HONG HUA

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 2009

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		
	2009	2008	**% change**
Revenue (RMB'000)	**1,961,517**	4,737,532	(58.6%)
Gross profit (RMB'000)	**518,062**	1,355,802	(61.8%)
Gross profit margin (%)	**26.4%**	28.6%	—
(Loss)/profit from operations (RMB'000)	**(120,736)**	736,875	(116.4%)
(Loss)/profit attributable to equity shareholders of the Company (RMB'000)	**(127,337)**	511,974	(124.9%)
Basic (loss)/earnings per share (RMB cents)	**(3.95)**	16.22	(124.4%)
Diluted (loss)/earnings per share (RMB cents)	**(3.95)**	16.22	(124.4%)

The Directors do not recommend the payment of dividend for the year ended 31 December 2009.

ANNUAL RESULTS

The Board hereby announces the consolidated results of the Group for the year ended 31 December 2009 (the "Year"), together with the comparative figures for the year ended 31 December 2008 (the "last year") as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2009
(Expressed in Renminbi)

	Note	**2009** *RMB'000*	2008 *RMB'000*
Revenue	5	**1,961,517**	4,737,532
Cost of sales		**(1,443,455)**	(3,381,730)
Gross profit		**518,062**	1,355,802
Other operating revenue	6	**7,085**	5,375
Other operating expenses		**(803)**	(6,970)
Selling expenses		**(179,980)**	(369,787)
General and administrative expenses		**(351,070)**	(263,114)
(Impairment losses recognised)/impairment losses written-back on trade receivables		**(123,264)**	1,907
Other net income	6	**9,234**	13,662
(Loss)/profit from operations		**(120,736)**	736,875
Finance income		**61,094**	52,023
Finance expenses		**(64,803)**	(140,724)
Net finance expenses	7(a)	**(3,709)**	(88,701)
Share of (loss)/profit from jointly controlled entities		**(4,766)**	7,332
(Loss)/profit before taxation		**(129,211)**	655,506
Income tax credit/(expenses)	8	**7,126**	(115,560)
(Loss)/profit for the year		**(122,085)**	539,946
Attributable to:			
Equity shareholders of the Company		**(127,337)**	511,974
Minority interests		**5,252**	27,972
(Loss)/profit for the year		**(122,085)**	539,946
(Loss)/earnings per share — Basic and diluted (RMB cents)			
Basic	10(a)	**(3.95)**	16.22
Diluted	10(b)	**(3.95)**	16.22

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009
(Expressed in Renminbi)

	2009	2008
	RMB'000	*RMB'000*
(Loss)/profit for the year	**(122,085)**	539,946
Other comprehensive income for the year:		
Exchange differences on translation of financial statements of operations outside the PRC	**(1,318)**	(87,360)
Total comprehensive income for the year	**(123,403)**	452,586
Attributable to:		
Equity shareholders of the Company	**(128,655)**	424,614
Minority interests	**5,252**	27,972
Total comprehensive income for the year	**(123,403)**	452,586

CONSOLIDATED BALANCE SHEET

At 31 December 2009
(Expressed in Renminbi)

	Note	2009 RMB'000	2008 RMB'000
Non-current assets			
Fixed assets			
— Property, plant and equipment		**414,746**	375,169
— Interests in leasehold land held for own use under operating leases		**141,829**	53,461
— Freehold land		**5,504**	5,509
		562,079	434,139
Deposits paid for acquisition of leasehold land		**209,308**	90,108
Construction in progress		**59,144**	40,369
Intangible assets		**318,859**	356,216
Interests in jointly controlled entities		**10,309**	9,604
Deferred tax assets		**49,372**	16,044
Total non-current assets		**1,209,071**	946,480
Current assets			
Inventories	11	**1,901,168**	2,033,488
Trade and other receivables	12	**1,246,351**	2,045,069
Amounts due from related companies		**31,096**	34,018
Amount due from immediate holding company		**6**	8
Amount due from ultimate holding company		**6**	42
Current tax recoverable		**24,393**	—
Pledged bank deposits		**30,663**	259,099
Bank deposits maturing over 3 months		**542,898**	998,356
Cash and cash equivalents		**1,603,316**	1,467,363
Total current assets		**5,379,897**	6,837,443
Total assets		**6,588,968**	7,783,923

CONSOLIDATED BALANCE SHEET

At 31 December 2009
(Expressed in Renminbi)

	Note	**2009** *RMB'000*	2008 *RMB'000*
Current liabilities			
Interest-bearing borrowings		**1,046,090**	1,561,000
Amounts due to related companies		**5,609**	21,376
Trade and other payables	13	**974,024**	1,540,729
Current tax payable		**20,933**	77,079
Provision for product warranties		**15,579**	32,241
Total current liabilities		**2,062,235**	3,232,425
Net current assets		**3,317,662**	3,605,018
Total assets less current liabilities		**4,526,733**	4,551,498
Non-current liabilities			
Interest-bearing borrowings		**252,390**	14,401
Deferred tax liabilities		**10,414**	9,689
Total non-current liabilities		**262,804**	24,090
Total liabilities		**2,325,039**	3,256,515
Equity			
Share capital		**299,542**	299,495
Reserves		**3,869,363**	4,134,887
Total equity attributable to equity shareholders of the Company		**4,168,905**	4,434,382
Minority interests		**95,024**	93,026
Total equity		**4,263,929**	4,527,408
Total liabilities and equity		**6,588,968**	7,783,923

1. REVIEW OF ANNUAL RESULTS

The annual results have been reviewed by the Audit Committee.

