrealised losses recognised in other comprehensive income during the period	-	(195)
Closing balance at 30 June	-	190,757
Derivative financial instruments		
Opening balance at 1 January	324	-
Changes in fair value recognised in profit or loss during the period	-	-
Closing balance at 30 June	324	-

The gain arising from the disposal of the other financial assets are presented in "Finance income" in the interim condensed consolidated statement of profit or loss.

5.6 Group's valuation processes

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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2015

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

5.7 Fair value of financial assets and liabilities measured at amortised cost

The fair value of interest-bearing borrowings are as follows:

	30 June 2015 RMB'000
Non-current	1,677,308
Current	2,561,327
	4,238,635

As at 31 December 2014, the carrying amounts of interest-bearing borrowings approximate their fair value because the borrowing rates were similar to rates currently available for bank loans with similar terms and maturity.

The fair value of the following financial assets and liabilities approximate their carrying amount:

- Trade and other receivables
- Other financial assets
- Cash and cash equivalents
- Bank deposits maturing over three months
- Trade and other payables

6 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 INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2015

7 SEGMENT INFORMATION

The senior executive management is the Group's chief operating decision-maker. Management has determined the operating segments based on the information reviewed by the senior executive management for the purposes of allocating resources and assessing performance.

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). 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.

The senior executive management assesses the performance of the operating segments based on a measure of segment profit or loss. This measurement basis excludes the share of post-tax profits or losses of joint ventures and associates, other revenue and other operating expenses and other income or expenses. Finance income and costs are not allocated to segments, as this type of activity is driven by the central treasury function, which manages the cash position of the Group. Other information provided, except as noted below, to the senior executive management is measured in a manner consistent with that in the financial statements.

Sales between segments are carried out in the ordinary course of business and in accordance with the terms of the underlying agreements. The revenue from external parties reported to the senior executive management is measured in a manner consistent with that in the interim condensed consolidated statement of profit or loss.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2015

7 SEGMENT INFORMATION (continued)

The following table presents revenue and profit information regarding the Group's operating segments for the six months ended 30 June 2015 and 2014 respectively.

	Land drilling rigs		Offshore drilling rigs (i)		Parts and components and others		Oil and gas engineering services		Total	
	Six months ended		Six months ended		Six months ended		Six months ended		Six months ended	
	30 June		30 June		30 June		30 June		30 June	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers	1,490,762	2,723,901	(9,515)	52,776	600,802	857,769	146,758	204,433	2,228,807	3,838,879
Inter-segment revenue	-	-	-	299	208,819	604,006	-	25,641	208,819	629,946
Reportable segment revenue	1,490,762	2,723,901	(9,515)	53,075	809,621	1,461,775	146,758	230,074	2,437,626	4,468,825
Reportable segment profit/(loss)	167,419	426,032	(103,737)	(46,672)	3,088	43,914	(61,549)	(60,917)	5,221	362,357

Note:

- (i) During the period ended 30 June 2015, a vessel returned to the Group with the amount of approximately RMB128,834,000 was debited to revenue.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2015

7 SEGMENT INFORMATION (continued)

A reconciliation of segment profit to (loss)/profit before income tax is provided as follows:

	Six months ended 30 June	
	2015 RMB'000	2014 RMB'000
Segment profit		
— for reportable segments	5,221	362,357
Elimination of inter-segment profits	(4,129)	3,419
Segment profit derived from Group's external customers	1,092	365,776
Share of losses of joint ventures	(3,249)	(1,508)
Share of post-tax profits of associates	340	—
Other revenue, other operating expenses/income and other income/expenses	39,911	35,700
Finance income	103,275	53,299
Finance costs	(157,110)	(148,289)
Unallocated head office and corporate expenses	(21,954)	(35,778)
(Loss)/Profit before income tax	(37,695)	269,200

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 operations segments. During the six months ended 30 June 2015, such information was not reviewed by the Group's chief operating decision maker. Accordingly, no segment assets and liabilities are presented.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2015

8 OTHER REVENUE AND OTHER OPERATING (EXPENSES)/INCOME

	Six months ended 30 June	
	2015 RMB'000	2014 RMB'000
Other revenue		
Government grants (i)	9,872	13,738
Sales of scrap materials	6,854	10,154
Rental income	4,690	–
Repair services income	3,745	2,833
Others	2,408	6,057
	27,569	32,782

Note:

- (i) Government grants are subsidies received from government mainly for expenses reimbursement of certain projects or industry development encouragement.

