宏 華 集 團 有 限 公 司

Honghua Group Limited

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

(Stock code: 0196)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2013

FINANCIAL HIGHLIGHT

	Six months ended 30 June		
	2013	2012	% change
	(Unaudited)	(Unaudited)	
Turnover (RMB'000)	**2,486,357**	1,969,330	26.3%
Gross profit (RMB'000)	**799,823**	741,030	7.9%
Gross margin (%)	**32.2%**	37.6%	
Profit from operations (RMB'000)	**359,778**	269,335	33.6%
Earnings attributable to equity shareholders of the Company (RMB'000)	**239,346**	209,660	14.2%
Earnings per Share – Basic (RMB cents)	**7.549**	6.530	15.6%
Earnings per Share – Diluted (RMB cents)	**7.439**	6.527	14.0%

The Board does not recommend payment of interim dividend for the six months ended 30 June 2013.

INTERIM RESULTS

The Board of the Company is pleased to announce the unaudited interim financial results of the Group for the six months ended 30 June 2013, together with the comparative figures for the corresponding period in 2012.

The interim financial report for the six months ended 30 June 2013 is unaudited, but has been reviewed by KPMG, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of interim financial information performed by the independent auditor of the entity", issued by the Hong Kong Institute of Certified Public Accountants whose unmodified review report is included in the interim financial report to be sent to shareholders of the Company.

These interim results have also been reviewed by the Audit Committee, comprising solely the independent non-executive Directors, one of whom chairs the Audit Committee.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the six months ended 30 June 2013 – unaudited

(Expressed in Renminbi)

		Six months ended 30 June	
		2013	2012
	Note	***RMB'000***	*RMB'000*
Turnover	*3*	**2,486,357**	1,969,330
Cost of sales		**(1,686,534)**	(1,228,300)
Gross profit		**799,823**	741,030
Other revenue	*5*	**38,764**	15,945
Other net income		**2,482**	2,098
Selling expenses		**(246,911)**	(243,608)
General and administrative expenses		**(229,717)**	(208,783)
Other operating expenses		**(4,663)**	(37,347)
Profit from operations		**359,778**	269,335
Finance income		**23,397**	33,481
Finance expenses		**(72,539)**	(22,995)
Net finance (expenses)/income	*6(a)*	**(49,142)**	10,486

CONSOLIDATED STATEMENT OF PROFIT OR LOSS *(continued)*
for the six months ended 30 June 2013 – unaudited
(Expressed in Renminbi)

		Six months ended 30 June	
		2013	2012
	Note	***RMB'000***	*RMB'000*
Share of profit from an associate		**–**	4,484
Share of loss from joint ventures		**(4,537)**	(6,146)
Profit before taxation	*6*	**306,099**	278,159
Income tax expenses	*7*	**(49,753)**	(62,149)
Profit for the Period		**256,346**	216,010
Attributable to:			
Equity shareholders of the Company		**239,346**	209,660
Non-controlling interests		**17,000**	6,350
Profit for the Period		**256,346**	216,010
Earnings per Share (RMB cents)			
– Basic	*8(a)*	**7.549**	6.530
– Diluted	*8(b)*	**7.439**	6.527

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2013 – unaudited
(Expressed in Renminbi)

	Six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
Profit for the Period	**256,346**	216,010
Other comprehensive income for the Period:		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of operations outside PRC, net of tax	**(26,637)**	(4,307)
Total comprehensive income for the Period	**229,709**	211,703
Attributable to:		
Equity shareholders of the Company	**212,580**	205,358
Non-controlling interests	**17,129**	6,345
Total comprehensive income for the Period	**229,709**	211,703

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2013 – unaudited

(Expressed in Renminbi)

	Note	30 June 2013 RMB'000	31 December 2012 RMB'000
Non-current assets			
Fixed assets	*9*		
– Property, plant and equipment		**1,798,919**	1,142,122
– Interests in leasehold land held for own use under operating leases		**319,089**	303,410
– Freehold land		**4,982**	5,068
		2,122,990	1,450,600
Deposits paid for acquisition of leasehold land		**179,784**	152,006
Construction in progress		**597,191**	827,290
Intangible assets	*10*	**218,811**	201,806
Goodwill	*4*	**13,484**	–
Interests in joint ventures		**51,414**	57,181
Other investment		**72,609**	72,609
Trade and other receivables	*12*	**374,384**	370,002
Deferred tax assets		**116,182**	96,407
Total non-current assets		**3,746,849**	3,227,901
Current assets			
Inventories	*11*	**4,033,676**	2,730,940
Trade and other receivables	*12*	**2,877,954**	2,105,804
Amounts due from related companies		**54,255**	55,970
Current tax recoverable		**5,846**	1,502
Other financial assets		**207,900**	315,036
Pledged bank deposits		**471,718**	424,592
Cash and cash equivalents		**1,238,684**	984,131
Total current assets		**8,890,033**	6,617,975

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*
at 30 June 2013 – unaudited
(Expressed in Renminbi)

	Note	**30 June 2013** *RMB'000*	31 December 2012 *RMB'000*
Current liabilities			
Interest-bearing borrowings		**3,096,629**	1,245,505
Trade and other payables	*13*	**3,738,972**	3,112,337
Amounts due to related companies		**17,008**	5,593
Current tax payable		**29,804**	96,311
Provisions		**52,224**	57,732
Total current liabilities		**6,934,637**	4,517,478
Net current assets		**1,955,396**	2,100,497
Total assets less current liabilities		**5,702,245**	5,328,398
Non-current liabilities			
Interest-bearing borrowings		**1,035,744**	737,514
Deferred tax liabilities		**36,241**	2,157
Total non-current liabilities		**1,071,985**	739,671
Net Assets		**4,630,260**	4,588,727
Equity			
Share capital		**300,777**	300,192
Reserves		**4,148,710**	4,155,819
Total equity attributable to equity shareholders of the Company		**4,449,487**	4,456,011
Non-controlling interests		**180,773**	132,716
Total Equity		**4,630,260**	4,588,727

1. BASIS OF PREPARATION

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard ("IAS") 34, Interim financial reporting, adopted by the International Accounting Standards Board ("IASB"). It was authorised for issuance on 28 August 2013.

The interim financial report has been prepared in accordance with the same accounting policies adopted by the Group in the 2012 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2013 annual financial statements. Details of these changes in accounting policies are set out in note 2.

2. CHANGES IN ACCOUNTING POLICIES

The IASB has issued a number of new International Financial Reporting Standards ("IFRSs") and amendments to IFRSs 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:

– Amendments to IAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*

– IFRS 10, *Consolidated financial statements*

– IFRS 11, *Joint arrangements*

– IFRS 12, *Disclosure of interests in other entities*

– IFRS 13, *Fair value measurement*

– Amendments to IFRS 7 – *Disclosures – Offsetting financial assets and financial liabilities*

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

Amendments to IAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*

The amendments to IAS 1 require entities to present the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met separately from those that would never be reclassified to profit or loss. The Group's presentation of other comprehensive income in these financial statements has been modified accordingly.