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2009 have been compared by the Company's auditors, KPMG, Certified Public Accountants, to the amounts set out in the Group's draft financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect was limited and did not constitute an audit, review or other assurance engagement and consequently no assurance has been expressed by the auditors on this announcement.

2. STATEMENT OF COMPLIANCE

The financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by the International Accountancy Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. 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. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in the financial statements.

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. 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, IFRS 7 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 do not contain any additional disclosure requirements specifically applicable to these financial statements. The impact of the remainder of these developments 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. Corresponding amounts have 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. 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, borrowing 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 People's Republic of China ("PRC" or "China"), 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

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets 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, current tax recoverable, deferred tax assets, pledged bank deposits, bank deposits maturing over 3 months, 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 tax payable, 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 years ended 31 December 2009 and 2008 is set out below.

	Drilling rigs		**Parts and components**		**Total**	
	2009	2008	**2009**	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Revenue from external customers	**1,649,653**	4,359,920	**311,864**	377,612	**1,961,517**	4,737,532
Inter-segment revenue	**—**	—	**689,456**	1,258,086	**689,456**	1,258,086
Reportable segment revenue	**1,649,653**	4,359,920	**1,001,320**	1,635,698	**2,650,973**	5,995,618
Reportable segment (loss)/profit	**(23,595)**	733,364	**64,664**	178,919	**41,069**	912,283
Depreciation and amortisation for the year	**66,006**	30,765	**15,255**	14,318	**81,261**	45,083
Reportable segment assets	**2,918,121**	3,698,482	**1,304,594**	1,389,674	**4,222,715**	5,088,156
Additions to non-current segment assets during the year	**51,118**	79,653	**47,264**	71,154	**98,382**	150,807
Reportable segment liabilities	**828,329**	1,335,279	**290,405**	519,086	**1,118,734**	1,854,365

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

	2009	2008
	RMB'000	*RMB'000*
(Loss)/profit		
Reportable segment profit	**41,069**	912,283
Elimination of inter-segment profits	**(163,751)**	(186,024)
Reportable segment (loss)/profit derived from Group's external customers	**(122,682)**	726,259
Share of (loss)/profit from jointly controlled entities	**(4,766)**	7,332
Other operating revenue, expenses and net income	**15,516**	12,067
Net finance expenses	**(3,709)**	(88,701)
Unallocated head office and corporate expenses	**(13,570)**	(1,451)
Consolidated (loss)/profit before taxation	**(129,211)**	655,506
Assets		
Reportable segment assets	**4,222,715**	5,088,156
Elimination of inter-segment receivables	**(203,810)**	(368,630)
	4,018,905	4,719,526
Interests in jointly controlled entities	**10,309**	9,604
Current tax recoverable	**24,393**	—
Deferred tax assets	**49,372**	16,044
Unallocated head office and corporate assets	**2,485,989**	3,038,749
Consolidated total assets	**6,588,968**	7,783,923
Liabilities		
Reportable segment liabilities	**1,118,734**	1,854,365
Elimination of inter-segment payables	**(203,810)**	(368,630)
	914,924	1,485,735
Current tax payable	**20,933**	77,079
Deferred tax liabilities	**10,414**	9,689
Unallocated head office and corporate liabilities	**1,378,768**	1,684,012
Consolidated total liabilities	**2,325,039**	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, deposits 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	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
PRC	**250,454**	471,519	**1,111,162**	888,763
North America	**205,109**	322,021	**36,824**	31,234
Middle East	**777,590**	417,321	**1,330**	785
Europe and Central Asia	**676,323**	2,816,936	**19**	50
South Asia	**37,759**	326,914	**—**	—
Others	**14,282**	382,821	**10,364**	9,604
	1,961,517	4,737,532	**1,159,699**	930,436

5. REVENUE

The principal activities of the Group are the manufacturing, sale and trading of drilling rigs and related parts and components. Revenue represents the sales value of goods supplied to customers less value-added tax, returns and trade discounts.

	2009	2008
	RMB'000	*RMB'000*
Sale of drilling rigs	**1,649,653**	4,359,920
Sale of parts and components	**311,864**	377,612
	1,961,517	4,737,532

6. OTHER OPERATING REVENUE AND OTHER NET INCOME

	2009 *RMB'000*	2008 *RMB'000*
Other operating revenue		
Rendering of repairing services	**5,439**	4,293
Commission	**147**	114
Others	**1,499**	968
	7,085	5,375
Other net income		
Government grants	**16,727**	10,648
Loss on disposals of fixed assets	**(990)**	(287)
Realised gains on investments at fair value through profit or loss	**59**	3,280
Donations	**(4,743)**	—
Others	**(1,819)**	21
	9,234	13,662

7. (LOSS)/PROFIT BEFORE TAXATION

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

	2009 *RMB'000*	2008 *RMB'000*
(a) Net finance expenses		
Exchange (gain)/loss, net	**(24,430)**	67,175
Interest income	**(36,664)**	(52,023)
Interest on interest-bearing borrowings wholly repayable within five years	**65,543**	66,138
Bank charges	**5,604**	7,411
	10,053	88,701
Less: interest expense capitalised into assets under construction*	**(6,344)**	—
	3,709	88,701

* The borrowing costs have been capitalised at a rate of 2.55% – 8.25% per annum (2008: Nil).

