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 2010

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		
	2010	2009 (restated)	**% change**
Revenue (RMB'000)	**1,877,931**	1,961,517	(4.3%)
Gross profit (RMB'000)	**380,478**	517,436	(26.5%)
Gross profit margin (%)	**20.3%**	26.4%	
Loss from operations (RMB'000)	**(119,803)**	(121,362)	(1.3%)
Loss attributable to equity shareholders of the Company (RMB'000)	**(184,165)**	(127,963)	43.9%
Basic and diluted loss per share (RMB cents)	**(5.71)**	(3.97)	43.8%

The Directors do not recommend the payment of dividend for the year ended 31 December 2010.

ANNUAL RESULTS

The Board hereby announces the consolidated results of the Group for the year ended 31 December 2010, together with the comparative figures for the year ended 31 December 2009 as follows:

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2010
(Expressed in Renminbi)

	Note	**2010**	2009
		RMB'000	*RMB'000*
			(restated)
Revenue	5	**1,877,931**	1,961,517
Cost of sales		**(1,497,453)**	(1,444,081)
Gross profit		**380,478**	517,436
Other operating revenue	6	**21,624**	7,085
Other operating expenses		**(3,905)**	(803)
Selling expenses		**(180,642)**	(179,980)
General and administrative expenses		**(338,756)**	(351,070)
Impairment losses recognised on trade receivables		**(1,604)**	(123,264)
Other net income	6	**3,002**	9,234
Loss from operations		**(119,803)**	(121,362)
Finance income		**23,691**	61,094
Finance expenses		**(83,132)**	(64,803)
Net finance expenses	7(a)	**(59,441)**	(3,709)
Share of profit/(loss) from jointly controlled entities		**2,801**	(4,766)
Loss before taxation		**(176,443)**	(129,837)
Income tax credit	8	**4,372**	7,126
Loss for the year		**(172,071)**	(122,711)
Attributable to:			
Equity shareholders of the Company		**(184,165)**	(127,963)
Non-controlling interests		**12,094**	5,252
Loss for the year		**(172,071)**	(122,711)
Loss per share — Basic and diluted (RMB cents)	10	**(5.71)**	(3.97)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2010
(Expressed in Renminbi)

	2010	2009
	RMB'000	*RMB'000*
		(restated)
Loss for the year	**(172,071)**	(122,711)
Other comprehensive income for the year:		
Exchange differences on translation of financial statements of operations outside the PRC	**(34,862)**	(1,318)
Total comprehensive income for the year	**(206,933)**	(124,029)
Attributable to:		
Equity shareholders of the Company	**(219,037)**	(129,281)
Non-controlling interests	**12,104**	5,252
Total comprehensive income for the year	**(206,933)**	(124,029)

CONSOLIDATED BALANCE SHEET

at 31 December 2010

(Expressed in Renminbi)

	Note	**31 December 2010** *RMB'000*	31 December 2009 *RMB'000* (restated)	1 January 2009 *RMB'000* (restated)
Non-current assets				
Fixed assets				
— Property, plant and equipment		**529,574**	414,746	375,169
— Interests in leasehold land held for own use under operating leases		**140,058**	141,829	53,461
— Freehold land		**5,339**	5,504	5,509
		674,971	562,079	434,139
Deposits paid for acquisition of leasehold land		**218,984**	209,308	90,108
Construction in progress		**77,144**	59,144	40,369
Intangible assets		**272,585**	318,859	356,216
Interests in jointly controlled entities		**41,868**	10,309	9,604
Deferred tax assets		**69,341**	49,372	16,044
Total non-current assets		**1,354,893**	1,209,071	946,480
Current assets				
Inventories	11	**1,859,897**	1,896,646	2,029,592
Trade and other receivables	12	**1,217,108**	1,246,351	2,045,069
Amounts due from related companies		**25,749**	31,096	34,018
Amount due from immediate holding company		**6**	6	8
Amount due from ultimate holding company		**6**	6	42
Current tax recoverable		**27,508**	24,393	—
Other financial assets		**473,680**	—	—
Pledged bank deposits		**29,072**	30,663	259,099
Bank deposits maturing over three months		**4,000**	542,898	998,356
Cash and cash equivalents		**1,002,727**	1,603,316	1,467,363
Total current assets		**4,639,753**	5,375,375	6,833,547
Total assets		**5,994,646**	6,584,446	7,780,027

CONSOLIDATED BALANCE SHEET

at 31 December 2010

(Expressed in Renminbi)

