Honghua Group Limited
宏 華 集 團 有 限 公 司

(a company incorporated in the Cayman Islands with limited liability)
(Stock code: 0196)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

FINANCIAL HIGHLIGHT

1. Revenue increased by 35.4% to RMB3,164 billion

2. Profits from operations increased by 23.3% to RMB728 million

3. Earnings attributable to equity shareholders of the Company increased by 41.3% to RMB583 million

4. Basic earnings per share was RMB23.3 cents

5. As described in the prospectus of the Company dated 25 February 2008, no dividends was declared for the year ended 31 December 2007

Unless the context otherwise specifies, terms used in this announcement shall have the same meanings as those defined in the prospectus of the Company dated 25 February 2008 (the "Prospectus").

ANNUAL RESULTS

The Directors of the Company is pleased to announce the annual results of the Company and its subsidiaries and its jointly controlled entity (the "Group") for the year ended 31 December 2007, together with the comparative information for the year ended 31 December 2006 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007
(Expressed in Renminbi)

	Note	**2007** *RMB'000*	2006 *RMB'000*
Revenue	4	**3,164,022**	2,335,948
Cost of sales		**(2,083,888)**	(1,558,121)
Gross profit		**1,080,134**	777,827
Other operating revenue	5	**22,999**	4,620
Other operating expenses		**(768)**	(917)
Selling expenses		**(210,319)**	(84,176)
General and administrative expenses		**(186,546)**	(110,185)
Other net income	5	**22,475**	3,085
Profit from operations		**727,975**	590,254
Net financing costs	6(a)	**(49,927)**	(23,141)
Share of profits from a jointly controlled entity		**6,468**	—
Profit before taxation	6	**684,516**	567,113
Income tax expenses	7	**(67,511)**	(103,203)
Profit for the year		**617,005**	463,910
Attributable to:			
Equity shareholders of the Company		**583,235**	412,814
Minority interests		**33,770**	51,096
Profit for the year		**617,005**	463,910
Dividends declared during the year	8	**—**	19,533
Earnings per share — basic (RMB)	9	**0.233**	0.165

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2007

(Expressed in Renminbi)

	Note	**2007** **RMB'000**	2006 *RMB'000*
Non-current assets			
Fixed assets			
— Property, plant and equipment		**259,453**	210,418
— Interests in leasehold land held for own use under operating leases		**54,830**	24,616
— Freehold land		**5,880**	6,295
		320,163	241,329
Deposit paid for acquisition of leasehold land		**28,513**	21,171
Construction in progress		**38,741**	11,071
Intangible assets		**389,691**	—
Interest in a jointly controlled entity		**6,006**	—
Deferred tax assets		**11,837**	13,088
Total non-current assets		**794,951**	286,659
Current assets			
Inventories	10	**1,031,768**	690,391
Trade and other receivables	11	**1,606,960**	869,374
Amounts due from related companies		**40,798**	1,998
Restricted bank deposit		**—**	107,875
Pledged bank deposits		**261,109**	67,746
Cash and cash equivalents		**195,367**	158,351
Total current assets		**3,136,002**	1,895,735
Total assets		**3,930,953**	2,182,394

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2007

	Note	**2007** *RMB'000*	2006 *RMB'000*
Current liabilities			
Interest-bearing borrowings		**856,059**	345,000
Amounts due to related companies		**46,490**	54,859
Loan from immediate holding company		**405,488**	262,656
Loans from shareholders of the holding company		**76,850**	—
Trade and other payables	12	**1,136,892**	1,091,647
Current taxation		**33,777**	64,623
Total current liabilities		**2,555,556**	1,818,785
Net current assets		**580,446**	76,950
Total assets less current liabilities		**1,375,397**	**363,609**
Non-current liabilities			
Interest-bearing borrowings		**15,703**	21,299
Deferred tax liabilities		**3,983**	4,259
Total non-current liabilities		**19,686**	25,558
Total liabilities		**2,575,242**	1,844,343
Equity			
Share capital		**233,155**	—
Reserves		**1,054,348**	303,613
Total equity attributable to equity shareholders of the Company		**1,287,503**	303,613
Minority interests		**68,208**	34,438
Total equity		**1,355,711**	338,051
Total liabilities and equity		**3,930,953**	2,182,394

1. GENERAL INFORMATION AND PRESENTATION BASIS

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under Chapter 22 of the Companies Law of the Cayman Islands (Law 3 of 1961, as consolidated and revised) on 15 June 2007. The Group is mainly engaged in manufacture and sales of drilling rigs and rigs parts and components.

According to the re-organisation of the Group ("re-organisation"), the Company acquired the equity interests under the jointly-controlled entities and became the holding company of subsidiaries currently comprising the Group in preparation for listing the Company's share on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Details of the re-organisation were set out in the Prospectus.

The Company's share was listed on the Stock Exchange on 7 March 2008.

The consolidated financial statements have been prepared on the basis that the Company was the holding company of the Group for both years presented, rather than from the date of the re-organisation. Accordingly, the consolidated results of the Group for the years ended 31 December 2006 and 2007 include the results of the Group and its subsidiaries since their respective dates of incorporation or at the date that common control was established, if later, as if the current group structure had been in existence throughout the two years presented.

2. COMPLIANCE STATEMENT

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board ("IASB").