	2009 *RMB'000*	2008 *RMB'000*
(b) Staff costs		
Contributions to defined contribution retirement schemes	**34,508**	29,815
Equity-settled share based payment expenses	**34,803**	38,086
Salaries, wages and other benefits	**210,328**	209,745
	279,639	277,646

(c) Other items

	2009	2008
	RMB'000	*RMB'000*
Amortisation and depreciation		
— leasehold land held for use under operating leases	**1,394**	1,636
— other assets	**44,163**	32,475
— intangible assets	**36,821**	12,423
Auditors' remuneration	**3,494**	5,130
Operating lease charges: properties	**5,628**	3,227
Research and development costs *	**36,094**	30,550

* 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 (CREDIT)/EXPENSES

(a) Taxation in the consolidated income statement represents:

	2009	2008
	RMB'000	*RMB'000*
Current tax — outside Hong Kong		
Provision for the year	**29,668**	119,246
Over-provision in respect of prior years	**(2,044)**	(5,531)
Tax credit	**(2,152)**	—
	25,472	113,715
Deferred tax		
Origination and reversal of temporary differences	**(32,598)**	1,845
	(7,126)	115,560

(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 (2008: Nil).

(ii) PRC

Pursuant to the income tax rules and regulations of the PRC, the companies comprising the Group in the PRC are liable to PRC enterprise income tax at a rate of 25% during the year ended 31 December 2009 (2008: 25%), except for the following companies:

(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 rates set by the relevant authorities.

(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%.

(iii) Others

Taxation for other entities is charged at the appropriate current rates of taxation ruling in the relevant jurisdictions.

(b) Withholding tax

Under the PRC tax law and its Implementation Rules, dividends receivable by non-PRC residgent enterprises from PRC resident enterprises are subject to withholding tax at a tax of 10% unless reduced by tax treaties or agreements. Under the *Arrangement between the Mainland of China and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income*, Hong Kong tax residents which hold 25% or more of a PRC enterprise are entitled to a reduced dividend withholding tax rate of 5%. Pursuant to CaiShui [2008] No. 1 *Notice on Certain Preferential Enterprise Income Tax Policies*, undistributed earnings generated prior to 1 January 2008 are exempted from such withholding tax. Accordingly, dividends receivable by Honghua Holdings Limited from its subsidiaries established in the PRC in respect of their profits earned since 1 January 2008 is subject to 5% withholding tax. Deferred tax liabilities have been recognised for undistributed retained profits of its subsidiaries established in the PRC earned since 1 January 2008 to the extent that profits are likely to be distributed in the foreseeable future.

9. DIVIDENDS

Dividends payable to equity shareholders of the Company attributable to the year:

	2009	2008
	RMB'000	*RMB'000*
Special dividends declared and paid of Hong Kong dollars (“HK$”) Nil per share (2008: HK$0.10 per share)	—	287,671
Final dividend proposed after the balance sheet date of HK$Nil per share (2008: HK$0.06 per share)	—	170,371
	—	458,042

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

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

10. (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to ordinary equity shareholders of the Company of RMB127,337,000 (2008: a profit of RMB511,974,000) and the weighted average number of 3,222,697,730 (2008: 3,157,004,167) ordinary shares in issue during the year.

(b) Diluted (loss)/earnings per share

The calculation of diluted loss per share for the year ended 31 December 2009 is based on the loss attributable to ordinary equity shareholders of the Company of RMB127,337,000 and the weighted average number of ordinary shares of 3,225,036,859.

There were no dilutive potential ordinary shares for the year ended 31 December 2008 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	
	2009	2008
	RMB'000	*RMB'000*
Raw materials	**832,164**	917,372
Work in progress	**536,600**	506,352
Finished goods	**528,554**	566,557
Goods in transit	**3,850**	43,207
	1,901,168	2,033,488

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

	The Group	
	2009	2008
	RMB'000	*RMB'000*
Carrying amount of inventories sold	**1,388,090**	3,353,267
Write-down of inventories	**45,128**	24,422
Reversal of write-down of inventories	**—**	(28,200)
	1,433,218	3,349,489

12. TRADE AND OTHER RECEIVABLES

	The Group	
	2009	2008
	RMB'000	*RMB'000*
Trade receivables	**901,707**	1,551,659
Bills receivable	**2,200**	4,706
Less: allowance for doubtful debts	**(124,669)**	(1,405)
Sub-total	**779,238**	1,554,960
Value-added tax recoverable	**191,450**	257,430
Prepayments	**154,884**	182,457
Other receivables	**120,779**	50,222
	1,246,351	2,045,069

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	
	2009	2008
	RMB'000	*RMB'000*
Current	**276,849**	1,074,915
Less than 1 month past due	**24,970**	290,721
More than 1 month but less than 3 months past due	**60,121**	130,739
More than 3 months but less than 12 months past due	**136,445**	24,852
More than 1 year past due	**280,853**	33,733
	779,238	1,554,960

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 components, is as follows:

	The Group	
	2009	2008
	RMB'000	*RMB'000*
At 1 January	**1,405**	3,312
Provision for impairment losses	**123,264**	247
Written back of impairment losses	**—**	(2,154)
At 31 December	**124,669**	1,405

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	
	2009	2008
	RMB'000	*RMB'000*
Trade payables	**413,060**	702,194
Bills payable	**104,442**	176,371
Receipts in advance	**316,444**	522,505
Other payables	**140,078**	139,659
	974,024	1,540,729

Bills payable as at 31 December 2008 and 2009 were secured by pledged bank deposits. All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

An ageing analysis of the trade payables and bills payable based on the invoice date is as follows:

	The Group	
	2009	2008
	RMB'000	*RMB'000*
Within 3 months	**235,754**	645,852
3 months to 6 months	**98,020**	117,862
6 months to 1 year	**51,061**	79,895
Over 1 year	**132,667**	34,956
	517,502	878,565

MARKET OVERVIEW

The global financial crisis continued to adversely affect the world economy in 2009 and brought a stern challenge to the global oil drilling industry. The drop in oil demand, together with uncertain economic prospects led to a reduction in expenditure on oil exploration, lowered drilling activities and drilling rig day rates. However, due to the launch of economic stimulus packages and monetary policies in different countries, the global economic downturn began to gradually alleviate from the second half of 2009 and industrial production as well as the oil price gradually resumed. As a result, the number of existing drilling rigs gradually recovered from its low point, providing support for the steady recovery of the global oil drilling industry.

BUSINESS REVIEW

In light of the challenging market conditions, the Group has proactively strengthened its internal management, put additional emphasis on product research and development, and continued to implement a "sales advancement" strategy. While maintaining its long-term relationship with existing clients, the Group has been proactively building its global sales network and expanding its marketing and sales efforts in emerging markets. During the Year, as the Middle East and Central Asia were relatively less affected by the economic crisis compared to the U.S. and European countries, the Group strategically enhanced market penetration in these regions. Leveraging on its superior performance-to-cost products, the Group sold 13 units of land drilling rigs in the Middle Eastern market, representing an increase of 6 units as compared to the same period last year, and subsequently received positive responses from clients which boost our confidence in expanding our business in this region. Furthermore, the Group has signed sales and purchase agreements with Shanghai Zhenhua Heavy Industry Co., Ltd., the largest heavy-duty equipment manufacturer in the world, for land drilling rigs and jack-up drilling packages worth over RMB2.3 billion. It not only provides strong support for the Group's land drilling business, but also creates favorable conditions to establish research, development and manufacturing of its offshore jack-up drilling platform.

The Group has confirmed the site for its new offshore production base in Qidong City, Jiangsu Province, and in the second half of 2009, infrastructure construction has commenced as scheduled. According to the Group's strategy, construction, equipment installation and production will take place concurrently so as to accelerate its completion and ensure that the designed production capacity target could be reached. Meanwhile, the Group has completed the initial construction of an offshore equipment research centre and sales centre in Shanghai, and the formation of related business operations and execution departments were orderly carrying on.

During the Year, through continuous enhancement of product quality and strengthening of its research and product design, the Group has maintained its competitiveness in the international market. For product research and development, the Group has developed various superior performance-to-cost products to meet the needs of different markets, including a new high speed drilling rig, desert trailer drilling rig for the Middle-Eastern market, a train-skidding arctic rig and helicopter-mounted drilling rigs for the Russian market, as well as continuous pipe rigs for shallow oil and gas exploration. Besides, the Group continued to develop high value-added parts and components to enhance in-house production. Our land rigs configured the top drive developed by the Group have been sold to the European customers during the Year. The sales and purchase agreements with Shanghai Zhenhua Heavy Industry Co., Ltd. for land drilling rigs and jack-up drilling packages will be equipped with the nation's leading direct-driven mud pump and planetary gearbox drawworks developed by the Group. Owing to their high performance, light weight and compact size, the clients will benefit from enhanced operational efficiency and reduced maintenance costs.

Furthermore, the Group continued to expand its research and development team during the Year. At the end of 2009, the Group had a total of 368 employees in research and development department in Chengdu, Guanghan and Shanghai. Currently, the Group has successfully applied for 43 patents (12 of which are awaiting approval from the State Intellectual Property Office of the PRC), which represents an increase of 12 patents approved as compared to the same period last year.

PROSPECTS

In 2010, as the global economy gradually recovers, energy consumption is expected to increase and capital expenditure on oil and gas exploration will grow accordingly. The International Energy Agency predicts that the global oil demand will increase from 85 million barrels per day in 2008 to 106 million barrels per day by 2030. A research report by Barclay's Capital also estimates that the global expenditure on oil and gas exploration and development could reach US$439 billion in 2010, representing an increase of 11% as compared to 2009. In the long-run, global oil and gas exploration and development will resume its long-term growth momentum.

The Group will continue to seize business opportunities in the drilling rig industry, strengthen its research and development capabilities, enhance product quality and enrich its product mix to satisfy different market needs for high performance drilling rigs. Furthermore, the Group will continuously expand its global sales network, especially in the markets such as the Middle-East, South America and Russia. The Group will adopt a "sales advancement" strategy to expand its client base so as to enhance the Group's competitiveness in the international market. Meanwhile, the Group will continue to push ahead with the construction of its offshore production base in Qidong City, Jiangsu Province, and improve the design, research and development of offshore drilling rigs through the establishment of an offshore equipment research centre in Shanghai. The Group will also focus on the marketing and promotion of its digitized prototype model to potential clients for achieving sales of the offshore drilling platform as soon as possible.