	Note	**31 December 2010** *RMB'000*	31 December 2009 *RMB'000* (restated)	1 January 2009 *RMB'000* (restated)
Current liabilities				
Interest-bearing borrowings		**444,000**	1,046,090	1,561,000
Amounts due to related companies		**48,206**	5,609	21,376
Trade and other payables	13	**1,209,911**	974,024	1,540,729
Current tax payable		**11,196**	20,933	77,079
Provision for product warranties		**15,738**	15,579	32,241
Total current liabilities		**1,729,051**	2,062,235	3,232,425
Net current assets		**2,910,702**	3,313,140	3,601,122
Total assets less current liabilities		**4,265,595**	4,522,211	4,547,602
Non-current liabilities				
Interest-bearing borrowings		**182,318**	252,390	14,401
Deferred tax liabilities		**12,486**	10,414	9,689
Total non-current liabilities		**194,804**	262,804	24,090
Total liabilities		**1,923,855**	2,325,039	3,256,515
Equity				
Share capital		**299,593**	299,542	299,495
Reserves		**3,663,937**	3,864,841	4,130,991
Total equity attributable to equity shareholders of the Company		**3,963,530**	4,164,383	4,430,486
Non-controlling interests		**107,261**	95,024	93,026
Total equity		**4,070,791**	4,259,407	4,523,512
Total liabilities and equity		**5,994,646**	6,584,446	7,780,027

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 2010 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

(a) New accounting policies

The IASB has issued two revised IFRSs, a number of amendments to IFRSs and one new Interpretation 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 3 (revised 2008), *Business combinations*
— Amendments to IAS 27, *Consolidated and separate financial statements*
— Improvements to IFRSs (2009)

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The developments resulted in changes in accounting policy but none of these changes in policy have a material impact on the current or comparative periods, for the following reasons:

— The impact of the majority of the revisions to IFRS 3 and IAS 27 have not yet had a material effect on the Group's financial statements as these changes will first be effective as and when the Group enters into a relevant transaction (for example, a business combination, a disposal of a subsidiary or a non-cash distribution) and there is no requirement to restate the amounts recorded in respect of previous such transactions.

— The impact of the amendments to IFRS 3 (in respect of recognition of acquiree's deferred tax assets) and IAS 27 (in respect of allocation of losses to non-controlling interests (previously known as minority interests) in excess of their equity interest) have had no material impact as there is no requirement to restate amounts recorded in previous periods and no such deferred tax assets or losses arose in the current period.

(b) Change in application of accounting policies

In previous years, the Group's inventories were carried at the lower of cost and net realisable value. The cost was calculated using the first-in first-out formula. Following the substantial business development of the Group in recent years, the Directors of the Company are of the view that it is no longer practicable for the Group to continue adopting such accounting policy whereas using the weighted average formula would result in the consolidated financial statements providing more appropriate and relevant information about the Group's results and financial position to the users of the financial statements. Consequently, the Group changed its accounting policy on inventories to follow the weighted-average formula with effect from 1 January 2010.

This change in accounting policy has been applied retrospectively with comparatives restated. The adjustments for each financial statements line item affected for the years ended 31 December 2010 and 2009 are set out below:

Consolidated income statement for the years ended 31 December

	2010	2009
	RMB'000	*RMB'000*
(Decrease)/increase in net loss		
Cost of sales	**(1,579)**	626
Loss for the year	**(1,579)**	626
Attributable to:		
— Equity shareholders of the Company	**(1,579)**	626
— Non-controlling interests	**—**	—
Basic and diluted loss per share in cents	**0.05**	(0.02)

Consolidated statement of changes in equity for the year ended 31 December

	2010	2009
	RMB'000	*RMB'000*
Decrease in total equity		
Total equity at 1 January	**(4,522)**	(3,896)
Total comprehensive income for the year	**1,579**	(626)
Total equity at 31 December	**(2,943)**	(4,522)

Consolidated balance sheet

	31 December 2010	31 December 2009	1 January 2009
	RMB'000	*RMB'000*	*RMB'000*
Decrease in net assets			
Inventories	**(2,943)**	(4,522)	(3,896)
Net current assets	**(2,943)**	(4,522)	(3,896)
Net assets	**(2,943)**	(4,522)	(3,896)
Retained profits and total equity	**(2,943)**	(4,522)	(3,896)

4. SEGMENT REPORTING

The Group manages its business by divisions, which are organised by a mixture of both business lines (drilling rigs and parts and components) and geography. 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 presented 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.

Parts and components — This segment manufactures and sells parts and components of drilling rigs.

(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 three 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 2010 and 2009 is set out below.

	Drilling rigs		Parts and components		Total	
	2010	2009	**2010**	2009	**2010**	2009
	RMB'000	*RMB'000* (restated)	***RMB'000***	*RMB'000* (restated)	***RMB'000***	*RMB'000* (restated)
Revenue from external customers	**1,455,812**	1,649,653	**422,119**	311,864	**1,877,931**	1,961,517
Inter-segment revenue	**—**	—	**648,952**	689,456	**648,952**	689,456
Reportable segment revenue	**1,455,812**	1,649,653	**1,071,071**	1,001,320	**2,526,883**	2,650,973
Reportable segment (loss)/profit	**(20,120)**	(145,843)	**36,532**	63,022	**16,412**	(82,821)
Depreciation and amortisation for the year	**69,161**	66,006	**18,827**	15,255	**87,988**	81,261
Impairment of trade and bills receivable	**—**	121,712	**1,604**	1,552	**1,604**	123,264
Write-down of inventories	**19,411**	39,597	**1,365**	5,531	**20,776**	45,128
Reportable segment assets	**2,667,836**	2,913,599	**1,442,078**	1,304,594	**4,109,914**	4,218,193
Additions to non-current segment assets during the year	**42,813**	51,118	**71,857**	47,264	**114,670**	98,382
Reportable segment liabilities	**1,060,022**	828,329	**626,991**	290,405	**1,687,013**	1,118,734

