Honghua Group Limited
宏華集團有限公司

(a company incorporated in the Cayman Islands with limited liability)

(Stock code: 0196)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2009

FINANCIAL HIGHLIGHT

Honghua Group Limited (the "Company" or "Honghua Group") was listed on 7 March 2008 on the Main Board of The Stock Exchange of Hong Kong Limited

	Six months ended 30 June		
	2009	2008	% change
	(Unaudited)	(Unaudited)	
Revenue *(RMB'000)*	**1,196,503**	1,502,861	(20.4%)
Gross profit *(RMB'000)*	**319,466**	445,643	(28.3%)
Gross profit margin *(%)*	**26.7**	29.7	
Profits from operations *(RMB'000)*	**84,291**	214,293	(60.7%)
Earnings attributable to equity shareholders of the Company *(RMB'000)*	**56,113**	125,945	(55.4%)
Basic and diluted earnings per share *(RMB cents)*	**1.74**	4.16	(58.2%)

No interim dividend was declared for the six months ended 30 June 2009.

INTERIM RESULTS

The board (the "Board") of directors (the "Directors") of the Company is pleased to announce the unaudited interim financial results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2009 (the "Period"), together with the comparative figures for the corresponding period in 2008.

The interim financial report for the six months ended 30 June 2009 is unaudited, but has been reviewed by KPMG, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of interim financial information performed by the independent auditor of the entity", issued by the Hong Kong Institute of Certified Public Accountants whose unmodified review report is included in the interim financial report to be sent to shareholders. These interim results have also been reviewed by the Company's audit committee, comprising solely the independent non-executive Directors, one of whom chairs the committee.

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2009 — unaudited
(Expressed in Renminbi ("RMB"))

		Six months ended 30 June	
		2009	2008
	Note	***RMB'000***	*RMB'000*
Revenue		**1,196,503**	1,502,861
Cost of sales		**(877,037)**	(1,057,218)
Gross profit		**319,466**	445,643
Other operating revenue		**2,991**	1,637
Other operating expenses		**(2,523)**	(631)
Selling expenses		**(111,849)**	(123,733)
General and administrative expenses		**(128,157)**	(113,339)
Other net income		**4,363**	4,716
Profit from operations		**84,291**	214,293
Net finance income/(costs)	5(a)	**2,837**	(74,242)
Share of (loss)/profit from jointly controlled entities		**(2,152)**	10,822
Profit before taxation		**84,976**	150,873
Income tax expenses	6	**(20,333)**	(24,965)
Profit for the period		**64,643**	125,908
Attributable to:			
Equity shareholders of the Company		**56,113**	125,945
Minority interests		**8,530**	(37)
Profit for the period		**64,643**	125,908
Earnings per share			
Basic and diluted *(RMB cents)*	8	**1.74**	4.16

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2009 — unaudited

(Expressed in RMB)

		Six months ended 30 June	
		2009	2008
	Note	***RMB'000***	*RMB'000*
Profit for the period		**64,643**	125,908
Other comprehensive income for the period:			
Exchange differences on translation of financial statements of operations outside the PRC		**(715)**	(84,446)
Total comprehensive income for the period		**63,928**	41,462
Attributable to:			
Equity shareholders of the Company		**55,398**	41,499
Minority interests		**8,530**	(37)
Total comprehensive income for the period		**63,928**	41,462

CONSOLIDATED BALANCE SHEET

At 30 June 2009 — unaudited
(Expressed in RMB)

	Note	**30 June 2009** *RMB'000*	31 December 2008 *RMB'000*
Non-current assets			
Fixed assets			
— Property, plant and equipment		**383,094**	375,169
— Interests in leasehold land held for own use under operating leases		**52,755**	53,461
— Freehold land		**5,508**	5,509
		441,357	434,139
Deposit paid for acquisition of leasehold land		**249,959**	90,108
Construction in progress		**55,385**	40,369
Intangible assets		**337,638**	356,216
Interests in jointly controlled entities		**8,265**	9,604
Deferred tax assets		**31,437**	16,044
Total non-current assets		**1,124,041**	946,480
Current assets			
Inventories	9	**1,856,033**	2,033,488
Trade and other receivables	10	**2,147,355**	2,045,069
Amount due from a jointly controlled entity		**33,933**	34,018
Amount due from immediate holding company		**8**	8
Amount due from ultimate holding company		**42**	42
Pledged bank deposits		**63,386**	259,099
Time deposits		**723,259**	998,356
Cash and cash equivalents		**1,210,233**	1,467,363
Total current assets		**6,034,249**	6,837,443
Total assets		**7,158,290**	7,783,923

CONSOLIDATED BALANCE SHEET

At 30 June 2009 — unaudited (continued)
(Expressed in RMB)

	Note	**30 June 2009** *RMB'000*	31 December 2008 *RMB'000*
Current liabilities			
Interest-bearing borrowings		**1,030,000**	1,561,000
Amount due to a jointly controlled entity		**—**	17,478
Amounts due to related companies		**4,973**	3,898
Trade and other payables	11	**1,472,852**	1,572,970
Current taxation		**43,202**	77,079
Total current liabilities		**2,551,027**	3,232,425
Net current assets		**3,483,222**	3,605,018
Total assets less current liabilities		**4,607,263**	4,551,498
Non-current liabilities			
Interest-bearing borrowings		**164,347**	14,401
Deferred tax liabilities		**11,670**	9,689
Total non-current liabilities		**176,017**	24,090
Total liabilities		**2,727,044**	3,256,515
Equity			
Share capital		**299,495**	299,495
Reserves		**4,035,299**	4,134,887
Total equity attributable to equity shareholders of the Company		**4,334,794**	4,434,382
Minority interests		**96,452**	93,026
Total equity		**4,431,246**	4,527,408
Total liabilities and equity		**7,158,290**	7,783,923

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 unaudited interim financial information for the six months ended 30 June 2009 comprise the Group and the Group's interest in jointly controlled entities.

2. STATEMENT OF COMPLIANCE

The interim financial information has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard ("IAS") 34, Interim financial reporting, adopted by the International Accounting Standards Board ("IASB").

The interim financial information has also been prepared in accordance with the same accounting policies adopted by the Group in the 2008 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2009 annual financial statements. Details of these changes in accounting policies are set out in note 3.