IFRS 10, *Consolidated financial statements*

IFRS 10 replaces the requirements in IAS 27, *Consolidated and separate financial statements* relating to the preparation of consolidated financial statements and SIC 12 Consolidation – Special purpose entities. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

As a result of the adoption of IFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

IFRS 11, *Joint arrangements*

IFRS 11, which replaces IAS 31, *Interests in joint ventures*, divides joint arrangements into joint operations and joint ventures. Entities are required to determine the type of an arrangement by considering the structure, legal form, contractual terms and other facts and circumstances relevant to their rights and obligations under the arrangement. Joint arrangements which are classified as joint operations under IFRS 11 are recognised on a line-by-line basis to the extent of the joint operator's interest in the joint operation. All other joint arrangements are classified as joint ventures under IFRS 11 and are required to be accounted for using the equity method in the Group's consolidated financial statements. Proportionate consolidation is no longer allowed as an accounting policy choice.

As a result of the adoption of IFRS 11, the Group has reclassified the investment from jointly controlled entity to joint venture. The investment continues to be accounted for using the equity method and therefore this reclassification does not have any material impact on the financial position and the financial result of the Group.

IFRS 12, *Disclosure of interests in other entities*

IFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by IFRS 12 are generally more extensive than those previously required by the respective standards. Since those disclosure requirements only apply to a full set of financial statements, the Group has not made additional disclosures in this interim financial report as a result of adopting IFRS 12.

IFRS 13, *Fair value measurement*

IFRS 13 replaces existing guidance in individual IFRSs with a single source of fair value measurement guidance. IFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. The adoption of IFRS 13 does not have any material impact on the fair value measurements of the Group's assets and liabilities.

Amendments to IFRS 7 – *Disclosures – Offsetting financial assets and financial liabilities*

The amendments introduce new disclosures in respect of offsetting financial assets and financial liabilities. Those new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32, *Financial instruments: Presentation* and those that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether the financial instruments are set off in accordance with IAS 32.

The adoption of the amendments does not have an impact on the Group's interim financial report because the Group has not offset financial instruments, nor has it entered into master netting arrangement or similar agreement which is subject to the disclosures of IFRS 7.

3. TURNOVER AND SEGMENT REPORTING

(a) Turnover

The principal activities of the Group are manufacturing, sale and trading of land drilling rigs, offshore drilling rigs, parts and components and provision of oil and gas engineering services. Turnover represents revenue recognised for the sales value of goods supplied and oil and gas engineering services provided to customers net of value-added tax, returns and trade discounts.

For the six months ended 30 June 2013, the Group's customer base includes three customers (six months ended 30 June 2012: one customer) with whom transactions have exceeded 10% of the Group's revenue and representing a total of 52% (six months ended 30 June 2012: 64%) of the Group's revenue. For the six months ended 30 June 2013, revenues from sales of land drilling rigs and related parts and components to these customers arose in the PRC, Americas, and Europe and Central Asia regions (six months ended 30 June 2012: Americas region).

(b) Segment reporting

The Group manages its businesses by divisions, which are organised by business lines (land drilling rigs, offshore drilling rigs, parts and components and oil and gas engineering services) 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 identified four reportable segments. No operating segments have been aggregated to form the following reportable segments.

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

	Land drilling rigs		Offshore drilling rigs		Parts and components		Oil and gas engineering services		Total	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Revenue from external customers	**1,750,438**	1,610,219	**-**	13,323	**614,002**	315,938	**121,917**	29,850	**2,486,357**	1,969,330
Inter-segment revenue	**-**	-	**10,008**	-	**551,660**	517,128	**-**	-	**561,668**	517,128
Reportable segment revenue	**1,750,438**	1,610,219	**10,008**	13,323	**1,165,662**	833,066	**121,917**	29,850	**3,048,025**	2,486,458
Reportable segment profit/(loss)	**310,391**	387,503	**(28,596)**	(26,312)	**76,311**	27,680	**(2,980)**	(8,521)	**355,126**	380,350
	30 June 2013	31 December 2012	**30 June 2013**	31 December 2012	**30 June 2013**	31 December 2012	**30 June 2013**	31 December 2012	**30 June 2013**	31 December 2012
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Reportable segment assets	**4,639,692**	3,288,992	**1,807,851**	1,605,724	**2,824,040**	2,263,578	**1,016,824**	628,033	**10,288,407**	7,786,327
Reportable segment liabilities	**2,271,144**	1,988,432	**783,321**	520,246	**1,073,048**	650,598	**418,766**	91,564	**4,546,279**	3,250,840

(i) ***Reconciliation of reportable segment profit***

	Six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
Profit		
Reportable segment profit	**355,126**	380,350
Elimination of inter-segment profits	**(13,597)**	(89,803)
Reportable segment profit derived from Group's external customers	**341,529**	290,547
Share of profit from an associate	**–**	4,484
Share of loss from joint ventures	**(4,537)**	(6,146)
Other revenue, other operating expenses and other net income	**36,583**	(19,304)
Net finance (expenses)/income	**(49,142)**	10,486
Unallocated head office and corporate expenses	**(18,334)**	(1,908)
Consolidated profit before taxation	**306,099**	278,159

(ii) ***Seasonality of operations***

The Group experiences higher sales in the second half of the year compared to the first half of the year. It is the general practice for the Group's customers, engaging in oil and gas drilling industry, to place larger amounts of purchase orders at the beginning of the year. Having considered the production and delivery schedule, the finished goods related to these purchase orders are delivered in the second half of the year. Revenue from the sale of finished goods is recognised when the customer has accepted the related risks and rewards of ownership. Accordingly, the Group anticipates the inventories would gradually build up before the delivery of finished goods in the second half of the year. As a result, the first half year typically reports lower revenues, than the second half.

4. ACQUISITION OF SUBSIDIARIES

On 25 March 2013, the Group completed the acquisition of 55% equity interests in Bazhou Honghua Petroleum Applied Chemistry Co., Ltd. ("Bazhou Company") (formerly known as "Bazhou Anton Chang Xiang Applied Chemical Technology Co., Ltd.") and its subsidiaries at a cash consideration of RMB51,900,000. Bazhou Company is principally engaged in manufacturing drilling fluid material and related drilling services. The Group expects that the acquisition will enhance the Group's technology level in oil-based drilling and enable the Group to access to the acquiree's technical talent, so as to raise the profitability in oil and gas engineering services segment.