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

	2010	2009
	RMB'000	*RMB'000*
		(restated)
Loss		
Reportable segment profit/(loss)	**16,412**	(82,821)
Elimination of inter-segment profits	**(103,343)**	(163,751)
Reportable segment loss derived from Group's external customers	**(86,931)**	(246,572)
Share of profit/(loss) from jointly controlled entities	**2,801**	(4,766)
Other operating revenue, expenses and net income	**20,721**	15,516
Net finance expenses	**(59,441)**	(3,709)
Unallocated head office and corporate (expenses)/income	**(53,593)**	109,694
Consolidated loss before taxation	**(176,443)**	(129,837)
Assets		
Reportable segment assets	**4,109,914**	4,218,193
Elimination of inter-segment receivables	**(476,144)**	(203,810)
	3,633,770	4,014,383
Interests in jointly controlled entities	**41,868**	10,309
Current tax recoverable	**27,508**	24,393
Deferred tax assets	**69,341**	49,372
Unallocated head office and corporate assets	**2,222,159**	2,485,989
Consolidated total assets	**5,994,646**	6,584,446
Liabilities		
Reportable segment liabilities	**1,687,013**	1,118,734
Elimination of inter-segment payables	**(476,144)**	(203,810)
	1,210,869	914,924
Current tax payable	**11,196**	20,933
Deferred tax liabilities	**12,486**	10,414
Unallocated head office and corporate liabilities	**689,304**	1,378,768
Consolidated total liabilities	**1,923,855**	2,325,039

(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	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
PRC	**289,098**	250,454	**1,185,981**	1,111,162
North America	**357,907**	205,109	**49,716**	36,824
Middle East	**330,925**	777,590	**6,518**	1,330
Europe and Central Asia	**550,283**	676,323	**1,422**	19
South Asia and South East Asia	**316,603**	37,759	**—**	—
Others	**33,115**	14,282	**41,915**	10,364
	1,877,931	1,961,517	**1,285,552**	1,159,699

5. REVENUE

The principal activities of the Group are 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.

Further details regarding the Group's principal activities are disclosed in note 4 to the financial statements.

6. OTHER OPERATING REVENUE AND OTHER NET INCOME

	2010	2009
	RMB'000	*RMB'000*
Other operating revenue		
Rendering of repairing services	**15,607**	5,439
Commission	**—**	147
Sale of scrap materials	**5,288**	350
Others	**729**	1,149
	21,624	7,085
Other net income		
Government grants	**8,276**	16,727
Loss on disposals of fixed assets	**(181)**	(990)
Others	**(5,093)**	(6,503)
	3,002	9,234

7. LOSS BEFORE TAXATION

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

(a) Net finance expenses

	2010	2009
	RMB'000	*RMB'000*
Exchange loss/(gain), net	**42,801**	(24,371)
Interest income	**(17,208)**	(36,664)
Interest income on available-for-sale investments	**(6,483)**	(59)
Interest on interest-bearing borrowings wholly repayable within five years	**47,750**	65,543
Bank charges	**3,585**	5,604
	70,445	10,053
Less: interest expense capitalised into assets under construction *	**(11,004)**	(6,344)
	59,441	3,709

* The borrowing costs have been capitalised at a rate of 2.35%–7.06% per annum (2009: 2.55%–8.25%).

(b) Staff costs

	2010	2009
	RMB'000	*RMB'000*
Contributions to defined contribution retirement schemes	**35,997**	34,508
Equity-settled share based payment expenses	**17,574**	34,803
Salaries, wages and other benefits	**271,125**	210,328
	324,696	279,639

(c) Other items

	2010	2009
	RMB'000	*RMB'000*
Amortisation and depreciation		
— leasehold land held for use under operating leases	**1,771**	1,394
— other assets	**51,498**	44,163
— intangible assets	**36,407**	36,821
Auditors' remuneration	**3,538**	3,494
Operating lease charges: properties	**9,293**	5,628
Research and development costs *	**46,363**	36,094

* 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

(a) Taxation in the consolidated income statement represents:

	2010	2009
	RMB'000	*RMB'000*
Current tax — outside Hong Kong		
Provision for the year	**12,801**	29,668
Under/(over)-provision in respect of prior years	**596**	(2,044)
Tax credit	**—**	(2,152)
Sub-total	**13,397**	25,472
Deferred tax		
Origination and reversal of temporary differences	**(11,972)**	(29,558)
Under-provision of deferred tax assets in respect of prior years	**(5,797)**	(3,040)
Sub-total	**(17,769)**	(32,598)
Income tax credit	**(4,372)**	(7,126)

(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 (2009: 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 2010 (2009: 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. Therefore all income earned for the year ended 31 December 2010 are subject to an income tax rate of 12.5% (2009: 12.5%).

