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 YEAR ENDED 31 DECEMBER 2008

FINANCIAL HIGHLIGHT

The Company's Shares were listed on the Main Board of the Stock Exchange on 7 March 2008.

	For the year ended 31 December		
	2008	2007	**% Change**
Revenue (RMB'000)	**4,737,532**	3,164,022	49.7%
Gross profit (RMB'000)	**1,355,802**	1,080,134	25.5%
Gross margin (%)	**28.6%**	34.1%	—
Profit from operations (RMB'000)	**736,875**	727,975	1.2%
Profit attributable to equity shareholders of the Company (RMB'000)	**511,974**	583,235	(12.2%)
Earnings per share — Basic and diluted (RMB cents)	**16.2**	23.3	(30.5%)

Final dividends of Hong Kong Dollars 6 cents per Share are proposed after the balance sheet date for the year ended 31 December 2008. Special dividends of Hong Kong Dollars 10 cents per Share were declared after the interim period.

ANNUAL RESULTS

The Board is pleased to announce the annual results of the Group for the year ended 31 December 2008, together with the comparative figures for the year ended 31 December 2007 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008
(Expressed in Renminbi)

	Note	**2008** *RMB'000*	2007 *RMB'000*
Revenue	5	**4,737,532**	3,164,022
Cost of sales		**(3,381,730)**	(2,083,888)
Gross profit		**1,355,802**	1,080,134
Other operating revenue	6	**5,375**	22,999
Other operating expenses		**(6,970)**	(768)
Selling expenses		**(369,787)**	(210,319)
General and administrative expenses		**(261,207)**	(186,546)
Other net income	6	**13,662**	22,475
Profit from operations		**736,875**	727,975
Net financing costs	7(a)	**(88,701)**	(49,927)
Share of profit from a jointly controlled entity		**7,332**	6,468
Profit before taxation	7	**655,506**	684,516
Income tax expenses	8	**(115,560)**	(67,511)
Profit for the year		**539,946**	617,005
Attributable to:			
Equity shareholders of the Company		**511,974**	583,235
Minority interests		**27,972**	33,770
Profit for the year		**539,946**	617,005
Special dividends declared during the year	9	**287,671**	—
Earnings per share — Basic and diluted (RMB)	10	**0.162**	0.233

CONSOLIDATED BALANCE SHEET

At 31 December 2008

(Expressed in Renminbi)

	Note	2008 RMB'000	2007 RMB'000
Non-current assets			
Fixed assets			
— Property, plant and equipment		**375,169**	259,453
— Interests in leasehold land held for own use under operating leases		**53,461**	54,830
— Freehold land		**5,509**	5,880
		434,139	320,163
Deposit paid for acquisition of leasehold land		**90,108**	28,513
Construction in progress		**40,369**	38,741
Intangible assets		**356,216**	389,691
Interest in a jointly controlled entity		**9,604**	6,006
Deferred tax assets		**16,044**	11,837
Total non-current assets		**946,480**	794,951
Current assets			
Inventories	11	**2,033,488**	1,031,768
Trade and other receivables	12	**2,045,069**	1,606,960
Amounts due from related companies		**34,018**	40,798
Amount due from immediate holding company		**8**	—
Amount due from ultimate holding company		**42**	—
Pledged bank deposits		**259,099**	261,109
Time deposits		**998,356**	—
Cash and cash equivalents		**1,467,363**	195,367
Total current assets		**6,837,443**	3,136,002
Total assets		**7,783,923**	3,930,953

CONSOLIDATED BALANCE SHEET

At 31 December 2008

(Expressed in Renminbi)

	Note	**2008** *RMB'000*	2007 *RMB'000*
Current liabilities			
Interest-bearing borrowings		**1,561,000**	856,059
Amounts due to related companies		**21,376**	46,490
Loan from immediate holding company		**—**	405,488
Loans from shareholders of the holding company		**—**	76,850
Trade and other payables	13	**1,572,970**	1,136,892
Current taxation		**77,079**	33,777
Total current liabilities		**3,232,425**	2,555,556
Net current assets		**3,605,018**	580,446
Total assets less current liabilities		**4,551,498**	1,375,397
Non-current liabilities			
Interest-bearing borrowings		**14,401**	15,703
Deferred tax liabilities		**9,689**	3,983
Total non-current liabilities		**24,090**	19,686
Total liabilities		**3,256,515**	2,575,242
Equity			
Share capital		**299,495**	233,155
Reserves		**4,134,887**	1,054,348
Total equity attributable to equity shareholders of the Company		**4,434,382**	1,287,503
Minority interests		**93,026**	68,208
Total equity		**4,527,408**	1,355,711
Total liabilities and equity		**7,783,923**	3,930,953

1. GENERAL INFORMATION

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 consolidated financial information for the year ended 31 December 2008 comprises the Company and its subsidiaries and the Group's interests in a jointly controlled entity.

2. GROUP REORGANISATION

The companies comprising the Group underwent reorganisation (the "reorganisation") which involved a series of equity transactions in connection with the Company's acquisition of equity interest in Sichuan Honghua Petroleum Equipment Co., Ltd ("Honghua Company") and its subsidiaries, to rationalise the Group's structure in preparation for the listing of the Company's shares on the Main Board of the Stock Exchange. Details of the reorganisation are set out in prospectus of the Company dated 25 February 2008. The Company's shares were listed on the Stock Exchange on 7 March 2008.

The Group is regarded as a continuing group resulting from the reorganisation under common control. Accordingly, the consolidated financial information for the year ended 31 December 2007 has been prepared on the basis that the Company was the holding company of the Group, rather than from the date of reorganisation. Accordingly, the consolidated results of the Group for the year ended 31 December 2007 include the results of the Company 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 year.