Details of the provisional fair value of net identifiable assets acquired are as follows:

	Provisional fair value of net identifiable assets acquired as at the acquisition date *RMB'000*
Fixed assets – property, plant and equipment	48,353
Construction in progress	41,911
Intangible assets	21,200
Trade and other receivables	37,886
Inventories	65,605
Cash and cash equivalents	3,801
Trade and other payables	(134,747)
Current tax payable	(10,981)
Deferred tax liabilities	(3,180)
Total net identifiable assets at provisional fair value	69,848
Goodwill arising from the acquisition	
Total consideration transferred	51,900
Non-controlling interests, based on their proportionate interest in the net identifiable assets of Bazhou Company	31,432
Fair value of net identifiable assets	(69,848)
Goodwill	13,484
Cash consideration	51,900
Cash and cash equivalent balances acquired	3,801
Net cash outflow arising from the acquisition	48,099

Notes:

1 The fair values are determined provisionally based on information available up to the date of this report. The Directors are in the process of finalising the valuation of the net identifiable assets acquired. If new information obtained within one year from the acquisition date about facts and circumstances that existed at the acquisition date identifies adjustments to the above amounts, or any additional provisions that existed at the acquisition date, then the acquisition accounting will be revised.

2 The goodwill is attributable mainly to the skills and technical talent of Bazhou Company's work force, and the synergies expected to be achieved from integrating the company into the Group's existing oil and gas engineering services.

3 For the period from date of acquisition to 30 June 2013, Bazhou Company contributed a revenue of RMB24,286,000 and loss of RMB4,323,000 to the Group's results. If the acquisition had occurred on 1 January 2013, management estimates that consolidated revenue would have been RMB2,493,922,000 and consolidated profit for the Period would have been RMB252,415,000. In determining these amounts, management have assumed that the fair value adjustments determined by the independent valuation that arose on the acquisition date would have been the same if the acquisition had occurred on 1 January 2013.

5. OTHER REVENUE

	Six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
Sales of scrap materials	**15,475**	289
Government grants *(note)*	**8,863**	11,936
Rental income	**5,939**	26
Repair services income	**3,158**	3,312
Others	**5,329**	382
	38,764	15,945

Note: Government grants are subsidies received from government mainly for industry development encouragement.

6. PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
(a) Net finance expenses/(income)		
Interest income on bank deposits	**(12,438)**	(14,390)
Interest income from long-term receivables	**(8,896)**	–
Gain on disposal of other financial assets	**(1,356)**	(16,320)
Net foreign exchange gain	**(707)**	(2,771)
Finance income	**(23,397)**	(33,481)
Bank charges	**18,094**	6,199
Interest on interest-bearing borrowings wholly repayable within five years	**72,953**	32,760
Less: interest expense capitalised into assets under construction*	**(18,508)**	(15,964)
Finance expenses	**72,539**	22,995
Net finance expenses/(income)	**49,142**	(10,486)

* The borrowing costs have been capitalised at a rate of 1.17% – 7.78% per annum (six months ended 30 June 2012: 1.97% – 7.70%).

	Six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
(b) Staff costs		
Contributions to defined contribution retirement schemes	**42,691**	26,137
Equity-settled share-based payment expenses	**52,743**	2,773
Salaries, wages and other benefits	**223,117**	172,124
	318,551	201,034

	Six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*

(c) Other items

Amortisation and depreciation		
– leasehold land held for own use under operating leases	**3,191**	1,345
– other fixed assets	**82,773**	42,824
– intangible assets	**17,191**	17,608
Impairment losses on trade and other receivables	**15,937**	28,811
Provision for a legal claim	**–**	31,686
Research and development costs other than amortisation costs	**18,478**	18,546

7. INCOME TAX EXPENSES

(a) Taxation in the consolidated statement of profit or loss represents:

	Six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
Current tax – Hong Kong Profits Tax		
Provision for the Period	**2,229**	–
Current tax – PRC		
Provision for the Period	**29,655**	79,214
Under-provision in respect of prior years	**97**	1,660
	29,752	80,874
Current tax – Other jurisdictions		
Provision for the Period	**3,070**	817
Under-provision in respect of prior years	**3,573**	–
	6,643	817
Current tax – total	**38,624**	81,691
Deferred tax		
Origination and reversal of temporary differences, net	**11,129**	(19,542)
Income tax expenses	**49,753**	62,149

(i) Hong Kong

The provision for Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits of the subsidiaries of the Group incorporated in Hong Kong during the six months ended 30 June 2013.

(ii) PRC

Pursuant to the income tax rules and regulations of the PRC, the subsidiaries of the Group in the PRC are liable to PRC enterprise income tax at a rate of 25% during the six months ended 30 June 2012 and 2013, except for the following companies:

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

Income tax is accrued at a tax rate of 15% applicable for Hi-Tech Enterprises pursuant to the relevant PRC tax rules and regulations during the six months ended 30 June 2012 and 2013.

(b) Chengdu Hongtian Electric Drive Engineering Co., Ltd. ("Hongtian Company")

On 27 July 2011, the Ministry of Finance, the General Administration of Customs and the State Administration of Taxation jointly issued CaiShui [2011] No.58 which states that enterprises within encouraged industries and located in the Western Region are entitled to a preferential tax rate of 15% for the period from 1 January 2011 to 31 December 2020 ("Tax Concession"). The Tax Concession needs to be applied annually. Hongtian Company applied for and successfully obtained the Tax Concession with 15% preferential income tax rate during the year ended 31 December 2012. The directors of the company assess that it is highly probable that the subsidiary will continue to be granted with the Tax Concession upon their application for renewal, and accordingly provision for PRC enterprise income tax for the subsidiary were made at the preferential rate of 15% in this interim financial report.

(iii) Others

Taxation for other entities is charged at their respective applicable tax rates ruling in the relevant jurisdictions.

(b) Withholding tax

Under the PRC tax law and its implementation rules, dividends receivable by non-PRC resident enterprises from PRC enterprises are subject to withholding tax at a rate of 10%, unless reduced by tax treaties or arrangements, for profits earned since 1 January 2008. Pursuant to a tax arrangement between the PRC and Hong Kong, a qualified Hong Kong tax resident will be liable for withholding tax at a reduced rate of 5% for dividend income derived from the PRC. 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.

8. EARNINGS PER SHARE

(a) Basic earnings per Share

The calculation of basic earnings per Share for the six months ended 30 June 2013 is based on the profit attributable to equity shareholders of the Company for the Period of RMB239,346,000 (six months ended 30 June 2012: RMB209,660,000) and the weighted average number of Shares of 3,170,607,000 (six months ended 30 June 2012: 3,210,765,000 Shares) in issue during the interim period.