These financial statements also comply with the applicable disclosure provisions of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). IASB has issued certain new and revised IFRSs that are first effective for the Group's current accounting periods or available for early adoption. The adoption of these new and revised IFRSs did not result in substantial changes to the Group's accounting policies applicable to these financial statements for the years presented. The Group has not applied the new standards and interpretation that are not effective during any of current accounting periods.

3. SEGMENT REPORTING

Segment reporting is presented by two segments: (1) Business segments (2) Geographical segments.

Business segments

The Group consists of the following main business segments:

Drilling rigs — Manufacture and sale of drilling rigs

Parts and components — Manufacture and sale of parts and components of drilling rigs

	Year ended 31 December 2007			
	Drilling rigs	**Parts and components**	**Eliminations**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	**2,741,457**	**1,133,995**	**(711,430)**	**3,164,022**
Cost of sales	**(1,995,611)**	**(761,559)**	**673,282**	**(2,083,888)**
Other income and expenses	**(286,067)**	**(101,357)**	**—**	**(387,424)**
Segment result	**459,779**	**271,079**	**(38,148)**	**692,710**
Unallocated				**35,265**
Net financing costs				**(49,927)**
Share of profits from a jointly controlled entity				**6,468**
Income tax expenses				**(67,511)**
Profit for the year				**617,005**
Segment assets	**2,439,844**	**1,143,158**	**(481,231)**	**3,101,771**
Unallocated assets				**829,182**
Total assets				**3,930,953**
Segment liabilities	**1,331,291**	**301,733**	**(481,231)**	**1,151,793**
Unallocated liabilities				**1,423,449**
Total liabilities				**2,575,242**

	Drilling rigs	**Parts and components**	**Unallocated**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Capital expenditure	**94,334**	**19,778**	**21,774**	**135,886**
Amortisation and depreciation	**11,792**	**3,678**	**8,318**	**23,788**
Non-cash expenses other than amortisation and depreciation	**12,228**	**4,547**	**—**	**16,775**

	Year ended 31 December 2006			
	Drilling rigs	Parts and components	Eliminations	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	2,037,272	605,273	(306,597)	2,335,948
Cost of sales	(1,362,421)	(490,936)	295,236	(1,558,121)
Other income and expenses	(138,423)	(52,163)	—	(190,586)
Segment result	536,428	62,174	(11,361)	587,241
Unallocated				3,013
Net financing costs				(23,141)
Income tax expenses				(103,203)
Profit for the year				463,910
Segment assets	1,480,684	295,628	(199,457)	1,576,855
Unallocated assets				605,539
Total assets				2,182,394
Segment liabilities	923,611	266,539	(199,457)	990,693
Unallocated liabilities				853,650
Total liabilities				1,844,343

	Drilling rigs	Parts and components	Unallocated	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Capital expenditure	66,037	65,687	10,961	142,685
Amortisation and depreciation	9,026	2,306	2,956	14,288
Non-cash expenses other than amortisation and depreciation	5,285	1,541	—	6,826

Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of the customers. Segment assets are based on the geographical location of the assets.

	Year ended 31 December 2007					
	PRC	**North America**	**Middle East**	**Europe**	**Others**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Revenue from external customers	**1,205,070**	**594,620**	**155,985**	**801,101**	**407,246**	**3,164,022**
Segment assets	**3,091,858**	**141,757**	**8,800**	**—**	**688,538**	**3,930,953**
Segment liabilities	**1,893,846**	**31,404**	**368**	**—**	**649,624**	**2,575,242**
Capital expenditure	**131,720**	**3,818**	**348**	**—**	**—**	**135,886**

	Year ended 31 December 2006					
	PRC	North America	Middle East	Europe	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from external customers	386,099	1,665,572	261,733	8,580	13,964	2,335,948
Segment assets	1,995,236	87,770	2,066	—	97,322	2,182,394
Segment liabilities	1,540,529	37,595	—	—	266,219	1,844,343
Capital expenditure	112,479	30,206	—	—	—	142,685

4. REVENUE

	2007	2006
	RMB'000	*RMB'000*
Sale of drilling rigs	**2,774,261**	2,037,272
Sale of parts and components	**389,761**	298,676
	3,164,022	2,335,948

5. OTHER OPERATING REVENUE AND OTHER NET INCOME

	2007	2006
	RMB'000	*RMB'000*
Other operating revenue		
Transfer of technical know-how to a jointly controlled entity	**12,975**	—
Rendering of repairing services	**9,276**	4,526
Others	**748**	94
	22,999	4,620
Other net income		
Government grants	**10,153**	2,252
Gain/(loss) on disposal of fixed assets	**384**	(169)
Write-back of provision for compensation	**13,246**	—
Others	**(1,308)**	1,002
	22,475	3,085

6. PROFIT BEFORE TAXATION

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

	2007	2006
	RMB'000	*RMB'000*
(a) Net financing costs		
Exchange loss, net	**14,078**	15,359
Interest income	**(6,967)**	(2,356)
Interest on interest-bearing borrowings wholly repayable within five years	**39,194**	9,130
Bank charges	**3,622**	1,008
	49,927	23,141

(b) Staff costs

Contributions to defined contribution retirement scheme	**10,399**	3,159
Salaries, wages and other benefits	**173,035**	113,799
	183,434	116,958