3. CHANGES IN ACCOUNTING POLICIES

The IASB has issued one new IFRS, a number of amendments to IFRSs and new interpretations that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

— IFRS 8, *Operating segments*

— IAS 1 (revised 2007), *Presentation of financial statements*

— Improvements to IFRSs (2008)

— Amendments to IAS 27, *Consolidated and separate financial statements — cost of an investment in a subsidiary, jointly controlled entity or associate*

— Amendments to IFRS 7, *Financial instruments: Disclosures — improving disclosures about financial instruments*

— IAS 23 (revised 2007), *Borrowing costs*

— Amendments to IFRS 2, *Share-based payment — vesting conditions and cancellations*

The amendments to IFRS 2, IAS 27 and Improvements to IFRSs (2008) have had no material impact on the Group's financial statements as the amendments and interpretations were consistent with policies already adopted by the Group. In addition, the amendments to IFRS 7 do not contain any additional disclosure requirements specifically applicable to the interim financial report. The impact of the remainder of these developments on the interim financial report is as follows:

— IFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. This contrasts with the presentation of segment information in prior years which was based on a disaggregation of the Group's financial statements into segments based on related products and services and on geographical areas. The adoption of IFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group's most senior executive management. As this is the first period in which the Group has presented segment information in accordance with IFRS 8, additional explanation has been included in the interim financial information which explains the basis of preparation of the information. Corresponding amounts have also been provided on a basis consistent with the revised segment information.

— As a result of the adoption of IAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expenses are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. The new format for the consolidated statement of comprehensive income and the consolidated statement of changes in equity has been adopted in this interim financial information and corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

— The IAS 23 (revised) eliminates the option in IAS 23 (2004 version) of recognising all borrowing costs immediately as an expense. Consequently the Group is required to adopt a policy of capitalising borrowing costs which are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. As a result, borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred. Capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowings costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009.

4. SEGMENT REPORTING

The Group manages its business by divisions, which are organised by both business lines (drilling rigs and parts and components) and geography. On first-time adoption of IFRS 8, *Operating segments* and in a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

Drilling rigs — This segment manufactures and sells drilling rigs. Currently the Group's products in this regard are mainly sold to customers in the PRC, North America, Middle East, Europe and Central Asia and South Asia.

Parts and components — This segment manufactures and sells parts and components of drilling rigs. Currently the Group's products in this regard are mainly sold to customers in the PRC, North America, Middle East, Europe and Central Asia and South Asia.

a. Segment results, assets and liabilities

In accordance with IFRS 8, segment information disclosed in the interim financial information has been prepared in a manner consistent with the information used by the Group's most senior executive management for the purposes of assessing segment performance and allocating resources between segments. In this regard, the Group's senior executive management monitors the results, asset and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception of interests in jointly controlled entities, deferred tax assets, pledged bank deposits, time deposits, cash and cash equivalents and other corporate assets. Segment liabilities include trade creditors, accruals and bills payable attributable to the manufacturing and sales activities of the individual segments, with the exception of interest-bearing borrowings, current taxation, deferred tax liabilities and other corporate liabilities.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit is "profit from operations", i.e. "adjusted earnings before net finance income/costs and taxes". To arrive at profit from operations, the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as share of profits of jointly controlled entities, directors' remuneration and other head office or corporate administration costs.

In addition to receiving segment information concerning profit from operations, management is provided with segment information concerning revenue (including inter-segment sales), depreciation, amortisation and impairment losses and additions to non-current segment assets used by the segments in their operations. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the period is set out below.

	Drilling rigs		Parts and components		Total	
For the six months ended	**2009**	2008	**2009**	2008	**2009**	2008
30 June	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Revenue from external customers	**1,023,699**	1,361,932	**172,804**	140,929	**1,196,503**	1,502,861
Inter-segment revenue	**—**	—	**459,170**	373,472	**459,170**	373,472
Reportable segment revenue	**1,023,699**	1,361,932	**631,974**	514,401	**1,655,673**	1,876,333
Reportable segment profit	**124,562**	230,684	**91,999**	23,964	**216,561**	254,648
Additions to non-current segment assets during the period	**24,967**	79,653	**20,362**	71,154	**45,329**	150,807

	Drilling rigs		Parts and components		Total	
As at 30 June/31 December	**2009**	2008	**2009**	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Reportable segment assets	**3,738,179**	3,698,482	**1,164,977**	1,389,674	**4,903,156**	5,088,156
Reportable segment liabilities	**958,660**	1,335,279	**413,581**	519,086	**1,372,241**	1,854,365

b. Reconciliation of reportable segment profit or loss, assets and liabilities

	Six months ended 30 June	
	2009	2008
	RMB'000	*RMB'000*
Profit		
Reportable segment profit	**216,561**	254,648
Elimination of inter-segment profits	**(135,934)**	(40,380)
Reportable segment profit derived from group's external customers	**80,627**	214,268
Share of (loss)/profit from jointly controlled entities	**(2,152)**	10,822
Other operating revenue, expenses and net income	**4,831**	5,722
Net finance income/(costs)	**2,837**	(74,242)
Unallocated head office and corporate expenses	**(1,167)**	(5,697)
Profit before taxation	**84,976**	150,873

	30 June 2009	31 December 2008
	RMB'000	*RMB'000*
Assets		
Reportable segment assets	**4,903,156**	5,088,156
Elimination of inter-segment receivables	**(138,934)**	(368,630)
	4,764,222	4,719,526
Interests in jointly controlled entities	**8,265**	9,604
Deferred tax assets	**31,437**	16,044
Unallocated head office and corporate assets	**2,354,366**	3,038,749
Total assets	**7,158,290**	7,783,923

	30 June 2009	31 December 2008
	RMB'000	*RMB'000*
Liabilities		
Reportable segment liabilities	**1,372,241**	1,854,365
Elimination of inter-segment payables	**(138,934)**	(368,630)
	1,233,307	1,485,735
Current taxation	**43,202**	77,079
Deferred tax liabilities	**11,670**	9,689
Unallocated head office and corporate liabilities	**1,438,865**	1,684,012
Total liabilities	**2,727,044**	3,256,515

c. Geographic information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's fixed assets, deposit paid for acquisition of leasehold land, construction in progress, intangible assets and interests in jointly controlled entities ("specified non-current assets"). The geographical location of customers is based on the location of the customers. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment, the location of the operation to which they are allocated, in the case of intangible assets and interests in jointly controlled entities.