Weighted average number of ordinary Shares

	30 June 2013	30 June 2012
Issued ordinary shares at 1 January	**3,231,132,000**	3,223,798,000
Effect of the Share award scheme	**(64,594,000)**	(13,077,000)
Effect of share options exercised	**4,069,000**	44,000
Weighted average number of ordinary Shares at 30 June	**3,170,607,000**	3,210,765,000

(b) Diluted earnings per Share

The calculation of diluted earnings per Share for the six months ended 30 June 2013 is based on the profit attributable to equity shareholders of the Company of RMB239,346,000 (six months ended 30 June 2012: RMB209,660,000) and the weighted average number of Shares of 3,217,379,000 (six months ended 30 June 2012: 3,212,351,000 Shares), calculated as follows:

Weighted average number of ordinary Shares (diluted)

	30 June 2013	30 June 2012
Weighted average number of ordinary Shares at 30 June	**3,170,607,000**	3,210,765,000
Effect of deemed distribution of Shares under the share award scheme	**606,000**	–
Effect of deemed issue of Shares under the company's share option scheme	**46,166,000**	1,586,000
Weighted average number of ordinary Shares (diluted) at 30 June	**3,217,379,000**	3,212,351,000

9. FIXED ASSETS

During the six months ended 30 June 2013, the Group acquired items of fixed assets with a cost of RMB278,857,000 (six months ended 30 June 2012: RMB136,527,000), primarily in respect of machineries used for production. Items of buildings, plant and machinery were transferred from construction in progress with a cost of RMB442,197,000 (six months ended 30 June 2012: RMB6,809,000). Items of fixed assets, in respect of leasehold land and building, with provisional fair value of RMB48,353,000 (six months ended 30 June 2012: RMB57,214,000), were acquired through acquisition of Bazhou Company.

10. INTANGIBLE ASSETS

During the six months ended 30 June 2013, the Group capitalised research and development cost of RMB16,232,000 (six months ended 30 June 2012: RMB516,000) and acquired technical know-how with provisional fair value of RMB21,200,000 (six months ended 30 June 2012: Nil) through acquisition of Bazhou Company *(note 4)*.

11. INVENTORIES

During the six months ended 30 June 2013, provision for obsolete inventories of RMB10,291,000 was reversed (2012: write down of inventories of RMB50,605,000). The reversal arose due to an increase in the estimated net realisable value of certain inventories as a result of a change in the usage of these inventories in new business line.

12. TRADE AND OTHER RECEIVABLES

As of the end of the reporting period, the ageing analysis of trade debtors and bills receivable (which are included in trade and other receivables), based on the invoice date (or date of revenue recognition, if earlier) and net of allowance for doubtful debts, is as follows:

	30 June 2013	31 December 2012
	RMB'000	*RMB'000*
Within 1 month	**1,434,055**	1,246,810
1 to 2 months	**115,160**	24,433
2 to 3 months	**57,746**	25,139
3 to 12 months	**267,564**	110,244
Over 1 year	**123,811**	134,560
Trade debtors and bills receivable, net of allowance for doubtful debts *(note (i))*	**1,998,336**	1,541,186
Value-added tax recoverable	**261,400**	245,567
Prepayments	**774,892**	520,365
Other receivables *(note (ii))*	**217,710**	168,688
	3,252,338	2,475,806
Representing:		
Current portion	**2,877,954**	2,105,804
Non-current portion *(note (iii))*	**374,384**	370,002
	3,252,338	2,475,806

Notes:

(i) The Group maintains different billing policies for different customers based on the negotiated terms with each of the customers. The Group will bill different percentages of the contract price at different stages such as upon the signing of contracts and upon the delivery of products. The exact percentage of each part of payment varies from contract to contract. Trade receivables are due for payment upon the Group presenting the bills to the customers.

(ii) Included in other receivables of the Group as at 30 June 2013, RMB32,317,000 (31 December 2012: RMB32,317,000) is the amount to be indemnified by some beneficiary owners of the Company (the "Indemnifiers") in relation to a legal claim.

(iii) Non-current trade and other receivables represent trade receivables and bills receivable of RMB289,961,000 (31 December 2012: RMB306,126,000) from instalment sales receivable that are due for settlement 1 year after the financial year/period end and prepayments for acquisition of fixed assets of RMB84,423,000 (31 December 2012: RMB63,876,000).

(iv) Except for the non-current trade and other receivables, all of the other trade and other receivables are expected to be recovered within one year.

13. TRADE AND OTHER PAYABLES

	30 June 2013 *RMB'000*	31 December 2012 *RMB'000*
Trade payables	**1,162,757**	779,873
Bills payable	**564,958**	504,291
Receipts in advance	**1,695,317**	1,332,245
Other payables	**315,940**	495,928
	3,738,972	3,112,337

Bills payable as at 30 June 2013 and 31 December 2012 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 and bills payables based on the invoice date is as follows:

	30 June 2013 *RMB'000*	31 December 2012 *RMB'000*
Within 3 months	**1,032,010**	880,065
3 months to 6 months	**369,049**	242,885
6 months to 1 year	**182,818**	69,397
Over 1 year	**143,838**	91,817
	1,727,715	1,284,164

MANAGEMENT DISCUSSION AND ANALYSIS

During the Period, the Group's revenue amounted to approximately RMB2,486 million, representing an increase of 26.3% as compared to RMB1,969 million in the same period last year. The Group's gross profit was approximately RMB800 million and profit attributable to equity Shareholders of the Company was approximately RMB239 million.

MARKET REVIEW

In the first half of 2013, the slowdown of emerging economies and potential fiscal tightening stifled the recovery of the U.S. economy, causing the overall performance of the global economy to underperform. However, during the Period, prices of New York WTI and London Brent crude oil remained at relatively high levels of US$85 and US$95 per barrel respectively. The increased expenditure of oil and gas exploration continued to stimulate drilling activities around the world. According to a survey by Baker Hughes, although the number of active land rigs in North America slipped year on year, it increased by 6.7% in other areas worldwide in the first half of 2013. The global average number of active land rigs amounted to 3,395 units in the first half of 2013 (Note: not including China and Russia). In regard to offshore oil and gas equipment, the average age of current active jack-up platforms has reached approximately 23 years, which is close to the average retirement age during the past decade. Replacement demand has been constantly increasing as a result of the decline in the utilization rate of old drilling platforms.

BUSINESS REVIEW

Land Drilling Rigs and Related Products Business

During the Period, the Group actively enhanced marketing promotion and participated in a total of 11 large-scale domestic and international oil and gas exhibitions, including the Offshore Technology Conference held at Houston, USA, further strengthening the international brand awareness of Honghua products. At the same time, the Group achieved remarkable success in implementing its strategy of "localization" globally. During the Period, Honghua Golden Coast Equipment FZE (GCE) obtained 9 newly signed land drilling rig contracts. Through active promotion by Honghua Russia Limited, the Group became the only private enterprise to visit Russia with Chinese President Xi Jin Ping, and entered into a cooperation agreement with OJSC VTB Leasing, the largest European leasing company, as well as Scientific and Production Corporation Uralvagonzavod, the leading state-owned military enterprise in Russia. Pursuant to the agreement, the three parties will jointly produce heavy oil and natural gas drilling rigs in Russia with production value estimated at approximately US$400 million, which will further expand the Group's market share in Russia. In addition, Honghua America, LLC completed the design of "Honghua America No.1", purchase of components has been planned and the production process has begun. The Group also prepared for the establishment of a joint venture in Venezuela, in order to lay down a foundation for further expansion in the Americans market.