(c) Other items

Amortisation and depreciation		
— assets held for use under operating leases	**1,187**	396
— other assets	**22,601**	13,892
(Write-back)/provision for impairment losses of trade and other receivables	**(239)**	1,637
Auditors' remuneration	**3,518**	2,042
Operating lease charges: properties	**2,283**	490
Provision for product warranty	**5,653**	11,826
Research and development costs	**27,387**	16,208

7. INCOME TAX EXPENSES

(a) Taxation in the income statement

	2007	2006
	RMB'000	*RMB'000*
Current tax — the PRC		
Provision for the year	**66,260**	104,503
Under-provision in respect for prior years	**—**	601
	66,260	105,104
Current tax — the United States of America		
Provision for the year	**—**	3,978
Deferred tax		
Origination and reversal of temporary differences	**1,251**	(5,879)
	67,511	103,203

(b) Taxation in the income statement represents:

(i) *Hong Kong Profits Tax*

No provision for Hong Kong Profits Tax has been made as the Group did not have assessable profits subject to Hong Kong Profits Tax for the year (2006: Nil).

(ii) *Cayman Islands*

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly, is exempt from the payment of the of Cayman Islands income tax.

(iii) ***British Virgin Islands***

Pursuant to the rule and regulations of the British Virgin Islands, the Group is not subject to any tax in the British Virgin Islands.

(iv) ***United States of America***

Taxation for Honghua America, LLC. is charged at the appropriate current rates of taxation ruling in the relevant state.

(v) ***United Arab Emirates***

Honghua Golden Coast Equipment FZE is not subject to income tax in accordance with the relevant United Arab Emirates income tax laws and regulations.

(vi) ***PRC enterprise income tax***

In accordance with the relevant PRC income tax laws and regulations, the applicable income tax rates of the Company's subsidiaries are as follows:

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

For the period from January to September 2006

Honghua Company was subject to an income tax rate of 33%.

For the period from October to December 2006 and for the year 2007

On 15 September 2006, Honghua Company changed from being a domestic enterprise to a wholly-owned foreign invested enterprise, and was entitled to tax concessions from 1 October 2006 whereby the profit for the first two financial years commencing on the profit-making year (after netting off tax losses carried forward from prior years) is exempt from national income tax in the PRC and the profit for each of the subsequent three financial years is taxed at 50% of the prevailing tax rate set by the relevant authorities.

All income earned from 1 October 2006 to 31 December 2006 and for the year ended 31 December 2007 are exempt from national income tax. Honghua Company was still subject to a local income tax at a rate of 3%.

(b) *Chengdu Hongtian Electronic Drive Engineering Co., Ltd ("Hongtian Company") and Sichuan Honghua Youxin Petroleum Machinery Co., Ltd ("Youxin Company")*

Hongtian Company and Youxin Company are recognised as entities established in the western regions of the PRC with principal revenue of over 70% generated from the encourage business activities. Pursuant to the approvals obtained from the relevant PRC tax authorities, the companies are entitled to a preferential income tax rate of 15%.

(c) *Honghua International Co., Ltd ("Honghua International")*

Pursuant to the income tax rules and regulations of the PRC, the income tax rate applicable to Honghua International is 33%.

(d) *Changes to the PRC tax legislation*

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("New Tax Law") which will take effect on 1 January 2008.

The State Council of the PRC passed an implementation guidance note on 26 December 2007, which sets out details of how existing preferential income tax rates will be adjusted to the standard rate of 25%.

Pursuant to the Notice on the Implementation Rules for Grandfathering Relief under the New Tax Law ("Notice 39") issued by The State Council on 26 December 2007, the entity eligible for tax holiday relief can still enjoy its relief which deemed to be commenced from 1 January 2008. Notice 39 also sets out that the existing preferential income tax policy pertaining to enterprises established in the western regions of the PRC will continue to be effective until 31 December 2010.

The above change in tax rate has been taken into account in the measurement of the subsidiaries' deferred tax assets and liabilities as at 31 December 2007, which are expected to be utilised subsequent to 1 January 2008. The enactment of the new tax law is not expected to have any financial effect on the amounts accrued in the consolidated balance sheet in respect of current tax payable.

Further under the new tax law, from 1 January 2008 onwards, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business in the PRC but whose relevant income is not effectively connected with the establishment or a place of business in the PRC, will be subject to withholding tax at the rate of 10% on various types of passive income such as dividends derived from sources in the PRC. However, the Caishui (2008) No. 1 approved by the Minister of Finance and State Administration of Tax on 22 February 2008 exempts the dividend distribution out of pre-2008 retained earnings of foreign investment enterprises from withholding tax.

8. DIVIDENDS

Dividents payable for the year

	2007	2006
	RMB'000	*RMB'000*
Interim dividend declared and paid by certain subsidiaries of the Company	**—**	19,533

For the year ended 31 December 2007, no final dividend has been declared by the Company (2006: Nil).

9. EARNING PER SHARE

The calculation of basic earning per share for the year is based on the net profit attributable to equity shareholders of the Company of RMB583,235,000 (2006: RMB412,814,000) and the shares in issue of the Company of 2,500,000,000 as at the date of these financial statements as if the shares were outstanding throughout the year and the prior year.

There were no dilutive potential ordinary shares during the year and, therefore, diluted earnings per share are not presented.