3. STATEMENT OF COMPLIANCE

This financial information has 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") and the requirements of the Hong Kong Companies Ordinance. This financial information also complies with the applicable disclosure provisions of the Listing Rules. The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. The adoption of the new and revised IFRSs did not result in significant changes to the Group's accounting policies applied in these financial information for the years presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

4. SEGMENT REPORTING

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

(1) Business segments

The Group consists of 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 2008			
	Drilling rigs	**Parts and components**	**Eliminations**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	**4,359,920**	**1,635,698**	**(1,258,086)**	**4,737,532**
Cost of sales	**(3,124,184)**	**(1,329,608)**	**1,072,062**	**(3,381,730)**
Other income and expenses	**(502,372)**	**(127,171)**	**—**	**(629,543)**
Segment result	**733,364**	**178,919**	**(186,024)**	**726,259**
Unallocated				**10,616**
Net financing costs				**(88,701)**
Share of profit from a jointly controlled entity				**7,332**
Income tax expenses				**(115,560)**
Profit for the year				**539,946**
Segment assets	**3,698,482**	**1,389,674**	**(368,630)**	**4,719,526**
Unallocated assets				**3,064,397**
Total assets				**7,783,923**
Segment liabilities	**1,335,279**	**519,086**	**(368,630)**	**1,485,735**
Unallocated liabilities				**1,770,780**
Total liabilities				**3,256,515**

	Drilling rigs	**Parts and components**	**Unallocated**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Capital expenditure	**79,653**	**71,154**	**4,593**	**155,400**
Amortisation and depreciation	**30,765**	**14,318**	**1,451**	**46,534**

	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 profit 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

(2) 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 2008						
	PRC	**North America**	**Middle East**	**Europe and Central Asia**	**South Asia**	**Others**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Revenue from external customers	**471,519**	**322,021**	**417,321**	**2,816,936**	**326,914**	**382,821**	**4,737,532**
Segment assets	**4,468,261**	**170,175**	**6,065**	**216**	**—**	**74,809**	**4,719,526**
Segment liabilities	**1,443,996**	**38,985**	**2,754**	**—**	**—**	**—**	**1,485,735**
Capital expenditure	**153,766**	**1,018**	**565**	**51**	**—**	**—**	**155,400**

	Year ended 31 December 2007						
	PRC	North America	Middle East	Europe and Central Asia	South Asia	Others	Total
	RMB'000	*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	43,246	364,000	3,164,022
Segment assets	2,686,644	86,089	4,163	—	—	324,875	3,101,771
Segment liabilities	911,619	7,533	315	—	—	232,326	1,151,793
Capital expenditure	131,720	3,818	348	—	—	—	135,886

5. REVENUE

	2008	2007
	RMB'000	*RMB'000*
Sale of drilling rigs	**4,359,920**	2,774,261
Sale of parts and components	**377,612**	389,761
	4,737,532	3,164,022

6. OTHER OPERATING REVENUE AND OTHER NET INCOME

	2008 *RMB'000*	2007 *RMB'000*
Other operating revenue		
Transfer of technical know-how to a jointly controlled entity	**—**	12,975
Rendering of repairing services	**4,293**	9,276
Commission	**114**	—
Others	**968**	748
	5,375	22,999
Other net income		
Government grants	**10,648**	10,153
(Loss)/gain on disposal of fixed assets	**(287)**	384
Write-back of provision for compensation	**—**	13,246
Realised gains on investments at fair value through profit or loss	**3,280**	—
Others	**21**	(1,308)
	13,662	22,475

7. PROFIT BEFORE TAXATION

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

	2008 *RMB'000*	2007 *RMB'000*
(a) Net financing costs		
Exchange loss, net	**67,175**	14,078
Interest income	**(52,023)**	(6,967)
Interest on interest-bearing borrowings wholly repayable within five years	**66,138**	39,194
Bank charges	**7,411**	3,622
	88,701	49,927
(b) Staff costs		
Contributions to defined contribution retirement scheme	**29,815**	10,399
Equity-settled share based payment expenses	**38,086**	—
Salaries, wages and other benefits	**209,745**	173,035
	277,646	183,434

(c) Other items

	2008 *RMB'000*	2007 *RMB'000*
Amortisation and depreciation		
— assets held for use under operating leases	**1,636**	1,187
— other assets	**32,475**	22,601
— intangible assets	**12,423**	—
Impairment losses of trade and other receivables	**247**	—
Write back of impairment losses of trade and other receivables	**(2,154)**	(239)
Auditors' remuneration	**5,130**	3,518
Operating lease charges: properties	**3,227**	2,283
Provision for product warranty	**32,241**	20,779
Research and development costs*	**30,550**	27,387

* The amounts included staff costs of employees in the Research and Development Department, which are included in the total staff costs as disclosed in note 7(b).

8. INCOME TAX EXPENSES

(a) Taxation in the income statement

	2008 *RMB'000*	2007 *RMB'000*
Current tax — the PRC		
Provision for the year	**107,069**	66,260
Over-provision in respect of prior years	**(5,531)**	—
	101,538	66,260
Current tax — the United States of America		
Provision for year	**12,177**	—
Deferred tax		
Origination and reversal of temporary differences	**1,845**	1,251
	115,560	67,511

(b) Taxation in the income statement represents:

(i) Hong Kong

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 (2007: RMBnil).

(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 Cayman Islands income tax.

(iii) British Virgin Islands

Pursuant to the rules 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

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) Honghua Company

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) was exempt from national income tax in the PRC and the profit for each of the subsequent three financial years was taxed at 50% of the prevailing tax rates set by the relevant authorities.

All income earned from 1 January 2007 to 31 December 2007 are exempt from national income tax. Honghua Company was still subject to a local income tax at a rate of 3%.

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 took effect on 1 January 2008 and the income tax rate was reduced from 33% to 25%. 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%.

All income earned from 1 January 2008 to 31 December 2008 are subject to 50% of the prevailing tax rate of 25%.

(b) Chengdu Hongtian Electric 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 encouraged 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 25% (2007: 33%).

(d) Sichuan Honglian Industrial Co., Ltd and Sichuan Hongcheng Business Trading Ltd

Sichuan Honglian Industrial Co., Ltd and Sichuan Hongcheng Business Trading Ltd were incorporated on 30 April 2008 and 25 April 2008 respectively. There were no assessable profits for the year ended 31 December 2008.