	Revenue from external customers		**Specified non-current assets**	
	Six months ended 30 June		**30 June**	31 December
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
PRC	**118,841**	180,006	**1,051,676**	888,763
North America	**90,146**	147,833	**31,884**	31,234
Middle East	**370,192**	6,635	**759**	785
Europe and Central Asia	**571,608**	748,242	**56**	50
South Asia	**32,770**	163,600	**—**	—
Others	**12,946**	256,545	**8,229**	9,604
	1,196,503	1,502,861	**1,092,604**	930,436

5. PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2009	2008
	RMB'000	*RMB'000*
(a) Net finance (income)/costs		
Exchange (gain)/loss, net	**(20,650)**	55,719
Interest income	**(23,405)**	(17,218)
Interest on bank borrowings wholly repayable within five years	**37,476**	32,309
Bank charges	**3,742**	3,432
	(2,837)	74,242
(b) Staff costs		
Contributions to defined contribution retirement scheme	**13,098**	12,932
Equity-settled share based payment expenses	**15,385**	23,979
Salaries, wages and other benefits	**89,818**	64,405
	118,301	101,316
(c) Other items		
Amortisation and depreciation		
— assets held for use under operating leases	**764**	760
— other assets	**22,151**	15,534
— intangible assets	**18,415**	—
Operating lease charges in respect of properties	**2,263**	1,522
Provision for product warranty	**5,875**	3,472
Research and development costs *(note)*	**15,100**	13,309

Note: The amounts included staff costs of employees in the Research and Development Department.

6. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	Six months ended 30 June	
	2009	2008
Current tax — the People's Republic of China ("PRC")	***RMB'000***	*RMB'000*
Provision for the period	**35,735**	18,111
Over-provision in respect of prior years	**(1,939)**	(711)
	33,796	17,400
Current tax — the United States of America		
Provision for the period	**1,620**	—
Over-provision in respect of prior years	**(1,675)**	—
	(55)	—
Deferred tax		
Origination and reversal of temporary differences	**(13,408)**	7,565
	20,333	24,965

(i) Hong Kong

No provision for the Hong Kong Profits Tax has been made as the Group did not have assessable profits subject to Hong Kong Profits Tax for the period (2008: 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 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) Sichuan Honghua Petroleum Equipment Co., Ltd ("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 rate set by the relevant authorities.

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 2009 to 30 June 2009 are subject to 50% of the prevailing tax rate of 25% (2008: 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% (2008: 25%).

(d) Sichuan Honglian Industrial Co., Ltd, Sichuan Hongcheng Business Trading Co., Ltd and Honghua Offshore Oil and Gas Equipments (Jiangsu) Co., Ltd

There were no assessable profits for the period ended 30 June 2009 (2008: Nil).

(b) Withholding tax

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% (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 enterprises 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.

7. DIVIDENDS

Dividends payable to equity shareholders attributable to the interim period

	Six months ended 30 June	
	2009	2008
	RMB'000	*RMB'000*
Special dividend declared after the interim period of Hong Kong Dollars ("HK$") Nil cents per share (six months ended 30 June 2008: HK10 cents per share)	—	290,236

Special dividends in respect of the six months period ended 30 June 2008 represented non-recurring dividends declared by a board resolution on 16 September 2008.

The special dividend has not been recognised as a liability at the balance sheet date.

Dividends payable to equity shareholders attributable to the previous financial year, approved during the interim period.

	Six months ended 30 June	
	2009	2008
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year, approved during the following interim period, of HK$6 cents per share (six months ended 30 June 2008: $Nil per share)	**170,371**	—

8. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2009 is based on the profit attributable to shareholders of the Company for the period of RMB56,113,000 (six months ended 30 June 2008: RMB125,945,000) and the weighted average number of shares of 3,222,688,000 (2008: 3,031,152,527) in issue during the interim period.

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

9. INVENTORIES

	30 June	31 December
	2009	2008
	RMB'000	*RMB'000*
Raw materials	**869,689**	917,372
Work in progress	**304,880**	506,352
Finished goods	**675,554**	566,557
Goods in transit	**5,910**	43,207
	1,856,033	2,033,488

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

	Six months ended 30 June	
	2009	2008
	RMB'000	*RMB'000*
Carrying amount of inventories sold	**845,350**	1,072,939
Write-down of inventories	**25,812**	3,524
Reversal of write-down of inventories	**—**	(22,717)
	871,162	1,053,746

10. TRADE AND OTHER RECEIVABLES

	30 June	31 December
	2009	2008
	RMB'000	*RMB'000*
Trade receivables	**1,684,734**	1,551,659
Bills receivable	**—**	4,706
Less: allowance for doubtful debts	**(1,405)**	(1,405)
Sub-total	**1,683,329**	1,554,960
Value-added tax receivable	**239,010**	257,430
Other receivables	**105,917**	50,222
Prepayments	**119,099**	182,457
	2,147,355	2,045,069

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

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:

	30 June 2009 *RMB'000*	31 December 2008 *RMB'000*
Current	**624,683**	1,074,915
Less than 1 month past due	**163,889**	290,721
More than 1 month but less than 3 months past due	**13,758**	130,739
More than 3 months but less than 12 months past due	**854,425**	24,852
More than 1 year past due	**26,574**	33,733
	1,683,329	1,554,960

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

11. TRADE AND OTHER PAYABLES

	30 June 2009 *RMB'000*	31 December 2008 *RMB'000*
Trade payables	**554,455**	702,194
Bills payable	**70,694**	176,371
Receipts in advance	**569,697**	522,505
Other payables	**278,006**	171,900
	1,472,852	1,572,970

Bills payable as at 30 June 2009 and at 31 December 2008 were secured by pledged bank deposits.

Included in trade and other payables are trade payables and bills payable with the following ageing analysis as of the balance sheet date:

	30 June 2009 *RMB'000*	31 December 2008 *RMB'000*
Within 3 months	**312,450**	645,852
3 months to 6 months	**93,031**	117,862
6 months to 1 year	**147,183**	79,895
Over 1 year	**72,485**	34,956
	625,149	878,565

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is a leading global manufacturer of land drilling rigs, 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 parts and components for offshore rigs.

During the six months ended 30 June 2009 (the "Period"), the Group recorded a turnover of approximately RMB1,197 million, a decrease of 20.4% as compared to RMB1,503 million recorded for the six months ended 30 June 2008. Gross profit and profit attributable to equity shareholders of the Company were RMB319 million and RMB56 million respectively, a drop of 28.3% and 55.4% respectively as compared to the same period last year.