10. INVENTORIES

(a) Inventories in the balance sheet comprise:

	The Group	
	2007	2006
	RMB'000	*RMB'000*
Raw materials	**244,290**	241,395
Work in progress	**369,477**	188,667
Finished goods	**368,868**	218,641
Goods in transit	**49,133**	41,688
	1,031,768	690,391

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

	The Group	
	2007	2006
	RMB'000	*RMB'000*
Carrying amount of inventories sold	**2,105,823**	1,542,970
Write down of inventories	**31,183**	8,168
Reversal of write-down of inventories	**(19,520)**	—
	2,117,486	1,551,138

11. TRADE AND OTHER RECEIVABLES

	The Group	
	2007	2006
	RMB'000	*RMB'000*
Trade receivables	**1,113,964**	564,687
Bills receivable	**57,663**	12,550
Less: allowance for doubtful debts	**(3,312)**	(3,551)
Sub-total	**1,168,315**	573,686
Value-added-tax receivable	**129,372**	54,046
Other receivables	**55,944**	64,958
Prepayments	**253,329**	176,684
	1,606,960	869,374

All of the trade and other receivables are expected to be recovered within one year.

(a) Ageing analysis

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

	The Group	
	2007	2006
	RMB'000	*RMB'000*
Current	**964,933**	545,874
Less than 1 month past due	**78,828**	649
1 to 3 months past due	**80,515**	17,957
More than 3 months but less than 12 months past due	**44,039**	9,206
	1,168,315	573,686

The Group normally grants an average credit period of 30 to 90 days to its trade customers.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has been no history of default and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

12. TRADE AND OTHER PAYABLES

	The Group	
	2007	2006
	RMB'000	*RMB'000*
Trade payables	**600,089**	408,152
Bills payable	**135,890**	82,147
Receipts in advance	**226,368**	485,266
Other payables	**174,545**	116,082
	1,136,892	1,091,647

An ageing analysis of the trade and bills payables is as follows:

	The Group	
	2007	2006
	RMB'000	*RMB'000*
Within 3 months	**535,768**	379,263
3 months to 6 months	**107,873**	48,569
6 months to 1 year	**63,294**	31,547
Over 1 year	**29,044**	30,920
	735,979	490,299

FINAL DIVIDEND

As described in the Prospectus, no dividend was declared for the year ended 31 December 2007.

CLOSURE OF REGISTER OF MEMBERS

In order to finalize the name list of the shareholders entitled to attending the annual general meeting ("AGM") of the Company, the Company's register of members will be closed from Monday 23 June 2008 to Friday 27 June 2008 both days inclusive, during which period no transfer of shares will be effected. In order to qualify for attending the AGM and voting at the meeting, shareholders who have not yet registered and transferred must lodge all transfers accompanied by the relevant share certificates with the Company's Hong Kong branch share registrars and transfer office, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 20 June 2008.

BUSINESS REVIEW AND OUTLOOK

Business Review

Honghua Group is a leading manufacturer of land drilling rigs in China, with a focus on production and sales of land drilling rigs and related rig parts and components; as well as the provision of technical support services to customers. During the Year, by proactively exploring new markets, our core business of drilling rigs manufacture recorded remarkable growth. In addition to drilling rigs, we also offered rig parts and components used for newly-built and refurbished drilling rigs to customers, allowing us to become a one-stop solution provider. During the Year, the business of rig parts and components also achieved satisfactory growth.

During the Year the Group recorded a revenue of approximately RMB3,164 million, representing an increase of approximately 35.4% as compared to approximately RMB2,336 million in 2006. Earnings attributable to equity shareholders of the company amounted to approximately RMB583 million representing an increase of approximately 41.3%.

Land Drilling Rigs Business

During the Year, our revenue from sales of land drilling rigs amounted to approximately RMB2,774 million, representing a significant increase of approximately 36.2% as compared to approximately RMB2,037 million in 2006, and contributing approximately 87.7% to revenue of the Group.

Products of the Group comprise digitally-controlled land rigs and conventional land rigs. During the Year, total sales of drilling rigs amounted to 94 units, among which, 57 units were digitally-controlled land rigs and 37 units were conventional land rigs, representing an increase of 7 units and 5 units respectively as compared to 2006. Gross margin of drilling rigs reached approximately 34.1%, representing an increase of 1.0% compared to approximately 33.1% of 2006. Gross margin of conventional land rigs reached approximately 34.8%, representing a significant increase of 6.9% compared to approximately 27.9% of 2006. The margin improvement was mainly attributable to the increase in exports of conventional land rigs which generally had a higher gross margin.

Our drilling rig products range from 1,000 metre light drilling rigs to 9,000 metre heavy drilling rigs. Due to the market demand shifting to drilling rigs with higher depth ratings and more functions, during the Year, we changed our fist products to 7,000 meter depth drilling rigs from 5,000 meter depth drilling rigs. We sold 36 units of 7,000 metre heavy drilling rigs and 24 units of 5,000-metre mid-level drilling rigs in aggregate during the Year, representing an increase of 26 units and a decrease of 15 units respectively as compared to 2006. The sales volumes for 2,000-metre, 3,000-metre and 4,000-metre drilling rigs were 6, 17 and 11 units respectively.

During the Year, we proactively expanded the PRC market. Sales volume of drilling rigs to this market amounted to 49 units, representing an increase of 17 units as compared to 32 units of 2006. Sales volume of drilling rigs to the North American market decreased to 15 units, due to the fall in numbers of drilling rigs delivered to Nabors. The Russian market grew rapidly. Drilling rigs sold to this market increased to 19 units during the Year from 1 unit in 2006. The Middle Eastern market was basically stable. Drilling rigs sold to this market amounted to 2 units as compared to 3 units of 2006. Other emerging markets such as Africa, Southeast Asia and South Asia also observed active expansion with a total sales volume of 9 units, representing an increase of 8 units over last year.