(c) Withholding Tax

Under the New Tax Law, from 1 January 2008 onwards, non-resident enterprise without an establishment or place of business in the PRC or which has an establishment or place of business in the PRC but whose relevant income is not effectively connected with the establishment or place of business in the PRC, will be subject to withholding tax at the rate of 10% (unless reduced by treaty) on various types of passive income such as dividends derived from sources in the PRC. As the Group's foreign-invested enterprise is directly held by a Hong Kong incorporated company, a rate of 5% is applicable to the calculation of this withholding tax. 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 enterprise from withholding tax. Accordingly, the retained profits as at 31 December 2007 in the Group's foreign-invested enterprises' books and records will not be subject to 5% withholding tax on future distribution. Deferred tax liabilities have been provided for in this regard based on the expected dividends to be distributed from the Company's subsidiaries in the PRC in the foreseeable future in respect of the profits generated after 31 December 2007.

9. DIVIDENDS

	2008	2007
	RMB'000	*RMB'000*
Special dividends declared and paid of Hong Kong Dollars ("HK$") 10 cents per share (2007: HK$nil)	**287,671**	—
Final dividends proposed after the balance sheet date of HK$6 cents per share (2007: HK$nil)	**170,382**	—

Special dividends represent non-recurring dividends declared by a board resolution on 16 September 2008.

The final dividends proposed after balance sheet date have not been recognised as a liability at the balance sheet date.

10. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB511,974,000 (2007: RMB583,235,000) and the weighted average number of 3,157,004,167 (2007: 2,500,000,000) ordinary shares in issue during the year.

There were no dilutive potential ordinary shares for the years presented and, therefore, diluted earnings per share is the same as the basic earnings per share.

11. INVENTORIES

(a) Inventories in the balance sheet comprise:

	The Group	
	2008	2007
	RMB'000	*RMB'000*
Raw materials	**917,372**	244,290
Work in progress	**506,352**	369,477
Finished goods	**566,557**	368,868
Goods in transit	**43,207**	49,133
	2,033,488	1,031,768

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

	The Group	
	2008	2007
	RMB'000	*RMB'000*
Carrying amount of inventories sold	**3,353,267**	2,105,823
Write down of inventories	**24,422**	31,183
Reversal of write-down of inventories	**(28,200)**	(19,520)
	3,349,489	2,117,486

12. TRADE AND OTHER RECEIVABLES

	The Group	
	2008	2007
	RMB'000	*RMB'000*
Trade receivables	**1,551,659**	1,113,964
Bills receivable	**4,706**	57,663
Less: allowance for doubtful debts	**(1,405)**	(3,312)
Sub-total	**1,554,960**	1,168,315
Value-added tax receivable	**257,430**	129,372
Other receivables	**50,222**	55,944
Prepayments	**182,457**	253,329
	2,045,069	1,606,960

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

	The Group	
	2008	2007
	RMB'000	*RMB'000*
Current	**1,074,915**	964,933
Less than 1 month past due	**290,721**	78,828
More than 1 month but less than 3 months past due	**130,739**	80,515
More than 3 months but less than 12 months past due	**24,852**	44,039
More than 1 year past due	**33,733**	—
	1,554,960	1,168,315

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

(b) Impairment of trade receivables and bills receivable:

Impairment loss in respect of trade receivables and bills receivable is recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables and bills receivable directly.

The movement in the allowance for doubtful debts during the year, including specific loss component, is as follows:

	The Group	
	2008	2007
	RMB'000	*RMB'000*
At 1 January	**3,312**	3,551
Provision for impairment losses	**247**	—
Written back of impairment losses	**(2,154)**	(239)
At 31 December	**1,405**	3,312

The individually impaired receivables relate to customers that are in financial difficulties and management assesses the recoverability is remote. Consequently, specific allowances for doubtful debts were recognised. The Group does not hold any collateral over these balances.

13. TRADE AND OTHER PAYABLES

	The Group	
	2008	2007
	RMB'000	*RMB'000*
Trade payables	**702,194**	600,089
Bills payable	**176,371**	135,890
Receipts in advance	**522,505**	226,368
Other payables	**171,900**	174,545
	1,572,970	1,136,892

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

	The Group	
	2008	2007
	RMB'000	*RMB'000*
Within 3 months	**645,852**	535,768
3 months to 6 months	**117,862**	107,873
6 months to 1 year	**79,895**	63,294
Over 1 year	**34,956**	29,044
	878,565	735,979

MARKET OVERVIEW

2008 has been a challenging year for most industries worldwide. The global oil drilling industry experienced two extreme situations. In the first half of 2008, due to the surging oil price, the growth rate of capital expenditure ("CAPEX") on oil exploration was expected to exceed 22%, the 5 year compound annual growth rate ("CAGR") of CAPEX on oil drilling between 2002 and 2007. In the second half of 2008, due to the plunge in oil price caused by the widespread impact of the financial turmoil, together with the credit crunch and liquidity issues within the industry, the global CAPEX on oil drilling decreased. As a result, the oil drilling equipment industry was affected to a certain extent.

Facing the unpredictable market environment, the Group implemented strategic planning and worked proactively to overcome the market fluctuations. Meanwhile, the Group enhanced its operation management and achieved stable operating performance. In addition, the Group enriched its product mix and strengthened international marketing strategies by further penetrating into emerging markets such as the Middle East, South America and Russia. As a result, the Group enhanced its ability to respond to the complex market environment.

BUSINESS REVIEW

Operations Review

The 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. Furthermore, the Group provides technical support services to its customers. Apart from drilling rigs, the Group also offers rig parts and components used for newly-built and refurbished drilling rigs to its customers, allowing the Group to become a one-stop solutions provider. The Group also adopts offshore drilling modules to produce and sell rig parts and components.

Land Drilling Rigs Business

During the year ended 31 December 2008 (the "Year"), the Group's revenue from sales of land drilling rigs amounted to approximately RMB4,360 million, representing a remarkable increase of approximately 57.2% as compared to approximately RMB2,774 million in 2007, and contributing approximately 92.0% to the revenue of the Group.

The Group's products comprise of digitally-controlled land rigs and conventional land rigs. During the Year, total sales volume of drilling rigs amounted to 94 units, including 57 units of digitally-controlled land rigs and 37 units of conventional land rigs, and was comparable to the sales volume in 2007.