During the Period, while continuing marketing expansion, the Group constantly improved the quality of its products and provided comprehensive supplementary and value-added services, thus continuously exploring new markets and new customers while also consolidating the customer base in mature markets. During the Period, newly signed agreements of land drilling rigs amounted to 55 units, worth approximately RMB3.3 billion. Of which, significant agreements include: agreement with Kuwait Drilling Company to provide 3 desert drilling rigs worth approximately US$40 million; agreements for 4 land drilling rigs in the two new markets of Serbia and Kenya; agreements for 5 land drilling rigs in China, continuously enlarging the market share within the domestic market. In addition, the Group successfully renewed the agreements for 9 land drilling rigs worth US$135 million with OOO Burovoya Kompaniya Eurasia in July 2013. Last but not least, the agreement for training drilling rigs, worth approximately US$12 million with PDVSA Servicios Petroleros, S.A., extended the Group's business from equipment sales to technical service training. As of the end of July 2013, the Group's onshore drilling rig backlog reached 93 sets, worth approximately RMB7.5 billion and estimated to be delivered between 2013 and 2014.

In terms of parts and components, the Group's self-innovated series of direct top drive products maintained stable sales, 10 sets were sold together with the drilling rigs, 4 sets were sold individually. The Group achieved considerable growth in sales of mud pumps, recording sales of 40 sets. Moreover, the Group actively made full use of its global procurement network to provide integrated procurement services for all clients around the world. During the Period, the Group entered into a directional drilling equipment sales agreement worth approximately US$181 million with PDVSA Servicios Petroleros, S.A..

For production management, the Group still faced capacity constraints in spite of its proactive improvement of productivity during the Period. The Group will continuously expand its production capabilities in the second half of 2013. In addition, the construction of the Group's technology innovation industrial park is under progress. In line with the ideology of "creative manufacturing", the industrial park strives to attain objectives of "new industry", "new technology", "new equipment" and "new craftsmanship", reflecting the Group's endeavor to relentlessly sharpen its competitive edge for continuous development in the second decade of growth since its foundation.

Offshore Engineering Equipment and Related Products Business

The construction process of Honghai crane, the core equipment enshrining the innovative concept of "onshore manufacturing of offshore equipment", is progressing as planned, with steel pipe piles and steel sheet piles hammered in the base. The first crane has started off-site installation, while the production of the second crane and the member axles of 1,200 tons cantilever crane has commenced. The equipment is expected to be delivered in mid-2014.

The Tigers project progressed smoothly. Among which, fixed control equipment has been completed and the quintuple mud pump is expected to be delivered in the third quarter 2013. The Group will accomplish deliveries and subsequent installation and commissioning of all equipment in this and next year.

In terms of market expansion, the Group has proactively participated in tenders of offshore platform and accessory equipment in the domestic and overseas markets, in order to achieve the breakthrough in the first order of offshore drilling platform. As of the end of July 2013, the Group's offshore modules, parts and components backlog reached RMB400 million.

Oil and Gas Engineering Services Business

During the Period, the Group's oil and gas engineering services business achieved rapid growth in both domestic and overseas markets. The Group improved its technological strength through various channels as well as expanded the scale of its service teams. Composed of 18 teams in China and 2 teams overseas, the Group's drilling service teams were increased to 20 by the end of June 2013. The Group's drilling fluids service teams were 30, and 10 teams started to provide directional services with the accumulated personnel amounting to 1,110.

After entering into Xinjiang Province and Iraq last year, the Group successfully developed oilfield markets in Sulige and Yanchang in northern Shanxi region of China. With continuous improvements in operational efficiency, the Group completed a total of 18 wells, including 3 horizontal wells and 5 directional wells, and achieved 72,000 meters of footage drilled. The Group's oil and gas engineering service's revenue target remains at RMB500 million 2013.

The Group successfully acquired 55% equity interest of Bazhou Company in March 2013. Bazhou Company has accumulated solid experience in high-end water-based drilling fluid technology while carrying out continuous research and development in oil-based drilling fluid, and has extensive business sources. After completion of the acquisition, Bazhou Company vigorously carried out production as well as provided and assumed almost 80% of the domestic drilling fluids and drilling fluids services, efficiently implementing the internal collaboration and driving the steady development of the Group.

Furthermore, the Group continuously focused on the establishment of sound quality, environmental, occupational health and safety management systems. The Group renewed the certificate of International Association of Drilling Contractors (IADC), obtained China Quality Health Safety and Environmental System (QHSE) Certification and Job Qualification approved by Sinopec Headquarters, paving the way for full penetration into the oil and gas services market.

Unconventional Oil and Gas Development Business

The Group communicated with international experts in regard to the technology of flexible water tanks, and has been actively searching for potential clients. During the Period, there were 2 water tanks being delivered to America for promotional purposes. In the meantime, the Group's self-innovated 6000HP fracturing pump completed the commissioning test of the single machine witnessed by Baker Hughes' experts. It is expected to conduct an on-site industrial test at a shale gas fracturing site in America in the second half of this year, laying down a foundation for sales in both domestic and overseas markets. In addition, the electric fracturing blender truck is under prototype trial production, which is expected to be completed in 2013. The on-site test will be started as well.

Since the second round of tendering for shale gas exploration rights, most of the companies that won the bids have not yet to enter into the exploration phase. Therefore, the plan of establishing unconventional oil and gas R&D centers in cooperation with Baker Hughes and Shenhua was delayed.

Zhenhua Project Progress

An indirect wholly-owned subsidiary of the Company, Sichuan Honghua Petroleum Equipment Co.,Ltd. ("Honghua Company") and Shanghai Zhenhua Heavy Industries (Group) Limited ("Zhenhua Heavy Industries") through friendly negotiation, signed an agreement on 26 August 2013, to terminate the sales contract that was signed and remained pending in 2009. Honghua Company and Zhenhua Heavy Industries conducted comprehensive deduction and settlement regarding the sales agreement. According to the settlement, Honghua Company does not need to return the RMB82 million down-payment that was paid to Honghua Company from Zhenhua Heavy Industries. Neither party will bear any responsibility to the other party.

Quality Management and Research and Development

The Group constantly attaches significance to the enhancement and improvement of its product management system. During the Period, the Group successfully passed the triennial recertification review of the American Petroleum Institute (API) and the HSE certification extension. With next-generation drilling rigs, high value-added components, special equipment for shale gas development and key components of offshore equipment as the mainstay, the Group is always dedicated to its research and development as well as new product optimization. The Group invested a total of RMB34.94 million during the Period. The gear and rack drilling rig has completed assembly testing and is expected to accomplish industrial testing within the year. The automatic hanging pipe-layout machine jointly developed by Jilin University and the Group has successfully passed the test, indicating the substantial progress in R&D of in-depth detection equipment in China. The series 20 and 40 hydraulic and car-loaded top-drives are expected to complete design and industrial testing in 2013 and 2014 respectively. During the Period, 20 out of 40 new patent applications have been approved. As at 30 June 2013, the Group has applied for 262 patents, and 133 of them had been approved, which included hydraulic single derrick trailer, stepwise skidding system for drilling rigs and blowout preventer storage device of deep-sea drilling platform.