The rapid development of the Group was supported by clients of excellent quality. Our stable clients include leaders in their industries such as Nabors, Northern Expedition in Russia, CNPC, Sinopec and CNOOC. We have a sophisticated global marketing network in which we distribute the Group's products through our overseas subsidiaries in Houston, Texas (USA), Cairo (Egypt) and Dubai (UAE), as well as local distributors in key drilling rig markets, such as Russia and Indonesia. Our subsidiary in Houston assembles and sells our drilling rig parts and components to drilling contractors based in North America and Latin America. We believe that this lays a solid foundation for further expansion in the North American and Latin American markets. In Egypt, we have formed a joint venture company with three enterprises to increase our market share in Africa. Our subsidiary in Dubai serves our customers across the Middle East. In Russia and Indonesia, our close relationships with local distributors have enhanced our position in the oil and gas drilling equipment markets within these countries.

Rig Parts and Components Business

During the Year, the Group recorded approximately RMB390 million from sales of rig parts and components, representing a significant increase of approximately 30.5% as compared to approximately RMB299 million of 2006, contributing approximately 12.3% to our revenue.

Our products include mud pumps and other parts and components. During the Year, the sales volume of mud pumps amounted to 132 units, representing a fall of 59 units as compared to 191 units of 2006. However, due to the improvement of the configuration of the mud pumps, the average selling price increased by approximately RMB501,600, which effectively offset the decrease in sales. The annual revenue for mud pump products amounted to approximately RMB166 million, representing an increase of approximately RMB22 million as compared to the previous year. Sales of other parts and components grew rapidly and its revenue amounted to approximately RMB224 million, representing an increase of approximately RMB69 million compared to last year. The increase was mainly driven by the growth of sales of VFD, diesel-engine generators, electrical machine and etc.

During the Year, the average gross margin for rig parts and components reached approximately 34.6%, and was on a par with approximately 34.5% of 2006.

The Group adopted a series of measures to control the costs. It also increased the selling prices by enhancing product qualities. As a result, each business segment recorded steady growth in profitability.

PRODUCTION AND SERVICE

During the Year, Honghua has further developed as a global and group focused company. Significant improvement in rig production was realized in terms of product diversification, quantity and quality. As a result, the Group achieved an obvious improvement in both production and operations.

Production: the Group had completed 101 sets of drilling rigs and approximately 600 sets of rig parts and components, of which 290 sets of mud pumps.

Technical services: it ensured post-sales services of the Group's products, including on-site installation, debugging, reparation and training, as well as internal assembly shakedown testing and shipment tracking, compensated and non-compensated technical training offered to the clients, employees' skills training, practical operation training and demonstration to visitors. With the utter support and concerted devotion from various departments of the Group, the installation and debugging tasks of carry-over rigs and newly-dispatched rigs, as well as the emergency reparation services for ex-factory rigs, were both well-completed and ensured.

TECHNOLOGICAL DEVELOPMENT AND IMPLEMENTATION

During the Year, the Group completed 22 technical research and development projects. Investment in research and development totaled approximately RMB27 million, representing an increase of approximately 69.0% as compared to the previous year. The Group placed high emphasis on its in-house research and development capability and will commit to developing new products in accordance with market demand.

In 2007, the main research and development directions of the Group were as follows:

1. 9,000-metre ultra-depth rigs

By adopting the DBS technology which was domestically-initiated, the Group had realized digital control over primary functions of ultra-depth rigs and broken monopoly of developed countries in the ultra-depth rigs market. This project has been listed in the key technical innovation projects in Sichuan Province in 2007; in early 2008, an order for the first 9,000-metre ultra-depth rig in the PRC was secured by us.

2. ZJ50DBS low-temperature tolerant rigs

The product was tailor-made for the Russian market. Combining the DBS technology and low-temperature tolerant technology the product solved the problem of rigs' adaptability under the condition of low temperature. The Group is the domestic pioneer of producing low temperature tolerant rigs and hence possesses ample room for market expansion. This project has been listed in 2007 Sichuan provincial major technical equipment innovation research project. In July 2007, the Group received an order of 30 units of this type of rigs from Clusseter Limited, in Russia. We had 6 units delivered during the year and more to be delivered in 2008.

3. High speed transferring rigs

The product targets at the North America, Russia and Middle East markets. DBS technology was applied to achieve the high-speed transfer as well as to adapt to the development direction of high-speed evading and unloading and the development of transferring technology which meets API specification and HSE requirements. This project has been successfully developed and the Group has applied for this project to be listed in the 2008 State major new product program project. During the Year, the Group had respectively sold 1 unit of this type of rigs in China and India.

4. Continuous pipe rigs

Via the development of continuous pipe rigs with internationally-advanced, copyrighted technology, the void in China was filled. The Group attempted to gradually lessen the China's reliance of imported continuous pipe rigs by manufacturing quality rigs locally at a lower cost, and meanwhile seeks new profit growing points for its own development. This project is jointly run by the Group's Technology Centre and Southwest Petroleum University, and has been listed in 2008 Sichuan Provincial Technological Supporting Program Project. It is currently undergoing the stage of research and development.

