宏华集团有限公司
HONGHUA GROUP LIMITED

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

融合
創新
發展

INTERIM REPORT
2017

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Chen Yajun (*Chairman*, appointed with effect from 29 March 2017)
Zhang Mi (*Vice Chairman*, re-designated with effect from 29 March 2017)
Ren Jie
Liu Zhi (Resigned with effect from 15 June 2017)

Non-Executive Directors

Siegfried Meissner (Resigned with effect from 29 March 2017)
Popin Su (The alternate director to Siegfried Meissner, resigned with effect from 29 March 2017)
Han Guangrong (Appointed with effect from 29 March 2017)
Chen Wenle (Appointed with effect from 29 March 2017)

Independent Non-Executive Directors

Liu Xiaofeng
Qi Daqing
Chen Guoming
Shi Xingquan (Resigned with effect from 29 March 2017)
Guo Yanjun (Resigned with effect from 29 March 2017)
Su Mei (Appointed with effect from 29 March 2017)
Poon Chiu Kwok (Appointed with effect from 15 June 2017)
Chang Qing (Appointed with effect from 15 June 2017)

SECRETARY OF BOARD OF DIRECTORS

He Bin

BOARD COMMITTEES

Audit Committee

Qi Daqing *(Committee Chairman)*
Liu Xiaofeng
Chen Guoming
Shi Xingquan (Resigned with effect from 29 March 2017)
Guo Yanjun (Resigned with effect from 29 March 2017)
Su Mei (Appointed with effect from 29 March 2017)
Poon Chiu Kwok (Appointed with effect from 15 June 2017)
Chang Qing (Appointed with effect from 15 June 2017)

Remuneration Committee

Liu Xiaofeng *(Committee Chairman)*
Zhang Mi
Qi Daqing
Chen Yajun (Appointed with effect from 29 March 2017)
Su Mei (Appointed with effect from 29 March 2017)

Strategic Investment and Risk Control Committee

Chen Yajun (*Committee Chairman*, appointed with effect from 29 March 2017)
Zhang Mi (Committee Member, re-designated with effect from 29 March 2017)
Ren Jie
Liu Zhi (Resigned with effect from 29 March 2017)
Shi Xingquan (Resigned with effect from 29 March 2017)
Liu Xiaofeng
Poon Chiu Kwok (Appointed with effect from 15 June 2017)
Chang Qing (Appointed with effect from 15 June 2017)

JOINT COMPANY SECRETARIES

He Bin
Lee Mei Yi

LEGAL ADVISOR

As To Hong Kong Law

MORRISON FOERSTER (Appointed with effect from 1 July 2017)

PRINCIPAL BANKERS

Bank of China Limited
Industrial and Commercial Bank of China Limited
Bank of Communications Co., Ltd.
Industrial Bank Co., Ltd.
China CITIC Bank Co., Ltd.
Ping An Bank Co., Ltd.
Huaxia Bank Co., Ltd.
Heng Feng Bank Co., Ltd.
China Merchants Bank Co., Ltd.
The Export-Import Bank of China
China Development Bank
Industrial and Commercial Bank of China (Asia) Limited
China CITIC Bank International
China Development Fund Co., Ltd.

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
22nd Floor, Prince's Building
Central
Hong Kong

REGISTERED OFFICE

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

HEAD OFFICE

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

PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Estera Trust (Cayman) Limited
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		
	2017	2016	
	RMB'000	RMB'000	change
Turnover	**819,223**	1,295,927	–36.8%
Loss from operation	**–346,988**	–201,200	72.5%
Loss before income tax	**–447,857**	–247,890	80.7%
Loss attributable to owners of the Company	**–390,908**	–250,894	55.8%
Figures per Share			
Loss per Share-Basic (RMB cents)	**–9.64**	–7.89	22.2%
Loss per Share-Diluted (RMB cents)	**–9.64**	–7.89	22.2%

FINANCIAL POSITION

	30 June	31 December	
	2017	2016	
	RMB'000	RMB'000	change
Total non-current assets	**4,372,815**	4,415,887	–1.0%
Total current assets	**7,280,236**	6,851,879	6.3%
Total assets	**11,653,051**	11,267,766	3.4%
Total current liabilities	**4,561,827**	5,022,637	–9.2%
Total non-current liabilities	**1,999,953**	2,161,677	–7.5%
Total liabilities	**6,561,780**	7,184,314	–8.7%
Total equity	**5,091,271**	4,083,452	24.7%

KEY FINANCIAL RATIOS*

	Six months ended 30 June		
	2017	2016	change
Gross Margin	5.5%	15.7%	–65.0%
Net Margin	–47.7%	–19.4%	146.5%
Return on average assets	–3.4%	–2.0%	70.0%
Return on average equity	–8.9%	–5.7%	56.1%

	30 June 2017	31 December 2016	change
Current ratio	1.60	1.36	0.24
Quick ratio	1.15	0.94	0.21
Total debt/Total assets	34.7%	38.2%	–9.1%
Total liabilities/Total assets	56.3%	63.8%	–11.7%

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

MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2017, the Group's revenue amounted to approximately RMB819 million, representing a decrease of 36.8% from RMB1,296 million for the same period of last year. Gross profit was approximately RMB45 million, representing a decrease of 77.9% from RMB204 million for the same period last year. The loss attributable to equity shareholders was approximately RMB391 million.

MARKET REVIEW

In the first half of 2017, the global oil & gas market was still full of uncertainties: following the oil production cut agreement ("Agreement") between Organization of Petroleum Exporting Countries ("OPEC") and non-OPEC countries reached for the first time in 15 years in last year, both parties have agreed in March this year to extend the agreement to March 2018, which brought a slightly upside momentum to the international oil price. However, with the rebounding of international oil price in the first quarter of the year, the shale oil production in U.S. recovered, thus limiting the effect of Agreement and leading to the largest drop of the international oil price of the first half year since 1997 despite its steady rising from the low point of last year. Nevertheless, Barclays's Global Oil & Gas Capital Expenditure Survey for 2017 forecasted that global oil & gas capital expenditure might increase by 9% year-on-year. However, continuous volatility of the international oil price makes large oil companies continue to be cautious about the upstream exploration expenditure. After a 20% to 30% decline in capital expenditure for upstream oil & gas exploration for two consecutive years, the market still needs more momentum for improvement.

In the domestic market, clean energy sector achieved a favorable turn. In addition to benefit from the rising of the environmental protection awareness and the further narrowing gap between oil and gas price, the development and utilization of conventional natural gas and unconventional shale gas possessed abundant growth potential, supported by Chinese government's favorable clean energy policy. In early 2017, according to *Thirteenth Five-year Planning of Energy Development* ("The Plan"), National Development and Reform Commission ("NDRC") formulated *Thirteenth Five-year Plan for Oil Development* and Thirteenth *Five-year Plan for Natural Gas Development*. According to the Plan, China will make great efforts in key unconventional natural gas areas including shale gas and coal bed methane, and will deepen the reform of oil and gas system and oil enterprises. China's oil and gas system reform will be implemented in the relaxation of control over market access and marketization pricing and other aspects, in order to expand the function of market supply and demand adjustment mechanism, as well as realize the goal that natural gas consumption accounting for 10% of one-off energy consumption volume (compared to the current natural gas consumption percentage of approximately 6%). With Chinese government's support for shale gas exploration and development, the exploitation of shale gas resource in Sichuan Basin is expected to speed up. Sichuan Shale Gas Exploration and Development Co., Ltd. ("Sichuan Shale Gas Corporation"), a joint venture company led by China National Petroleum Corporation ("CNPC"), was established in Chengdu in May 2017, marking the establishment of the second shale gas company under the cooperation between the central and local government. Sichuan province has large clean energy reservation and is the largest clean energy production base in China. In recently years, Sichuan provincial government actively promotes the construction of natural gas and shale gas production fields, and plans to build a benchmark natural gas production base in 2020, comprising shale gas fields located in northeastern Sichuan, central Sichuan and western Sichuan. At the same time, in order to realize the transformation of China's energy structure, Chinese government also enacted various measures for domestic natural gas development and utilization, and expand the development of Liquefied Natural Gas ("LNG").The rapid development of China's natural gas industry is an irreversible trend, and it is expected to create favorable development opportunities for the leading enterprises with excellent technology and production capabilities in the industry in relation to oil and gas exploration and exploitation, storage and transportation.

Facing the complicated and changing international and domestic environment, Honghua successfully brought in the state-owned enterprise and hi-tech conglomerate — China Aerospace Science & Industry Corporation ("CASIC") to be the largest shareholder, as a part of the public-private partnership reform in large oil and gas equipment manufacturing industry, which generated new impetus for the future development of Honghua. As a large scale state-owned enterprises with a focus on the development of national hi-tech industry, CASIC currently has seven A-share listed companies. CASIC became a Fortune global 500 enterprise in 2016 for the first time and ranked as an A-level state-owned enterprises for consecutive nine years. CASIC'S business strategy can be summarized as "one core, two wings", namely, space defense as the core business, information technology and equipment manufacturing as the main products, and "military-civil integration" as the development strategy. In May, as part of its strategic deployment in the field of energy equipment, CASIC designated Honghua as "Leading Enterprise of Energy Equipment Manufacturing", "Core Equipment Manufacturing Unit", "Core International Operation Unit" and "Overseas Investment and Financing Platform" after the completion of share subscription. Focusing on the four strategic principles, Honghua will strive to become the first-class international enterprise of oil and gas exploration and exploitation equipment and technology within the period of the 13th Five-year Plan.

BUSINESS REVIEW

1. Land Drilling Equipment and Related Products Business

In the first half of 2017, oil inventory backlog and oversupply was still severe, and oil supply and demand was still looking for new balance point. Against this backdrop, the number of idle drilling rig across the globe was still large, which greatly restrained the new market demand for land drilling rigs. Facing the pressure of continuous industry downturn, Honghua actively explored business opportunities in the existing and new markets, across the industry chain, and sought new strategic cooperation. During the Period, Honghua signed 6 new land drilling rigs at the total amount of approximately USD55 million. In the first half of the year, Honghua strived to expand new client base while also actively maintained and deepened the relationship with the old clients. In the Asia and Europe market, Honghua obtained an order of 50LDB drilling rig from an existing Turkish client, following the last engagement in 2013. In the Central-Asia's "Russian-dominated" market, Honghua continues to solidity and expand its market share, and signed the contracts of 5 land drilling rigs worth approximately USD50 million.

In terms of parts and components, while solidifying the existing dominated areas, Honghua also actively explores new markets and new customers, expands the sales range of parts and components in the overseas market where its subsidiary companies is located, and gained market shares. During the Period, Honghua sold 28 sets of mud pumps, 10 sets of top drives and 6 sets of direct drive pumps. In terms of special equipment for shale gas, Honghua sold 4 sets of flexible water tanks and signed the rental agreement for 2 6,000-horsepowered electric fracturing pumps for the first time. At the same time, Honghua also actively expanded product-agent business and laid a solid foundation to further expand the sales of parts and components.

During the Period, with the support of CASIC, Honghua carried out innovative finance leasing business, and expanded the business with small and medium oil companies. In June, Honghua cooperated with Aerospace Science & Industry Financial Leasing Co., Ltd. ("ASIFL"), a subsidiary of CASIC, to sign its first domestic finance leasing agreement to sell the inventory products worth over RMB30 million. In the current low oil price environment, small and medium oil companies cannot afford high capital expenditure for oil rig and other drilling equipment. Such cooperation mode can provide small and medium oil companies with cost effective finance leasing services, and helps Honghua expand into new markets around the world.