The Group's drilling rig products range from 1,000-meter light drilling rigs to 9,000-meter heavy drilling rigs. The global drilling industry is moving toward deeper and more complex drilling operations, leading to market demand focusing on drilling rigs with higher depth ratings and more functions. During the Year, the Group sold 1 unit of 9,000-meter heavy drilling rig, 41 units of 7,000-meter heavy drilling rigs and 38 units of 5,000-meter mid-level drilling rigs. The sales volumes for 1,000-meter, 2,000-meter, 4,000-meter light and mid-level drilling rigs were 1, 5 and 8 units respectively.

During the Year, the Group's domestic sales volume of drilling rigs amounted to 23 units, representing a decrease of 26 units as compared to 49 units in 2007. This was mainly attributable to the discovery of new oil fields in Hebei and Sichuan provinces etc., leading to a corresponding increase in demand of drilling rigs in 2007. There was no such demand during the Year. The Group proactively increased its export of drilling rigs, with a focus on the European and Central Asian markets. Drilling rigs sold to these markets increased to 45 units during the Year from 19 units in 2007. The Middle Eastern and South Asian markets also grew rapidly, drilling rigs sold to these markets increased to 7 units and 11 units respectively in 2008, from 2 units and 3 units in 2007. Sales volume to other emerging markets such as Southeast Asia and Africa remained stable, 5 and 6 units were sold during the Year and 2007 respectively. The 9,000-meter drilling rig sold to Indonesia was China's first ultra-depth rig exported to a foreign market. 3 units of drilling rigs were sold to the North American market as the demand from a major customer decreased in that region.

Rig Parts and Components Business

During the Year, the Group recorded approximately RMB378 million from sales of rig parts and components, and was relatively stable as compared to approximately RMB390 million in 2007.

The drilling rig parts and components segment comprised of sales of mud pumps and other parts and components. During the Year, the Group's sales volume of mud pumps amounted to 120 units, representing a fall of 12 units as compared to 132 units in 2007. During the Year, sales of parts and components amounted to RMB264 million, representing an increase of RMB40 million as compared to 2007.

Market Expansion

In order to capture the global demand for upgrade and renewal of drilling rigs, the Group strategically intensified its development of the European and the Central Asian markets. During the Year, the Group increased market penetration through its "sales advancement" strategy, resulting in a remarkable increase of market share internationally, maintaining stability in the Group's drilling rig overall sales volume despite the decrease of domestic sales volume as compared to 2007. The Group set up a representative office in Uzbekistan and established a subsidiary in Russia, which were responsible for marketing, communications, technical support, market research as well as post-sales service. As a result of the successful implementation of this strategy, customers were benefited and the Group achieved a breakthrough in the operating results in the European and the Central Asian markets. During the Year, sales volume of drilling rigs to European and Central Asian markets increased to 45 units from 19 units in 2007, accounting for approximately 59% of the Group's revenue. In addition, the Group proactively developed the South Asian and Southeast Asian markets, and established representative offices in India, Indonesia and Pakistan. The Group's subsidiary located in Jebel Ali Free Zone, Dubai, the United Arab Emirates, was responsible for sales in the Middle East.

PRODUCTION, RESEARCH AND DEVELOPMENT AND SERVICE

The Group's three production facilities are located in Guanghan, Chengdu, the PRC and Houston, the USA. During the Year, the Group proactively expanded its production capacity. Various investment projects in the Guanghan plant were completed, including new welding workshop, surface refurbishing workshop and an 80,000 square meter assembling test center. During the Year, investment in plant expansion, procurement and construction of infrastructure totaled approximately RMB155 million, representing an increase of approximately RMB20 million as compared to 2007.

During the Year, the Group successfully produced and exported a 9,000 meter digitally-controlled drilling rig, being the Group's milestone of its technology achievement in land rig construction. The Group believes that successful research and development can enhance its competitive advantages. For continuous pipe rigs, the Group completed the design for major components which strengthened the foundation for further development. The Group also designed drilling operating system, downstream device and other parts and components, realizing the implementation of an automatic drilling platform. The Group completed the design for the crown block, derrick substructure, and drawworks of 12,000-meter drilling rig which consolidate its foundation for the development of ultra-depth drilling rigs. The Group also successfully developed VFD top drives which improved the performance of conventional top drives. Meanwhile, the Group continued to improve the performance of offshore drilling modules and offshore tower derrick.

The Group continued to expand its research team. As at 31 December 2008, the total number of research professionals from the Chengdu and Guanghan research centers was 309. Costs of research and development totaled approximately RMB31 million, representing 0.64% of the Group's revenue. The Group's research and development team has successfully applied 29 patents, among which, 10 patents are awaiting approval from the State Intellectual Property Office. In the future, the Group will continue to put efforts in diversifying its products and focusing on the development of high-value-added products.

The Group uses training drilling rigs, electric simulator, hydraulic pressure simulator and integrated hydraulic pressure system for employee training programmes and demonstrations to clients. The Group has optimized the process of pre-sale installation and testing, and will also send an experienced engineering team to drilling sites for post-sale technical support and service. The Group's premium service raises clients' satisfaction and builds an important foundation to get further access in the international market.

PROSPECTS

The world's economic development will continue to rely on oil energy in the coming years. For a period of time, oil exploitation will decline due to the decreasing oil price and impact from the financial crisis. As a result, the demand for oil drilling equipment in different regions will be influenced to a different extent.

However, according to the World Energy Outlook released by International Energy Agency, the financial turmoil should not hinder the investment of oil companies as it is long-term in nature. It is predicted by International Energy Agency that global oil demand will increase from 85 million barrels per day in 2007 to 106 million barrels per day in 2030. The increase in CAPEX on oil exploration in the past five years (from 2002 to 2007) is not able to offset the impact of insufficient investment in the past twenty years or to meet the global oil demand once the economy recovers. Thus, from a long-term perspective, the CAPEX on oil exploration and production is expected to increase robustly.