Facing the drastic decline of the Group's business performance and the recording of a loss in 2009, the management have given serious reflection on the situation. In the future, the Company will continue focus on risk control to improve the internal control process. Meanwhile, in order to enhance the ability to cope with risk in complex circumstances, through extending its production chain to realise vertical and horizontal expansion, the Group will gradually transform into a diversified energy company with interactive development in the fields of equipment production, resource exploration and engineering services based on the solid experience on land and offshore oil and gas equipment manufacturing. i.e "Two Fields and Three Sectors".

FINANCIAL REVIEW

During the Year, the Group's gross profit and loss attributable to shareholders amounted to approximately RMB518 million and approximately RMB127 million respectively, while the gross profit and profit attributable to shareholders amounted to approximately RMB1,356 million and approximately RMB512 million respectively in the same period last year. Gross margin and net loss margin amounted to 26.4% and 6.5% respectively. During the Year, the decrease in gross profit and increase in loss attributable to shareholders were mainly due to the adverse affects as a result of the global economic crisis, which led to a sharp reduction in revenue.

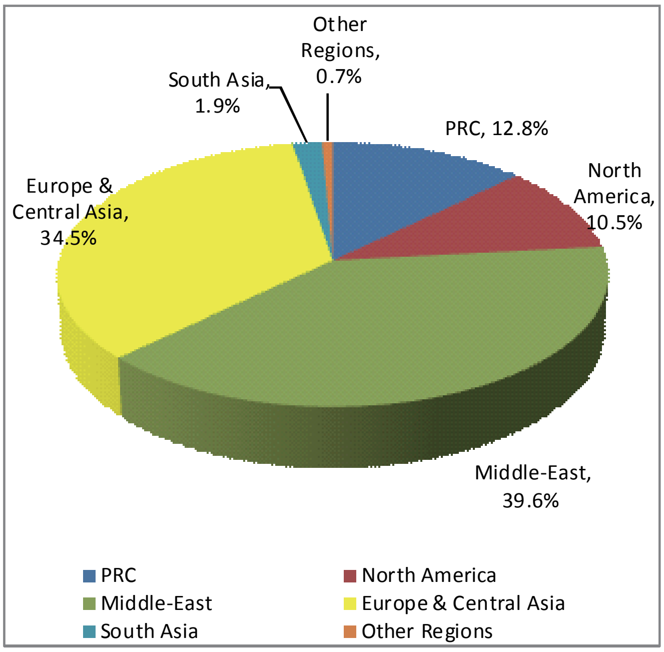
REVENUE

During the Year, the Group's revenue amounted to approximately RMB1,962 million, representing a decrease of approximately 58.6% as compared to approximately RMB4,738 million in the same period last year. The decrease was mainly attributable to decreased demand for land drilling rigs. The number of drilling rigs sold decreased from 94 units in 2008 to 40 units during the Year.

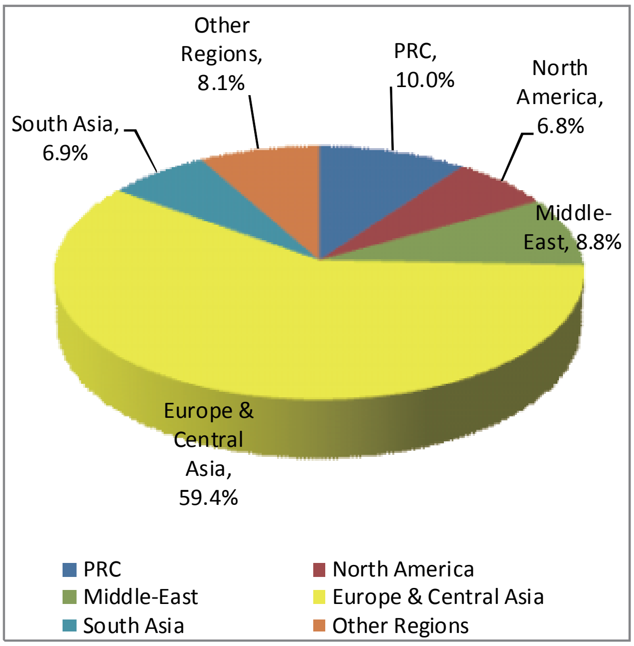
During the Year, revenue by geographical areas were as follows: revenue from exports amounted to approximately RMB1,711 million, representing a decrease of approximately RMB2,555 million as compared to the same period last year, accounting for approximately 87.2% of the Group's total revenue. The decrease was mainly attributable to the decrease in demand for drilling rigs in Europe and Central Asia, where the sales volume was 16 units during the Year, compared to 45 units in 2008, and a drop in the average selling price due to the variation in rig configurations. On the contrary, revenue from the Middle-Eastern market increased rapidly and recorded total sales of 13 units, compared to a total of 7 units in the same period last year. This was mainly attributable to the enhancement of sales network and improvement in the 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, 2, 6 and 0 units respectively, representing a decrease of 8, 1, 17, 5 units respectively as compared to the same period last year, leading to a decrease in revenue to different extents.