Human Resources Management

While focusing on enhancing human resources structure and attracting high caliber of technical talents, the Group also gives impetus to diversifying and expanding its talent pool which is central to making great strides in future development. As of 30 June 2013, the Group had 6,817 employees, among which 590 are research personnel. Apart from team expansion, the Group arranged 679 training programs including annual graduate training, with an aim to enhance employees' professional knowledge and technical skills as well as improve efficiency.

In May 2013, the Group organized the Strategic Talent Forum of oil and gas equipment industry, gathering experience and wisdom and boosting the continuous development of the industrial economy. Through the event, the Group elevated the competitiveness of Honghua brand and talent, further promoted the cooperation between the Group and universities, and deepened the liaison and cooperation among the Group, universities and the government.

OUTLOOK

Despite the sluggish global economic recovery, the entire oil and gas industry still presents an optimistic development trend. Asia, Latin America, Middle East and Russia will witness a substantial increase in demand. To capitalize on the opportunity of onshore oil and gas equipment, the Group will continue to implement its strategy of "localization" and complete joint venture in Russia and the preparation of joint venture in Venezuela in this and next year, and to consolidate its market share in such regions. On the other hand, the Group will impel its sales strategy of "market diversification" and further promote global product sales by means of diversified financing leasing models. In terms of land drilling rigs, the Group will expand the market share in shallow-medium wells by new generation drilling rigs. In regard to parts and components, the Group will increase sales of self-innovated components and after-sale services, while making full use of its customer and global procurement network, to expand the ratio of component trading business and achieve stable and sustainable growth of its land drilling equipment business.

As for offshore engineering equipment, the Group will continue to complete the construction of Honghai crane and the existing Tigers project. At the same time, the Group will proactively use the international offshore companies' recognition towards its engineering, procurement and construction, to keep close communication in regard to fixed and jack-up drilling platforms with customers worldwide. The Group will strive to achieve breakthrough in the second half of 2013.

As for oil and gas engineering service business, the Group will rely on its self-innovated equipment and develop other services driven by its drilling service. The Group will enter into fracturing service in the fourth quarter of 2013 at earliest on a basis of expansion of the existing drilling service (includes vertical well, directional well and horizontal well services) and drilling fluid service, to become the drilling service company with the capability to provide turn-key service. While focusing on proactive exploration of conventional oil and gas services markets, the Group will cooperate with renowned international companies and get well-prepared for the greater development in the unconventional oil and gas industry.

Looking forward, the Group will focus on the base of land drilling and offshore oil and gas equipment businesses while also proactively exploring oil and gas engineering services and unconventional oil and gas development business. The Group will strengthen its overall competitiveness and implement substantial and steady development.

FINANCIAL REVIEW

During the Period, the Group's gross profit and profit attributable to shareholders of the Company amounted to approximately RMB800 million and RMB239 million respectively, and gross margin and net margin amounted to approximately 32.2% and 9.6% respectively; In the same period last year, gross profit and profit attributable to shareholders of the Company amounted to approximately RMB741 million and RMB210 million respectively, gross margin and net margin amounted to approximately 37.6% and 10.6% respectively. During the Period, the increase in the Group's gross profit and profit attributable to shareholders of the Company was due to growth in sales revenue.

Turnover

During the Period, the Group's turnover amounted to approximately RMB2,486 million, representing an increase of RMB517 million or 26.3% as compared to RMB1,969 million in the same period last year. Turnover growth was due to the Group's active market development and the growth in sales revenue from land drilling rig parts and components. The number of land drilling rig sales during the Period increased to 28 units from 22 units in the same period last year.

(a) Revenue by Geographical Areas

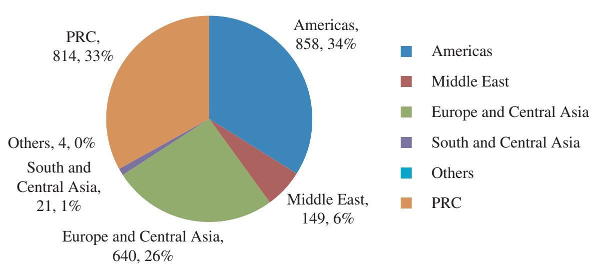
The Group's revenue by geographical segment during the Period: (1) The Group's export revenue amounted to approximately RMB1,672 million, accounting for approximately 67.3% of total revenue, representing a decrease of RMB107 million as compared to the same period last year. Among which, the American market's revenue amounted to approximately RMB858 million, representing a decrease of RMB647 million or 43.0% as compared to the same period last year; there were increase in revenue from the European and Central Asia and Middle Eastern markets, while there were decrease in revenue from South and Southeast Asia; (2) Mainland China's revenue amounted to approximately RMB814 million, accounting for approximately 32.7% of total revenue, representing an increase of RMB624 million or 328.4% as compared to the same period last year.

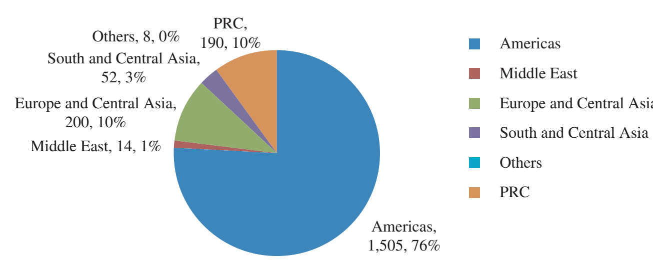
The revenues from different regions are affected by oil and gas exploration activities in various areas of the world. The Group actively explores markets, constantly develops new customers, and gains new purchase orders, ensuring the sustained growth of sales revenue.

Revenue by Geographical Areas

For the six months ended 30 June 2013 For the six months ended 30 June 2012

Expressed in RMB'million





(b) Revenue by product categories

The Group's business are divided into land drilling rigs, land drilling rig parts and components, offshore drilling rigs and parts and oil and gas engineering services.

During the Period, external revenue from land drilling rigs amounted to approximately RMB1,750 million, representing an increase of RMB140 million or 8.7% as compared to RMB1,610 million in the same period last year. The increase in revenue from land drilling rigs was mainly due to the increase in sales volume of drilling rigs from 22 units in the same period last year to 28 units during the Period.

During the Period, external revenue from land drilling rig parts and components amounted to approximately RMB614 million, representing an increase of RMB298 million or 94.3% as compared to RMB316 million in the same period last year. The increase in land drilling rig parts and components' revenue was mainly due to active market exploration and new product sales. Among which, revenue from pipeline system was RMB133 million; revenue from rig and component transformation was RMB81 million; revenue from drill stem amounted to RMB56 million; revenue from sales of 4 sets of top drive amounted to RMB30 million; revenue from sales of 2 sets of translational device amounted to RMB30 million.