INDUSTRY REVIEW

In the first half of 2009, although the effects of the global economic turmoil have slowly diminished, the market continues to face numerous difficulties and challenges. Owing to the credit squeeze caused by the financial tsunami, industrial production around the world declined sharply, causing a corresponding decrease in demand for oil. As a result, global drilling activities and daily consumption rates deteriorated, which was particularly prominent in the North America market. Until June 2009, global drilling activities have recorded a drop for six consecutive months. According to Baker Hughes research, in June 2009, there were 1,987 units of active drilling rigs in the North American market, a drop of 39.2% as compared to the same month in the previous year. Furthermore, according to estimates by Bloomberg, investment in the Russian oil and gas industry is expected to be significantly reduced, dropping 38.6% from approximately US$70 billion in 2008 to approximately US$43 billion in 2009. This is mainly due to the drastic tightening of financial credit in Russia, which affects investment in exploration and exploitation activities by oil and gas enterprises. However, with the strong support by the Export-Import Bank of China to outstanding Chinese enterprises which export heavy industrial equipment, our major customer in Russia was granted a bank loan of US$240 million (approximately HK$1,872 million) in March 2009. This greatly improved the customer's capital sufficiency, as well as paved the way for the Group to further expand and increase its market share in Russia.

BUSINESS REVIEW

In the first half of 2009, investment by global oil and gas enterprises significantly decreased due to the uncertain outlook for economic recovery leading to lowered demand for drilling rigs, putting pressure on the Group's core business. However, leveraging on its state-of-the-art research and production capabilities, market advantages, as well as an extensive sales and distribution network, the Group continues to maintain its strong competitiveness. During the Period, the Group further enhanced its distribution network and market penetration through its subsidiary in Dubai, the United Arab Emirates. The Group sold 6 land drilling rigs in the Middle-Eastern market while there were no land drilling rigs sold to this market in the same period last year, aiding to minimise the adverse effects of the contracting drilling rig market resulted from the global economic turmoil.

During the Period, the Group further realized its promises made during its Initial Public Offering in early 2008. Apart from its production bases in Guanghan and Chengdu in China, as well as in Houston in USA and so on, the Group has confirmed the site of its new production base in Qidong City, Jiangsu Province, which will focus on production of offshore drilling platform and related products, including offshore drilling module and so on. Currently, the production base is undergoing foundation works and initial construction of engineering, and is expected to be completed by 2012. Starting from next year, the Group will carry out site and infrastructure construction and production concurrently to ensure designed production capacity could be reached. Meanwhile, the Group is also planning to construct an offshore equipment research centre in Shanghai, fully utilizing unmatched conditions and development potential in the region to attract skilled experts from around the world, and in the process build a solid foundation for its entry into the offshore drilling market.

Furthermore, the Group continues to strengthen the research, development and design of its new products, so as to meet the needs and requirements of different markets, helping to maintain its leading position in the market during the Period. To satisfy the needs of the Middle-Eastern market, the Group successfully developed a new high speed drilling rig — desert trailer drilling rig; while for the Russian market, the Group successfully developed train-skidding artic rig and completed designs of stepwise skidding system used for cluster well, box-on-box rig, slidetrack rigs and continuous pipe rigs, which will be taken for quality checks in the future. During the Period, the Group continued to focus on developing high value-added parts and components to satisfy market demand for superior performance-to-cost products. Up to June 2009, the Group has a total of 302 research and development employees in Chengdu and Guanghan. Currently, the Group has successfully applied for 38 patents (11 of which are awaiting approval from the State Intellectual Property Office of the P.R.C).

The Group continues to place great emphasis on its control and testing procedures for raw materials, production flow and quality of its end products. During the Period, the Group's quality control system continues to comply with ISO9001 standards, and was upgraded in accordance with the requirements of the 8th version of APIQ1 and ISO9001-2008. At the same time, the application for API certificate of Sichuan Honghua Petroleum Equipment Co., Ltd, a subsidiary of the Group, has been submitted to American Petroleum Institute for review.

In order to further improve operational efficiency and enhance management quality, the Group cooperated with International Business Machines Corporation (IBM) during the Period to launch Enterprise Resource Planning (ERP). The ERP project will improve management of the Group's cash flow, supply chain and distribution network, further strengthening control of production procedures.

PROSPECTS

The global economic downturn caused by the financial tsunami in the second half of 2008 caused a drastic decline in the world demand for energy, leading to a depression in oil prices. Following stimulating packages introduced by various governments, there is evidence that the global economy has stabilized and is in a position for recovery in the first half of 2009. However, as the market continues to take a prudent view to the outlook of the economy, capital investments by oil and gas enterprises may continue to lag behind the economic recovery. Such investments will also be dependent on various reasons including the dynamics of drilling activities around the world, as well as the financial position of related enterprises.

The Group takes a cautious view of its business for the second half of 2009, it is predicted that the global economic downturn will still have a certain degree of adverse impact on the Group's financial performance. However, the development of the global economy in the foreseeable future is still relying on oil resources; as such the financial turmoil is only delaying greater investments which will ultimately be made in oil and gas exploitation by enterprises. From a long-term perspective, expenses for the exploration and production of oil will continue to increase.

Looking ahead, the Group will further accelerate the pace of Research and Development, and will continue to develop high performance-to-cost products to enrich product mix. The Group has established Honghua Oil & Gas Engineering Services Limited, an affiliated company based in Hong Kong. Leveraging on the Group's competitive advantages in production of drilling equipment and state-of-art technology, the Group is poised to enter the oil and gas engineering service sector in a timely manner. Through the extension of its production chain and the resulting synergetic effects, the Group is able to consolidate its leading position as well as to generate a new income stream. At the same time, by introducing IBM and launching the ERP project, the Group is able to further enhance its internal management amid the market recession. In the first half of 2009, Honghua has come one step further in realizing its dream of becoming an offshore drilling platform manufacturer. In the future, the Group will prudently proceed with plans for the construction of its offshore drilling rig production base and related ancillary facilities, so as to capture the opportunities arising from increasing demands of offshore drilling rigs from developing countries.

FINANCIAL REVIEW

During the Period, the Group's gross profit and profit attributable to equity shareholders of the Company amounted to approximately RMB319 million and RMB56 million respectively, representing a decrease of 28.3% and 55.4% respectively as compared to the same period last year. Gross margin and net margin amounted to approximately 26.7% and 4.7% respectively. During the Period, the decrease of the Group's gross profit and profit attributable to shareholders was mainly due to the decline in the Group's total revenue.