In addition, Honghua's new geophysical exploration business also made a breakthrough. By virtue of the rich experience and excellent technologies in the field of topography exploration, Honghua successfully engaged a new client in Bolivia and developed the two-dimension earthquake data collection project of geophysical exploration in the country. The contract for the new geophysical exploration project demonstrated that Honghua gradually expanded the service business of oil and gas exploration by replying on its equipment advantages, and made further expansion in worldwide markets and developed new profit driver in the future.

During the Period, Honghua also demonstrated new products, expanded client resources and carried out brand marketing by actively participating in large-scale international Expos and sales activities. In the exhibition in Russia, Honghua demonstrated the self-developed "Aurora" polar rig model. Since February 2016, "Aurora" polar rig has been operating in Russia's arctic region Yamal, which opened a new chapter of operating in extreme wind and snow storm in the environment of -60 degrees centigrade. It is also China's first self-developed drilling rig against extremely chilly weather, which marked Honghua's excellent achievement in the industry. In the America's Offshore Technology Conference ("OTC"), Honghua demonstrated its unique "Jumbo Device" — offshore liquefied natural gas platform ("PLNG") and super-high-power electric fracturing system as the core products with the combination of large-scale model, VR system and video, drew extensive attention from customers. As a world-leading oil rig manufacturer that has been active in the Middle East, Honghua also attended the 2017 Iran International Oil Exhibition. By the exhibitions mentioned above, Honghua not only highlighted its power in product R&D and innovation, but also repeatedly showed the creative concept of "offshore equipment manufactured onshore" and the powerful function of large hoisting equipment "Honghai Crane". Under the uncertainty of international oil market, with the rising of "Made-in-China" and Chinese brand, new products with high cost-effectiveness will likely provide more choices for global clients.

In the future, Honghua's land equipment manufacturing business segment will leverage the positioning of "Leading Enterprise of Energy Equipment Manufacture" by CASIC, make portability, intelligence, cost-effectivness, environmental protection as the development directives for product and technology, capitalize the world-leading position in drilling equipment market and explore and expand the oil and gas equipment industry with high added-value and huge market potential. Through its core products, such as complete set of drilling rig, core parts and components, electric driven fracturing pump, Honghua plans to steadily extend equipment product line. At the same time, Honghua plans to continue to invest resources in the R&D of new generation of materials and technology, and develop downhole tools, exploration and transport equipment and other products, and realize the diversified development of energy equipment manufacturing.

2. Oil and Gas Engineering Services Business

During the Period, the international oil prices fluctuated in continuous turbulence, which was favorable to the improvement of global oil and gas engineering services market. However, the output cut agreements between OPEC and non-OPEC countries still faced many uncertain factors, and oil companies were still conservative in capital expenditure. As at 30 June 2017, Honghua had a total of 14 oil and gas engineering services team engaged in well drilling and directional well service in China and overseas markets. During the Period, the footage drilled amounted to 6,882 meters, another 9 directional wells were completed with a total drilled footage of 5,662 meters. The directional well project located in the Middle East commenced operation in early this year and made huge progress, and maintained 100% project completion acceptance rate, which further laid a solid foundation for Honghua to expand overseas market. At the beginning of the year, in order to raise the utilizing rate of drilling rigs, Honghua actively leased its idle drilling rigs. During the Period, the utilization rate of Honghua's land drilling rig including leased rigs was over 50%.

During the Period, Honghua's integrated solution for shale gas has made significant breakthrough. Honghua signed a strategic cooperation agreement with SINOPEC East China Oil and Gas Company (中國石化股份公司華東油氣分公司, "East China Branch"), to build a mutual-beneficiary and sustainable strategic partnership in the field of shale gas exploration. On the same day, a non-binding Memorandum of Understanding ("MOU") between Honghua and Halliburton Energy Services (China) Limited ("Halliburton China") was signed which contemplated that the parties will be each other's preferred subcontractor in the integrated projects of well drilling and completion and shale gas projects in the Sichuan Basin area. Such strategic partnerships will enable Honghua to greatly expand its shale gas business in domestic market.

The strategic cooperation between Honghua and East China Branch began in May 2017. Honghua utilized the self-developed electric large-powered fracturing pump with independent R&D, design and production to successfully cooperate with SINOPEC East China Branch to complete a large-scale fracturing operation in the shale gas region of South PingQiao, Nanchuan, Chongqing. The fracturing operation adopted the combination of 2 sets of Honghua's 6000-horsepower electric fracturing pump and 18 sets of traditional 2500-horsepower fracturing pump on site. The field test showed that Honghua's single 6000-horsepower electric fracturing pump equates to 3 conventional 2500-horsepower fracturing pump, and proved that the single electric fracturing pump can save fuel cost by 20% compared with the traditional fracturing pump. In the future, according to the strategic cooperation with East China Branch, Honghua will provide the leasing and sales service of electric large-power fracturing pump and other equipment for East China Branch's shale gas fields in Pengshui and other regions in China, and help East China Branch carry out sustainable shale gas exploration, further raise production rate and realize cost reduction and profitability enhancement.

During the Period, leveraging the rich resources of CASIC, Honghua continued to adjust market strategy in domestic and overseas markets, by focusing on expanding the EPC service for unconventional shale gas drilling, and capitalizing on business opportunities in Sichuan — a major province of clean energy and the largest production base of clean energy in China. According to the official data, the total reserve volume of conventional natural gas in Sichuan Basin is 7.2 trillion cubic meters, the accumulative proven reserve is 3 trillion cubic meters, ranking the 3rd in China. The reserve of shale gas resource is 27.5 trillion cubic meters and the exploitable yield is 4.42 trillion cubic meters in Sichuan Province, both of which are largest and account for 20.5% and 17.7% in China respectively. Relying on its prospective deployment and the global resources in oil and gas equipment market, Honghua announced in 2012 its self-developed integrated solution and related equipment for shale gas exploration and development with the concept of "prioritizing distribution network, exploiting gas by using gas while simultaneously producing gas and electricity in an industrialized, assembly line operation format". Through electricity produced by conventional, unconventional natural gas or associated gas on site, the solution can provide high-efficiency energy-saving module for on-site operation in relation to well drilling, well completion and gas exploitation. Combining with Honghua's self-developed oil and gas drilling equipment such as DBS fracturing system, approximately 80% of fuel cost of the operation can be reduced, the utilization rate of drilling rig can be improved, and greenhouse gas emissions can be reduced by up to 95%, all of which can help customers significantly improve operation efficiency and reduce production cost and boost the development of shale gas industry in China and even the world.

Overseas oil and gas engineering services market is Honghua's core development area. By virtue of Honghua's resources in overseas market and CASIC's vast sales network in emerging countries, such as "One Belt One Road" countries, Honghua will actively solidify the existing markets and expand into new business areas. Following the long-term development strategy, Honghua successfully acquired the membership of International Association of Drilling Contractors and the market access certificate of Zhongyuan Petroleum Engineering Co., Ltd. In addition, Honghua will strive to get more drilling qualifications of other markets in the second half of the year, so as to boost the business expansion in home and abroad, expand the customer base, and fully prepare the market recovery in the future.

3. Offshore Engineering Equipment and Related Products Business

In the first half of 2017, facing the new situation of oil and gas industry, Honghua's offshore business focused on equipment and facility construction for offshore LNG industrial chain, including the PLNG project, accelerated the commercialization of FSP LNG tank, and continued to target the delivery of LNG powered ship for-LNG Power Shipping within this year.

During the Period, the Pre-Front End Engineering and Design ("Pre-FEED") of Honghua's first offshore PLNG was completed and reviewed by the American Bureau of Shipping ("the ABS") and an Approval-in-Principle ("AIP") was granted. In May, Shanghai Honghua Offshore Oil and Gas Equipment Co., Ltd. ("Honghua Offshore"), a wholly-owned subsidiary of Honghua, entered into a Heads of Agreement (the "new HOA") with LNG 21 Partners, LLC ("LNG 21", formerly known as ARGO) Pursuant to the new HOA, LNG 21 intends to raise the consideration of their earlier purchased one set of PLNG from Honghua Offshore to approximately USD2.2 billion (equivalent to approximately HKD17.2 billion). The optimized PLNG project, with the CAPEX investment on unit liquefaction capability decreased to approximately USD500/ton, is expected to become the first US LNG facility with the CAPEX investment below USD600/ton, which will further enhance the competitiveness of the PLNG. Honghua will continue proceed the FEED research as well as complete the gas purchase project acquisition agreement, to speed up implementation of PLNG.

QUALITY MANAGEMENT AND R&D

During the Period, Honghua continued to focus on the strengthening the company's overall competitiveness. Honghua passed the approval of new ISO14001-2015 standard and obtained new certificates and successfully obtained Grade-2 qualification of safe production standardization.

In terms of HSE production management, Honghua fully implements the responsibility of safety production management with a focus on high-risk operation, and implements public supervision and rectification for hidden danger. At the same time, Honghua comprehensively implements 6S on-site management, carries out 6S special management, and formulates the operation standard and check-up system of 6S on-site management. Through the full implementation of 6S on-site management, the working environment is greatly improved. Together with the upgrade of automated equipment, safety risks are further reduced and staffs' occupational health is further guaranteed.

In the first half of the year, Honghua obtained 17 licensed patents and 9 authorized inventions. As of 30 June, 2017, Honghua applied for 584 patents, and obtained 443 licensed patents in total.

During the Period, in terms of R&D of downhole tool, Honghua successfully developed 2 new products: Oil Sealing Motor and Hydraulic cross Climbing Device, which are used to improve drilling efficiency. The Hydraulic cross Climbing Device is the first finished product made in China. Honghua will further rely on CASIC's excellent exploration, technological reserve which are the fist-class level in China. In addition, Honghua will seek synergy from R&D of downhole tool, focus on the technology and equipment breakthrough in downhole equipment for drilling measurement, and continue to solidity Honghua's leading position in the field of oil and gas drilling equipment manufacture.

In addition, Honghua also actively explores, incubates and innovates service business with the spirit of "Innovation, Venture and Entrepreneurship". During the Period, Honghua's integrated drilling intelligent system "UNISON" fully upgraded drilling rig control system in the form of standardization and modularization, adapted to the development trend of drilling rig, further optimized and improved control performance, and provided automatic and intelligent drilling interface. In the second half of 2017, Honghua will continue to carry out the research on drilling rig, fracturing automation and intelligence, complete the comprehensive drilling intelligent system — UNISON, the drilling parameter optimization system — DrillOptim, the testing of fast sliding drilling technology, and complete the debugging and improvement of electric fracturing equipment.

HR MANAGEMENT

During the Period, Honghua continued to improve the human resource structure, strengthened the acquisition of technical talents, and realized the strategic deployment of optimizing the allocation of talent resources and improving efficiency. As at 30 June 2007, the total number of Honghua staff was 3,684, a 19% decreases from the same period of last year, while the number of R&D staff was 343, a 13% decreases from the same period of last year. In order to remedy staff redundant and achieve cost reduction, Honghua focused on adjusting personnel structure, strengthening training system construction and improving staff performance. In terms of staff training, in the first half of 2017, Honghua totally organized 311 training programs in total, covering 8,439 participations and a total of 88,000 class hours. The training contents were extensive and the training methods were innovated including symposium, task training, and development experience in order to inspire and guide the staff to think actively, and align their professional outlook and value under the current operation situation, and enhance their competency.

In the future, the talent reserve program of Honghua mainly focuses on professional technical talents, international talents, and integrated management talents who possess the relevant professional knowledge and technology. Since CASIC became a major shareholder of Honghua, the human resource development of Honghua combines with the company's business strategic, Honghua mainly introduces talents in equipment technology, project management, international operation, internal operations, risk control and other core technology and high-level management, establishes internal double-innovation talent development platform, develops mechanism through professional training, and realizes continuous breakthrough by diversified incentive mechanism. Drawing on CASIC's platform, influence and the human resource management system, Honghua built a joint recruitment platform, and attracted high-end professional talents. Honghua will share CASIC's extensive training resources, and draw the support from the soft power of Honghua's senior executives who are assigned by CASIC, and continue to promote the HR competitiveness of Honghua.