(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, dividends receivable by non-PRC resident enterprises from PRC resident enterprises on earnings earned since 1 January 2008 are subject to withholding tax at a rate of 10%. Pursuant to a tax treaty between the PRC and Hong Kong, a qualified Hong Kong tax resident which is the "beneficial owner" and holds 25% or more of the equity interest of a PRC resident enterprise is entitled to a reduced withholding tax rate of 5%. 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 previous financial year, approved and paid during the year:

	2010	2009
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of HK$Nil per share (2009: HK$0.06 per share)	**—**	170,371

No dividends payable to equity shareholders of the Company attributable to the year are recommended (2009: HK$Nil per share).

10. LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to ordinary equity shareholders of the Company of RMB184,165,000 (2009: RMB127,963,000) and the weighted average number of 3,223,790,744 (2009: 3,222,697,730) ordinary shares in issue during the year.

Diluted loss per share equals the basic loss per share for the years ended 31 December 2010 and 2009 because the exercise of share options would result in a decrease in the loss per share.

11. INVENTORIES

(a) Inventories in the balance sheet comprise:

		The Group	
	31 December 2010	31 December 2009	1 January 2009
	RMB'000	*RMB'000* (restated)	*RMB'000* (restated)
Raw materials	**826,226**	826,213	909,614
Work in progress	**606,555**	536,948	503,697
Finished goods	**422,624**	529,288	570,555
Goods in transit	**4,492**	4,197	45,726
	1,859,897	1,896,646	2,029,592

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

	The Group	
	2010	2009
	RMB'000	*RMB'000*
		(restated)
Carrying amount of inventories sold	**1,450,084**	1,388,716
Write-down of inventories	**20,776**	45,128
	1,470,860	1,433,844

12. TRADE AND OTHER RECEIVABLES

	The Group	
	2010	2009
	RMB'000	*RMB'000*
Trade receivables	**1,018,668**	901,707
Bills receivable	**4,000**	2,200
Less: Allowance for doubtful debts	**(126,273)**	(124,669)
Sub-total	**896,395**	779,238
Value-added tax recoverable	**102,348**	191,450
Prepayments	**125,406**	154,884
Other receivables	**92,959**	120,779
	1,217,108	1,246,351

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	
	2010	2009
	RMB'000	*RMB'000*
Current	**704,274**	306,830
Less than 1 month past due	**7,407**	24,970
No less than 1 month but less than 3 months past due	**16,707**	60,121
No less than 3 months but less than 12 months past due	**40,132**	136,445
No less than 1 year past due	**127,875**	250,872
	896,395	779,238

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 losses in respect of trade receivables and bills receivable are 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	
	2010	2009
	RMB'000	*RMB'000*
At 1 January	**124,669**	1,405
Provision for impairment losses	**1,604**	123,264
At 31 December	**126,273**	124,669

The individually impaired receivables relate to customers that are in financial difficulties and management assesses the recoverability is doubtful but not 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	
	2010	2009
	RMB'000	*RMB'000*
Trade payables	**492,616**	413,060
Bills payable	**181,425**	104,442
Receipts in advance	**399,612**	316,444
Other payables	**136,258**	140,078
	1,209,911	974,024

Bills payable as at 31 December 2009 and 2010 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 trade and bills payable based on the invoice date it as follows:

	The Group	
	2010	2009
	RMB'000	*RMB'000*
Within 3 months	**373,363**	235,754
3 months to 6 months	**138,841**	98,020
6 months to 1 year	**39,751**	51,061
Over 1 year	**122,086**	132,667
	674,041	517,502

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

As the global economy gradually recovered, global oil supply and demand in 2010 increased. Global oil supply amounted to 4,054 million tons, representing a mild rise of 1.98% as compared with that of Last Year. Meanwhile, the international oil prices increased amid volatility due to the adverse effects caused by the U.S. government's monetary policy of quantitative easing, the oil spill in the Gulf of Mexico, unstable oil production in major oil producing areas, as well as wide fluctuations in the inventory of the U.S. crude oil. On the other hand, despite the continually low natural gas prices during the Year, the production and consumption of natural gas recorded a remarkable increase as compared with 2009. In the U.S., shale gas accounted for 14% of the total production volume of natural gas during 2010. The increasing production volume and mature exploration technologies of shale gas in the U.S. further accelerated the exploration of shale gas in China as well as other parts of the world. Despite the steady recovery of the global energy market, the recovery pace of the traditional U.S. and European economies was rather slow. The recovery of major drilling equipment markets like Russia and the U.S. were suppressed and the market condition of the global drilling equipment was not very optimistic.

According to Schlumberger research, global drilling activities showed a slight upward trend during the Year. As at the end of 2010, the number of active drilling rigs worldwide was 5,238 units, representing an increase of approximately 18% as compared with that at the beginning of the Year. However, the new demand in land drilling rigs was still limited as clients were still assimilating the idle rigs purchased during 2007 and 2008. Undoubtedly, the oil spill in the Gulf of Mexico which occurred Last Year brought adverse impacts to global offshore drilling activities. However, the demand for new equipment and replacement of old ones still reflected the development potential of the offshore equipment industry.