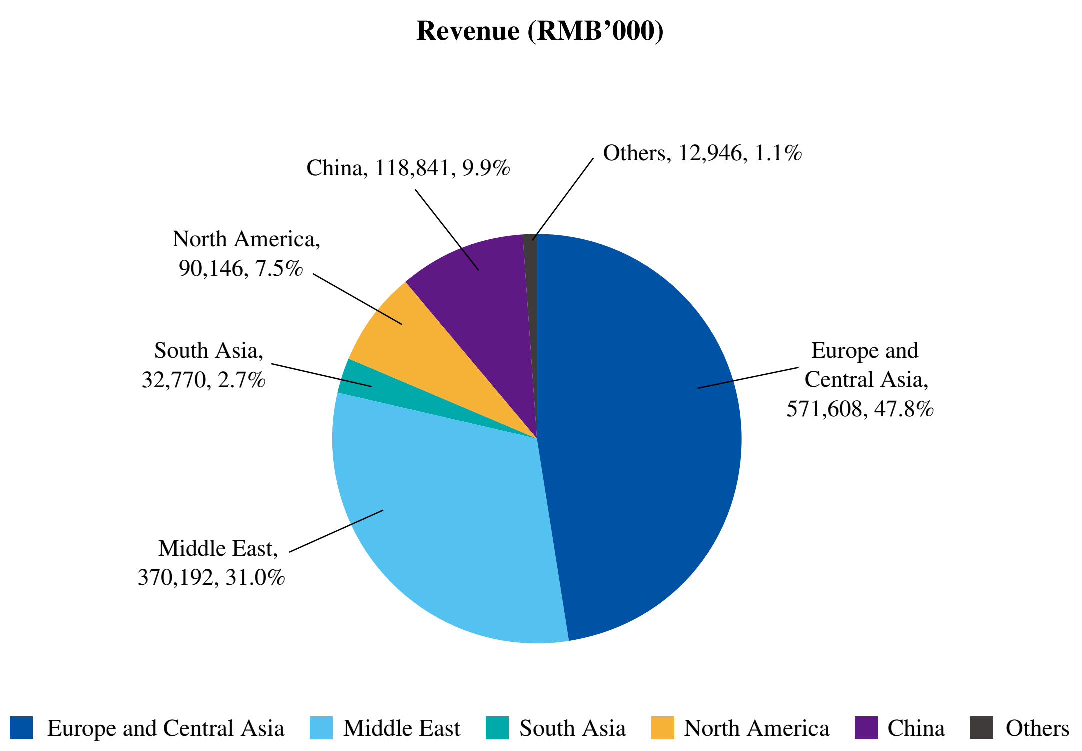
Revenue

During the Period, the Group's revenue amounted to approximately RMB1,197 million, representing a decrease of approximately RMB306 million or 20.4% as compared to approximately RMB1,503 million in the same period last year. The decrease in revenue was mainly attributable to the influence of the global economic crisis and oil price fluctuation leading to the deterioration in global land rig markets and weakened demand for land drilling rigs as well as parts and components. During the Period, total number of rigs sold decreased to 27 units from 31 units in the same period last year. In addition, as a result of the drop in rig configuration requirements, average selling price of rigs decreased.

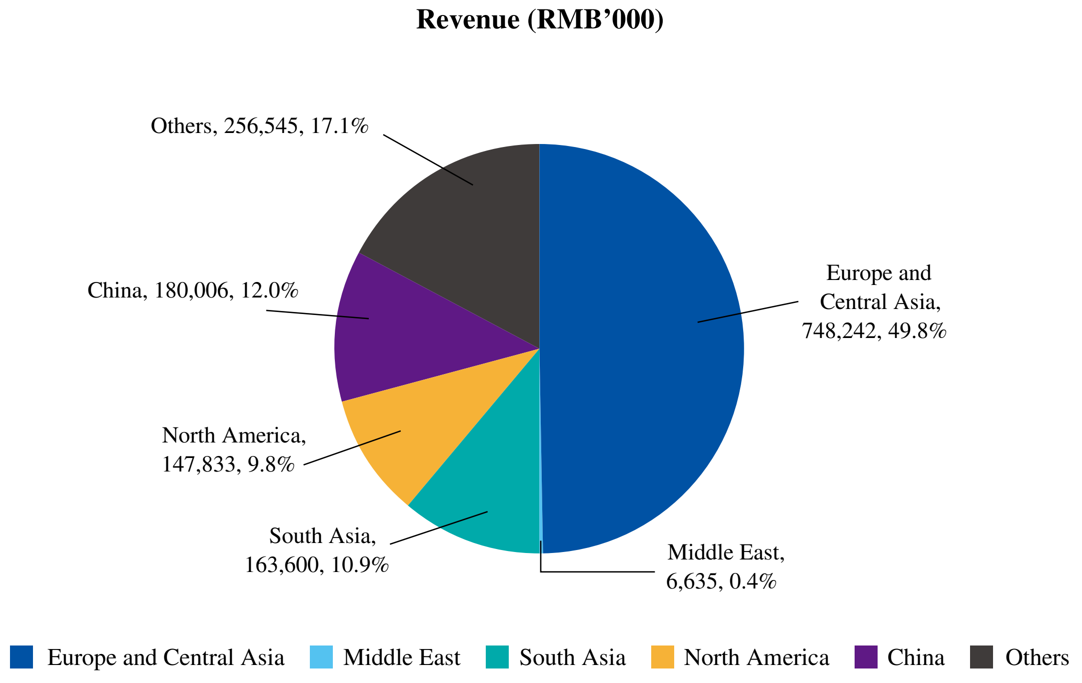
During the Period, revenue from exports amounted to approximately RMB1,078 million, representing a decrease of RMB245 million as compared to the same period last year, and accounted for approximately 90.1% of the Group's total revenue. Among which, revenue from Europe and Central Asia decreased significantly. Despite the sales volume amounted to 14 units during the period, representing an increase of 2 units as compared to the same period last year, the total revenue decreased due to variations in rig configuration being sold, leading to the decrease in average selling price. On the contrary, sales from the Middle-Eastern market increased rapidly and recorded total sales of 6 units while there were no rigs sold to the said market in the same period last year. This was mainly contributed by the enhancement of sales network and improvement in market initiatives of the Group's subsidiary in Dubai. Other markets including South Asia, North America, the PRC and other areas were all affected by the slowdown in rig demand. As a result, the sales volume in these markets were 3, 1, 3 and 0 units respectively, whereas for the same period of last year, sales to these markets were 6, 2, 9 and 2 units respectively.

Revenue by Geographical Areas

For six months ended 30 June 2009



For six months ended 30 June 2008



During the Period, revenue by product categories is as follows:

	For the six months ended 30 June 2009			For the six months ended 30 June 2008				
	Revenue *(RMB'000)*	**%**	**Quantity (Unit)**	**Revenue** *(RMB'000)*	**%**	**Quantity (Unit)**	**Change** *(RMB'000)*	**Change (%)**
Digitally-controlled Rigs	759,574	63.5%	19	1,149,514	76.5%	17	(389,940)	(33.9%)
Conventional Rigs	264,125	22.1%	8	212,418	14.1%	14	51,707	24.3%
Subtotal	1,023,699	85.6%	27	1,361,932	90.6%	31	(338,233)	(24.8%)
Mud Pumps	71,072	5.9%	64	29,035	1.9%	32	42,037	144.8%
Other Parts and Components	101,732	8.5%		111,894	7.5%		(10,162)	(9.1%)
Subtotal	172,804	14.4%	64	140,929	9.4%	32	31,875	22.6%
Total	1,196,503	100.0%	91	1,502,861	100.0%	63	(306,358)	(20.4%)

During the Period, revenue from drilling rigs as well as parts and components were RMB1,024 million and RMB173 million respectively, representing a decrease of 24.8% and an increase of 22.6% as compared to RMB1,362 million and RMB141 million in the same period last year.