FUTURE PROSPECT

Business Environment

In 2008, despite global economy slowdown, it is predicted by International Energy Agency that the global demand for oil products in 2008 will increase by 2.5%, implying the persistent growth of global oil demand. US International Energy Advisory Administration also forecasts that global oil price will observe an ever-increasing trend. Stimulated by oil price hike, the capital expenditure for petroleum drilling and mining globally will continue to increase. It is forecasted that substantial amount of investment will drive the development of petroleum drilling rigs further upward. Other than traditional oil-producing countries such as North America and the Middle-east, the emerging markets such as Russia and the PRC will become the largest source of demand for petroleum equipment.

From 2006 to 2007, annual growth of demand for rigs is mainly attributable to the increase in capital expenditure for rigs in North America. In the next five years, substantial demand for rigs will nevertheless be shifted to the emerging markets, Russia and the PRC in particular; and they will dominate the demand for newly-built land drilling rigs. We expect that by the end of 2012, Russia and the PRC will jointly account for nearly 80% of global total demand for new rigs.

Business Objective

We plan to enhance production capability which is being considered as the substantial orders in the international market. We will apply 12% of the proceeds from IPO on production capacity expansion as well as the research and development of new land rigs equipment and rig parts and components. In 2008, the production capacity of drilling rigs will increase from 101 units in 2007 to 150 units.

Many active rigs will reach the stage of reparation and equipment renewal in the coming years. To cater for the continuously increasing demand, the Group will proactively enhance the production capacity of rig parts and components and strive to increase the annual production of mud pumps from the existing 290 units to 500 units in 2008. The Group believes that enhancement in capacity will be conducive to coping with the increasing demand for rigs and rig parts and components in the global market and further enhance the Group's profitability.

Moreover, offshore jack-up rigs market represents a golden opportunity for the development of the Group. From 1979 to 1983, investment on offshore rigs experienced a peak. However, the rigs manufactured in that period are already entering into the end of their life span while the supply is very limited. Since 1983, there is a serious insufficiency in investment in offshore rigs, thereby causing the rates to increase two-fold since 2006. Meanwhile, the demand for drilling has never ceased to increase. These markets with high growth are exactly those that we intend to put our focus on.

FINANCIAL REVIEW

During the Year, we recorded gross profit and earnings attributable to equity shareholders of the Company respectively RMB1.08 billion and RMB0.583 billion representing an increase of 38.9% and 41.3% respectively over 2006. Gross margin and net margin were 34.1% and 18.4% respectively. During the year, the increase in our earnings was mainly due to the active exploration of new markets and cost control and profitability enhancing and other measures taken by management.

REVENUE

During the Year, our revenue amounted to RMB3.164 billion, representing an increase of 35.4% as compared to RMB2.336 billion in 2006. This increase was mainly attributable to the strong demand for petroleum drilling rigs globally and rapid growth of the emerging markets such as the PRC, Russia and Africa.

During the Year, sales by geographical areas of the PRC, North America, Europe, Middle East and other areas were respectively RMB1.205 billion, RMB595 million, RMB801 million, RMB156 million and RMB407 million. Revenue from export of the Group amounted to approximately RMB1.959 billion, representing an increase of RMB9 million as compared to last year and accounted for 61.9% of revenue. The export markets of the Group were mainly Russia, North America, Africa and Middle East.

During the Year, sales by product categories of drilling rigs and rig parts and components respectively amounted to RMB2.774 billion and RMB390 million, and representing a respectively increase of 36.2% and 30.5% as compared to 2006. Among which, digitally-controlled rigs and conventional rigs were approximately RMB2.232 billion and RMB542 million respectively, representing an increase of 45.2% and 8.4% respectively. Mud pump and other parts and components amounted to approximately RMB166 million and RMB224 million, representing an increase of approximately 15.0% and 45.0% respectively. Sales values for various products also increased steadily.

COST OF SALES

During the Year, the Group's cost of sales amounted to approximately RMB2,084 million, representing an increase of approximately RMB526 million or 33.7% as compared to 2006. The increase was mainly attributable to the corresponding increase of the Group's revenue.

GROSS PROFIT AND GROSS MARGIN

During the year, the Group's gross profit was approximately RMB1,080 million, representing an increase of 38.9% as compared to last year. Gross margin was approximately 34.1%, representing an increase of 0.8 percentage point. Gross profit from drilling rigs amounted to approximately RMB945 million and gross profit from rig parts and components amounted to approximately RMB135 million, representing an increase of 40.1% and 30.8% respectively. Among which, gross profit from digitally-controlled land rigs amounted to approximately RMB757 million and that of conventional land rigs amounted to approximately RMB189 million, that of mud pumps amounted to approximately RMB61 million and that of other parts and components amounted to approximately RMB76 million, representing an increase of 41.1%, 35.0%, 34.1% and 30.2% respectively.

The gross margins for various products were basically stable as compared to last year: gross margin for drilling rigs was approximately 34.1%, representing an increase of approximately 1.0 percentage points; gross margin for rig parts and components was approximately 34.6%, representing an increase of 0.1 percentage point as compared to last year. Among which, gross margin for digitally-controlled land rigs was approximately 33.9%, representing a decrease of 1.0 percentage point as compared to last year; gross margin for conventional land rigs was 34.8%, representing an increase of 6.9 percentage points as compared to last year; gross margin for mud pump was approximately 36.6%, representing an increase of 5.3 percent points as compared to last year; gross margin for other parts and components was approximately 33.8%, representing a decrease of 3.8 percentage points as compared to last year. The stable gross margins were attributable to effective measures on cost control taken by the Group.