SALES BY GEOGRAPHICAL AREA

Revenue in 2009



Revenue in 2008



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

By product category	**For the year ended 31 December 2009** Revenue *RMB'000*	%	Quantity *(Unit)*	For the year ended 31 December 2008 Revenue *RMB'000*	%	Quantity *(Unit)*	**2009 vs 2008** Change *RMB'000*	Change *(%)*
Digitally-controlled Rigs	**1,366,821**	**69.7%**	**31**	3,395,962	71.7%	57	(2,029,141)	-59.8%
Conventional Rigs	**282,832**	**14.4%**	**9**	963,958	20.3%	37	(681,126)	-70.7%
Subtotal	**1,649,653**	**84.1%**	**40**	4,359,920	92.0%	94	(2,710,267)	-62.2%
Mud Pumps	**123,403**	**6.3%**	**117**	113,732	2.4%	120	9,671	8.5%
Other Parts and Components	**188,461**	**9.6%**		263,880	5.6%		(75,419)	-28.6%
Subtotal	**311,864**	**15.9%**	**117**	377,612	8.0%	120	(65,748)	-17.4%
Total	**1,961,517**	**100.0%**		4,737,532	100.0%		(2,776,015)	-58.6%

Products of the Group comprise drilling rigs as well as parts and components.

During the Year, revenue from drilling rigs and parts and components were RMB1,650 million and RMB312 million respectively, representing a decrease of 62.2% and 17.4% as compared to RMB4,360 million and RMB378 million in the same period last year.

Drilling rigs comprise digitally-controlled land rigs and conventional land rigs, sales of which amounted to RMB1,367 million and RMB283 million respectively. The decrease in revenue from drilling rigs was mainly due to the decrease in sales volume of drilling rigs from 94 units in the same period last year to 40 units during the Year. During the Year, the Group recorded sales of 7 heavy 7000-meter drilling rigs, 8 medium 5000-meter drilling rigs and medium 4000-meter drilling rigs, 14 light 3000-meter drilling rigs and 3 light 1000-meter drilling rigs, among which all 3000-meter drilling rigs were low-temperature drilling rigs sold to Russian clients.

The decrease in revenue from parts and components was mainly due to the decrease in demand for replacing old parts and components. However, the sale of mud pumps amounted to 117 units, which was approximately equal to that of last year (2008: 120 units). Among which, 9 high specification mud pumps were sold, driving the average selling price from RMB0.95 million last year to RMB1.05 million in the Year.

COST OF SALES

During the Year, the Group's cost of sales amounted to approximately RMB1,443 million, representing a decrease of approximately RMB1,938 million or 57.3% 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 Year, the Group recorded a gross profit of approximately RMB518 million, representing a decrease of 61.8% or RMB838 million as compared to the same period last year. Gross profit from drilling rigs amounted to approximately RMB431 million, representing a decrease of 65.1% as compared to the same period last year. Gross profit from digitally-controlled rigs and conventional rigs were RMB352 million and RMB79 million respectively, representing a decrease of 64.7% and 67.1% as compared to the same period last year. Gross profit from parts and components amounted to approximately RMB87 million, representing a decrease of 27.2% as compared to the same period last year.

During the Year, the Group's overall gross margin was 26.4%, representing a decrease of 2.2 percentage points as compared to that in the same period last year. The decrease was due to the fact that some of the drilling rigs were sold to trading company instead of end-users, reducing the profit margins. Meanwhile, the Group amended the raw materials imported for digitally-controlled drilling rigs in response to the change in need of clients.

The gross margin of drilling rigs was approximately 26.1%, representing a decrease of 2.2 percentage points as compared to 28.3% in the same period last year. Among which, the gross profit of digitally-controlled drilling rigs was 25.8%, representing a decrease of 3.5 percentage points compared to that in the same period last year. The gross margin of conventional drilling rigs was 27.8%, representing an increase of 3.0 percentage points compared to that in the same period last year.

Gross margin of rig parts and components was 28.0%, representing a decrease of 3.8 percentage points as compared to that in the same period last year. The decrease was mainly attributable to the decrease in exports of mud pumps, which have a higher profit margin than those sold domestically.

OTHER NET OPERATING REVENUE AND OTHER NET INCOME

During the Year, the Group's other net operating revenue amounted to approximately RMB6.28 million, as compared to other net operating expenses of approximately RMB1.60 million in the same period last year. The increase was mainly due to the increase of the maintenance service income during the Year. Other net income amounted to approximately RMB9.23 million, as compared to that of RMB13.66 million in the same period last year. The decrease was mainly attributable to realised gains on investments at fair value amounted to approximately RMB3.28 million last year while approximately RMB0.06 million during the Year.

EXPENSES IN THE YEAR

During the Year, the Group's selling expenses amounted to approximately RMB180 million, representing a decrease of RMB190 million or 51.3% as compared to RMB370 million in the same period last year, which was mainly due to the decrease in transportation costs. Transportation costs amounted to RMB85 million, representing a decrease of 67.2% as compared to RMB259 million in the same period last year. The decrease in transportation costs was mainly due to the decrease in sales volume and the sharp drop in the costs of drilling rigs delivery to Russia borne by the Group.