Drilling rigs comprise digitally-controlled land rigs and conventional land rigs, sales of which amounted to RMB760 million and RMB264 million respectively. The decrease in revenue from drilling rigs was mainly due to the decrease in sales volume of drilling rigs from 31 units in the same period last year to 27 units during the Period. Meanwhile, reduced drilling rig configuration requirements caused the average price to drop to RMB38 million during the Period from RMB44 million in the same period last year. During the Period, the Group recorded sales of 4 heavy

7000-meter drilling rigs, 4 middle 5000-meter drilling rigs, 4 middle 4000-meter drilling rigs, 14 light 3000-meter drilling rigs and 1 light 1000-meter drilling rig, among which all the 3000-meter drilling rigs were low-temperature drilling rigs sold to Russian clients.

The increase in revenue from parts and components was mainly due to the increase in sales volume of mud pumps to 64 units during the Period from 32 units in the same period last year, among which, 8 were mud pumps with high configuration requirements which raised the average selling price to RMB1.11 million from RMB0.91 million in the same period last year.

Cost of Sales

During the Period, the Group's cost of sales amounted to approximately RMB877 million, representing a decrease of approximately RMB180 million or 17.0% as compared to the same period last year. The decrease was mainly due to the decrease in the Group's revenue.

Gross Profit and Gross Margin

During the Period, the Group's gross profit recorded approximately RMB319 million, representing a decrease of 28.3% as compared to the same period last year. Gross profit from drilling rigs amounted to approximately RMB273 million, representing a decrease of 32.3% as compared to the same period last year. While the gross profit from digitally-controlled rigs and conventional rigs were RMB199 million and RMB74 million respectively, representing a decrease of 41.9% and an increase of 21.4% as compared to the same period last year. Gross profit from parts and components amounted to approximately RMB46 million, representing an increase of 9.4% as compared to the same period last year.

During the Period, the Group's overall gross margin was 26.7%, representing a decrease of 3 percentage points as compared to 29.7% in the same period last year.

The gross margin of drilling rigs was approximately 26.6%, representing a decrease of 3 percentage points as compared to 29.6% in the same period last year. Among which, gross margins of digitally-controlled rigs and conventional rigs were 26.2% and 28.1% respectively, representing a decrease of 3.5 percentage points and 0.7 percentage points as compared to 29.7% and 28.8% respectively in the same period last year. The margin has declined mainly due to the rise in cost incurred when importing overseas raw materials for amending rig configuration as requested by the client.

Gross margin of rig parts and components was 27.0%, representing a decrease of 3.3 percentage points as compared to the same period last year. Among which, gross margin of mud pumps was 24.8%, representing an increase of 2.7 percentage points as compared to 22.1% in the same period last year. The increase in margin was mainly attributable to the rise in the sales of mud pumps with higher configuration requirements. The gross margin of other rig parts and components was 28.5%, representing a decrease of 3.9 percentage points as compared to 32.4% in the same period last year.

Other Net Operating Revenue and Other Net Income

During the Period, the Group's other net operating revenue amounted to approximately RMB0.47 million, representing a decrease of approximately RMB0.54 million or 53.5% as compared to RMB1.01 million in the same period last year. The decrease was mainly due to increasing labour cost and processing cost incurred when rendering services overseas. Other net income amounted to approximately RMB4.36 million, representing a decrease of RMB0.36 million or 7.6% as compared to RMB4.72 million in the same period last year. The decrease was mainly due to the decrease in subsidy income.

Expenses in the Period

During the Period, the Group's selling expenses amounted to approximately RMB112 million, representing a decrease of RMB12 million or 9.7% as compared to RMB124 million in the same period last year, which was mainly due to the decrease in transportation costs. Transportation costs amounted to RMB62 million, representing a decrease of RMB17 million or 21.1% as compared to RMB79 million in the same period last year. During the Period, although export volume increased, transportation cost has decreased, this was because the costs for delivery to Russia borne by the Group has decreased significantly as compared to the same period last year.

During the Period, the Group's general and administration expenses amounted to approximately RMB128 million, representing an increase of RMB15 million or 13.3% as compared to RMB113 million in the same period last year. The increase was mainly due to amortization of intangible assets arising from technological input by Nabors, which began in September 2008. The amortization amounted to RMB18 million while there was no such expense in the same period last year.

During the Period, the Group's net financing income amounted to approximately RMB3 million as compared to net financing costs of RMB74 million in the same period last year. The decrease of net finance costs was mainly attributable to the increase in net exchange gain of RMB76 million. During the Period, the exchange rate of RMB against US dollar was relatively stable. Therefore, the gross exchange loss decreased to RMB13 million from RMB77 million in the same period last year. Meanwhile, the exchange rate of EURO against RMB increased approximately 10%, which was beneficial for the Group's EURO denominated contracts. The Group's gross exchange gain increased to RMB34 million from RMB21 million in the same period last year.

Share of Loss from Jointly Controlled Entities

During the Period, the Group's share of loss from jointly controlled entities amounted to approximately RMB2 million, representing a decrease of RMB13 million as compared to share of profit of RMB11 million in the same period last year, which was mainly attributable to the decrease in sales in Egyptian Petroleum HH Rig Manufacturing Shareholder Co.. 2 rigs were sold in the same period last year while none was sold during the Period.

Profit before Taxation

During the Period, profit before taxation of the Group amounted to approximately RMB85 million, representing a decrease of RMB66 million or approximately 43.7% as compared to RMB151 million in the same period last year. The decrease was mainly attributable to the decrease in gross profit.

Income Tax Expenses

During the Period, the Group's income tax expenses amounted to approximately RMB20 million, representing a decrease of RMB5 million or approximately 18.6% as compared to the same period last year. The decrease was mainly attributable to the decrease in profit before taxation. During the Period, the effective tax rate was 23.9%, representing an increase of 7.4 percentage points as compared to 16.5% in the same period last year. This was mainly attributable to the equity-settled share based payment expenses of RMB15 million (1H2008: RMB24 million) and amortization expenses of intangible assets amounted to RMB18 million (1H2008: nil), which accounted for 38.8% of profit before taxation (1H2008: 15.9%) were not deductible from income tax calculation during the Period and resulted in increased effective income tax rate.