OTHER NET OPERATING REVENUE AND OTHER NET INCOME

During the Year, the Group's other net operating revenue amounted to approximately RMB22 million, representing an increase of approximately RMB19 million or 500.4% as compared to last year. The increase is mainly attributable to a significant increase in the operating revenue from transfer of technical know-how to, HH Egyption Company, a jointly controlled entity. Other net income amounted to approximately RMB22 million, representing an increase of RMB19 million or 628.5% as compared to last year. The increase was mainly attributable to a significant increase in government subsidy.

EXPENSES IN THE PERIOD

During the Year, the Group's selling expenses amounted to approximately RMB210 million, representing an increase of 149.9% or RMB126 million as compared to last year. The increase was mainly attributable to the significant increase in transportation cost and proxy sales commission of approximately RMB73 million and RMB26 million over last year respectively.

During the Year, the Group's general and administrative expenses amounted to approximately RMB187 million, representing an increase of 69.3% or RMB76 million as compared to 2006. The increase was mainly attributable to the increase in labor cost and research and development expenses.

During the Year, the Group's net financing cost amounted to approximately RMB50 million, representing an increase of 115.8% or RMB27 million as compared to last year. The increase was mainly attributable to the significant increase in short term loans.

SHARE OF PROFITS FROM A JOINTLY-CONTROLLED ENTITY

During the Year, the Group's share of profits from a jointly-controlled entity amounted to approximately RMB6 million. The profits was mainly attributable to the business commencement of HH Egyptian Company, a joint-venture company with three subsidiaries of Egypt's State Petroleum Company.

PROFIT BEFORE TAXATION

During the Year, profit before taxation of the Group amounted to approximately RMB685 million, representing an increase of 20.7% or approximately RMB117 million as compared to 2006. The increase was mainly attributable to the growth of the Group's sales for drilling rigs and rig parts and components.

INCOME TAX EXPENSES

During the Year, the Group's income tax expense amounted to approximately RMB68 million, representing a decrease of approximately 34.6% or RMB36 million as compared to 2006. The decrease was mainly attributable to the fact that the Group enjoyed various degrees of State preferential tax policies. Among which, income tax rate for Sichuan Honghua Petroleum Equipment Co., Ltd. decreased from 33% on 30 September 2006 to 3%.

PROFIT FOR THE YEAR

During the Year, the Group's profit for the year amounted to approximately RMB617 million, representing an increase of 33.0% or RMB153 million as compared to last year. Among which, earnings attributable to equity shareholders of the Company was approximately RMB583 million, while minority interest was approximately RMB34 million.

DIVIDEND

During the Year, the Group has not declared any dividends.

SOURCES OF CAPITAL AND BORROWINGS

The Group's principal sources of capital include cash from operations, bank borrowings and capital injection from investors. Raw material purchasing and other operational expenses, acquisition of land use rights and other fixed assets as well as settlement of interest and loan constitute the demand of the Group for cash.

As at 31 December 2007, the Group's bank borrowings amounted to approximately RMB856 million, representing an increase of approximately RMB504 million as compared to early 2007; borrowings from financial institutions amounted to approximately RMB15 million, representing an increase of approximately RMB1.58 million as compared to early 2007. Among which, borrowings repayable within one year amounted to approximately RMB856 million, representing an increase of approximately RMB511 million as compared to early 2007; borrowings repayable after one year amounted to approximately RMB0.38 million, representing a decrease of approximately RMB7.17 million as compared to early 2007.

DEPOSIT AND CASH FLOW

At the end of the Year, the Group's cash and cash equivalents amounted to approximately RMB195 million, representing an increase of approximately RMB37 million as compared to early 2007.

During the Year, the Group's operating cash outflow amounted to approximately RMB470 million; investment cash outflow amounted to approximately RMB179 million; cash inflow from financing activities amounted to approximately RMB686 million.

ASSETS STRUCTURE AND CHANGES THEREOF

At the end of the Year, the Group's total assets amounted to approximately RMB3,931 million, representing an increase of approximately 80.1% or approximately RMB1,749 million as compared to early 2007; among which, current assets amounted to approximately RMB3,136 million, accounting for approximately 79.8% of total assets; non-current assets amounted to approximately RMB795 million, accounting for approximately 20.2% of total assets.

LIABILITIES

At the end of the Year, the Group's total liabilities amounted to approximately RMB2,575 million, representing an increase of approximately RMB731 million as compared to early 2007; among which, current liabilities amounted to approximately RMB2,555 million, accounting for approximately 99.2% of total liabilities; non-current liabilities amounted to approximately RMB20 million, accounting for approximately 0.8% of total liabilities. As at 31 December 2007, the Group's gearing ratio is approximately 22.2%.

TOTAL EQUITY

At the end of the Year, total equity amounted to approximately RMB1,356 million, representing an increase of approximately RMB1,018 million as compared to early 2007; total equity attributable to equity shareholders of the company amounted to approximately RMB1,288 million, representing an increase of approximately RMB984 million as compared to early 2007; minority interests totaled approximately RMB68 million, representing an increase of approximately RMB34 million as compared to early 2007; net assets value reached approximately RMB0.54 per share. During the Year, the Group's return on average equity was approximately 73.3%.