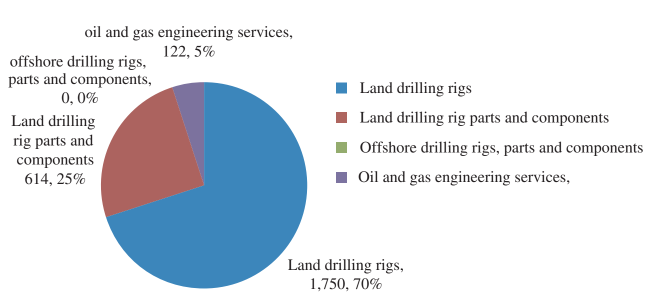
During the Period, there was no external revenue from offshore drilling rigs, parts and components, while the revenue amounted to RMB13 million in the same period last year.

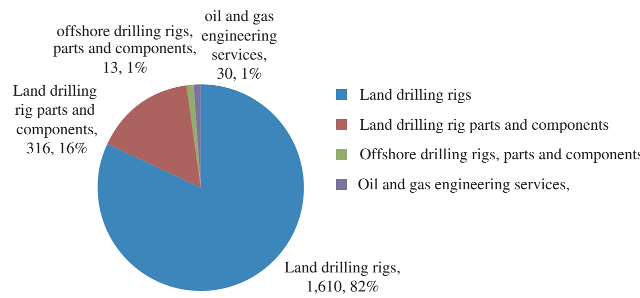
During the Period, revenue from oil and gas engineering services amounted to approximately RMB122 million, representing an increase of RMB92 million or 306.7% as compared to RMB30 million in the same period last year. The Group actively explores markets of oil and gas engineering services. Oil and gas engineering services have a total of 20 drilling crew in the first half of 2013, which operate in 5 areas, such as Xinjiang, Northeast China, Inner Mongolia, Kazakhstan and Iraq. In these areas, the Group completed 18 wells in the first half of 2013.

Revenue by business categories was as follows:

For the six months ended 30 June 2013 For the six months ended 30 June 2012

Expressed in RMB'million





Cost of Sales

During the Period, the Group's cost of sales amounted to approximately RMB1,687 million, representing an increase of approximately 37.3% or RMB458 million as compared to the same period last year, mainly due to an increase in sales revenue.

Gross Profit and Gross Margin

During the Period, the Group's gross profit amounted to approximately RMB800 million, representing an increase of RMB59 million or 7.9% as compared to the same period last year.

During the Period, the Group's overall gross margin was 32.2%, representing a decrease of 5.4 percentage points as compared to 37.6% in the same period last year. This was mainly attributable to the relative appreciation of the Renminbi against the US dollar and the decrease of high configuration rig's export sales in the Group.

Expenses in the Period

During the Period, the Group's selling expenses amounted to approximately RMB247 million, representing no big changes as compared to RMB244 million in the same period last year.

During the Period, the Group's general and administration expenses amounted to approximately RMB230 million, representing an increase of RMB21 million or 10.0% as compared to RMB209 million in the same period last year, which was mainly attributable to an increase in labor costs in order to adapt to span development and correspondingly active introduction of management talent.

During the Period, the Group's net financing expenses amounted to approximately RMB49 million as compared to net financing income of RMB10 million in the same period last year. The increase in net finance expense was mainly attributable to an increase of RMB50 million from net interest expenses and bank charges, which was caused by Group business rapid expansion and corresponding increase of bank loans.

Profit before Taxation

During the Period, profit before taxation of the Group amounted to approximately RMB306 million, representing an increase of RMB28 million compared to the same period last year. The increase was mainly attributable to the increase in revenue and the decrease in the proportion of selling and general and administrative expenses accounted for sales revenue.

Income Tax Expenses

During the Period, the Group's income tax expense amounted to approximately RMB50 million as compared to the income tax expense of approximately RMB62 million in the same period last year.

Profit for the Period

During the Period, the Group's profit amounted to approximately RMB256 million, as compared to a profit of approximately RMB216 million in the same period last year. Among which, profit attributable to equity shareholders of the Company was approximately RMB239 million, while earnings attributable to non-controlling interests was approximately RMB17 million. During the Period, net margin was 9.6%, as compared to a net margin of 10.6% in the same period last year, which was mainly attributable to a decrease of gross margin.

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

During the Period, EBITDA amounted to RMB458 million, as compared to approximately RMB329 million in the same period last year, which was mainly attributable to the marked increase in operating profit brought on by the increase in revenue. The EBITDA margin was 18.4%, as compared to 16.7% in the same period last year, which was mainly attributable to the decrease in the proportion of selling and general and administrative expenses accounted for sales revenue.

Dividends

For the period ended at 30 June 2013, the Board does not recommend the payment of interim dividend.

Source of capital and borrowings

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

As at 30 June 2013, the Group's bank borrowings amounted to approximately RMB4,132 million, representing an increase of approximately RMB2,149 million as compared to 31 December 2012. Among which, borrowings repayable within one year amounted to approximately RMB3,097 million, representing an increase of RMB1,851 million as compared to 31 December 2012. The increase of loan is mainly attributable to the rapid expansion of our Company's scale of production and operation and the increase of working capital and equity type investment.

Deposits and cash flow

As at 30 June 2013, the Group's cash and cash equivalents amounted approximately RMB1,239 million, representing an increase of approximately RMB255 million as compared to 31 December 2012.

During the Period, due to a large purchase of raw material for expansion in sales, net operating cash outflow from operations amounted to approximately RMB1,334 million; net cash outflow from investing assets, mainly in offshore construction projects, during the Period amounted to approximately RMB223 million; net cash inflow from financing activities amounted to approximately RMB1,816 million, mainly got loans to support business expansion, including a US$150 million syndicated loan.

Assets structure and changes thereof

As at 30 June 2013, the Group's total assets amounted to approximately RMB12,637 million, representing an increase of approximately RMB2,791 million or 28.3% as compared to 31 December 2012. Among which, current assets amounted to approximately RMB8,890 million, accounting for approximately 70.3% of total assets, representing an increase of RMB2,272 million as compared to 31 December 2012, which were mainly increase of pecuniary resources, inventories and trade and other receivables. Non-current assets amounted to approximately RMB3,747 million, accounting for approximately 29.7% of total assets, representing an increase of approximately RMB519 million as compared to 31 December 2012, and was mainly attributable to the increase in fixed assets.

Liabilities

As at 30 June 2013, the Group's total liabilities amounted to approximately RMB8,007 million, representing an increase of approximately RMB2,749 million as compared to 31 December 2012. Among which, current liabilities amounted to approximately RMB6,935 million, accounting for approximately 86.6% of total liabilities, representing an increase of approximately RMB2,417 million as compared to 31 December 2012. Non-current liabilities amounted to approximately RMB1,072 million, accounting for approximately 13.4% of total liabilities, presenting an increase of approximately RMB332 million as compared to 30 June 2013. As at 30 June 2013, the Group's total liabilities/total assets ratio was approximately 63.4%, representing an increase of 10 percentage points as compared to 31 December 2012 and was mainly attributable to an increase in the loans.