During the Year, the Group's general and administrative expenses amounted to approximately RMB351 million, representing an increase of RMB88 million or 33.4% as compared to RMB263 million in the same period last year. The increase was primarily based on the following: firstly, the expenses resulted from contract negotiation amounted to approximately RMB33 million during the Year, while none in the last year. Secondly, the amortisation of intangible assets arising from technological input by Nabors, which amounted to RMB37 million, compared to RMB12 million in the same period last year. The technology was put in use and began amortisation in September 2008. In addition, according to the quality control and the requirements of API application, an internationally renowned supervising company was engaged during the Year and hence the consultation fee recorded a significant growth to RMB17 million from RMB7 million in the same period last year.

During the Year, because the global economic crisis adversely affected our trade receivables, we have made a provision of approximately RMB123 million based on the payment ability of our clients.

During the Year, the Group's net finance expenses amounted to approximately RMB3.71 million, as compared to that of approximately RMB88.70 million in the same period last year. The sharp decrease was mainly due to the stable exchange rate between RMB and US dollars, as well as the 10% increase in the exchange rate of the Euro against RMB. The Group recorded a net exchange gain of approximately RMB24.43 million, compared to a net exchange loss of approximately RMB67.18 million last year.

SHARE OF LOSS/PROFIT FROM JOINTLY CONTROLLED ENTITIES

During the Year, the Group's share of loss from jointly controlled entities amounted to approximately RMB5 million, compared to a share of profit of RMB7 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 Year.

LOSS/PROFIT BEFORE TAXATION

During the Year, loss before taxation of the Group amounted to approximately RMB129 million, compared to profit before taxation of approximately RMB656 million the same period last year. The decrease was mainly attributable to the decrease in gross profit.

INCOME TAX CREDIT/EXPENSES

During the Year, the Group's income tax credit amounted to approximately RMB7 million, as compared to income tax expenses of approximately RMB116 million the same period last year. The decrease was mainly attributable to the decrease in profit before taxation. In addition, the equity-settled share based payment expenses of RMB35 million (2008: RMB38 million) and amortisation expenses of intangible assets amounted to RMB37 million (2008: RMB12 million) were not deductible from income tax calculation during the Year.

LOSS/PROFIT FOR THE YEAR

During the Year, the Group's loss amounted to approximately RMB122 million, as compared to profit of approximately RMB540 million the same period last year. Among which, loss attributable to equity shareholders of the Company was approximately RMB127 million, while earnings attributable to minority interests was approximately RMB5 million. Net loss margin amounted to approximately 6.5%, as compared to net profit margin of approximately 10.8% the same period last year. This was mainly attributable to a lower gross margin and a higher proportion of general and administrative expenses as well as selling expenses as compared to the same period last year.

EBITDA AND EBITDA MARGIN

During the Year, EBITDA amounted to approximately RMB-43 million, as compared to that of approximately RMB791 million in the same period last year. The decrease was mainly due to the sharp decrease in gross profit. The EBITDA margin was -2.2%, as compared to 16.7% in the same period last year. The decrease was mainly attributable to a lower gross margin and a higher proportion of general and administrative expenses as well as selling expenses as compared to the same period last year.

DIVIDEND

During the Year, the Group has paid the final dividends of HK$0.06 per Share for the year ended 2008 which were declared on 14 April 2009, which amounted to HK$193 million in total. For the year ended 31 December 2009, the Directors do not recommend the payment of dividend.

SOURCE OF CAPITAL AND BORROWINGS

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

At 31 December 2009, the Group's bank borrowings amounted to approximately RMB1,298 million, representing a decrease of approximately RMB277 million as compared to 31 December 2008. Among which, borrowings repayable within one year amounted to approximately RMB1,046 million, representing a decrease of RMB515 million as compared to 31 December 2008.

DEPOSIT AND CASH FLOW

At 31 December 2009, the Group's cash and cash equivalents amounted to approximately RMB1,603 million, representing an increase of approximately RMB136 million as compared to that at 31 December 2008. During the Year, the Group's operating cash inflow amounted to approximately RMB468 million, which was mainly due to the receipt of receivables and a reduction in pledged bank deposits; cash inflow from investing activities amounted to approximately RMB186 million as a result of the decrease of bank deposits maturing over 3 months of RMB455 million; and cash outflow from financing activities amounted to approximately RMB519 million which was mainly used to repay bank loans and dividends.

ASSETS STRUCTURE AND CHANGES THEREOF

At 31 December 2009, the Group's total assets amounted to approximately RMB6,589 million, representing a decrease of RMB1,195 million as compared to that at 31 December 2008. The decrease was mainly due to repayment of loans and the decrease of accounts payables and receipts in advance. Among which, current assets amounted to approximately RMB5,380 million, which were mainly cash and cash equivalents, trade receivables and inventories, accounting for 81.7% of total assets; non-current assets amounted to approximately RMB1,209 million, accounting for approximately 18.3% of total assets.

LIABILITIES

At 31 December 2009, the Group's total liabilities amounted to approximately RMB2,325 million, representing a decrease of approximately RMB931 million as compared to 31 December 2008. Among which, current liabilities amounted to approximately RMB2,062 million, accounting for approximately 88.7% of total liabilities; non-current liabilities amounted to approximately RMB263 million, accounting for approximately 11.3% of total liabilities, the increase as compared to 31 December 2008 was due to newly medium term loan of approximately RMB238 million during the year. At 31 December 2009, the Group's gearing ratio is approximately 35.3%.