FUTURE OUTLOOK

CASIC and Honghua both believe that, in the long run, oil and gas will remain the core energy to fuel the world economic development. In the first half of 2017, the imbalance of supply and demand structure in the international crude oil market was not yet improved. However, as the fluctuation of international oil price began to stabilize in the second quarter, the joint production cut actions by major international oil exporting countries achieved a stable inventory reduction effect. Large oil companies gradually increased their confidence in the new expenditure for oil and gas equipment. Against this backdrop, it is expected that the business environment of global oil and gas equipment market may recover significantly in the second half of the year. In addition, with energy reform carried out in domestic market, natural gas, being a key clean energy, has huge development potential. Honghua's future strategic focus in domestic market will also gradually shift to natural gas industry. Focusing on natural gas exploration, production enhancement, storage and transportation, LNG's storage and transportation, and downstream application fields, Honghua plans to realize its integrated solution for shale gas development as well as deploy the layout in new-type clean energy business.

Facing new situation of oil and gas industry, Honghua will leverage the important opportunity brought by the introduction of CASIC as a major shareholder, by utilising CASIC's market, finance and technology resources to achieve synergy. First, by taking advantage of CASIC's status of a state-owned enterprise, Honghua will participate and expand domestic natural gas equipment and service business, especially for shale gas. At the same time, relying on CASIC's overseas market resources, Honghua will focus on expanding large high-quality equipment business and oilfield services in the countries along "One Belt One Road" regions. Second, with CASIC's support, Honghua will manage its financing cost more efficiently. Thirdly, Honghua will utilise the product and technology resources of energy equipment manufacture within CASIC's system, improve the production capacity of the integrated oil and gas exploration and transportation equipment, and expand the layout of downhole tool business. Honghua will also make "3 Innovations: Technology Innovation, Business Model Innovation and Management Innovation" as the core strategy to promote new products and new business areas, in order to boost the long-term development of Honghua. Finally, Honghua will strictly control capital expenditure in Offshore Business segment, continue to actively promote the Offshore Business layout based on LNG industry chain to introduce strategic investors to jointly promote the value of offshore engineering business and release its potential investment value.

As of 15 August 2017, we had land drilling equipment backlogs in the amount of approximately RMB3,939 million, which including 13 sets of land drilling rig backlogs, with an aggregate amount of approximately RMB827 million.

As of 15 August 2017, we had offshore engineering equipment backlogs in the amount of approximately RMB1,155 billion.

As of 15 August 2017, we had oil and gas engineering service contracts in the amount of approximately RMB354 million.

FINANCIAL REVIEW

During the six months ended 30 June 2017, the Group's gross profit and loss attributable to shareholders of the Company amounted to approximately RMB45 million and RMB391 million, respectively, and gross margin and net margin amounted to approximately 5.5% and -47.7%, respectively. In the same period last year, gross profit and loss attributable to shareholders of the Company amounted to approximately RMB204 million and RMB251 million, respectively, gross margin and net margin amounted to approximately 15.7% and -19.4% respectively. During the six month ended 30 June 2017, the gross margin and the net margin of the Group decreased substantially, which was attributed to the significant decrease in the Group's revenue during the Period compared with the same period last year due to low oil price along with unstable recovery of oil drilling equipment demand. The decrease of production caused the increase of idle cost, which lead to substantially losses of Group's business segments.

Turnover

During the six month ended 30 June 2017, the Group's turnover amounted to approximately RMB819 million, representing a decrease of RMB477 million or 36.8% as compared to RMB1,296 million in the same period last year. During the Period, the low oil price and the unstable demand of global oil and gas has lead to a substantial decrease in both sales volume and price of segments of drilling rigs, parts and oil and gas services. The LNG power ship project of the offshore drilling rigs part of the Group came to an end, and no new project has begun, causing the sales of the Group's offshore drilling part to decline as compared to the same period last year.

(a) Revenue by Geographical Locations

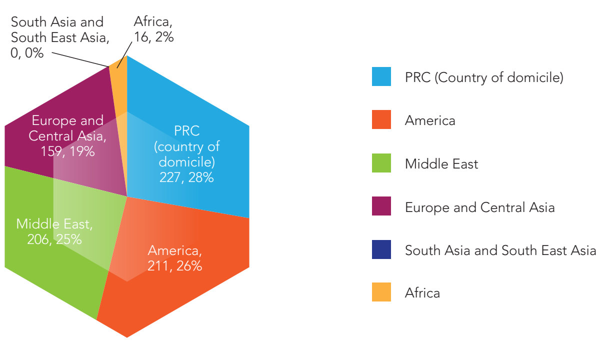
The Group's revenue by geographical segment during the Period: (1) The Group's export revenue amounted to approximately RMB592 million, accounting for approximately 72.3% of the total revenue, representing a decrease of RMB341 million as compared to the same period last year; (2) revenue generated from the PRC amounted to approximately RMB227 million, accounting for approximately 27.7% of the total revenue, representing a decrease of RMB136 million as compared to the same period last year.

The revenues from different regions are affected by international oil and gas exploration activities. The Group will focus on the development of international business, keep on to improve the quality of products and services and strictly control the operating cost.

Revenue by Geographical Locations

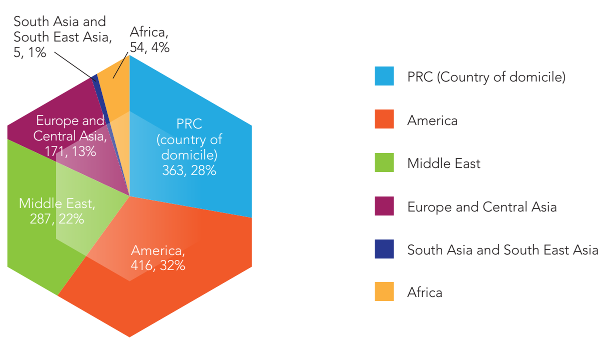
Six months ended 30 June 2017

Expressed in RMB'million



Six months ended 30 June 2016

Expressed in RMB'million



(b) Revenue by operating segments

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

During the Period, external revenue from land drilling rigs amounted to approximately RMB165 million, representing a decrease of RMB191 million or 53.7% as compared to RMB356 million in the same period last year.

During the Period, external revenue from parts and components and others amounted to approximately RMB482 million, representing a decrease of RMB230 million or 32.3% as compared to RMB712 million in the same period last year.

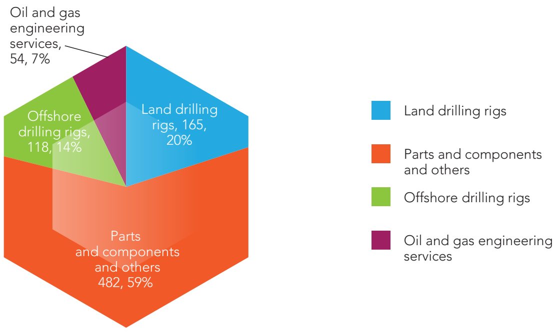
During the Period, external revenue from offshore drilling rigs amounted to approximately RMB118 million, representing a decrease of RMB30 million or 20.3% as compared to RMB148 million in the same period last year.

During the Period, revenue from oil and gas engineering services amounted to approximately RMB54 million, representing a decrease of RMB26 million or 32.5% as compared to RMB80 million in the same period last year.

Revenue by operating segments

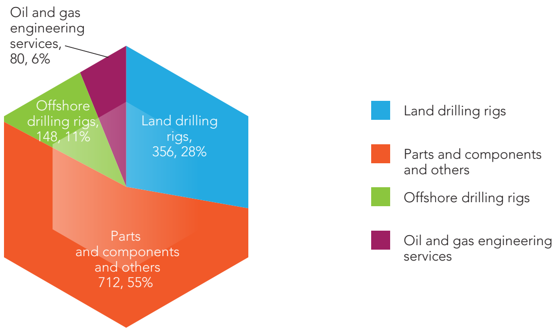
Six months ended 30 June 2017

Expressed in RMB'million



Six months ended 30 June 2016

Expressed in RMB'million



Cost of Sales

During the Period, the Group's cost of sales amounted to approximately RMB774 million, representing a decrease of approximately 29.1% or RMB318 million as compared to RMB1,092 million in the same period last year. The decrease was mainly due to the decline in sales volume and the Group's continued focus on reducing costs and improving efficiency ,such as the optimization process and employee benefit expense. The decline of the sales cost was lower than the decline of the sales revenue which was mainly affected by the increase of the idle time cost of the Group's offshore drilling rigs, and oil and gas engineering services part.

Gross Profit and Gross Margin

During the Period, the Group's gross profit amounted to approximately RMB45 million, representing a decrease of RMB159 million or 77.9% as compared to RMB204 million in the same period last year.

During the Period, the Group's overall gross margin was 5.5%, representing a decrease of 10.20 percentage point compared with the corresponding period last year of 15.7%. In the condition of the demand of both domestic and overseas is declining continuously which leads to the decrease of order and the decrease of revenue, the fixed costs of the Group's segments of Land drilling rigs and Oil and gas services could not decrease correspondingly, resulted in the decrease of gross profit margin of unit product.

Expenses in the Period

During the period, the Group's distribution expenses amounted to approximately RMB167 million, representing an increase of RMB35 million or 26.5% as compared to RMB132 million in the same period last year. The decreasing rate was 15.9% as compared to last year, if the rig insurance premium was deducted. The rig insurance premium, as a result of government subsidy, amounted to approximately RMB36 million and the maintenance cost of drilling rig taking into consideration insurance company compensation, amounted to approximately RMB20 million. This was mainly attributable to decreased transportation costs and the customs declaration fee as a result of the declined sales revenue, the Group's cost reduction initiative, such as travelling expenses and the employee benefit expense reduction by the optimization of the personnel structure, amounting to 30.0% as compared to the same period last year.

During the period, the Group's administrative expenses amounted to approximately RMB229 million, representing a decrease of RMB49 million or 17.6% as compared to RMB278 million in the same period last year. During the Period, the Group had further optimized the scientific research institution and project, which lead to a decrease of R&D expenditure, the Group had also optimized the organizational structure and the hierarchy of management, which lead to a substantially decrease of labor cost.

During the Period, the Group's net finance expenses amounted to approximately RMB99 million, representing an increase of RMB51 million, or 106.3% as compared to net finance expense of RMB48 million in the same period last year. This was mainly attributable to the decrease of the net foreign exchange gain, amounting to RMB57 million as compared to the same period last year due to the impact of the appreciation of the RMB. The Group also optimized and reduced the debt scale, resulting in the decrease of the interest expense, amounting to RMB156 million or 6.9% as compared to the same period last year.

Loss Before Income Tax

During the period, loss before income tax of the Group amounted to approximately RMB448 million, representing an increase of RMB200 million or 80.7% compared to loss before income tax of RMB248 million in the same period last year.

Income Tax Expense

During the period, the Group's income tax expense amounted to approximately RMB-51 million as compared to the income tax expense of approximately RMB2 million in the same period last year.

Loss for the Period

During the period, the Group's loss amounted to approximately RMB397 million, as compared to a loss of approximately RMB250 million in the same period last year. Loss attributable to equity shareholders of the Company was approximately RMB391 million, while loss attributable to non-controlling interests was approximately RMB6 million. During the period, net margin was -47.72%, as compared to a net margin of -19.36% in the same period last year.

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

During the period, EBITDA amounted to a loss of RMB209 million, as compared to approximately RMB67 million in the same period last year, which was mainly attributable to the decrease in operating profit as a result of the decrease in revenue from the land drilling rigs and component, and oil & gas engineering services part. The EBITDA margin was -25.6%, as compared to -5.1% in the same period last year.