	Six months ended 30 June	
	2015 RMB'000	2014 RMB'000
Other operating (expenses)/income		
Reversal of provision for a legal claim with former sales agency	–	33,241
Others	(12,906)	(4,953)
	(12,906)	28,288

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2015

9 (LOSS)/PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2015 RMB'000	2014 RMB'000
(a) Net finance expenses		
Interest income on bank deposits	(27,616)	(27,488)
Interest income from long-term receivables	(22,960)	(20,927)
Net gain on disposal of other financial assets	(5,019)	(4,884)
Net foreign exchange gain	(47,680)	–
Finance income	(103,275)	(53,299)
Net foreign exchange loss	–	26,242
Bank charges	18,244	29,202
Interest on interest-bearing borrowings wholly repayable within five years	159,161	115,261
Less: interest expense capitalised into assets under construction	(20,295)	(22,416)
Finance expenses	157,110	148,289
Net finance expenses	53,835	94,990
(b) Staff cost		
Contributions to defined contribution retirement schemes	57,329	66,005
Equity-settled share-based payment expenses	3,662	1,590
Salaries, wages and other benefits	236,182	365,389
Total staff cost	297,173	432,984

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2015

9 (LOSS)/PROFIT BEFORE TAXATION (continued)

	Six months ended 30 June	
	2015 RMB'000	2014 RMB'000
(c) Other items		
Amortisation and depreciation		
— leasehold land held for own use under operating leases	4,489	3,531
— property, plant and equipment	158,917	130,502
— intangible assets	19,820	20,296
Reversal of impairment losses on trade and other receivables	(6,924)	(2,523)
Provision for inventory write-down	5,319	88,631
Research and development costs other than amortisation costs	35,288	32,770
Gains/(Losses) from forward exchange contracts (i)	16,582	(18,041)

Note:

- (i) Gains/(Losses) from forward exchange contracts are presented in "Other income/(expenses)" in the interim condensed consolidated statement of profit or loss.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2015

10 INCOME TAX EXPENSE

Taxation in the interim condensed consolidated statement of profit or loss represents:

	Six months ended 30 June	
	2015 RMB'000	2014 RMB'000
Current income tax — Hong Kong Profits Tax (i)		
Provision for the period	2,780	2,842
Current income tax — PRC (ii)		
Provision for the period	42,141	81,463
Over provision in respect of prior years	(141)	(240)
Current income tax — Other jurisdictions (iii)		
Provision for the period	19,303	5,701
(Over)/under-provision in respect of prior years	(3,092)	1,423
Total current income tax	60,991	91,189
Deferred income tax	(71,761)	(34,321)
Income tax expense	(10,770)	56,868

(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 2015.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2015

10 INCOME TAX EXPENSE (continued)

(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 2014 and 2015, except for the following companies:

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

Corporate income tax (“CIT”) of Honghua Company 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 2014 and 2015.

(b) Sichuan Honghua Electric Co., Ltd. (“Honghua Electric”)

On 6 April 2012, State Administration of Taxation issued Notice 12(2012) (“the Notice”) in respect of favourable CIT policy applicable to qualified enterprises located in western China. Honghua Electric applied and obtained an approval from in-charge tax authority under the policy for the 15% preferential CIT rate and is qualified for the 15% preferential CIT rate from 2012 to 2020.

(iii) Others

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

Income tax expense is recognised based on management’s estimate of the weighted average annual income tax rate expected for the full financial year.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2015

11 (LOSS)/EARNINGS PER SHARE

(a) (Loss)/Basic earnings per share

The calculation of loss/basic earnings per share for the six months ended 30 June 2015 is based on the loss attributable to owners of the Company for the period of RMB29,874,000 (six months ended 30 June 2014: profit of RMB199,745,000) and the weighted average number of shares of 3,178,968,000 (six months ended 30 June 2014: 3,177,556,000 shares) in issue during the period.

	Six months ended 30 June	
	2015 (thousands)	2014 (thousands)
Issued ordinary shares at 1 January	3,241,057	3,239,167
Effect of the share award scheme	(62,089)	(62,089)
Effect of share options exercised	–	478
Weighted average number of ordinary shares at 30 June	3,178,968	3,177,556

(b) (Loss)/Diluted earnings per share

The calculation of loss/diluted earnings per share for the six months ended 30 June 2015 is based on the loss attributable to owners of the Company of RMB29,874,000 (six months ended 30 June 2014: profit of RMB199,745,000) and the weighted average number of shares of 3,178,968,000 (six months ended 30 June 2014: 3,203,594,000 shares), calculated as follows:

	Six months ended 30 June	
	2015 (thousands)	2014 (thousands)
Weighted average number of ordinary shares at 30 June	3,178,968	3,177,556
Effect of deemed issue of shares under the share option scheme	–	26,038
Weighted average number of ordinary shares (diluted) at 30 June	3,178,968	3,203,594

12 DIVIDENDS

No dividend was approved or paid in respect of the previous financial year during the six months ended 30 June 2015 (2014: RMB150,946,000).