TOTAL EQUITY

At 31 December 2009, total equity amounted to RMB4,264 million, representing a decrease of RMB263 million as compared to 31 December 2008. Total equity attributable to equity shareholders of the Company amounted to approximately RMB4,169 million, representing a decrease of RMB265 million as compared to 31 December 2008. Minority interests totaled approximately to RMB95 million, representing an increase of RMB2 million as compared to 31 December 2008. Net asset value reached approximately RMB1.32 per Share. During the Year, the Group's loss per Share was approximately RMB3.95 cents.

CONTINGENT LIABILITIES AND PLEDGE

At 31 December 2009, the Group's contingent liabilities were mainly due to the disputes with 64 natural persons. According to experts in China Law, it is viewed that 64 and the original investors do not have rationale for being the Group's shareholders as they have not registered at the relevant China Government Department. Hence the Group considered that sufficient provision in legal costs in respect of the dispute has been made as at 31 December 2009.

On 29 March 2010, one (not the plaintiff of the legal proceedings) of 64 natural persons having disputes with the Group had finished the buy-out procedures. Therefore, 63 natural persons have not accepted the buy-out arrangement up to now. The number of the plaintiffs of the disputes remained 59.

At 31 December 2009, the Group has pledged bank deposits of approximately RMB31 million, representing a decrease of approximately RMB228 million as compared to 31 December 2008, which was mainly attributable to better borrowing terms won over from banks.

CAPITAL EXPENDITURE, MAJOR INVESTMENT AND CAPITAL COMMITMENTS

During the Year, capital expenditure of the Group on infrastructure and technical improvements amounted to approximately RMB198 million, representing an increase of approximately RMB43 million as compared to the same period last year. This was mainly due to the increase of approximately RMB88 million of interests in leasehold land held for own use under operating leases as compared to the same period last year.

At 31 December 2009, the Group had capital commitments of approximately RMB1,983 million, which will be used for the construction of offshore equipment production base at Qidong City, Jiangsu Province, and for the expansion of the Group's business as well as its production capacity.

FOREIGN CURRENCY RISK

The Group owns certain foreign currency deposits. At 31 December 2009, the Group's foreign currency deposits were equivalent to approximately RMB129 million, trade receivables and other receivables in foreign currency were equivalent to approximately RMB695 million. Exports and foreign currencies settled business exposed the Group to exchange risk.

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERINGS

After the reduction of the related expenses, total capital raised from the initial public offerings was approximately HK$2,958 million. In order to strengthen the Group's operation, the Group adjusted the use of proceeds in 2008, and the adjusted use of proceeds are as follows: as at 31 December 2009, proceeds of HK$1,275 million to be used for offshore project, of which HK$306 million has 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 R&D expenses, of which HK$322 million has incurred; proceeds of HK$737 million to be used and has incurred as working capital and day to day expenses.

EMPLOYEE REMUNERATION AND BENEFITS

During the Year, the average number of the Group's employees was 3,600, representing an increase of 113 persons as compared with that the same period last year. The total remuneration and benefits amounted to approximately RMB280 million, representing an increase of approximately RMB2 million as compared to the same period last year. Due to the adverse effect of the financial crisis, the Group has adjusted the floating wages accordingly; employee's individual remuneration was based on his job duties, work performance and individual capability. The Group maintains a good corporate culture and a people-oriented principle, focuses on improving team cohesion and employees' morale, and strengthens its fundamental management and building up of working procedures through steady implementation of ERP projects, so as to gradually set up a sound human resources management system which conforms to the Group's business strategy.

PURCHASE, SALE OR REDEMPTION OF COMPANY'S SECURITIES

As at 31 December 2009, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's Shares.

FINAL DIVIDEND

The Directors do not recommend the payment of dividend for the year ended 31 December 2009.

CLOSURE OF REGISTER OF MEMBERS

The Company's register of members will be closed from Friday, 14 May 2010 to Thursday, 20 May 2010, both days inclusive. In order to qualify for attending the Annual General Meeting and voting at the meeting, 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 Thursday, 13 May 2010.

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 annual results of the Group for the year ended 31 December 2009 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 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 of the Company as a whole. On the other hand, the balance between powers and duties could be ensured through the operation of the Board and the committees under it.

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 2009.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT FOR 2009

This announcement is published on both the websites of the Company (www.hh-gltd.com) and of the Stock Exchange (www.hkexnews.hk). The annual report of the Company for the year ended 31 December 2009 will be dispatched to shareholders of the Company and published on the aforesaid websites in due course.

DEFINITION

"Annual General Meeting"	:	the annual general meeting of the Company which will be held on Thursday, 20 May 2010
"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 Appendix14 to the Listing Rules
"Directors"	:	directors of the Company
"Group"	:	the Company and its subsidiaries and its jointly controlled entities
"HK$" or "HK dollars"	:	Hong Kong dollars, the lawful currency of Hong Kong
"Listing"	:	the listing of the Shares 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 and Taiwan, China
"RMB"	:	Renminbi, 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

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

Hong Kong, 13 April 2010

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.