Dividends

As at 30 June 2017, the Board does not recommend payment of 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 2017, the Group's bank borrowings and senior notes amounted to approximately RMB4,043 million, representing a decrease of approximately RMB256 million as compared to 31 December 2016. Among which, borrowings repayable within one year amounted to approximately RMB2,119 million, representing a decrease of RMB94 million or 4.3%, as compared to 31 December 2016.

Deposits and Cash Flow

As at 30 June 2017, the Group's cash and cash equivalents amounted approximately RMB1,850 million, representing an increase of approximately RMB1,306 million as compared to 31 December 2016.

During the period, the Group's net cash inflow from operating activities amounted to approximately RMB225 million, net cash inflow from investing assets, during the period amounted to approximately RMB16 million; net cash inflow from financing activities amounted to approximately RMB1,077 million.

Assets Structure and Changes

As at 30 June 2017, the Group's total assets amounted to approximately RMB11,653 million, representing an increase of approximately RMB385 million or 3.4% as compared to 31 December 2016. Current assets amounted to approximately RMB7,280 million, accounting for 62.5% of total assets, representing an increase of RMB428 million as compared to 31 December 2016. Non-current assets amounted to approximately RMB4,373 million, accounting for 37.5% of total assets, representing a decrease of approximately RMB43 million as compared to 31 December 2016.

Liabilities

As at 30 June 2017, the Group's total liabilities amounted to approximately RMB6,562 million, representing a decrease of approximately RMB622 million as compared to 31 December 2016. Current liabilities amounted to approximately RMB4,562 million, accounting for approximately 69.5% of total liabilities, representing a decrease of approximately RMB461 million as compared to 31 December 2016. Non-current liabilities amounted to approximately RMB2,000 million, accounting for approximately 30.5% of total liabilities, representing a decrease of approximately RMB161 million as compared to 31 December 2016. As at 30 June 2017, the Group's total liabilities/total assets ratio was approximately 56.31%, representing a decrease of 7.45 percentage points as compared to 31 December 2016.

Equity

As at 30 June 2017, total equity amounted to RMB5,091 million, representing an increase of RMB1,008 million as compared to 31 December 2016. Total equity attributable to equity shareholders of the Company amounted to approximately RMB4,935 million, representing an increase of RMB1,036 million as compared to 31 December 2016. Non-controlling interests totaled to approximately RMB156 million, representing a decrease of RMB28 million as compared to 31 December 2016. During the period, the Group's basic loss per share were RMB0.0964, and diluted loss per share were RMB0.0964.

Capital Expenditure, Major Investment and Capital Commitments

During the period, capital expenditure of the Group on infrastructure and technical improvements amounted to approximately RMB64 million, representing a decrease of approximately RMB11 million as compared to the same period last year.

As at 30 June 2017, the Group had capital commitments of approximately RMB289 million, which was mainly attributable to capital commitment for the construction of Jiangsu Qidong offshore manufacturing base and the expansion of the Group's business as well as its production capacity.

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 controls and accountability to Shareholders.

The Company has applied the principles and code provisions as set out in the CG Code.

The Company has complied with the code provisions of the CG Code throughout the six months period from 1 January 2017 to 30 June 2017, except for the deviations 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. From 1 January 2017 to 29 March 2017, Mr. Zhang Mi was the Chairman of the Board and President (Chief Executive) of the Company. Mr. Zhang Mi was the main founder of the Group and has extensive experiences in the industry and related industries. In the opinion of the Board, the vesting of duties of Chairman of the Board and President (Chief Executive) of the Company to Mr. Zhang Mi provided the Company a strong and consistent leadership and allowed for effective planning and execution of business decisions and strategies, as well as ensured the interests of the shareholders of the Company as a whole. On the other hand, the balance between powers and duties could be ensured through the operation of the Board and the committees under it.

On 29 March 2017, Mr. Zhang Mi stepped down from the position as Chairman of the Board and was re-designated as the Vice-Chairman of the Board. Mr. Chen Yajun has been appointed as Chairman of the Board.

The positions of Chairman and President of the Company are held by Mr. Chen Yajun and Mr. Zhang Mi respectively with effect from 29 March 2017. The Company has complied the code provision A.2.1 of the CG Code on the roles of chairman and chief executive that should be separate and should not be performed by the same individual with effect from 29 March 2017.

3. MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a set of Code for Securities Trading with terms no less exacting than that of the Model Code. After the specific enquiry made by the Company, all the Directors have confirmed that they have complied with the standards specified in both the Code for Securities Trading and the Model Code throughout the six months ended 30 June 2017.

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 2017, 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.

During the period from 1 January 2017 to 29 March 2017, 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.

On 29 March 2017, Mr. Shi Xingquan and Mr. Guo Yanjun resigned as the Independent Non-executive Directors while Ms. Su Mei was appointed as the Independent Non-executive Director.

On 15 June 2017, Mr. Poon Chiu Kwok and Mr. Chang Qing were appointed as the Independent Non-executive Directors. Mr. Poon Chiu Kwok and Mr. Chang Qing will retire by rotation and being eligible, offer themselves for re-election at 2018 annual general meeting.

The Board currently comprises six Independent Non-executive Directors with three of whom possessing appropriate professional qualifications or accounting or related financial management expertise, which meets the requirements of the Listing Rules relating to the appointment of independent non-executive directors representing one-third of the Board.

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.

During the period from 1 January 2017 to 29 March 2017, the Audit Committee comprised 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.

On 29 March 2017, Mr. Shi Xingquan and Mr. Guo Yanjun resigned as the members of the Audit Committee while Ms. Su Mei was appointed as the member of the Audit Committee.

On 15 June 2017, Mr. Poon Chiu Kwok and Mr. Chang Qing were appointed as the members of the Audit Committee.

The Audit Committee currently comprises six Independent Non-executive Directors, namely Qi Daqing (Chairman), Liu Xiaofeng, Chen Guoming, Su Mei, Poon Chiu Kwok and Chang Qing. Three 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 2017 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.

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

As at 30 June 2017, 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	1,510,258,620[(1)(4)]	28.20%
Mr. Ren Jie	Long	Personal interest, corporate interest and settlor of a discretionary trust	1,510,258,620[(2)(4)]	28.20%
Miss. Su Mei (Appointed with effect from 29 March 2017)	Long	Personal interest	150,000[(3)]	0.002%

(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 28,105,000 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 38,145,697 Shares.

(2) Ren Jie individually owns 1,549,000 Shares. Ren Jie is a member of the Concert Group. He is the settlor of a discretionary trust, The RJDJ Victory Trust, whose trustee, through Mowbray Worldwide Limited, holds approximately 41.34% of the issued share capital of Charm Moral International Limited, which in turn is the beneficial owner of approximately 19.09% of the issued share capital of Ample Chance International Limited, which in turn is the beneficial owner of the entire issued share capital of Ally Giant Limited which holds 1,187,727,837 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 28,105,000 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 38,145,697 Shares.

(3) Su Mei individually owns 150,000 Shares.

(4) Concert Group is defined in the prospectus of the Company dated 25 February 2008.

(B) Share Options of the Company

	Long/Short Position	Number of options held — Personal interest	Number of options held — Interest of the Concert Group
Mr. Zhang Mi	Long	15,027,000	33,660,720
Mr. Ren Jie	Long	8,572,000	40,115,720
Mr. Qi Daqing	Long	3,450,000	–
Mr. Liu Xiaofeng	Long	3,450,000	–
Mr. Chen Guoming	Long	2,550,000	–

Saved as disclosed above, at 30 June 2017, none of the Directors and Chief Executives (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for Shares (or warrants or debentures, if applicable) of the Company and its associated corporations required to be disclosed pursuant to the SFO.

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

The register of substantial shareholders required to be kept under section 336 of Part XV of the SFO shows that, as at 30 June 2017, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors and Chief Executives of the Company.

		Number of shares held						
		Personal interest						
Name	Long/Short Position	Share Option	Shares Interest	Corporate Interest	Corporate Interest and Settlor of a Discretionary Trust	Interest of the Concert Group	Total	% of the Issued Share Capital of the Company
Ally Giant Limited	Long	–	1,187,727,837	–	–	371,218,503	1,558,946,340(1)	29.11%
Ample Chance International Limited	Long	–	–	1,187,727,837	–	371,218,503	1,558,946,340(2)	29.11%
Wealth Afflux Limited	Long	–	157,800,000	1,187,727,837	–	213,418,503	1,558,946,340(3)	29.11%
Ally Smooth Investments Limited	Long	–	–	1,187,727,837	–	371,218,503	1,558,946,340(3)	29.11%
Equity Trustee Limited	Long	–	–	–	1,503,485,237	–	1,503,485,237(3)(5)(6)(9)(10)(14)(20)(22)	28.07%
Charm Moral International Limited	Long	–	–	1,187,727,837	–	371,218,503	1,558,946,340(4)	29.11%
Mowbray Worldwide Limited	Long	–	33,227,200	1,187,727,837	–	337,991,303	1,558,946,340(5)	29.11%
Liu Zhi	Long	5,477,500	1,250,000	–	1,215,832,837	336,386,003	1,558,946,340(6)	29.11%
Ecotech Enterprises Corporation	Long	–	28,105,000	1,187,727,837	–	343,113,503	1,558,946,340(6)	29.11%
Mr. Zheng Yong	Long	2,859,760	20,020,950	1,187,727,837	–	348,337,793	1,558,946,340(7)	29.11%
Beauty Clear Holdings Limited	Long	–	–	1,187,727,837	–	371,218,503	1,558,946,340(8)	29.11%
Mr. Zuo Huixian	Long	2,656,600	210,000	–	1,206,532,237	349,547,503	1,558,946,340(9)	29.11%
Vast & Fast Corporation	Long	–	18,804,400	1,187,727,837	–	352,414,103	1,558,946,340(9)	29.11%
Mr. Zhang Xu	Long	1,860,720	12,686	–	1,201,285,237	355,787,697	1,558,946,340(10)	29.11%
Cavendish Global Corporation	Long	–	13,557,400	1,187,727,837	–	357,661,103	1,558,946,340(10)	29.11%
Elegant Scene International Limited	Long	–	–	1,187,727,837	–	371,218,503	1,558,946,340(11)	29.11%
Mr. Wang Jiangyang	Long	1,401,000	6,752,600	1,187,727,837	–	363,064,903	1,558,946,340(11)	29.11%
Mr. Chen Jun	Long	891,000	2,074,599	1,187,727,837	–	368,252,904	1,558,946,340(12)	29.11%
Believe Power International Limited	Long	–	–	1,187,727,837	–	371,218,503	1,558,946,340(13)	29.11%
Mr. Fan Bing	Long	1,744,000	30,000	–	1,206,308,837	350,863,503	1,558,946,340(14)	29.11%
Brondesbury Enterprises Limited	Long	–	18,581,000	1,187,727,837	–	352,637,503	1,558,946,340(14)	29.11%
Mr. Zhang Yanyong	Long	1,494,080	1,720	1,187,727,837	–	369,722,703	1,558,946,340(15)	29.11%
Mr. Ao Pei	Long	469,100	962,308	1,187,727,837	–	369,787,095	1,558,946,340(16)	29.11%
Mr. Tian Diyong	Long	573,000	260,400	1,187,727,837	–	370,385,103	1,558,946,340(17)	29.11%
Mr. Shen Dingjian	Long	288,040	1,285,720	1,187,727,837	–	369,644,743	1,558,946,340(18)	29.11%
Benefit Way International Limited	Long	–	–	1,187,727,837	–	371,218,503	1,558,946,340(19)	29.11%
Mr. Liu Xuetian (deceased)	Long	–	–	–	1,193,780,237	365,166,103	1,558,946,340(20)	29.11%
Dobson Global Inc.	Long	–	6,052,400	1,187,727,837	–	365,166,103	1,558,946,340(20)	29.11%
Ms. Qu Yihong	Long	–	–	1,193,780,237	–	365,166,103	1,558,946,340(21)	29.11%
Ms. Liu Ying	Long	–	–	1,193,780,237	–	365,166,103	1,558,946,340(21)	29.11%
Mr. Zhou Bing	Long	1,553,000	3,856,714	–	1,187,727,837	365,808,789	1,558,946,340(22)	29.11%
Darius Enterprises Limited	Long	–	–	1,187,727,837	–	371,218,503	1,558,946,340(22)	29.11%