On the other hand, the oil production rate is declining as oil fields become mature. Without timely investment, the production volume will decrease one-third faster than normal. As a result, increased investment in the upstream segment is needed (including both investments in existing and new oil fields) to offset the current decreasing oil production, while meeting increasing demand. According to the World Energy Outlook 2008, the increasing investment in the upstream segment is expected to persist. Assuming stable costs, the capital expenditure on oil exploration and production will increase 9% annually in the coming five years reaching US$600 billion (nominal), an increase of more than 50% as compared to US$390 billion (nominal) in 2007.

Therefore, in the long-term, the exploration activities will remain robust for the global oil and gas industry, and market demand for new drilling rigs and renewal of existing rigs is also expected to maintain at a high level.

In 2009, management will implement cost control initiatives, continue to intensify research and development, adapt to different market needs by enriching product mix, so as to achieve sustainable development and continue to explore international market, especially in emerging markets such as the Middle East, South America and Russia. A low-cost production base, economies of scale brought by capacity expansion and high value-to-performance products help the Group to expand its global sales network, enhance competitiveness and capture demand once the market recuperates. Meanwhile, the Group is cautiously and prudently seeking for strategic alliances and mergers and acquisitions opportunities to optimize product mix and improve technological level; further strengthening its market leadership in the land drilling sector as well as being poised to enter into the offshore market.

Looking forward, realising the vision of the Group to develop an offshore drilling platform will unveil a new era for the Group in 2009. The Group will take advantage of relatively low cost resources during the economic downturn, complete the site selection and commence building infrastructure facilities in a timely manner. Having the ability to produce in-house offshore drilling modules, state-of-art land-made offshore equipment, a global marketing network and full support from strategic investors create a unique competitive edge. This allows the Group's venture into the offshore drilling rig market to proceed at a stable and healthy pace. In addition, the Group is endeavored to capture business opportunities arising from the transition of the offshore drilling equipment industry to developing countries to propel its further business development.

FINANCIAL REVIEW

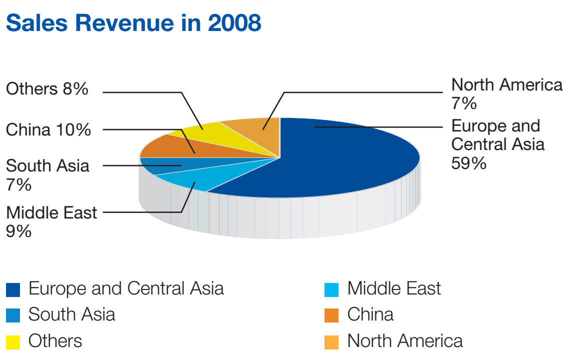
During the Year, the Group's gross profit and profit attributable to equity shareholders of the Company amounted to approximately RMB1,356 million and RMB512 million respectively, representing an increase of 25.5% and a decrease of 12.2% respectively as compared to 2007. Gross margin and net margin amounted to approximately 28.6% and 10.8% respectively. During the Year, the increase in net margin and the decrease in profit attributable to equity shareholders of the Company was due to the development of emerging markets, increased raw material prices, the appreciation of RMB, the increase in expense and income tax rate.

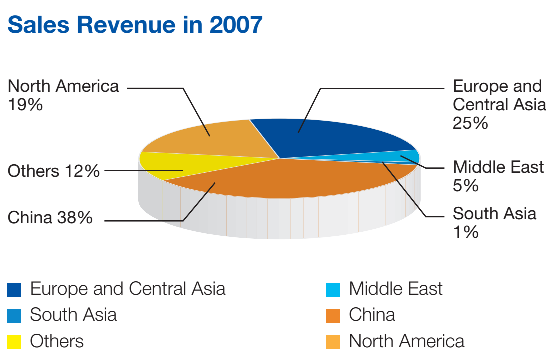
REVENUE

During the Year, the Group's revenue amounted to approximately RMB4,738 million, representing an increase of approximately RMB1,574 million and 49.7% as compared to approximately RMB3,164 million in 2007. The increase was mainly attributable to the increase in sales of high-function drilling rigs with higher profit margins. While the sales volume of drilling rigs remained at 94 units, the Group's turnover recorded a remarkable increase.

During the Year, sales by geographical areas were as follows: Revenue from exports amounted to approximately RMB4,266 million, representing an increase of approximately 117.8% as compared to 2007, and accounted for approximately 90.0% of the Group's total revenue. The increase was mainly attributable to the Group's achievement in the European and the Central Asian markets. Sales to the Middle Eastern and South Asian markets increased rapidly as compared to 2007 due to effective marketing effort. Other markets maintained a stable growth. Exports revenue from North American market decreased due to a fall in the demand from a major customer. The decrease in sales to the domestic market was mainly attributable to the discovery of new oil fields in Hebei and Sichuan provinces etc., leading to a corresponding increase in demand of drilling rigs in 2007. There was no such demand during the Year.

SALES BY GEOGRAPHICAL AREAS





During the Year, sales by product categories are as follows:

	For the year ended 31 December 2008			For the year ended 31 December 2007			2008 VS 2007	
RMB'000	**Revenue**	**%**	**Quantity (Unit)**	Revenue	%	Quantity (Unit)	**Change**	**Change (%)**
Digitally-controlled Rigs	**3,395,962**	**72%**	**57**	2,232,015	71%	57	1,163,947	52.1%
Conventional Rigs	**963,958**	**20%**	**37**	542,246	17%	37	421,712	77.8%
Subtotal	**4,359,920**	**92%**	**94**	2,774,261	88%	94	1,585,659	57.2%
Mud Pumps	**113,732**	**2%**	**120**	166,009	5%	132	(52,277)	(31.5%)
Other Parts and Components	**263,880**	**6%**		223,752	7%		40,128	17.9%
Subtotal	**377,612**	**8%**	**120**	389,761	12%	132	(12,149)	(3.1%)
Total	**4,737,532**	**100%**	**214**	3,164,022	100%	226	1,573,510	49.7%

Revenue from drilling rigs increased 57.2% as compared to 2007. Among which, digitally-controlled rigs and conventional rigs increased 52.1% and 77.8% respectively. The increase was mainly attributable to the increase in sales of high-function drilling rigs with higher average price. During the Year, the average selling price amounted to RMB46 million whereas it was only RMB30 million in 2007.