Business Review

During the Year, under the current depressed market state, the Group strived to strengthen its core business and proactively implemented strategic changes, so as to be prepared for the recovery of the industry. Based on the development trend of the industry, the Group proactively promoted the progress in its offshore project and oil and gas engineering services segments. The Group was also engaged in the preliminary researches and preparation for the shale gas exploration related product designs, so as to facilitate the diversified and sustainable business development of the Group.

During the Year, the Group gradually completed the fine-tuning of its business segments. Regarding the segment of land drilling equipment, the construction of the new specialised motor plant was completed and put into operation. The assembly and maintenance centre in Dubai was under construction, while the parts distribution center in Russia began operations. At the same time, the U.S. assembly base obtained the relevant API quality control certification and has begun to accept assembly and refurbishment contracts for U.S. clients. As regards to the oil and gas engineering services segment, the Group made great progress by entering into an agreement worth US$10 million for oil and gas engineering services. For the offshore equipment segment, the construction and investment of the Group's manufacturing base progressed smoothly. Meanwhile, approval documents related to the offshore project have been obtained from government departments and recently submitted to the Development and Reform Commission of Jiangsu for approval. Subsequent to the approval, the construction of production facilities will commence cautiously.

R&D and Sales of Products

In recent years, the Group has successfully designed a series of new products and conducted trial production, including the motor direct drive pumps and direct top drives. These high performance products have entered the market and realised sales. The new generation of quintuple direct motor-driven pumps will also be launched in the market soon. In addition, the Group also conducted production trial and testing of new coiled tubing rigs, and propelled the design and trial production of super single pipe rigs and new rack and pinion rigs. Regarding the offshore equipment segment, the initial design of the first "Honghua No.1" jack-up rig has been completed and approved by the American Bureau of Shipping ("ABS"). During the Year, the Group had 69 new patent applications and 25 of them were new inventions. The Group anticipates that the above mentioned research projects will provide important sources of income in the future. Accumulatively, the Group has filed 112 patent applications to the Chinese State Intellectual Property Office.

Leveraging on its strong research and development ability and rich manufacturing experience, the Group further penetrated the land drilling rig market, consolidated its client base through various means and enhanced its brand recognition during the Year. In August 2010, the Group held a new product launch and promoted a series of new products, successfully attracting domestic and foreign clients and obtained significant sales agreement from Russian client in November 2010.

Financial Management and Quality Control

The Group implemented strict cost control measures during the Year to ensure its solid financial position. Furthermore, there was improvement in the turnover period of the Group's receivables and inventories as compared with Last Year. The Group also maintained cordial relations with the vendors. Affected by expected factors such as appreciation of the RMB and inflation, the Group has been implementing stricter cost control measures gradually in order to assure the Group's business development and competitiveness in the market.

The Group strictly followed the requirements of APIQ1 8th Edition and ISO9001. It constantly modified and optimised the quality control system to cover various control and testing procedures ranging from raw material procurement, production to final product testing. Besides, the Group strived to reinforce process optimisation, to maximise utilisation of raw materials as well as to reduce problems in product shipment through working skill competitions and on-job trainings, in order to increase production efficiency and gain more customer satisfaction. During the Year, the Group also obtained the title of "Chinese Famous Trademark" awarded by the Trademark Office of the State Administration for Industry & Commerce of the PRC, which provided a solid foundation for the Group's sustained and in-depth business development.

Prospects

With the irreplaceable position of oil and natural gas in the global energy structure, and the growing demand and difficulties in exploration, it is anticipated that capital expenditure on oil and gas exploration and production will continue to rise steadily in the foreseeable future. The related oil and gas equipment industry will step out of the cyclical downturn and return to the path of expansion. In addition, countries around the world will certainly put more efforts in exploration of clean energy such as shale gas, which is expected to create enormous business opportunities for the oil and gas equipment industry in the future.

In the short-term, although oil prices are increasing, the traditional U.S. and European economies are expected to recover at a slower pace and global inflation promotes emerging economies to adopt tightening policies. The macro economic circumstances in 2011 will still be faced with various uncertainties and great challenges. Therefore, the Group takes a cautious view towards its business prospects in 2011. The Group will continue to promote new economical rigs and extend sales of parts and components to strengthen its land drilling equipment business. Moreover, the Group will be constantly engaged in the design of offshore drilling equipment and construction of the offshore manufacturing base, so as to be well-positioned in capturing opportunities brought by the development in the global offshore drilling market. Furthermore, the Group will gradually promote development in its oil and gas engineering services business. The Group will also gradually design a series of unconventional gas exploration related products, and proactively search for potential resources exploration projects, so as to fulfill the Group's long-term steady development strategy.

In spite of the challenges posed by the unstable market circumstances and keen competition within the industry, leveraging on continual development and gaining of experience, the Group is confident in the gradual transformation into a progressive integrated enterprise with equipment production as its core business and resources exploration and engineering services as supporting businesses within the energy industry.