Profit for the Period

During the Period, the Group's profit amounted to approximately RMB65 million, representing a decrease of RMB61 million or 48.4% as compared to RMB126 million in the same period last year. Among which, earnings attributable to equity shareholders of the Company was approximately RMB56 million, while earnings attributable to minority interest was approximately RMB9 million. Net margin was 4.7%, representing a decrease of 3.7 percentage points as compared to the same period last year, which was mainly attributable to the decrease in gross margin during the Period.

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

During the Period, EBITDA amounted to RMB123 million, representing a decrease of RMB118 million or 49.0% as compared to RMB241 million in the same period last year. The decrease was mainly due to the decrease in gross profit. The EBITDA margin was 10.3%, representing a decrease of 5.8 percentage points as compared to 16.1% in the same period last year, which was mainly attributable to the decrease in gross margin and the loss arising from the jointly controlled entities.

Dividend

For the period ended at 30 June 2009, the Board does not recommend the payment of interim dividend.

Source of Capital and Borrowings

The Group's principal sources of capital include listing proceeds, cash from operations, and bank borrowings. As at 30 June 2009, the Group's bank borrowings amounted to approximately RMB1,194 million, representing a decrease of approximately RMB381 million as compared to 31 December 2008. Among which, borrowings repayable within one year amounted to approximately RMB1,030 million, representing a decrease of RMB531 million as compared to 31 December 2008.

Deposit and Cash Flow

At 30 June 2009, the Group's cash and cash equivalents amounted to approximately RMB1,210 million, representing a decrease of approximately RMB257 million as compared to that of 31 December 2008. During the Period, the Group's operating cash inflow amounted to approximately RMB65 million, cash inflow from investing activities amounting to approximately RMB99 million as a result of transferral of time deposits to cash at bank, and cash outflow from financing activities amounted to approximately RMB422 million was used to repay bank loans.

Assets Structure and Changes Thereof

At 30 June 2009, the Group's total assets amounted to approximately RMB7,158 million, representing a decrease of RMB626 million or approximately 8.0% as compared to 31 December 2008. Among which, current assets amounted to approximately RMB6,034 million, which were mainly listing proceeds, trade receivables and inventories and accounted for approximately 84.3% of total assets; non-current assets amounted to approximately RMB1,124 million, accounting for approximately 15.7% of total assets.

Liabilities

At 30 June 2009, the Group's total liabilities amounted to approximately RMB2,727 million, representing a decrease of approximately RMB529 million as compared to 31 December 2008. Among which, current liabilities amounted to approximately RMB2,551 million, accounting for approximately 93.5% of total liabilities; non-current liabilities amounted to approximately RMB176 million, accounting for approximately 6.5% of total liabilities. At 30 June 2009, the Group's gearing ratio is approximately 38.1%.

Total Equity

At 30 June 2009, total equity amounted to RMB4,431 million, representing a decrease of RMB96 million as compared to 31 December 2008. Total equity attributable to equity shareholders of the company amounted to approximately RMB4,335 million, representing a decrease of RMB100 million as compared to 31 December 2008. Minority interests totaled approximately to RMB96 million, representing an increase of RMB3 million as compared to 31 December 2008. Net asset value reached approximately RMB1.38 per share, representing a decrease of RMB0.02 as compared to RMB1.40 at 31 December 2008. During the Period, the Group's earnings per share amounted to RMB1.74 cents, representing a decrease of RMB2.42 cents as compared to RMB4.16 cents in the same period last year.

Turnover

The decline in oil price, coupled with the tightened credit market, led to the slow down capital expenditure of oil exploration and extraction activities of drilling companies, which ended up in prolonging the financial cycle.

During the Period, the average turnover days of inventories increased to 405 days from 216 days of the same period last year. This was mainly attributable to the earlier purchase of high-end raw materials for production and cost control purpose. Moreover, delay in production and delivery schedule due to weakened demand of rigs, also resulted in increasing days of inventories.

Amid global economy slowdown, the Group has proactively strengthened communication with clients and suppliers, established good control over cash flow, to strive for healthy financial ratios. The average days of trade receivables increased to 247 days during the Period from 119 days of the same period last year. During the Period, the Group has adjusted the payment method according to the production requirements and financial situations so as to strengthen liquidity reserve. The average days of trade payables increased to 157 days from 137 days of the same period last year.

Contingent Liabilities

Dispute with 64 natural persons

As of 31 December 2005, 728 employees of Sichuan Oil Administration Bureau Drilling Equipment Plant (the "original investors"), through 11 representatives, held collectively, 33.63% of Honghua Company's share capital. These 11 representatives were registered as shareholders of Honghua Company with the competent PRC government authority. On 7 January 2006, Honghua Company passed a shareholders' resolution to reduce its registered capital and buy-out equity interests from these 11 registered shareholders.

Honghua Company entered into a share purchase agreement with the 11 registered shareholders on 12 January 2006, under which, with the written consent of the 11 registered shareholders, it agreed to pay the share purchase price directly to the 728 original investors. The capital reduction process with the competent PRC government authority was completed on 26 April 2006. 664 of the 728 original investors have agreed to the buy-out arrangement and had accepted payment from Honghua Company. The remaining 64 investors, who, collectively, invested RMB651,385, claimed that they were still shareholders and refused to accept the buy-out arrangement and payment from Honghua Company.

On 11 December 2007, 57 out of the 64 initiated the legal proceedings at the Intermediate Peoples' Court of Chengdu City, Sichuan Province (Action No.: (2008) Cheng Min Chu Zi No. 53). The 57 individuals joined as plaintiffs to the legal proceedings against Honghua Company as the 1st defendant. Asia Harbour International Limited ("Asia Harbour") as the 2nd defendant and 14 individuals including Shi Shuming (3rd defendant); Huang Dequan (4th defendant), Li Yan (5th defendant), Wang Yaoxin (6th defendant), Zhou Tao (7th defendant), Wang Wei (8th defendant), Cheng Zhenghua (9th defendant), Yang Xuefeng (10th defendant), Yang Yuanchun (11th defendant), Ni Xiurong (12th defendant), Yu Zhenghua (13th defendant), Xing Manrong (14th defendant), Zhi Rongmu (15th defendant) and Liu Chuanjun (16th defendant) as the 3rd to 16th defendants. There are a total of 16 defendants.