CONTINGENT LIABILITIES AND PLEDGE

At the end of the Year, details of contingent liabilities are set out in note 36 to the financial statements of this annual report. The Group have pledged bank deposits of approximately RMB261 million, representing an increase of approximately RMB193 million as compared to early 2007.

FOREIGN CURRENCY RISK

The Group is exposed to foreign currency risk arising from several assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. The total amount exposed to foreign currency risk at the balance sheet date was disclosed in note 31(d) to the financial statements.

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERINGS

To implement our business strategy of increasing equipment production capacity, improving the technology and innovation of our product lines, and expanding product and service lines, we intend to use these net proceeds for the following general purposes.

(i) Approximately 60% is to be used for the construction of an offshore equipment manufacturing base in the eastern coastal area of China, to produce jack-up rigs and fixed rigs as well as large structures. This includes acquiring land and coastline in Shanghai or neighboring provinces, investing in research and development of new equipment, and constructing new factories.

(ii) Approximately 12% is to be used for increasing production capacity, and for the research and development of new land rig equipment and rig parts and components. In order to increase the annual rig production capacity to 150 rigs by 2008, the Group needs capital investment, including fixed capital (for such items as expansion of the ground for final assembly tests, expansion of workshops, and increase in production and testing equipment).

(iii) Approximately 20% is to be used for acquisitions, establishing joint ventures and strategic alliances with international partners, in order to expand our product offerings to the oil and gas exploration and mining industry.

(iv) The remaining proceeds will be used for working capital and day to day expenses.

To the extent that our net proceeds are not immediately applied to the aforementioned purposes, and to the extent permitted by PRC law and regulations, we intend to deposit such proceeds into short-term demand deposits and/or money market instruments.

EMPLOYEE REMUNERATION AND BENEFIT

At the end of the Year, the Group has 3,140 employees and an average of 2,974 employees throughout the year. The total remuneration and benefit amounted to approximately RMB183 million, representing an increase of approximately 56.8% or approximately RMB117 million as compared to 2006. The Group maintains a people-oriented principle and fully develops the potential of the staff. Along with offering a broad platform to fulfill one's value as well as providing training opportunity with diverse, specific and level-categorized bases, the Group intends to improve the value of the staff. The Group strictly follow the State's law and regulation to implement remuneration and benefit system, meanwhile determining one's individual remuneration based on his job duties, work performance and individual capability. The share option scheme was adopted for long-term incentives, and migrates the interest of employees with that of the shareholders.

PURCHASE, SALE OR REDEMPTION OF COMPANY'S SECURITIES

As at 31 December 2007, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

CODE ON CORPORATE GOVERNANCE PRACTICES

Corporate Governance Practices

Since 7 March 2008 (date of listing of the Company), the Company has at all times complied with the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") ("Listing Rules"), except for the following deviations:

As set out in Provision A.2.1 of the CG Code, the roles of Chairman and President (Chief Executive Officer) should be separated and should not be performed by the same individual. Mr Zhang Mi has appointed as the Chairman of the Board of Directors and President (Chief Executive Officer) of the Company. As Mr Zhang Mi is one of the founder of the Group and possess a rich knowledge and experience of the industry and the related industries, therefore, the Board of Directors believes that vesting the roles of both Chairman and President (Chief Executive Officer) in the same person provides the Company with strong and consistent leadership, allows for effective and efficient planning and implementation of business decisions and strategies, and ensures the shareholders' benefits. In addition, the balance between the power and responsibilities in the roles of Chairman and President (Chief Executive Officer) is achieved through the cooperation of the Board of Directors and the Committees.

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

Model Code for Securities Transactions by Directors

During the Year, the Company adopted no less exacting terms than those set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its own Code for Securities Transactions by the Officers (the "Code"). After specific enquiry by the Company, all directors have confirmed their compliance during the Year with the required standards set out in the Model Code and the Code.

Audit Committee

The Audit Committee of the Company comprises all Independent non-executive Directors with written terms of reference in compliance with the Listing Rule. The Audit Committee is responsible for reviewing and supervising financial reporting process and internal control system and offers advice and recommendations to the Board. The Audit Committee shall meet at least twice a year and review the internal auditors' opinion, internal control, risk management and financial reporting. The Audit Committee has reviewed the annual result of 2007.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT IN 2007

This announcement will be published on both the websites of the Company (www.hh-gltd.com) and of Stock Exchange (www.hkex.com.hk). The annual report of the Company for the year ended 31 December 2007 will be dispatched to shareholders and published on the two-said websites in due course.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express heartfelt thanks to management and all employees for creating fruitful wealth to the Company in the past year with their creative hard work and impressive results admirable by the peers in the world and thanks to the shareholders, business partners and investors for their continuous support.

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

PRC, 27 April 2008

As at the date of this announcement, our directors are Mr. Zhang Mi (Chairman), Mr. Ren Jie and Mr. Zhang Xu as executive directors, Mr. He Sean Xing, Mr. Xiang Qingsheng and Mr Wang Yaoxin, as non-executive directors, and Mr. Chen Guoming, Mr. Tai Kwok Leung, Alexander, Mr. Liu Xiaofeng, Mr. Liu Yinchun, Mr. Qi Daqing, Mr. Wang Chunlin and Mr. Wang Li as independent non-executive directors.