FINANCIAL REVIEW

During the Year, the Group's gross profit and loss attributable to shareholders amounted to approximately RMB380 million and approximately RMB184 million respectively, as compared with a gross profit and loss attributable to shareholders of approximately RMB517 million and RMB128 million respectively Last Year. Gross margin and net loss margin amounted to 20.3% and 9.8% respectively. During the Year, the decrease in gross profit and increase in loss attributable to shareholders were mainly due to the adverse effects brought by the suspension of the Zhenhua Project, the fact that new businesses of the Group have yet to become profitable, the appreciation of RMB, increasing labor and raw material costs as well as homogeneous market competition.

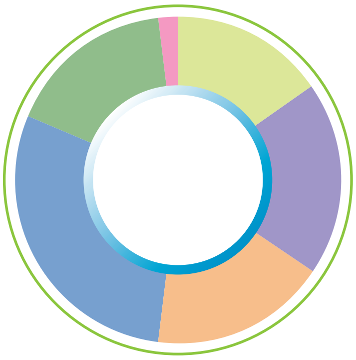
Revenue

During the Year, the Group's revenue amounted to approximately RMB1,878 million, representing a decrease of 4.3% as compared with approximately RMB1,962 million Last Year. The decrease was mainly attributable to decreased demand for land drilling rigs. The number of drilling rigs sold decreased from 40 units in 2009 to 23 units during the Year.

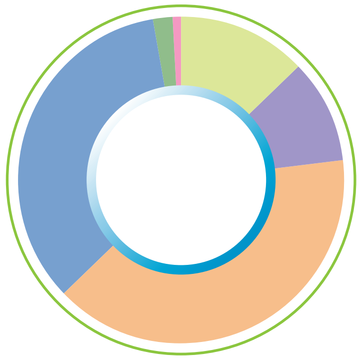
During the Year, revenue by geographical areas were as follows: revenue from exports amounted to approximately RMB1,589 million, accounting for approximately 84.6% of the Group's total revenue, representing a decrease of approximately RMB122 million as compared with that of Last Year. Among which, the revenue from the Middle-Eastern market recorded a marked decrease. Sales volume decreased from 13 units Last Year to 3 units during the Year. Sales volume from the European and Central Asian market also dropped from 16 units Last Year to 8 units during the Year, while the average selling price increased 23.3% as compared with that of Last Year due to higher configuration requirements. The Group proactively penetrated the markets in North America, South Asia and South East Asia and other regions. Sales in these markets recorded a relatively high growth as compared with that of Last Year. The sales in the PRC market also recorded a growth as compared with that of Last Year.

Revenue by Geographical Areas

Revenue in 2010



Revenue in 2009



By Product Category	**For the year ended 31 December 2010**			For the year ended 31 December 2009			**2010 VS. 2009**	
	Revenue ***RMB'000***	**Proportion** ***(%)***	**Quantity** ***(Unit)***	Revenue *RMB'000*	Proportion *(%)*	Quantity *(Unit)*	**Change** ***RMB'000***	**Change** ***(%)***
Digitally-controlled Rigs	**1,300,345**	**69.2%**	**21**	1,366,821	69.7%	31	(66,476)	(4.9%)
Conventional Rigs	**155,467**	**8.3%**	**2**	282,832	14.4%	9	(127,365)	(45.0%)
Subtotal	**1,455,812**	**77.5%**	**23**	1,649,653	84.1%	40	(193,841)	(11.8%)
Mud Pumps	**110,841**	**5.9%**	**100**	123,403	6.3%	117	(12,562)	(10.2%)
Other Parts and Components	**311,278**	**16.6%**		188,461	9.6%		122,817	65.2%
Subtotal	**422,119**	**22.5%**	**100**	311,864	15.9%	117	110,255	35.4%
Total	**1,877,931**	**100.0%**		1,961,517	100.0%		(83,586)	(4.3%)

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

During the Year, revenue from drilling rigs and parts and components were RMB1,456 million and RMB422 million respectively, representing a decrease of 11.8% and increase of 35.4% respectively as compared with RMB1,650 million and RMB312 million Last Year.

Drilling rigs comprise of digitally-controlled land rigs and conventional land rigs, sales of which amounted to RMB1,300 million and RMB155 million respectively. The decrease in revenue from drilling rigs was mainly due to the decrease in sales volume of drilling rigs from 40 units Last Year to 23 units during the Year.

The increase in revenue from parts and components was mainly due to the shift of customers' demand from drilling rigs to demand for replacement of parts and components. Among which, revenue from sales of train-skidding system amounted to approximately RMB65 million. The modification of rigs contributed to revenue of approximately RMB21 million. The sales volume of mud pumps decreased from 117 units Last Year to 100 units during the Year, while the average selling price increased from RMB1.05 million Last Year to RMB1.11 million during the Year.

Cost of Sales

During the Year, the Group's cost of sales was approximately RMB1,497 million, as compared to RMB1,444 million in the corresponding period Last Year.