During the Year, sales of parts and components decreased 3.1% as compared to 2007. Among which, sales of mud pumps and parts and components decreased 31.5% and increased 17.9% respectively as compared to 2007. The decrease was mainly due to the decrease in sales volume of mud pumps to 120 units from 132 units in 2007. Meanwhile, purchase orders for mud pumps with less complex configuration were received and the selling price decreased to RMB0.95 million during the Year from RMB1.26 million in 2007.

COST OF SALES

During the Year, the Group's cost of sales amounted to approximately RMB3,382 million, representing an increase of approximately RMB1,298 million or approximately 62.3% as compared to 2007. The increase was mainly attributable to the corresponding increase of the Group's sales revenue.

GROSS PROFIT AND GROSS MARGIN

During the Year, the Group's gross profit was approximately RMB1,356 million, representing an increase of approximately 25.5% as compared to 2007. Among which, gross profit for drilling rigs amounted to approximately RMB1,236 million, representing an increase of 30.7% as compared to 2007. Gross profit for digitally-controlled rigs and conventional rigs amounted to approximately RMB997 million and approximately RMB239 million respectively, representing an increase of 31.6% and 26.9% as compared to 2007 respectively. Gross profit for parts and components amounted to approximately RMB120 million, representing a decrease of 10.9% as compared to 2007.

During the Year, the gross margin was approximately 28.6%, representing a decrease of approximately 5.5 percentage points as compared to 34.1% in 2007.

Gross margin for drilling rigs was 28.3%, representing a decrease of 5.8 percentage points as compared to 34.1% in 2007. Among which, gross margin for digitally-controlled rigs was 29.3%, representing a decrease of 4.6 percentage points as compared to 33.9% during 2007; gross margin for traditional rigs was 24.8%, representing a decrease of 10.0 percentage points as compared to 34.8% during 2007. This was mainly attributable to the increasing orders with higher graded configuration and imported materials. In addition, the appreciation of RMB led to a decrease in revenue from US dollar denominated sales, while increased raw materials prices resulted in higher production costs.

Gross margin for parts and components was 31.8%, representing a decrease of 2.8 percentage points as compared to 34.6% during 2007. Among which, gross margin for mud pumps was 40.8%, representing an increase of 4.2 percentage points as compared to 36.6% during 2007. This was mainly attributable to the increased sales volume of mud pumps and higher selling price. Gross margin for export of mud pumps was also higher than that of the domestic market. Gross margin for other parts and components was 29.5%, representing a decrease of 4.3 percentage points as compared to 33.8% during 2007.

OTHER NET OPERATING EXPENSES AND OTHER NET INCOME

During the Year, the Group's other net operating expense amounted to approximately RMB1.60 million which represented the net amount of other operating revenue of RMB5.4 million (2007: RMB23 million) and other operating expenses of RMB7 million (2007: RMB0.8 million). The decrease of other operating revenue of RMB17.6 million as compared to 2007 was mainly attributable to an one-off revenue of RMB13 million received from Egyptian Petroleum Honghua Rig Manufacturing Shareholder Co. for the transfer of technical knowledge from Honghua Company in 2007. Furthermore, there was a decrease in revenue from maintenance services. Other net income amounted to approximately RMB14 million, representing a decrease of approximately RMB9 million or approximately 39.2% as compared to 2007. The decrease was mainly attributable to the donation made to the "5.12" earthquake victims during the Year.

EXPENSES IN THE PERIOD

During the Year, the Group's selling expenses amounted to approximately RMB370 million, representing an increase of approximately RMB160 million or approximately 76.2% as compared to RMB210 million in 2007. The increase was mainly attributable to the increase in transportation costs. Transportation costs amounted to RMB259 million, representing an increase of 105.6% as compared to RMB126 million in 2007. The increase in transportation costs was mainly attributable to the corresponding increase in export sales, especially sales to the Russian market which recorded a remarkable increase. The Group paid for a majority of the costs of transporting drilling rigs from its production base to Russia.

During the Year, the Group's general and administrative expenses amounted to approximately RMB261 million, representing an increase of approximately RMB74 million or approximately 39.6% as compared to RMB187 million in 2007. The increase was mainly attributable to the increase in labor costs and amortisation of intangible assets. The increase in labor costs was due to the equity-settled share based payment expenses in relation to the share option scheme, leading to an increase in general and administrative expenses of RMB38 million, and the amortization of intangible assets of RMB12 million.

During the Year, the Group's net financing cost amounted to approximately RMB89 million, representing an increase of approximately RMB39 million or approximately 78.0% as compared to RMB50 million in 2007. The increase was mainly attributable to increased exports and the appreciation of the RMB. The exchange loss increased to RMB67 million during the Year from RMB14 million in 2007. Net interest expenses decreased from RMB32 million for the year 2007 to RMB14 million for the year was due to the funds raised from the initial public offering ("IPO").

SHARE OF PROFIT FROM A JOINTLY-CONTROLLED ENTITY

During the Year, the Group's share of profit from a jointly-controlled entity amounted to approximately RMB7.33 million, representing an increase of approximately RMB0.86 million as compared to approximately RMB6.47 million in 2007. This was mainly attributable to the increase of sales revenue.

PROFIT BEFORE TAXATION

During the Year, profit before taxation of the Group amounted to approximately RMB656 million, representing a decrease of approximately RMB29 million or approximately 4.2% as compared to RMB685 million in 2007. Stable profit before taxation was a combination of significant increase of gross profit and selling and general and administrative expenses.

INCOME TAX EXPENSE

During the Year, the Group's income tax expense amounted to approximately RMB116 million, representing an increase of approximately RMB48 million or approximately 70.6% as compared to RMB68 million in 2007. During the Year, the effective tax rate was approximately 17.6%, representing an increase of 9.9% as compared to 2007. Honghua Company, a subsidiary of the Group, was exempt from the PRC enterprise income tax last year. According to the agreement of related authority, Honghua Company was taxed at 50% of the prevailing tax rate. As a result, the income tax rate increased to 12.5% in 2008 from 3% in 2007.