The board of directors does not recommend the payment of an interim dividend for the six months ended 30 June 2015 (2014: Nil).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2015

13 PROPERTY, PLANT AND EQUIPMENT, FREEHOLD LAND AND INTANGIBLE ASSETS

	Property, plant and equipment RMB'000	Freehold land RMB'000	Interests in leasehold land held for own use under perating leases RMB'000	Goodwill RMB'000	Other intangible assets ⁽ⁱ⁾ RMB'000
Six months ended 30 June 2015					
Net book value					
Opening amount as at 1 January 2015	2,837,994	4,934	402,784	13,484	212,829
Additions	184,673	-	16,300	-	12,554
Disposals	(7,906)	-	-	-	-
Depreciation and amortisation	(158,917)	-	(4,489)	-	(19,820)
Currency translation difference	(148)	(5)	-	-	1
Closing amount as at 30 June 2015	2,855,696	4,929	414,595	13,484	205,564
Six months ended 30 June 2014					
Net book value					
Opening amount 1 January 2014	2,148,103	4,916	361,888	13,484	213,638
Additions	164,001	-	13	-	10,184
Disposals	(2,151)	-	-	-	-
Depreciation and amortisation	(130,502)	-	(3,531)	-	(20,296)
Currency translation difference	2,428	45	-	-	1,698
Closing amount 30 June 2014	2,181,879	4,961	358,370	13,484	205,224

Note:

- (i) During the six months ended 30 June 2015, the Group capitalised development cost of RMB9,009,000 (2014: RMB9,645,000) as intangible assets.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2015

14 TRADE AND OTHER RECEIVABLES

As at 30 June 2015 and 31 December 2014, the ageing analysis of trade debtors and bills receivable (including amounts due from related parties of trading in nature), based on the invoice date is as follows:

	30 June 2015 RMB'000	31 December 2014 RMB'000
Within 3 months	1,289,691	1,857,583
3 to 12 months	2,080,870	1,223,358
Over 1 year	705,054	827,449
	4,075,615	3,908,390
Trade debtors and bills receivable — gross (i)	3,985,400	3,786,896
Less: provision for impairment of trade receivables	(218,646)	(225,660)
Amount due from related parties		
— Trade	90,215	121,494
— Non-trade	43,467	32,608
Finance lease receivable	222,259	199,128
Value-added tax recoverable	375,593	408,408
Prepayments	553,343	875,769
Other receivables (ii)	252,267	299,016
Less: provision for impairment of other receivables	(8,717)	(8,627)
	5,295,181	5,489,032
Representing:		
Current portion (iii)	4,719,439	4,663,587
Non-current portion (iv)	575,742	825,445
Total	5,295,181	5,489,032

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2015

14 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 generally due for payment within 90 days from the date of billing.
- (ii) Included in other receivables of the Group as at 30 June 2015 is an amount of RMB32,317,000 (31 December 2014: RMB32,317,000) to be indemnified by some beneficiary owners of the Company in relation to a legal claim.
- (iii) 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.
- (iv) Non-current trade and other receivables as at 30 June 2015 include receivables of RMB 246,989,000 (31 December 2014: RMB490,038,000) 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 RMB110,252,000 (31 December 2014: RMB129,215,000), prepayment for acquisition property, plant and equipment of RMB176,422,000 (31 December 2014: RMB164,113,000) and deposit placed as security for borrowings of RMB42,079,000 (31 December 2014: RMB42,079,000).

15 CONTRACT WORK-IN-PROGRESS

	30 June 2015 RMB'000	31 December 2014 RMB'000
Contract cost incurred plus recognised profit less recognised losses	316,390	235,517
Less: progress billings	(235,845)	(18,516)
Contract work-in-progress	80,545	217,001
Representing:		
Amount due from customers for contract work	80,545	217,001
	Six months ended 30 June	
	2015 RMB'000	2014 RMB'000
Contract revenue recognised as revenue	(9,515)	52,776

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2015

16 PLEDGED BANK DEPOSIT

The deposits are pledged to banks as security against bills payable (Note 20) and certain banking facilities (Note 18) granted to the Group.