Gross Profit and Gross Margin

During the Year, the Group recorded a gross profit of approximately RMB380 million, representing a decrease of 26.5% or RMB137 million as compared with that of Last Year. Gross profit from drilling rigs amounted to RMB280 million, representing a decrease of 34.8% as compared with that of Last Year. Gross profit from digitally-controlled rigs and conventional rigs were RMB246 million and RMB34 million respectively, representing a respective decrease of 30.0% and 56.5% as compared with that of Last Year. Gross profit from parts and components amounted to approximately RMB100 million, representing an increase of 14.2% as compared with that of Last Year.

During the Year, the Group's overall gross margin was 20.3%, representing a decrease of 6.1 percentage points as compared with that of Last Year. The decrease was mainly due to the adverse effects caused by the appreciation of RMB and homogeneous market competition during the Year.

Other Net Operating Revenue and Other Net Income

During the Year, the Group's other net operating revenue amounted to approximately RMB17.72 million, as compared with that of approximately RMB6.28 million Last Year. The increase was mainly due to increase in service income. Other net income amounted to RMB3.00 million, as compared with that of RMB9.23 million Last Year. The decrease was mainly due to the decrease of subsidy income.

Expenses in the Year

During the Year, the Group's selling expenses amounted to approximately RMB181 million, relatively consistent with RMB180 million Last Year. The selling expenses ratio was 9.6%, which was about the same as Last Year.

During the Year, the Group's administrative expenses amounted to approximately RMB339 million, representing a decrease of 3.4% or RMB12 million as compared with RMB351 million Last Year. The decrease was mainly due to a compensation expense of approximately RMB33 million Last Year, while no such expense was recorded during the Year. The administrative expense over revenue was 18.0%, which was about the same as Last Year.

During the Year, the Group's net finance expenses amounted approximately RMB59 million, as compared with that of RMB4 million Last Year. The significant increase was mainly attributable to the decrease of 0.9% and 5.8% in the average exchange rate of the US dollars and Euro against RMB respectively as compared with that of Last Year. The net exchange loss of the Group was approximately RMB43 million, as compared with a net exchange gain of RMB24 million Last Year.

Share of Profit/Loss from Jointly Controlled Entities

During the Year, the Group's share of profit from jointly controlled entities amounted to approximately RMB3 million, as compared with a loss of RMB5 million Last Year, which was mainly due to enhancement in the business of Egyptian Petroleum HH Rigs Manufacturing Shareholder Co. S.A.E. during the Year.

Loss before Taxation

During the Year, loss before taxation of the Group amounted to approximately RMB176 million, as compared with that of approximately RMB130 million Last Year. The loss was mainly due to a decrease in gross profit.

Income Tax Credit

During the Year, the Group's income tax credit amounted to approximately RMB4 million, as compared with that of approximately RMB7 million Last Year. This was mainly due to the Group's loss before taxation. In addition, the equity-settled share based payment expenses of RMB18 million (2009: RMB35 million) and amortisation expenses of intangible assets amounted to RMB36 million (2009: RMB37 million) were not deducted from income tax calculation during the Year.

Loss for the Year

During the Year, the Group's loss amounted to approximately RMB172 million, as compared with that of approximately RMB123 million Last Year. Among which, loss attributable to equity shareholders of the Company was approximately RMB184 million, while earnings attributable to non-controlling interests was approximately RMB12 million. Net loss margin during the Year amounted to approximately 9.8%, as compared with that of 6.5% Last Year. This was mainly attributable to the decrease in gross margin as compared with that of Last Year and losses arising from foreign exchange.

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

During the Year, EBITDA amounted to a loss of approximately RMB27 million, as compared with that of RMB44 million Last Year. The loss was mainly due to the significant decrease in gross profit. The EBITDA margin was -1.5%, as compared with that of -2.2% Last Year.

Dividend

For the year ended 31 December 2010, 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 2010, the Group's bank borrowings amounted to approximately RMB626 million, representing a decrease of RMB672 million as compared with that at 31 December 2009. Among which, borrowings repayable within one year amounted to approximately RMB444 million, representing a decrease of RMB602 million as compared with that at 31 December 2009.

Deposit and Cash Flow

At 31 December 2010, the Group's cash and cash equivalents amounted to approximately RMB1,003 million, representing a decrease of approximately RMB601 million as compared with that at 31 December 2009. During the Year, the Group's operating cash inflow amounted to approximately RMB218 million, which was mainly due to the improvement in receivables; cash outflow from investing activities amounted to approximately RMB90 million, which was mainly for the investment in fixed assets and construction in progress; and cash outflow from financing activities amounted approximately RMB718 million, which was mainly used to repay bank loans and related interests.

Assets Structure and Changes Thereof

At 31 December 2010, the Group's total assets amounted to approximately RMB5,995 million, representing a decrease of RMB590 million as compared with that at 31 December 2009. The decrease was mainly due to the repayment of loans. Among which, current assets amounted to approximately RMB4,640 million, which were mainly cash and cash equivalents, trade receivables and inventories, accounting for 77.4% of the total assets; non-current assets amounted to approximately RMB1,355 million, accounting for approximately 22.6% of the total assets.