The relief sought by the 57 plaintiffs includes:

(1) an adjudication by the court that the 592,250 shares held by the 3rd to 16th defendants were actually owned by the 57 plaintiffs, and all the benefits and rights in such equity interests be restored to the 57 plaintiffs and the names of the 57 plaintiffs be entered into the register of members of Honghua Company;

(2) an adjudication by the court that Honghua Company be ordered to pay to the 57 plaintiffs a total sum of RMB296,125, being the 2003 dividends;

(3) an adjudication that the repurchase of the 592,250 shares of Honghua Company be declared null and void;

(4) an adjudication that Asia Harbour be jointly and severally liable for the above members sought by the 57 plaintiffs and the consequential liabilities thereof, and that Asia Harbour with Honghua Company be ordered to apply to the relevant Administration of Commerce to register the 57 plaintiffs as shareholders of Honghua Company; and

(5) an adjudication that all the defendants be jointly liable for the legal costs arising from proceedings.

On 13 March 2008, Honghua Company received the Supplemental Statement on Amending, Adding and Waiving the Statement of Claims (the "Supplemental Statement") submitted by the 57 plaintiffs. The plaintiffs added the following new claims:

(a) an adjudication that the 1st defendant, 3rd to 16th defendants be jointly liable for the damages of shareholders' right and interests, calculated until the date when the judgment is executed in full, including shareholders' rights for 3,760,379 bonus shares calculated until 30 September 2007, pre-emptive rights, and dividend from 2004 to 2006 in a total amount of RMB1,510,237.50;

(b) an adjudication that the 1st defendant, 3rd to 16th defendants be jointly liable for the damages and costs of RMB228,000 incurred by the plaintiffs arising from these legal proceedings; and

(c) an adjudication that the merger and acquisition of Honghua Company by Asia Harbour be declared null and void and that Asia Harbour be jointly liable for all the claims against Honghua Company and other defendants.

Ally Giant Limited, Ample Chance International Limited, Wealth Afflux Limited, Mowbray Worldwide Limited, Ecotech Enterprises Corporation, Otama Company Limited, Vast & Fast Corporation, Cavendish Global Corporation, Airtech Investments Limited, Ally Smooth Investments Limited, Charm Moral International Limited, Beauty Clear Holdings Limited, Brondesbury Enterprises Limited, Oriental Starz Limited, Tech Express Enterprises Inc, Dobson Global Inc, Darius Enterprises Limited, Believe Power International Limited, Benefit Way International Limited, Birdview Limited and the existing shareholders of the Company have executed a deed of indemnity in respect of the dispute and risk dated 15 February 2008 in favour of the Group under which they agree to jointly and severally indemnify and members of the Group for any potential damages that the Company may suffer as a result of the legal proceedings initiated by the 57 plaintiffs.

On 17 July 2008, another 2 individuals, Wu Chuan and Gong Yumei refused to accept the buy-out arrangement and payment from Honghua Company. The relief sought is the same as the 57 plaintiffs as mentioned above.

The legal proceedings have been completed on 19 June 2009 and the verdict is yet to be announced up to the date of this report.

The Directors, based on the PRC legal advisor's opinion, considered that these 64 original investors had never been properly registered as shareholders of Honghua Company with the competent PRC government authority, there is no legal basis under the PRC law for them to be regarded as shareholders of Honghua Company, and the Directors consider that sufficient provision in legal costs in respect of the dispute has been made.

Pledged bank deposits

At 30 June 2009, the Group have pledged bank deposits of RMB63 million, representing a decrease of RMB196 million as compared to 31 December 2008.

Capital Expenditure, Major Investment and Capital Commitments

During the Period, capital expenditure of the Group on infrastructure and technical improvements amounted to approximately RMB46 million, representing a decrease of RMB35 million as compared to the same period last year. This was mainly due to the gradual completion of infrastructure constructions launched earlier and no new significant infrastructure constructions launched during the Period.

At 30 June 2009, the Group had capital commitments of RMB2,092 million, which will be mainly used for the construction of Jiangsu Qidong offshore equipment manufacturing base so as to expand the Group's business and production capacities.

Foreign Currency Risk

The Group has certain foreign currency deposits. At 30 June 2009, the Group's foreign currency deposits were equivalent to approximately RMB159 million, trade receivables and other receivables denominated in foreign currency were equivalent to approximately RMB1,074 million. Exports and foreign currencies settled business also exposed the Group to exchange rate risk.

Use of Proceeds from the Initial Public Offering

The net proceeds after the deduction of the related expenses from the initial public offering were HK$2,958 million. In order to strengthen the Group's operation, the Group adjusted the use of capital. As at 30 June 2009, the use of net proceeds is as follows: proceeds of HK$1,275 million to be used for the offshore project, among which HK$232 million was incurred; proceeds of HK$592 million to be used for potential acquisitions, none has incurred; proceeds of HK$354 million to be used for production capacity expansion and research and development expenses, among which HK$240 million has incurred; proceeds of HK$737 million to be used as working capital and day to day expenses, all have incurred.

Employee Remuneration and Benefit

During the Period, the average number of the Group's employees was 3,503. The total remuneration and benefit amounted to RMB118 million, representing an increase of RMB17 million or approximately 16.8% as compared to the same period last year. The bonus from Board of Directors was written-back in the same period last year whereas none has incurred this Period resulting in the increase of remuneration and benefit during the Period.

The Group provided competitive remuneration and benefit to its employees, and determined the employee's individual remuneration based on his/her job duties, work performance and capability. The Group issues share options to senior management to make personal interests in line with the Group. The Group strives to maintain its outstanding corporate culture, implement a people-oriented principle and build up a broad stage for the employee to fulfill one's value under the Group's systematic training and employee skill enhancement plans.

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

The Company did not purchase, sell or repurchase any of its shares during the six months ended 30 June 2009.

AUDIT COMMITTEE

The audit committee of the Company ("Audit Committee") comprises all the independent non-executive Directors with written terms of reference in compliance with the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("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 the interim results of the Group for the six months ended 30 June 2009.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the principles as set out in the Code on Corporate Governance Practice as set out in Appendix 14 of the Listing Rules (the "CG Code") throughout the six months ended 30 June 2009, 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 Mr. Zhang Mi 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 since 21 January 2008, the strict level of which is no less exacting than that of the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 of the Listing Rules. 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 throughout the six months ended 30 June 2009.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT IN 2009

This announcement will be published on both the websites of the Company (www.hh-gltd.com) and of the Stock Exchange of Hong Kong Limited (www.hkexnew.hk). The interim report of the Company for the six months ended 30 June 2009 will be dispatched to shareholders and published on the aforesaid 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 their hard work in the past 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

Hong Kong, 8 September 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.