17 SHARE CAPITAL

Ordinary shares, issued and fully paid:

	Number of shares (thousands)	Share capital RMB'000
Opening balance 1 January 2015	3,241,057	300,983
Proceeds from shares issued — employee share option scheme (i)	—	—
At 30 June 2015	3,241,057	300,983
Opening balance 1 January 2014	3,239,167	300,833
Proceeds from shares issued — employee share option scheme (i)	1,368	109
At 30 June 2014	3,240,535	300,942

Note:

- (i) Employee share option scheme: No options were exercised during the six months ended 30 June 2015 resulted in no shares being issued (30 June 2014: 1,368,000 shares). During the six months ended 30 June 2014, exercise proceeds was HK\$1,724,000, equivalent to approximately RMB1,366,000. The related weighted average price at the time of exercise during the period was HK\$1.26 per share.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2015

18 INTEREST-BEARING BORROWINGS

	30 June 2015 RMB'000	31 December 2014 RMB'000
Non-current	2,189,194	2,320,097
Current	2,492,588	2,806,956
	4,681,782	5,127,053
(a) Bank loans		
Secured (i)		
— Current portion	1,176,709	1,078,964
— Non-current portion	339,192	466,602
	1,515,901	1,545,566
Unsecured		
— Current portion	1,315,879	1,727,992
— Non-current portion	649,543	652,490
	1,965,422	2,380,482
(b) Others — Non-current		
Unsecured loan from other financial institution	457	1,817
Senior notes (ii)	1,200,002	1,199,188
	1,200,459	1,201,005

Notes:

- (i) As at 30 June 2015, the bank loans were secured by interest in leasehold land held for own use under operating leases of RMB213,280,000 (2014: RMB227,002,000), property, plant and equipment of RMB507,241,000 (2014: RMB507,241,000), bank deposits of RMB48,932,000 (2014: RMB71,615,000) and trade and other receivables of RMB55,372,000 (2013: RMB794,072,000).
- (ii) On 25 September 2014, the Company issued listed senior notes in the aggregate principal amount of USD200,000,000 ("Senior Notes"). The Senior Notes bear interest at 7.45% per annum, payable semi-annually in arrears and will be due in 2019.

The Senior Notes are guaranteed by the Group's existing subsidiaries other than those established/incorporated under the laws of the PRC, Honghua America LLC, Sichuan Honghua International (H.K.) Limited, Alaman Tech Story Limited Liability Partnership, PT. Newco Indo Resources, Sichuan Honghua Petroleum Equipment (H.K.) Limited and Golden Asia Success Limited as stated in the Company's offering memorandum on 25 September 2014.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2015

18 INTEREST-BEARING BORROWINGS (continued)

Movements in Interest – bearing borrowings is analysed as follows:

	RMB'000
Six months ended 30 June 2015	
Opening amount as at 1 January 2015	5,127,053
Additions	1,355,812
Repayments	(1,799,708)
Currency translation differences	(1,375)
Closing amount as at 30 June 2015	4,681,782

The Group has the following undrawn borrowing facilities:

	30 June 2015 RMB'000	31 December 2014 RMB'000
Floating rate:		
– expiring within one year (bank loans and bill facility)	11,184,737	10,530,632
– expiring beyond one year (bank loans)	1,179,202	1,459,177
	12,363,939	11,989,809

These facilities have been arranged to help finance ongoing cash for daily operations.

The interest-bearing borrowings at 30 June 2015 bear annual interest ranging from 0.63%–7.45% (31 December 2014: 1.05%–7.50%).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2015

19 PROVISIONS

	Legal claims with former shareholders ⁽ⁱ⁾ RMB'000	Product warranties RMB'000	Total RMB'000
Six months ended 30 June 2015			
Opening amount at 1 January 2015	32,317	34,561	66,878
Additional provisions	-	-	-
Utilised during the period	-	(11,481)	(11,481)
Closing amount at 30 June 2015	32,317	23,080	55,397

Note:

- (i) Details of the legal claim with former shareholders were disclosed in Note 31(a) of the 2014 consolidated financial statements. During the six months ended 30 June 2015, Chengdu Intermediate People's Court conducted the first instance of the retrial of the case (Cheng Min Chu Zi No.1058) ordered by Sichuan Higher People's Court, and the retrial is still underway.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2015

20 TRADE AND OTHER PAYABLES

At 30 June 2015 and 31 December 2014, the ageing analysis of the trade payables and bills (including amounts due to related parties of trading in nature) based on invoice date is as follows:

	30 June 2015 RMB'000	31 December 2014 RMB'000
Within 3 months	939,162	1,953,411
3 to 6 months	644,735	1,039,606
6 to 12 months	442,465	168,180
Over 1 year	469,188	371,514
	2,495,550	3,532,711
Trade payables	1,783,966	2,003,822
Amounts due to related companies		
— Trade	19,449	24,250
— Non-trade	42	—
Bills payable (i)	692,135	1,504,639
Receipts in advance	894,654	1,110,543
Other payables	641,851	636,744
	4,032,097	5,279,998
Representing:		
Current portion (ii)	3,998,569	5,270,762
Non-current portion	33,528	9,236
Total	4,032,097	5,279,998

Notes:

- (i) Bills payable as at 30 June 2015 and 31 December 2014 were secured by certain pledged bank deposits (Note 16).
- (ii) 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2015

21 CONTINGENT LIABILITIES

A sales agency filed lawsuits against a subsidiary 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. On 21 Oct 2014, UAE Federal Court affirmed the original judgement. 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 2015.