Name	Long/Short Position	Share Option (Personal interest)	Shares Interest (Personal interest)	Corporate Interest	Corporate Interest and Settlor of a Discretionary Trust	Interest of the Concert Group	Total	% of the Issued Share Capital of the Company
		Number of shares held						
Ms. Lv Lan	Long	1,401,500	250,808	1,187,727,837	–	369,566,195	1,558,946,340(23)	29.11%
Mr. Tian Yu	Long	1,355,000	1,508,478	1,187,727,837	–	368,355,025	1,558,946,340(24)	29.11%
Mr. Li Hanqiang	Long	255,920	311,000	1,187,727,837	–	370,651,583	1,558,946,340(25)	29.11%
Mr. Liu Yingguo	Long	–	264,000	1,187,727,837	–	370,954,503	1,558,946,340(26)	29.11%
Mrs. Liu Lulu	Long	808,500	596,400	1,187,727,837	–	369,813,603	1,558,946,340(27)	29.11%
Yi Langlin	Long	–	2,156,000 1,556,790,340 (family interest)	–	–	–	1,558,946,340(28)	29.11%
Kehua Technology Co., Limited	Long	–	1,606,000,000	–	–	–	1,606,000,000(29)	29.99%
Shenzhen Aerospace Industry Technology Research Institute	Long	–	–	1,606,000,000	–	–	1,606,000,000(29)	29.99%
China Aerospace Science and Industry Corporation	Long	–	–	1,606,000,000	–	–	1,606,000,000(29)	29.99%

(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.

(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..

(22) Approximately 19.36% of the issued share capital of Benefit Way International Limited is held by Darius Enterprises Limited, which in turn is held by Equity Trustee Limited as trustee of The Fang Zhou Family Trust. The Fang Zhou Family Trust is a discretionary trust, established by Zhou Bing as settlor, with Equity Trustee Limited as trustee. The beneficiaries under The Fang Zhou Family Trust are Zhou Bing and his family members. Zhou Bing is a member of the Concert Group.

(23) Lv Lan is the beneficial owner of approximately 6.49% of the issued share capital of Benefit Way International Limited, which in turn is the beneficial owner of approximately 10.50% of issued share capital of Ample Chance International Limited. Lv Lan is a member of the Concert Group.

(24) Tian Yu is the beneficial owner of approximately 3.91% of the issued share capital of Benefit Way International Limited, which in turn is the beneficial owner of approximately 10.50% of issued share capital of Ample Chance International Limited. Tian Yu is a member of the Concert Group.

(25) Li Hanqiang is the beneficial owner of approximately 3.50% of the issued share capital of Benefit Way International Limited, which in turn is the beneficial owner of approximately 10.50% of issued share capital of Ample Chance International Limited. Li Hanqiang is a member of the Concert Group.

(26) Liu Yingyuo is the beneficial owner of approximately 1.52% of the issued share capital of Benefit Way International Limited, which in turn is the beneficial owner of approximately 10.50% of issued share capital of Ample Chance International Limited. Liu Yingguo is a member of the Concert Group.

(27) Liu Lulu is the beneficial owner of approximately 1.22% of the issued share capital of Benefit Way International Limited, which in turn is the beneficial owner of approximately 10.50% of issued share capital of Ample Chance International Limited. Liu Lulu is a member of the Concert Group.

(28) Yi Langlin, spouse of Zhang Mi, is deemed to be interested in 1,558,946,340 Shares.

(29) Kehua Technology Co., Limited is owned 40% by Shenzhen Aerospace Industry Technology Research Institute and 60% by China Aerospace Science and Industry Corporation and holds 1,606,000,000 Shares.

Save as disclosed above, to the best of the Directors and the Chief Executives of the Company's knowledge, as at 30 June 2017, 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 2017, none of the grantees has exercised the share options granted to him under the Pre-IPO share option scheme and 7,154,000 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 2017, the total number of the share options granted (if not cancelled) can be exercised under the Pre-IPO share option scheme.

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

(B) Share Option Scheme after Listing

Upon conditional approval by resolution in writing by all shareholders of the Company on 21 January 2008, the Company adopted a share option scheme (the "Share Option Scheme"). Details of the grant under the Share Option Scheme ended 30 June 2017 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	0.83	up to 30% of the share options granted to each grantee from 19 July 2011 to 19 June 2012; up to 60% of the share options granted to each grantee on or before 19 June 2013; all the remaining share options granted to each grantee on or after 20 June 2013	up to 19 June 2021

Date of grant	Number of grant (shares)	Exercise price per Share (HK$)	Exercise period of share options	Valid period of the share options
5 April 2012	15,400,000	1.19	Up to 30% of the share options granted to each grantee from 5 April 2013 to 4 April 2014; up to 60% of the share options granted to each grantee on or before 4 April 2015; all the remaining share options granted to each grantee on or after 5 April 2015	up to 4 April 2022
24 March 2014	3,200,000	2.024	up to 30% of the share options granted to each grantee from 24 April 2014 to 23 April 2015; up to 60% of the share options granted to each grantee on or before 23 April 2016; all the remaining share options granted to each grantee on or after 24 April 2016	up to 23 March 2024
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 to1 July 2024
21 September 2016	41,350,000	0.44	up to 30% of the Share Options granted to each Grantee from 21 September 2017 to 20 September 2018 ;up to 60% of the Share Options granted to each Grantee on or before 20 September 2019 ;all the remaining Share Options granted to each Grantee on or after 21 September 2019.	up to 20 September 2026

Particulars and movements of share options under the Share Option Scheme during the period ended 30 June 2017 were as follows:

		Number of share options								
Name or category of participant	Outstanding as at 01/01/2017	Granted during the six month ended 30 June 2017	Exercised during the six month ended 30 June 2017	Lapsed during the six month ended 30 June 2017	Cancelled during the six month ended 30 June 2017	Outstanding as at 30/06/2017	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$
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			1,190,000		1,190,000	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			885,000		885,000	02/07/2014	02/07/2014-01/07/2024	1.96	1.92
	2,000,000					2,000,000	21/09/2016	21/09/2017-20/09/2026	0.44	0.435
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
	500,000					500,000	21/09/2016	21/09/2017-20/09/2026	0.44	0.435
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
	700,000					700,000	21/09/2016	21/09/2017-20/09/2026	0.44	0.435
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
	700,000					700,000	21/09/2016	21/09/2017-20/09/2026	0.44	0.435
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
	500,000					500,000	21/09/2016	21/09/2017-20/09/2026	0.44	0.435
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
	700,000					700,000	21/09/2016	21/09/2017-20/09/2026	0.44	0.435
Sub-total	**26,824,000**	**–**	**–**	**2,075,000**	**–**	**24,749,000**				

Name or category of participant	Outstanding as at 01/01/2017	Number of share options Granted during the six month ended 30 June 2017	Exercised during the six month ended 30 June 2017	Lapsed during the six month ended 30 June 2017	Cancelled during the six month ended 30 June 2017	Outstanding as at 30/06/2017	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$
Substantial Shareholders										
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			1,145,500		304,500	02/07/2014	02/07/2014–01/07/2024	1.96	1.92
Mr. Zheng Yong	695,000		–		–	695,000	15/04/2009	01/12/2009-14/04/2019	1.27	1.29
	178,000			103,240		74,760	02/07/2014	02/07/2014-01/07/2024	1.96	1.92
	700,000					700,000	21/09/2016	21/09/2017-20/09/2026	0.44	0.435
Mr. Zuo Huixian	674,000		–		–	674,000	15/04/2009	01/12/2009-14/04/2019	1.27	1.29
	530,000			307,400		222,600	02/07/2014	02/07/2014-01/07/2024	1.96	1.92
	700,000					700,000	21/09/2016	21/09/2017-20/09/2026	0.44	0.435
Mr. Zhang Xu	642,000	–	–		–	642,000	15/04/2009	01/12/2009-14/04/2019	1.27	1.29
	66,000			38,280		27,720	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			210,000		210,000	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			31,000		19,000	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			5,920		14,080	02/07/2014	02/07/2014-01/07/2024	1.96	1.92
Mr. Tian DiYong	183,000	–	–		–	183,000	15/04/2009	01/12/2009-14/04/2019	1.27	1.29
	70,000			35,000		35,000	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			15,960		26,040	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			252,000		108,000	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			181,500		181,500	02/07/2014	02/07/2014-01/07/2024	1.96	1.92
	700,000					700,000	21/09/2016	21/09/2017-20/09/2026	0.44	0.435
Mr. Tian Yu	90,000		–		–	90,000	05/04/2012	05/04/2013-04/04/2022	1.19	1.20
	450,000			225,000		225,000	02/07/2014	02/07/2014-01/07/2024	1.96	1.92
	800,000					800,000	21/09/2016	21/09/2017-20/09/2026	0.44	0.435
Mr. Ao Pei	97,000			67,900		29,100	02/07/2014	02/07/2014-01/07/2024	1.96	1.92
Mr. Li Hanqiang	66,000			25,080		40,920	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			115,500		115,500	02/07/2014	02/07/2014-01/07/2024	1.96	1.92
	450,000					450,000	21/09/2016	21/09/2017-20/09/2026	0.44	0.435
Sub-total	**15,514,000**	**–**		**2,876,280**	**–**	**12,637,720**				

Name or category of participant	Outstanding as at 01/01/2017	Number of share options Granted during the six month ended 30 June 2017	Exercised during the six month ended 30 June 2017	Lapsed during the six month ended 30 June 2017	Cancelled during the six month ended 30 June 2017	Outstanding as at 30/06/2017	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$
Other										
Employee	21,989,500	–	–	271,000		21,718,500	15/04/2009	01/12/2009-14/04/2019	1.27	1.29
Employee	2,943,000	–		–	–	2,943,000	20/06/2011	19/07/2011-19/06/2021	0.83	0.79
Employee	13,651,000			300,000		13,351,000	05/04/2012	05/04/2013-04/04/2022	1.19	1.20
Employee	27,776,060	–		14,347,976		13,428,084	02/07/2014	02/07/2014-01/07/2024	1.96	1.92
Employee	32,550,000	–		500,000		32,050,000	21/09/2016	21/09/2017-20/09/2026	0.44	0.435
Sub-total	**98,909,560**	**–**	**–**	**15,418,976**		**83,490,584**				
Total	**141,247,560**	**–**	**–**	**20,370,256**		**120,877,304**				

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 2017, the Trustee has purchased 97,817,000 of the Company's Shares, accounting for 1.82% 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.

Particulars and movements of the Restricted Share Award Scheme during the year ended 30 June 2017 were as follows:

	Number of Shares					
	Outstanding during 01/01/2017	Purchased during the six months ended 30 June 2017	Granted during the six months ended 30 June 2017	Vested during the six months ended 30 June 2017	Cancelled during the six months ended 30 June 2017	Outstanding as at 30/6/2017
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 bought back any of the Company's Shares during the six months ended 30 June 2017.