PROFIT FOR THE YEAR

During the Year, the Group's profit for the Year amounted to approximately RMB540 million, representing a decrease of approximately RMB77 million or approximately 12.5% as compared to RMB617 million in 2007. Net profit margin was approximately 10.8%, representing a decrease of approximately 7.6 percentage points as compared to 18.4% in 2007. The decrease was mainly due to the decrease in gross margin as well as the increase in expenses and effective income tax rate.

EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION ("EBITDA") AND EBITDA MARGIN

During the Year, EBITDA was approximately RMB791 million, representing an increase of approximately RMB33 million or 4.4% as compared to RMB758 million in 2007. The increase was due to the higher increase in gross profit than those expenses. EBITDA margin was approximately 16.7%, representing a decrease of 7.3 percentage points as compared to 24.0% in 2007. This was due to the decrease in gross profit margin and increase in selling expenses and the expenses in relation to the equity-settled share based payment.

DIVIDEND

Special dividends of HK$0.1 per share which amounting to RMB287,671,000 were declared after the interim period. Pursuant to the prospectus of the Company dated 25 February 2008, the Group proposed that the annual dividends for 2008 be not less than 20% of the earnings attributable to equity shareholders of the Company. The Board declared final dividends of HK$0.06.

SOURCE OF CAPITAL AND BORROWINGS

During the Year, the Group's principal sources of capital include listing proceeds, cash from operations and bank borrowings.

As at 31 December 2008, the Group's borrowings amounted to approximately RMB1,575 million, representing an increase of approximately RMB704 million as compared to the balance as at 31 December 2007. Among which, borrowings repayable within one year amounted to approximately RMB1,561 million, representing an increase of approximately RMB705 million as compared to the balance as at 31 December 2007.

DEPOSIT AND CASH FLOW

As at 31 December 2008, the Group's cash and cash equivalents amounted to approximately RMB1,467 million, representing an increase of approximately RMB1,272 million as compared to the balance as at 31 December 2007.

During the Year, the Group's operating cash outflow amounted to approximately RMB405 million. Investment cash outflow amounted to approximately RMB1,169 million which was mainly attributable to the purchase of fixed assets and acquisition for land use right. Cash inflow from financing activities amounted to approximately RMB2,846 million which was mainly attributable to IPO proceeds, bank borrowings and dividend payment.

ASSETS STRUCTURE AND CHANGES THEREOF

As at 31 December 2008, the Group's total assets amounted to approximately RMB7,784 million, representing an increase of approximately RMB3,853 million or approximately 98.0% as compared to the balance as at 31 December 2007; among which, current assets amounted to approximately RMB6,837 million, mainly consisted of IPO proceeds, trade receivables and inventories, accounting for approximately 87.8% of total assets; non-current assets amounted to approximately RMB947 million, representing an increase of approximately RMB152 million as compared to the balance as at 31 December 2007.

LIABILITIES

As at 31 December 2008, the Group's total liabilities amounted to approximately RMB3,256 million, representing an increase of approximately RMB681 million as compared to the balance as at 31 December 2007; among which, current liabilities amounted to approximately RMB3,232 million, accounting for approximately 99.3% of total liabilities; non-current liabilities amounted to approximately RMB24 million, accounting for approximately 0.7% of total liabilities. The increase of liabilities was mainly attributable to the increase of procurement cost following the increase of sales revenue. As at 31 December 2008, the Group's gearing ratio is approximately 41.8%.

TOTAL EQUITY

As at 31 December 2008, total equity amounted to approximately RMB4,527 million, representing an increase of approximately RMB3,172 million as compared to the balance as at 31 December 2007; total equity attributable to equity shareholders of the Company amounted to approximately RMB4,434 million, representing an increase of approximately RMB3,147 million as compared to the balance as at 31 December 2007. Minority interests totaled approximately RMB93 million, representing an increase of approximately RMB25 million as compared to the balance as at 31

December 2007; net assets value reached approximately RMB1.40 per share representing an increase of RMB0.86 per share as compared to that as at 31 December 2007. During the Year, the Group's earnings per share was approximately RMB16.2 cents, representing a decrease of RMB7.1 cents as compared to 2007.

TURNOVER DAYS

During the Year, the average inventory turnover days had a slight increase from 151 days to 166 days. This was mainly attributable to the remarkable increase of inventories as at the year end as compared to 2007.

During the Year, the Group proactively managed the cash flow, as a result, it maintained stable financial ratios. The Group prudently monitored recoverability of its trade receivables, kept a close eye on the financial condition of its customers and intensified cash collections. The average turnover days of trade receivables was 105 days and remained relatively stable as compared to 101 days last year. The average turnover days of trade payables was 88 days, representing a decrease as compared to 107 days in 2007. This was mainly attributable to part of the listing proceeds being used as working capital and for day to day expenses.

CONTINGENT LIABILITIES AND PLEDGE

Details of contingent liabilities are set out in note 36 to the financial statements of 2008 annual report. As at 31 December 2008, the Group has pledged bank deposits of approximately RMB259 million, representing a decrease of approximately RMB2 million as compared to the balance as at 31 December 2007.

CAPITAL EXPENDITURE, MAJOR INVESTMENT AND CAPITAL COMMITMENTS

During the Year, capital expenditure of the Group on infrastructure and technical improvements amounted to approximately RMB155 million, representing an increase of approximately RMB20 million as compared to 2007. This was mainly due to the investment in expanding production base, purchase of equipments and other infrastructure developments, to better capture the surging demand in the oil drilling industry in coming years.

As at 31 December 2008, the Group had capital commitments of approximately RMB803 million, which will be used for the construction of offshore drilling platform located in the coastal regions of Eastern China.

FOREIGN CURRENCY RISK

The Group owns certain foreign currency deposits. As at 31 December 2008, the Group's foreign currency deposits were equivalent to approximately RMB184 million, trade and other receivables in foreign currency were equivalent to approximately RMB1,283 million. Exports business and assets denominated in foreign currencies exposed the Group to exchange rate risk.