Having consulted the Group’s legal advisors, management considered that the Group had legal and factual merit to defend in the 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.

22 COMMITMENTS

(a) Capital commitments

Capital expenditure contracted for or authorised but not contracted for at the balance sheet date but not yet incurred is as follows:

	30 June 2015 RMB'000	31 December 2014 RMB'000
Contracted for	345,273	1,366,231
Authorised but not contracted for	2,860	293,823
	348,133	1,660,054

(b) Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	30 June 2015 RMB'000	31 December 2014 RMB'000
Within 1 year	8,010	9,685
After 1 year but within 5 years	5,935	12,043
After 5 years	3,279	5,516
	17,224	27,244

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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2015

23 RELATED-PARTY TRANSACTIONS

In addition to the related party information disclosed elsewhere in the interim condensed consolidated financial information, 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
Honghua (Shenzhen) Financial Leasing Co., Ltd. ("Honghua (Shenzhen)")	Associate
Tank Tek, LLC ("Tank Tek")	Associate
Mr. Li Ming (黎明)	Director of a group's subsidiary

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2015

23 RELATED-PARTY TRANSACTIONS (continued)

(a) Significant related party transactions

	30 June 2015 RMB'000	31 December 2014 RMB'000
Purchases of parts and components		
— Hongtai	5,641	13,018
— Sichuan Shenyuan	3,095	883
	8,736	13,901
Sale of drilling rigs, parts and components		
— HH Egyptian Company	13,300	709
— Honghua Oil Equipment	—	13,684
	13,300	14,393
Decoration service received		
— Luzhou Jianming	177	—
Consulting service provided		
— Honghua (Shenzhen)	892	—
Loan to		
— Tank Tek	6,725	—
— Honghua (Shenzhen)	3,000	—
— Li Ming	1,114	6,016
	10,839	6,016

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2015

23 RELATED-PARTY TRANSACTIONS (continued)**(b) Amounts due from related companies**

	30 June 2015 RMB'000	31 December 2014 RMB'000
Trade		
— Joint ventures	48,712	121,189
— Other related companies	41,503	305
	90,215	121,494
Non-trade		
— Director of a group's subsidiary and his controlled entity	27,515	26,401
— Joint ventures	536	612
— Other related companies	15,416	5,595
	43,467	32,608

(c) Amounts due to related companies

	30 June 2015 RMB'000	31 December 2014 RMB'000
Trade		
— Joint ventures	840	808
— Other related companies	18,609	23,442
	19,449	24,250
Non-trade		
— Joint ventures	42	—

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2015

23 RELATED-PARTY TRANSACTIONS (continued)

(d) Amounts due from certain shareholders

The amounts due from certain shareholders as at 30 June 2015 is an amount of RMB32,317,000 (31 December 2014: RMB32,317,000), being the amount indemnified by certain shareholders in relation to a legal claim.

(e) Key management compensation

	Six months ended 30 June	
	2015 RMB'000	2014 RMB'000
Basic salaries, allowances and other benefits in kind	3,207	3,176
Contributions to defined contribution retirement schemes	207	142
Equity-settled share-based payments	1,454	33
	4,868	3,351

24 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

During the six months ended 30 June 2015, the Group's investment in Honghua (Shenzhen) has been changed from a joint venture to an associate as a result of the change in Group's voting rights in board of directors from 50% to 40%. As at 30 June 2015, the Group's interest in Honghua (Shenzhen) is RMB41,678,000 (31 December 2014: RMB39,971,000).

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 2015
“PRC” or “China”	the People’s Republic of China and, except where the context requires and only for the purpose of this Interim Report, references in this Interim Report to the PRC or China do not apply to Taiwan or Hong Kong and Macau Special Administrative Regions

DEFINITIONS

“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary shares issued by the Company, with a nominal value of HK\$0.10 each
“Shareholder(s)”	holder(s) of our Share(s)
“Stock Exchange” or “HKSE”	The Stock Exchange of Hong Kong Limited
“Substantial Shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“United States”, or “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