On behalf of the Board of
Honghua Group Limited
Chen Yajun
Chairman

Hong Kong, 29 August 2017

羅兵咸永道

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION
TO THE BOARD OF DIRECTORS OF HONGHUA GROUP LIMITED
(Incorporated in the Cayman Island with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 36 to 70, which comprises the interim condensed consolidated balance sheet of Honghua Group Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2017 and the related interim condensed consolidated statement of profit or loss, comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. 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 and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial 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, 29 August 2017

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UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2017

		Unaudited Six months ended 30 June	
	Note	2017 RMB'000	2016 RMB'000
Revenue	7	819,223	1,295,927
Cost of sales		(774,179)	(1,092,423)
Gross profit		45,044	203,504
Distribution expenses		(167,291)	(131,560)
Administrative expenses		(228,792)	(278,240)
Other losses, net		(57,311)	(9,039)
Other income		61,362	14,135
Operating loss	8	(346,988)	(201,200)
Finance income		19,030	82,702
Finance expenses		(118,284)	(130,506)
Finance expenses-net		(99,254)	(47,804)
Share of post-tax profits of associates	13	565	2,535
Share of post-tax losses of joint ventures	14	(2,180)	(1,421)
Loss before income tax		(447,857)	(247,890)
Income tax expense	9	50,566	(2,389)
Loss for the period		(397,291)	(250,279)
Loss attributable to:			
— Owners of the Company		(390,908)	(250,894)
— Non-controlling interests		(6,383)	615
		(397,291)	(250,279)
Loss per share attributable to owners of the Company (expressed in RMB cents per share)			
Basic and diluted	10	(9.64)	(7.89)

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

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	Unaudited Six months ended 30 June 2017 RMB'000	Unaudited Six months ended 30 June 2016 RMB'000
Loss for the period	**(397,291)**	(250,279)
Other comprehensive income		
Items that may be reclassified to profit or loss		
Currency translation differences	**(11,387)**	10,223
Other comprehensive income for the period, net of tax	**(11,387)**	10,223
Total comprehensive income for the period	**(408,678)**	(240,056)
Total comprehensive income attributable to:		
— Owners of the Company	**(401,811)**	(243,454)
— Non-controlling interests	**(6,867)**	3,398
	(408,678)	(240,056)

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

UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2017

	Note	Unaudited 30 June 2017 RMB'000	Audited 31 December 2016 RMB'000
ASSETS			
Non-current assets			
Lease prepayments	11	375,560	379,582
Property, plant and equipment	12	2,714,364	2,794,054
Payment for acquisition of leasehold prepayments		148,166	148,166
Intangible assets	12	225,642	230,913
Investments in associates	13	62,380	61,771
Investments in joint ventures	14	42,560	44,754
Deferred income tax assets		471,169	415,701
Available-for-sale financial assets		88,294	88,294
Trade and other receivables	15	244,680	252,652
Total non-current assets		4,372,815	4,415,887
Current assets			
Inventories		2,046,248	2,116,147
Trade and other receivables	15	2,544,976	3,431,335
Amount due from customers for contract work	16	287,690	181,503
Current tax recoverable		4,103	3,797
Available-for-sale financial assets		18,800	15,000
Pledged bank deposits	17	528,386	559,737
Cash and cash equivalents		1,850,033	544,360
Total current assets		7,280,236	6,851,879
Total assets		11,653,051	11,267,766

UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

As at 30 June 2017

	Note	Unaudited 30 June 2017 RMB'000	Audited 31 December 2016 RMB'000
EQUITY			
Equity attributable to owners of the Company			
Share capital	18	487,944	300,983
Other reserves		4,246,576	3,007,063
Retained earnings		200,477	590,864
		4,934,997	3,898,910
Non-controlling interests		156,274	184,542
Total equity		5,091,271	4,083,452
LIABILITIES			
Non-current liabilities			
Deferred income		76,142	72,763
Borrowings	19	1,923,811	2,086,126
Trade and other payables	21	–	2,788
Total non-current liabilities		1,999,953	2,161,677
Current liabilities			
Deferred income		7,330	38,567
Trade and other payables	21	2,267,792	2,677,890
Current income tax liabilities		47,099	53,080
Borrowings	19	2,118,706	2,212,922
Provisions for other liabilities and charges	20	120,900	40,178
Total current liabilities		4,561,827	5,022,637
Total liabilities		6,561,780	7,184,314
Total equity and liabilities		11,653,051	11,267,766

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

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

		Unaudited										
		Attributable to owners of the Company										
	Note	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000	Capital reserve RMB'000	Surplus reserve RMB'000	Exchange reserve RMB'000	Shares held for share award scheme RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total Equity RMB'000
Balance at 1 January 2017		300,983	2,349,292	47,075	533,067	418,281	(216,034)	(124,618)	590,864	3,898,910	184,542	4,083,452
Loss for the period		–	–	–	–	–	–	–	(390,908)	(390,908)	(6,383)	(397,291)
Other comprehensive income		–	–	–	–	–	(10,903)	–	–	(10,903)	(484)	(11,387)
Total comprehensive income for the period ended 30 June 2017		–	–	–	–	–	(10,903)	–	(390,908)	(401,811)	(6,867)	(408,678)
Total transactions with owners, recognised directly in equity												
Issue of new ordinary shares	18	186,961	1,247,436	–	–	–	–	–	–	1,434,397	–	1,434,397
Equity-settled share-based transactions		–	–	–	1,250	–	–	–	–	1,250	–	1,250
Options lapsed under share option schemes		–	–	–	(521)	–	–	–	521	–	–	–
Acquisition of non-controlling interests		–	–	2,251	–	–	–	–	–	2,251	(21,401)	(19,150)
		186,961	1,247,436	2,251	729	–	–	–	521	1,437,898	(21,401)	1,416,497
Balance at 30 June 2017		487,944	3,596,728	49,326	533,796	418,281	(226,937)	(124,618)	200,477	4,934,997	156,274	5,091,271

	Unaudited										
	Attributable to owners of the Company										
	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000	Capital reserve RMB'000	Surplus reserve RMB'000	Exchange reserve RMB'000	Shares held for share award scheme RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total Equity RMB'000
Balance at 1 January 2016	300,983	2,349,292	51,210	531,049	413,360	(173,717)	(124,618)	1,204,470	4,552,029	222,157	4,774,186
(Loss)/profit for the period	–	–	–	–	–	–	–	(250,894)	(250,894)	615	(250,279)
Other comprehensive income	–	–	–	–	–	7,440	–	–	7,440	2,783	10,223
Total comprehensive income for the period ended 30 June 2016	–	–	–	–	–	7,440	–	(250,894)	(243,454)	3,398	(240,056)
Total transactions with owners, recognised directly in equity											
Equity-settled share-based transactions	–	–	–	1,270	–	–	–	–	1,270	–	1,270
Options lapsed under share option schemes	–	–	–	(336)	–	–	–	336	–	–	–
	–	–	–	934	–	–	–	336	1,270	–	1,270
Balance at 30 June 2016	300,983	2,349,292	51,210	531,983	413,360	(166,277)	(124,618)	953,912	4,309,845	225,555	4,535,400

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

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	Unaudited Six months ended 30 June 2017 RMB'000	 2016 RMB'000
Cash flows from operating activities		
Cash generated from/(used in) operations	235,712	(141,475)
Income tax paid	(11,189)	(38,768)
Cash flows from operating activities — net	224,523	(180,243)
Cash flows from investing activities		
Proceeds from government grants related to assets	17,985	12,084
Payment for addition of property, plant and equipment and construction in progress	(28,909)	(36,473)
Proceeds from disposal of lease prepayments	–	9,941
Proceeds on disposal of property, plant and equipment and other intangible assets	4,354	30,969
Net (deduction)/addition of available-for-sale financial assets	(2,715)	31,508
Interest received	6,373	4,615
Expenditure on development project and other intangible assets	(12,837)	(20,100)
Decrease/(Increase) in bank deposits maturing over three months	31,351	(2,608)
Cash flows from investing activities — net	15,602	29,936
Cash flows from financing activities		
Issue of ordinary shares	1,434,397	–
Payment for acquisition of non-controlling interests	(17,152)	–
Repayments of borrowings	(1,009,909)	(1,503,814)
Proceeds from borrowings	766,952	1,290,157
Interest paid	(97,125)	(131,549)
Cash flows from financing activities — net	1,077,163	(345,206)
Net increase/(decrease) in cash and cash equivalents	1,317,288	(495,513)
Cash and cash equivalents at the beginning of the period	544,360	1,102,651
Exchange (losses)/gains	(11,615)	22,149
Cash and cash equivalents at end of the period	1,850,033	629,287

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

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 and 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 address of its registered office is Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman, KY1-1108, Cayman Islands.

The Company's shares are listed on The Stock Exchange of Hong Kong Limited.

This interim condensed consolidated financial information is presented in Chinese Renminbi ("RMB"), unless otherwise stated.

This interim condensed consolidated financial information has not been audited.

Significant events and transactions

In May 2017, the Company completed the issuance of 2,114,000,000 new shares to China Aerospace Science and Industry Corporation ("CASIC") and public investors. Further details are given in Note 18.

2 BASIS OF PREPARATION

This interim condensed consolidated financial information for the six months ended 30 June 2017 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 2016, 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 2016, as described in those annual financial statements, except for the estimation of income tax using the tax rate that would be applicable to expected total annual earnings and the adoption of amendments to IFRSs effective for the financial year ending 31 December 2017.

(a) Amendments to IFRSs effective for the financial year ending 31 December 2017 do not have a material impact on the Group.

3 ACCOUNTING POLICIES (continued)

(b) Impact of standards issued but not yet applied by the Group

(i) IFRS 9 Financial instruments

IFRS 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The Group has decided not to adopt IFRS 9 until it becomes mandatory on 1 January 2018.

The Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets for the following reasons:

- The debt instruments that are currently classified as available-for-sale (AFS) financial assets appear to satisfy the conditions for classification as at fair value through other comprehensive income (FVOCI) and hence there will be no change to the accounting for these assets.

- A FVOCI election is available for the equity instruments which are currently classified as AFS.

- Equity investments currently measured at fair value through profit or loss (FVPL) will likely continue to be measured on the same basis under IFRS 9.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. While the Group does not have any hedge relationships now, the new rules will not be expected to have a material impact on the Group.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. While the Group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, it may result in an earlier recognition of credit losses.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

3 ACCOUNTING POLICIES (continued)

(b) Impact of standards issued but not yet applied by the Group (continued)

(ii) IFRS 15 Revenue from contracts with customers

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers revenue arising from the sale of goods and the rendering of services and IAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption. The new standard is effective for first interim periods within annual reporting periods beginning on or after 1 January 2018. The Group will adopt the new standard from 1 January 2018.

Management is currently assessing the effects of applying the new standard on the Group's financial statements and has identified the following areas that are likely to be affected:

- bundle sales — the application of IFRS 15 may result in the identification of separate performance obligations which could affect the timing of the recognition of revenue

- accounting for certain costs incurred in fulfilling a contract — certain costs which are currently expensed may need to be recognised as an asset under IFRS 15, and

- rights of return IFRS 15 requires separate presentation on the balance sheet of the right to recover the goods from the customer and the refund obligation.

At this stage, the Group is not able to estimate the impact of the new rules on the Group's financial statements. The Group will make more detailed assessments of the impact over the next few months.

(iii) IFRS 16 Leases

IFRS 16 was issued in January 2016. It will results in almost all leases being recognized on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of approximately RMB8,397,000. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

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 condensed consolidated interim 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 2016, with the exception of changes in estimates that are required in determining the provision for income taxes.

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 foreign exchange risk, cash flow and fair value interest rate 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 2016.

There have been no significant changes in the risk management policies since year end.