Liabilities

At 31 December 2010, the Group's total liabilities amounted to approximately RMB1,924 million, representing a decrease of approximately RMB401 million as compared with that at 31 December 2009. Among which, current liabilities amounted to approximately RMB1,729 million, accounting for approximately 89.9% of the total liabilities; non-current liabilities amounted to approximately RMB195 million, accounting for approximately 10.1% of the total liabilities. At 31 December 2010, the Group's gearing ratio was approximately 32.1%.

Total Equity

At 31 December 2010, the total equity amounted to RMB4,071 million, representing a decrease of RMB189 million as compared with that at 31 December 2009. Total equity attributable to equity shareholders of the Company amounted to approximately RMB3,964 million, representing a decrease of RMB201 million as compared with that at 31 December 2009. Non-controlling interests amounted to approximately RMB107 million, representing an increase of RMB12 million as compared with that at 31 December 2009. Net asset value reached approximately RMB1.23 per Share. During the Year, the Group's loss per Share was approximately RMB5.71 cents.

Contingent Liabilities and Pledge

At 31 December 2010, the Group's contingent liabilities were mainly caused by the dispute with 64 natural persons. The Group consulted its PRC legal advisers and considered that the current 64 natural persons and the original investors were not registered as shareholders of Honghua Company with the competent PRC government authority. In accordance with the law of the PRC, they did not have any legitimate ground for being regarded as shareholders of Honghua Company. Therefore, the Group believed that there was no need to make provision for the related legal costs.

The Group has pledged bank deposits of approximately RMB29 million, representing a decrease of approximately RMB2 million as compared with that at 31 December 2009.

Capital Expenditure, Major Investment and Capital Commitments

During the Year, capital expenditure of the Group on infrastructure and technical improvements amounted to approximately RMB186 million, representing a decrease of approximately RMB12 million as compared with that of Last Year. This was mainly due to the launch of infrastructure construction for the offshore project.

At 31 December 2010, the Group had capital commitments of approximately RMB1,911 million, which will be used for the construction of Jiangsu Qidong offshore manufacturing base.

Foreign Currency Risk

The Group owns certain foreign currency deposits. At 31 December 2010, the Group's foreign currency deposits were equivalent to approximately RMB151 million, trade receivables and other receivables in foreign currency were equivalent to approximately RMB835 million. Exports and foreign currencies settled business exposed the Group to exchange risk.

Use of Proceeds from the Initial Public Offerings

After the deduction of 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 parts of the proceeds. As at 31 December 2010, the adjusted use of proceeds are as follows: proceeds of HK$975 million to be used for the offshore project, of which HK$403 million has been incurred; proceeds of HK$592 million to be used for the enlargement of oil and gas explorations, provision of products and services, oil and gas engineering services and oil and gas resources exploration, as well as other businesses which can create profitability for the Group, none has been incurred; proceeds of HK$354 million to be used for production capacity expansion and R&D expenses, of which HK$354 million has been incurred; proceeds of HK$1,037 million to be used as working capital and day to day expenses, of which HK$837 million has been incurred.

Employee Remuneration and Benefits

During the Year, the average number of the Group's employees was 3,654. The total remuneration and benefits amounted to approximately RMB325 million. The Group's remuneration policy takes into account the employee role structure, and the Group offered remuneration based on their job duties and individual capability in order to establish a competitive and fair remuneration system. Meanwhile, the Group also emphasised on team work and individual work performance, as well as clearly established rewards and penalties. Every member of the Group is part of its development, and shares the economic benefits brought by it. The Group strives to maintain a fair remuneration and benefits system, so as to achieve its goals and promote its teams to improve performance, and enhance the working ability, job satisfaction and sense of accomplishment of its employees.

Purchase, Sale or Redemption of Company's Listed Securities

As at 31 December 2010, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's Shares.

Closure of Register of Members

The Company's register of members will be closed from Thursday, 2 June 2011 to Wednesday, 8 June 2011, 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 Wednesday, 1 June 2011.

Audit Committee

The Audit Committee comprises of 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 the annual results of the Group for the year ended 31 December 2010 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. 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 execution of 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 2010.

Publication of Annual Results Announcement and Annual Report for 2010

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 2010 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 Wednesday, 8 June 2011
"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
"During the Year"	:	For the year ended 31 December 2010
"Group"	:	the Company and its subsidiaries and its jointly controlled entities
"HK$" or "HK dollars"	:	Hong Kong dollars, the lawful currency of Hong Kong
"Last Year"	:	For the year ended 31 December 2009
"Listing"	:	the listing of the Shares on the Stock Exchange
"Listing Date"	:	the date on which dealing in the Shares first commenced 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
"US$"	:	United States dollars, the lawful currency of the United States of America

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

Hong Kong, 29 March 2011

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. Huang Dongyang and Mr. Siegfried Meissner as Non-executive Directors, and Mr. Chen Guoming, Mr. Tai Kwok Leung, Alexander, Mr. Liu Xiaofeng, Mr. Qi Daqing, Mr. Wang Li and Mr. Shi Xingquan as Independent Non-executive Directors.