Equity

As at 30 June 2013, total equity amounted to RMB4,630 million, representing an increase of RMB42 million as compared to 31 December 2012. Total equity attributable to equity shareholders of the Company amounted to approximately RMB4,449 million, representing a decrease of RMB7 million as compared to 31 December 2012. Non-controlling interests totalled to approximately RMB181 million, representing an increase of RMB48 million as compared to 31 December 2012. Net asset value reached approximately RMB1.37 per Share. During the Period, the Group's basic earnings per Share was RMB7.549 cents, and diluted earnings per Share was RMB7.439 cents.

Contingent liabilities

Several sales agencies filed lawsuits against the subsidiaries of the Company, alleged that they were owed commissions in excess of US$100,000,000 in relation to their services to the Group. The lawsuits are being processed. Having consulted the Group's legal advisors, management considered that the Group had legal and factual merit to defend in the lawsuits. Accordingly, management determined that it was not probable that the outcome of the lawsuits will be unfavorable to the Group. No provision was made for the potential claims under these lawsuits.

Capital Expenditure, Major Investment and Capital Commitments

During the Period, capital expenditure of the Group on infrastructure and technical improvements amounted to approximately RMB462 million, representing an increase of approximately RMB35 million as compared to the same period last year. This was mainly due to the construction of offshore base.

As at 30 June 2013, the Group had capital commitments of approximately RMB1,940 million, which will be used for the construction of Jiangsu Qidong offshore manufacturing base and expansion of the Group's business as well as its production capacity.

Foreign Currency Risk

The Group has certain foreign currency deposits. As at 30 June 2013, the Group's foreign currency deposits were equivalent to approximately RMB830 million, trade receivables and other receivables denominated in foreign currency were equivalent to approximately RMB560 million and interest bearing borrowing denominated in foreign currency were equivalent to approximately RMB1,121 million. Exports and foreign currencies settled business exposed the Group to exchange risk.

Use of Proceeds from the Initial Public Offerings

As at 31 December 2012, proceeds from the initial public offerings of the Company have been used up.

Employee Remuneration and Benefits

During the Period, the average number of the Group's employees was 6,281. The total remuneration and benefits amounted to approximately RMB319 million, representing an increase of RMB118 million or approximately 58.7% as compared to the same period last year.

The strategy of the Group talent management is to keep the performance culture consistent with the corporate culture, with HR allocation and diversified remuneration system, managing to improve the Group's operation as well as the employees' development. During the Period, the Group reinforces the management on the organization performance and the employee performance, implementing the performance target according to the post and determining the bonus according to the performance of organizational target; besides, the employee remuneration is adjusted according to his performance, ability, working attitude and the market situation. Meanwhile, for the employees with low performance, improvement program and professional training are provided to enhance their knowledge, ability, skill and sense of belonging. There is also a stock incentive plan, which aims at the core talents, the outstanding employees and the senior management, to encourage the employees to grow with the Group. The Group will keep increasing the employees' working enthusiasm, as well as stimulating their potential, so as to improve the competitive advantage of the Group talents.

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

Save for the trustee of the restricted share award scheme, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's Shares during the six months ended 30 June 2013.

AUDIT COMMITTEE

The Audit Committee comprises all the Independent Non-executive Directors with written terms of reference in compliance with the Listing Rules and the CG Code. The Audit Committee is primarily responsible for reviewing and supervising financial reporting process and internal control systems of the Group and providing advices and recommendations to the Board. The Audit Committee shall hold at least two meetings per year and review opinions of internal auditors, matters in respects of internal control, risk management and financial reporting. The Audit Committee has reviewed the interim results of the Group for the six months ended 30 June 2013. In addition, the Audit Committee has already taken over the duties of the Corporate Governance Committee which was dismissed with effect from 19 March 2013 as mentioned below.

COMPLIANCE WITH THE CG CODE

The Company has applied the principles and code provisions as set out in the CG Code.

The Company has complied with the code provisions of the CG Code throughout the six months period from 1 January 2013 to 30 June 2013, except for the deviations as mentioned below.

Code Provision A.2.1 of the CG Code stipulates that the roles of Chairman and Chief Executive should be separate and should not be performed by the same individual.

Mr. Zhang Mi is the Chairman of the Board and President (Chief Executive) 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) 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 any changes, including the separation of roles of Chairman and President (Chief Executive) are necessary.

Code Provision A.6.7 of the CG Code stipulates that Independent Non-Executive Directors and Non-Executive Directors should attend general meetings. Four Independent Non-executive Directors and one Non-executive Director were absent from the last annual general meeting of the Company held in May 2013 due to their respective other important engagements at the relevant time.

For improving work efficiency, the Corporate Governance Committee and the Nomination Committee were dismissed with effect from 19 March 2013. The Audit Committee has taken over the duties of the Corporate Governance Committee and would be responsible for reviewing the compliance of the corporate governance issues, the corporate governance report and the corporate governance policy. The Board has taken over the duties of the Nomination Committee and reviewed its own structure, size and composition regularly to ensure that it has a balance of expertise, skills and experience board members appropriate for the requirements of the business of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a set of Code for Securities Trading, 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 the Code for Securities Trading and the Model Code throughout the six months ended 30 June 2013.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2013

This announcement will be published on both the websites of the Company (www.hh-gltd.com) and the Stock Exchange (www.hkexnews.hk). The interim report of the Company for the six months ended 30 June 2013 will be dispatched to shareholders of the Company and published on the aforesaid websites in due course.

DEFINITION

"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 since 21 January 2008
"Company" or "Honghua Group":	Honghua Group Limited
"CG Code":	Corporate Governance Code set out in Appendix 14 to the Listing Rules

"Directors":	directors of the Company
"Group":	the Company and its subsidiaries, its associate and its jointly controlled entities
"HK$":	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong":	the Hong Kong Special Administrative Region of the PRC
"Listing Rules":	the Rules Governing the Listing of Securities on The Stock Exchange (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
"Period":	the six months ended 30 June 2013
"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
"RMB":	Renminbi, the lawful currency of the PRC
"same period last year":	the six months ended 30 June 2012
"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 of America dollars, the lawful currency of the United States of America

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express heartfelt thanks to management and all employees for their hard work in the past and thanks to the shareholders of the Company, business partners and investors for their continuous support.

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

Hong Kong, 28 August 2013

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. Siegfried Meissner (Mr. Popin Su as his alternate) as non-executive Directors, and Mr. Liu Xiaofeng, Mr. Qi Daqing, Mr. Tai Kwok Leung Alexander, Mr. Chen Guoming, Mr. Shi Xingquan and Mr. Guo Yanjun as independent non-executive Directors.