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 2017					
Trade and other payables (i)	1,879,963	–	–	–	1,879,963
Senior notes	100,939	100,939	1,405,349	–	1,607,227
Borrowings (excluding senior notes)	2,182,888	394,976	209,861	–	2,787,725
Total financial liabilities	4,163,790	495,915	1,615,210	–	6,274,915
At 31 December 2016					
Trade and other payables (i)	2,246,493	2,788	–	–	2,249,281
Senior notes	103,361	103,361	1,490,761	–	1,697,483
Borrowings (excluding senior notes)	2,688,679	506,342	243,983	584	3,439,588
Total financial liabilities	5,038,533	612,491	1,734,744	584	7,386,352

(i) Trade and other payables include trade payables, bills payable, amounts due to related companies and other payables (Note 21).

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 that are measured at fair value at 30 June 2017.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Available-for-sale financial assets				
— equity investment	–	–	88,294	88,294
— debt investment	–	–	18,800	18,800
Total assets	–	–	107,094	107,094

The following table presents the Group's financial assets and liabilities that are measured at fair value at 31 December 2016.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Available-for-sale financial assets				
— equity investment	–	–	88,294	88,294
— debt investment	–	–	15,000	15,000
Total assets	–	–	103,294	103,294

During the six months ended 30 June 2017, there were no transfers among Levels 1, 2 and 3. There were no other changes in valuation techniques during the period.

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

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

	30 June 2017 RMB'000	30 June 2016 RMB'000
Available-for-sale financial assets — equity investment		
Opening balance at 1 January	88,294	74,053
Changes in fair value	–	–
Closing balance at 30 June	88,294	74,053

	30 June 2017 RMB'000	30 June 2016 RMB'000
Available-for-sale financial assets — debt investment		
Opening balance at 1 January	15,000	39,203
Net additions/(disposals)	2,715	(31,508)
Gain on disposal recognised in profit or loss	1,085	305
Closing balance at 30 June	18,800	8,000

The gain arising from the disposal of the available-for-sale financial assets is presented in "Finance income" in the interim condensed consolidated statement of profit or loss.

5.5 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.

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

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

The fair value of borrowings are as follows:

	30 June 2017 RMB'000	31 December 2016 RMB'000
Non-current	1,885,291	1,918,562
Current	2,185,504	2,682,226
	4,070,795	4,600,788

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

- Trade and other receivables
- Cash and banks
- 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.

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, parts and components and others, offshore drilling rigs, oil and gas engineering services) and geographically. 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.

7 SEGMENT INFORMATION (continued)

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 profit or loss of joint ventures and associates, other income and other losses, net. Finance income and expenses 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.

The following table presents revenue and profit information regarding the Group's operating segments for the six months ended 30 June 2017 and 2016 respectively.

	Land drilling rigs Six months ended 30 June		Parts and components and others Six months ended 30 June		Offshore drilling rigs Six months ended 30 June		Oil and gas engineering services Six months ended 30 June		Total Six months ended 30 June	
	2017 RMB'000	2016 RMB'000	**2017 RMB'000**	2016 RMB'000	**2017 RMB'000**	2016 RMB'000	**2017 RMB'000**	2016 RMB'000	**2017 RMB'000**	2016 RMB'000
Revenue from external customers	**165,374**	355,631	**481,193**	712,379	**118,217**	148,409	**54,439**	79,508	**819,223**	1,295,927
Inter-segment revenue	**–**	–	**31,570**	128,872	**–**	1,197	**1,746**	–	**33,316**	130,069
Reportable segment revenue	**165,374**	355,631	**512,763**	841,251	**118,217**	149,606	**56,185**	79,508	**852,539**	1,425,996
Reportable segment (loss)/profit	**(66,353)**	14,315	**(153,221)**	14,137	**(61,512)**	(46,119)	**(36,994)**	(150,832)	**(318,080)**	(168,499)

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 2017, such information was not reviewed by the Group's chief operating decision maker. Accordingly, no segment assets and liabilities are presented.

7 SEGMENT INFORMATION (continued)

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

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Segment loss		
— for reportable segments	**(318,080)**	(168,499)
Elimination of inter-segment profits/(losses)	**3,341**	(1,805)
Segment loss derived from Group's external customers	**(314,739)**	(170,304)
Share of post-tax profits of associates	**565**	2,535
Share of post-tax losses of joint ventures	**(2,180)**	(1,421)
Other income and other losses, net	**4,051**	5,096
Finance income	**19,030**	82,702
Finance expenses	**(118,284)**	(130,506)
Unallocated head office and corporate expenses	**(36,300)**	(35,992)
Loss before income tax	**(447,857)**	(247,890)

The following table sets out revenue from external customers by geographical location, based on the destination of the customer:

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
PRC (country of domicile)	**226,840**	363,334
Americas	**211,492**	415,763
Middle East	**205,839**	287,084
Europe and Central Asia	**159,060**	171,596
South Asia and South East Asia	**–**	4,649
Africa	**15,992**	53,501
	819,223	1,295,927

7 SEGMENT INFORMATION (continued)

The following table sets out non-current assets, other than financial instruments and deferred income tax assets, by geographical location:

	30 June 2017 RMB'000	31 December 2016 RMB'000
PRC (country of domicile)	**3,435,334**	3,533,041
Americas	**45,977**	49,996
Middle East	**181,604**	192,981
Europe and Central Asia	**96,560**	92,792
South Asia and South East Asia	**–**	–
Africa	**53,877**	43,082
	3,813,352	3,911,892

For the six months ended 30 June 2017, revenue of approximately RMB172 million (for the six months ended 30 June 2016: RMB322 million) is derived from one external customer (for the six months ended 30 June 2016: one external customer). The revenue is attributable to the Land drilling rigs in the Middle East (for the six months ended 30 June 2016: parts and components in the Americas).

8 OPERATING LOSS

The following items have been charged/(credited) to the operating loss during the period:

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Provision for legal claim (Note 20)	**50,516**	–
Provision for impairment of trade and other receivables	**34,493**	13,979
Write down of inventories	**15,505**	20,824
Losses/(Gains) on disposal of property, plant and equipment, lease prepayment and other intangible assets	**139**	(3,789)
Impairment charge relating to oil and gas engineering services cash generating unit ("O&GCGU")	**–**	49,907

9 INCOME TAX EXPENSE

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

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Current income tax		
— Hong Kong Profits Tax(i)	**172**	839
— the People's Republic of China (the "PRC")(ii)	**1,355**	7,028
— Other jurisdictions(iii)	**4,176**	2,986
Deferred income tax	**(56,269)**	(8,464)
	(50,566)	2,389

(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 2017.

(ii) PRC

Pursuant to the income tax rules and regulations of the PRC, the subsidiaries of the Group in the PRC are subject to PRC enterprise income tax at a rate of 25% during the six months ended 30 June 2017, except for the following company:

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

On 6 April 2012, State Taxation Administration 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. The estimated average annual tax rate used for the year ending 31 December 2017 is 19% (the estimated tax rate for the six months ended 30 June 2016 was 17%).

10 LOSS PER SHARE

The calculation of basic loss per share for the six months ended 30 June 2017 is based on the loss attributable to owners of the Company for the period of RMB390,908,000 (six months ended 30 June 2016: loss of RMB250,894,000) and the weighted average number of shares of 4,055,504,000 (six months ended 30 June 2016: 3,178,968,000 shares) in issue during the period.

Diluted earnings per share is the same as basic loss per share as there are no potential dilutive shares outstanding for all periods presented.

	Six months ended 30 June	
	2017	2016
Loss attributable to owners of the Company (RMB'000)	**(390,908)**	(250,894)
Weighted average number of ordinary shares in issue (thousands)	**4,117,593**	3,241,057
Effect of the share award scheme (thousands)	**(62,089)**	(62,089)
Effect of share options exercised (thousands)	**–**	–
Adjusted weighted average number of ordinary shares in issue (thousands)	**4,055,504**	3,178,968
Basic and diluted loss per share (RMB cents per share)	**(9.64)**	(7.89)

11 LEASE PREPAYMENTS

The Group's interests in land use rights represent prepaid operating lease payments for land located in the PRC, the net book values of which are analysed as follows:

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
At 1 January	**379,582**	405,732
Disposals	**–**	(8,901)
Amortisation	**(4,022)**	(4,099)
At 30 June	**375,560**	392,732

(a) All the amortisation of the Group's land use rights was charged to administrative expenses.

(b) As at 30 June 2017, bank borrowings are secured by land use rights with the carrying amount of approximately RMB26,380,000 (31 December 2016: RMB27,052,000) (Note 19).

12 PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	Property, plant and equipment RMB'000	Freehold land RMB'000	Construction in progress RMB'000	Goodwill RMB'000	Other intangible assets[i] RMB'000
Six months ended 30 June 2017					
Net book value					
Opening amount as at 1 January 2017	2,440,466	5,897	347,691	–	230,913
Additions	32,632	–	11,498	–	19,665
Transfer from construction in progress	12,443	–	(12,443)	–	–
Disposals	(4,354)	–	–	–	(449)
Depreciation and amortisation	(113,209)	–	–	–	(21,965)
Currency translation difference	(6,119)	(138)	–	–	(2,522)
Closing amount as at 30 June 2017	2,361,859	5,759	346,746	–	225,642
Six months ended 30 June 2016					
Net book value					
Opening amount as at 1 January 2016	2,332,906	5,995	800,192	13,484	220,777
Additions	14,482	–	40,257	–	20,100
Transfer from construction in progress	46,179	–	(46,179)	–	–
Disposals	(27,160)	–	–	–	(1,060)
Impairment	(36,423)	–	–	(13,484)	–
Depreciation and amortisation	(109,346)	–	–	–	(20,059)
Currency translation difference	4,343	127	–	–	2,073
Closing amount as at 30 June 2016	2,224,981	6,122	794,270	–	221,831

(i) During the six months ended 30 June 2017, the Group capitalised development cost of approximately RMB19,242,000 (30 June 2016: RMB10,931,000).

(ii) As at 30 June 2017, bank borrowings are secured by property, plant and equipment with a net book value of approximately RMB89,514,000 (31 December 2016: RMB122,064,000) (Note 19).

13 INVESTMENTS IN ASSOCIATES

	Six months ended 30 June 2017 RMB'000
Beginning of the period	61,771
Currency translation difference	44
Share of post-tax profits of associates	565
End of the period	62,380

The associates are unlisted companies and there are no quoted market prices available for their equities.

Honghua Financial Leasing (Shenzhen) Co., Ltd. ("Honghua (Shenzhen)") is an associate of the Group as at 30 June 2017, which, in the opinion of the directors, is material to the Group.

Set out below are the summarised financial information for Honghua (Shenzhen) which is accounted for using the equity method.

	30 June 2017 RMB'000
Assets	160,381
Liabilities	(56,291)

	Six months ended 30 June 2017 RMB'000
Revenue	4,547
Share of post-tax profits	605
Percentage held	51.1%

14 INVESTMENTS IN JOINT VENTURES

	Six months ended 30 June 2017 RMB'000
Beginning of the period	44,754
Currency translation difference	(14)
Share of post-tax losses of joint ventures	(2,180)
End of the period	42,560

The joint ventures are unlisted companies and there are no quoted market prices available for their equities.

Egyptian Petroleum HH Rigs Manufacturing Co. S.A.E. ("HH Egyptian Company") is a joint venture of the Group as at 30 June 2017, which, in the opinion of the directors, is material to the Group.

Set out below are the summarised financial information for HH Egyptian Company which is accounted for using the equity method.