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERINGS

The net proceeds after the deduction of issuing expenses from the initial public offering was approximately HK$2,958 million. In order to strengthen the Group's operation, the Group adjusted the use of capital, the adjusted use of capital is as follows:

Proceeds of HK$1,275 million to be used for offshore project and none of the proceeds has incurred; proceeds of HK$592 million to be used for potential acquisitions and none of the proceeds has incurred; proceeds of HK$354 million to be used for production capacity expansion and R&D expenses, among which HK$190 million has incurred; proceeds of HK$737 million to be used for working capital and operating expense and HK$237 million has incurred.

EMPLOYEE REMUNERATION AND BENEFIT

During the Year, the average number of the Group's employees was 3,487. The total remuneration and benefit amounted to approximately RMB278 million, representing an increase of RMB94 million or approximately 51.4% as compared to 2007. The Group provided competitive remuneration and benefit to its employees, and determined employee's individual remuneration based on his/her job duties, work performance and individual capability. The Group strives to maintain a people-oriented principle and fully develop 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 enhance the value of the staff.

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

The Company repurchased a total of 110,672,000 shares on the Stock Exchange at an aggregate consideration (including related tax and other expenses) of approximately HK$142,569,000 from the Listing Date to 31 December 2008. Details of the repurchases are as follows:

Month of repurchases	**Total number of Shares repurchased**	**Highest price paid per Share**	**Lowest price paid per Share**	**Aggregate consideration (including related tax and other expenses)**
		(HK$)	*(HK$)*	*(HK$'000)*
September 2008	53,304,000	1.45	1.06	70,312
October 2008	51,200,000	1.56	1.07	64,766
November 2008	6,168,000	1.30	1.15	7,491
Total	110,672,000			142,569

All the Shares repurchased were subsequently cancelled. The issued share capital of the Company has been reduced by the nominal value of the Shares repurchased. The repurchases of the Company's Shares were effected by the Board pursuant to the repurchase mandate granted to it and were made for the benefit of its shareholders by enhancing the earnings per share of the Company.

Save as disclosed above, the Company had not redeemed, and neither the Company nor any of its subsidiaries had purchased or sold any of the Shares of the Company from the Listing Date to 31 December 2008.

FINAL DIVIDEND

The Board proposed to pay a final dividend of HK$6 cents per Share for the year ended 31 December 2008 to the shareholders listed in the register of members of the Company on Wednesday 3 June 2009, which shall be subject to approval at the Annual General Meeting of the Company which will be held on Wednesday, 3 June 2009.

CLOSURE OF REGISTER OF MEMBERS

The Company's register of member will be closed from Friday, 29 May 2009 to Wednesday, 3 June 2009, both days inclusive. In order to qualify for attending the Annual General Meeting and voting at the meeting, as well as being distributed above-mentioned annual dividend, all transfer documents accompanied by the relevant share certificates shall be lodged with the Company's Hong Kong share registrar 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 no later than 4:30 p.m. on Wednesday, 27 May 2009.

AUDIT COMMITTEE

The Audit Committee comprises all the Independent Non-executive Directors with written terms of reference in compliance with the Listing Rules. The Audit Committee is responsible for reviewing and supervising financial reporting process and internal control systems and providing advices and recommendations to the Board. The Audit Committee shall hold at least two meetings a year and review opinions of internal auditors, matters in respects of internal control, risk management and financial reporting. The Audit Committee has reviewed financial results of the Group for the year ended 31 December 2008 and the accounting principles and practices adopted by the Group during the Year.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the principles as set out in the CG Code since Listing on 7 March 2008, except the following deviations:

Based on the Rule A.2.1 of CG Code, the positions of Chairman and President (Chief Executive Officer) should be separated and should not be performed by the same individual. However, Mr. Zhang Mi is the Chairman of the Board and President (Chief Executive Officer) of the Company. Mr. Zhang Mi is 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 Officer) of the Company to the same person would provide a strong and consistent leadership and allow effective planning and executing business decisions and strategies, as well as ensure the interests of the shareholders 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.

The Company will continue to review the effectiveness of the Group's corporate governance structure and consider whether it needs to make any changes, including the separation of duties of Chairman of the Board and President (Chief Executive Officer) of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a set of Code for Securities Trading on 21 January 2008, the strict level of which is no less than that of the Model Code. After the specific enquiry by the Company, all the Directors have confirmed that they have complied with the standards specified in both of the Code for Securities Trading and the Model Code from the Listing Date to 31 December 2008.

DEFINITION

"Annual General Meeting"	:	the annual general meeting of the Company which will be held on Wednesday, 3 June 2009
"Audit Committee"	:	the audit committee of the Company
"Board"	:	the Board of Directors of the Company
"Code for Securities Trading"	:	code for securities trading adopted by the Company
"Company" or "Honghua Group"	:	Honghua Group Limited
"CG Code"	:	Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules
"Directors"	:	directors of the Company
"Group"	:	the Company and its subsidiaries and its jointly controlled entity
"HK$" or "HK dollars"	:	Hong Kong dollars, the lawful currency of Hong Kong

"Listing"	:	the listing of the Share on the Stock Exchange
"Listing Date"	:	the date on which dealing in the Share first commences on the Stock Exchange
"Listing Rules"	:	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
"Model Code"	:	Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules
"PRC" or "China"	:	the People's Republic of China, unless the context requires otherwise, reference in this announcement of the PRC or China excludes Hong Kong, the Macau Special Administrative Region of the PRC or Taiwan, China
"RMB"	:	Reminbi, the lawful currency of the PRC
"Share(s)"	:	ordinary shares issued by the Company, with a nominal value of HK$0.10 each
"Stock Exchange"	:	The Stock Exchange of Hong Kong Limited

By order of the Board of
Honghua Group Limited
Zhang Mi
Chairman

Hong Kong, 14 April 2009

As at the date of this announcement, our Directors are Mr. Zhang Mi (Chairman), Mr. Ren Jie and Mr. Liu Zhi as Executive Directors, Mr. He Sean Xing, Mr. Xiang Qingsheng and Mr. Siegfried Meissner, as Non-executive Directors, and Mr. Chen Guoming, Mr. Tai Kwok Leung, Alexander, Mr. Liu Xiaofeng, Mr. Liu Yinchun, Mr. Qi Daqing, Mr. Wang Li and Mr. Shi Xingquan as Independent Non-executive Directors.