	30 June 2017 RMB'000
Assets	169,147
Liabilities	(60,476)

	Six months ended 30 June 2017 RMB'000
Revenue	4,349
Share of post-tax losses	(2,180)
Percentage held	50%

15 TRADE AND OTHER RECEIVABLES

	30 June 2017 RMB'000	31 December 2016 RMB'000
Trade receivables[i]	1,708,055	2,515,227
Bills receivable[i]	24,168	123,272
Less: provision for impairment of trade receivables	(139,435)	(297,241)
	1,592,788	2,341,258
Amount due from related parties		
— Trade[i]	48,121	46,019
— Non-trade	33,602	27,882
Finance lease receivable	169,195	178,205
Less: provision for impairment of finance lease receivable	(35,738)	(30,932)
Value-added tax recoverable	206,545	209,208
Prepayments	388,910	379,851
Other receivables	533,940	649,677
Less: provision for impairment of other receivables	(147,707)	(117,181)
	2,789,656	3,683,987
Representing:		
Current portion	2,544,976	3,431,335
Non-current portion	244,680	252,652
Total	2,789,656	3,683,987

15 TRADE AND OTHER RECEIVABLES (continued)

(i) As at 30 June 2017 and 31 December 2016, the ageing analysis of the net amount of trade receivables and bills receivable (including amounts due from related parties of trading in nature), based on the invoice date were as follows:

	30 June 2017 RMB'000	31 December 2016 RMB'000
Within 3 months	272,723	584,291
3 to 12 months	503,603	467,157
Over 1 year	864,583	1,335,829
	1,640,909	2,387,277

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.

16 CONTRACT WORK-IN-PROGRESS

	30 June 2017 RMB'000	31 December 2016 RMB'000
Contract cost incurred plus recognised profit less recognised losses	350,281	425,452
Less: progress billings	(60,951)	(243,949)
Less: provision of contract work-in-progress	(1,640)	–
Contract work-in-progress	287,690	181,503
Representing:		
Amount due from customers for contract work	287,690	181,503

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Contract revenue recognised as revenue	118,217	148,409

17 PLEDGED BANK DEPOSIT

The deposits are pledged to banks as security for bills payable (Note 21) and certain borrowings (Note 19) granted to the Group.

18 SHARE CAPITAL

Ordinary shares, issued and fully paid:

	Number of shares (thousands)	Share capital RMB'000
Opening balance 1 January 2017	**3,241,057**	**300,983**
Proceeds from shares issued (i)	**2,114,000**	**186,961**
At 30 June 2017	**5,355,057**	**487,944**
Opening balance 1 January 2016	3,241,057	300,983
Proceeds from shares issued	–	–
At 30 June 2016	3,241,057	300,983

(i) According to the subscription agreement dated 19 December 2016 entered into between the Company as the issuer and CASIC as the subscriber, the Company conditionally agreed to allot and issue an aggregate of 1,606,000,000 new shares of the Company to CASIC at a subscription price of HK$0.77 per share.

On 11 April 2017, the Company entered into a placing agreement which the Company agreed to allot and issue an aggregate of 508,000,000 new shares of the Company to investors at a subscription price of HK$0.77 per share.

Both the CASIC subscription agreement and the placing agreement were fully completed in May 2017. After the transactions, CASIC holds approximately 29.99% of the total number of issued shares as enlarged.

19 BORROWINGS

	30 June 2017 RMB'000	31 December 2016 RMB'000
(a) Bank loans		
Secured (i)		
— Current portion	490,950	648,751
— Non-current portion	340,261	368,907
	831,211	1,017,658
Unsecured		
— Current portion	1,424,256	1,560,286
— Non-current portion	240,000	342,000
	1,664,256	1,902,286
Total bank loans	2,495,467	2,919,944
(b) Others		
Secured loan from related party (Note 24)		
— Current portion	3,500	3,885
— Non-current portion	4,582	5,874
	8,082	9,759
Senior notes (ii)	1,338,968	1,369,345
Short-term Financing Debentures (iii)	200,000	–
Total borrowings	4,042,517	4,299,048
Current borrowings	2,118,706	2,212,922
Non-current borrowings	1,923,811	2,086,126
Total borrowings	4,042,517	4,299,048

19 BORROWINGS (continued)

(i) As at 30 June 2017, the bank loans were secured by land use right of RMB26,380,000 (31 December 2016: RMB27,052,000), property, plant and equipment of RMB89,514,000 (31 December 2016: RMB122,064,000), bank deposits of RMB315,420,000 (31 December 2016: RMB311,745,000) and 20% equity interest of Sichuan Honghua Petroleum Equipment Co., Ltd. ("Honghua Company"), a subsidiary of the Group.

(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.

(iii) On 15 March 2017, Honghua Company issued the first tranche of Short-term Financing Debentures with an aggregate principal amount of RMB200,000,000, a term of 180 days, on nominal value of RMB100 per unit and with interest rate of 6.8% per annum.

Movements in borrowings is analysed as follows:

	RMB'000
Six months ended 30 June 2017	
Opening amount as at 1 January 2017	**4,299,048**
Additions	**766,952**
Repayments	**(1,013,168)**
Currency translation differences	**(10,315)**
Closing amount as at 30 June 2017	**4,042,517**
Six months ended 30 June 2016	
Opening amount as at 1 January 2016	4,664,431
Additions	1,293,247
Repayments	(1,503,814)
Currency translation differences	14,126
Closing amount as at 30 June 2016	4,467,990

20 PROVISIONS FOR OTHER LIABILITIES AND CHARGES

	30 June 2017 RMB'000	31 December 2016 RMB'000
Legal claims of former shareholders (i)	32,317	32,217
Legal claims of sales agency (ii)	50,516	–
Product warranties and others	38,067	7,861
	120,900	40,178

(i) Details of the legal claim of former shareholders were disclosed in note 30 of the 2016 consolidated financial statements.

(ii) The legal claims provision of approximately RMB50,516,000 relates to certain legal claims brought against a subsidiary of the Group by a sales agency. The sales agency alleged that it was owed commission in excess of USD18,000,000 in relation to their services to the Group. On 11 April 2017, new judgement was issued by Abu Dhabi Federal Court of Appeals that the Group shall pay approximately USD7,457,000 to such sales agency. The provision was recognised in profit or loss within other losses.

In June 2017, the Group filed an appeal pursuant to the Federal Supreme Court of the United Arab Emirates. In the directors' opinion, after taking appropriate legal advice, the outcome of the legal claims will not give rise to any significant loss beyond the amounts provided for at 30 June 2017.

21 TRADE AND OTHER PAYABLES

	30 June 2017 RMB'000	31 December 2016 RMB'000
Trade payables	1,075,982	1,335,588
Amounts due to related companies		
— Trade	56,018	17,290
— Non-trade	9,000	32
Bills payable	349,515	362,580
Receipts in advance	387,829	431,397
Other payables	389,448	533,791
	2,267,792	2,680,678
Representing:		
Current portion	2,267,792	2,677,890
Non-current portion	–	2,788
Total	2,267,792	2,680,678

As at 30 June 2017 and 31 December 2016, the ageing analysis of the trade payables and bills (including amounts due to related parties of trading in nature) based on invoice date were as follows:

	30 June 2017 RMB'000	31 December 2016 RMB'000
Within 3 months	334,477	722,807
3 to 6 months	166,826	130,232
6 to 12 months	357,027	402,660
Over 1 year	623,185	459,759
	1,481,515	1,715,458

22 CHANGES IN OWNERSHIP INTERESTS IN SUBSIDIARIES WITHOUT CHANGE OF CONTROL

(a) Acquisition of additional interest in a subsidiary

In January 2017, the Group acquired an additional 0.81% of the interest of Honghua Electric for a purchase consideration of approximately RMB4,670,000. The carrying amount of the non-controlling interests in Honghua Electric on the date of acquisition was approximately RMB129,298,000. The Group recognised a decrease in non-controlling interests of approximately RMB5,236,000 and an increase in equity attributable to owners of the Group of approximately RMB566,000.

In June 2017, the Group acquired an additional 5.47% of the interest of Honghua International Co., Ltd. for a purchase consideration of approximately RMB14,480,000. The carrying amount of the non-controlling interests in Honghua International Co., Ltd. on the date of acquisition was approximately RMB44,327,000. The Group recognised a decrease in non-controlling interests of approximately RMB16,165,000 and an increase in equity attributable to owners of the Group of approximately RMB1,685,000.

The total effect of changes in the ownership interest of the Group during the period is summarised as follows:

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Carrying amount of non-controlling interests acquired	**21,401**	–
Consideration paid and payable to non-controlling interests	**(19,150)**	–
Excess of consideration paid recognised within equity	**2,251**	–

(b) Effects of changes in ownership interests in subsidiaries without change of control on the equity

	Six months ended 30 June 2017 RMB'000
Total comprehensive income for the period attributable to owners of the Company	**(401,811)**
Changes in equity attributable to owners of the Company arising from:	
— Acquisition of additional interests in a subsidiary	**2,251**
Net effect for changes in ownership interests in subsidiaries without change of control on equity attributable to owners of the Company	**(399,560)**

23 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 2017 RMB'000	31 December 2016 RMB'000
Contracted for	265,050	250,852
Authorised but not contracted for	24,200	29,193
	289,250	280,045

(b) Operating lease commitments

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

	30 June 2017 RMB'000	31 December 2016 RMB'000
Within 1 year	4,530	7,860
After 1 year but within 5 years	3,867	5,025
	8,397	12,885

The Group is the lessee in respect of a number of properties held under operating leases. None of the leases includes contingent rentals.

24 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
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
HH Egyptian Company	Joint venture
Honghua Oil Equipment Trading Co., Ltd ("Honghua Oil Equipment")	Joint venture
Honghua (Shenzhen)	Associate
Aerospace Science and Industry Financial Leasing Co., Ltd.	Associate of CASIC

24 RELATED-PARTY TRANSACTIONS (continued)

(a) Significant related party transactions

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Purchases of parts and components		
— Hongtai	**1,519**	5,129
Sales of drilling rigs, parts and components		
— HH Egyptian Company	**2,667**	4,838
— Sichuan Shenyuan	**–**	23
	2,667	4,861
Consulting service provided from		
— Honghua (Shenzhen)	**2,464**	1,304

24 RELATED-PARTY TRANSACTIONS (continued)

(b) Amounts due from related companies

	30 June 2017 RMB'000	31 December 2016 RMB'000
Trade		
— Joint ventures	48,037	46,009
— Other related companies	84	10
	48,121	46,019
Non-trade		
— Joint ventures	399	1,467
— Other related companies	33,203	26,415
	33,602	27,882

(c) Amounts due to related companies

	30 June 2017 RMB'000	31 December 2016 RMB'000
Trade		
— Joint ventures	917	103
— Other related companies	55,101	17,187
	56,018	17,290
Non-trade		
— Other related companies	9,000	32

24 RELATED-PARTY TRANSACTIONS (continued)

(d) Borrowings

	30 June 2017 RMB'000	31 December 2016 RMB'000
— Honghua (Shenzhen)	**8,082**	9,759

(e) Amounts due from certain shareholders

The amounts due from certain shareholders as at 30 June 2017 is an amount of RMB32,317,000 (31 December 2016: RMB32,317,000), being the amount indemnified by certain shareholders in relation to a legal claim.

(f) Key management compensation

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Basic salaries, allowances and other benefits in kind	**4,683**	3,327
Contributions to defined contribution retirement schemes	**204**	206
Share-based payments	**208**	521
	5,095	4,054

25 DIVIDENDS

No dividend was approved or paid in respect of the previous financial year during the six months ended 30 June 2017 (2016: Nil).

The board of directors does not recommend the payment of an interim dividend for the six months ended 30 June 2017 (2016: Nil).

"Articles of Association"	the Articles of Association of the Company, approved at extraordinary shareholders' meetings of the Company on 21 January 2008, revised and approved at annual general meeting of the Company on 3 June 2009
"Board of Directors" or "Board"	the Board of Directors of the Company
"Companies Ordinance"	the Company Ordinance (Chapter 622 of the laws of Hong Kong) and the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the laws of Hong Kong), as the case may be
"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
"Period"	For the six months ended 30 June 2017
"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
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
"PRC" or "China"	the People's Republic of China and, except where the context requires and only for the purpose of this 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 (CONTINUED)

"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"Same period last year"	the six month ended 30 June 2016
"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