宏华集团
HONGHUA GROUP

Honghua Group Limited
宏華集團有限公司

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

(Stock code: 0196)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2014

FINANCIAL HIGHLIGHT

	Six months ended 30 June		
	2014	2013	% change
	(Unaudited)	(Unaudited)	
Turnover (RMB'000)	**3,838,879**	2,486,357	54.4%
Gross profit (RMB'000)	**884,538**	799,823	10.6%
Gross margin (%)	**23.0%**	32.2%	
Profit from operations (RMB'000)	**365,698**	359,778	1.6%
Earnings attributable to equity shareholders of the Company (RMB'000)	**199,745**	239,346	-16.5%
Earnings per Share — Basic (RMB cents)	**6.286**	7.549	-16.7%
Earnings per Share — Diluted (RMB cents)	**6.235**	7.439	-16.2%

The Board does not recommend payment of interim dividend for the six months ended 30 June 2014.

INTERIM RESULTS

The Board of the Company is hereby to announce the unaudited interim financial results of the Group for the six months ended 30 June 2014, together with the comparative figures for the corresponding period in 2013.

The interim financial report for the six months ended 30 June 2014 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 2014 — unaudited
(Expressed in Renminbi)

		Six months ended 30 June	
		2014	2013
	Note	***RMB'000***	*RMB'000*
Turnover	*3*	**3,838,879**	2,486,357
Cost of sales		**(2,954,341)**	(1,686,534)
Gross profit		**884,538**	799,823
Other revenue	*4*	**32,782**	38,764
Other net (expenses)/income		**(25,370)**	2,482
Selling expenses		**(284,874)**	(246,911)
General and administrative expenses		**(269,666)**	(229,717)
Other operating income/(expenses)		**28,288**	(4,663)
Profit from operations		**365,698**	359,778
Finance income		**53,299**	23,397
Finance expenses		**(148,289)**	(72,539)
Net finance expenses	*5(a)*	**(94,990)**	(49,142)
Share of loss from joint ventures		**(1,508)**	(4,537)
Profit before taxation	*5*	**269,200**	306,099
Income tax expenses	*6*	**(56,868)**	(49,753)
Profit for the Period		**212,332**	256,346

CONSOLIDATED STATEMENT OF PROFIT OR LOSS *(continued)*
for the six months ended 30 June 2014 — unaudited
(Expressed in Renminbi)

		Six months ended 30 June	
		2014	2013
	Note	***RMB'000***	*RMB'000*
Attributable to:			
Equity shareholders of the Company		**199,745**	239,346
Non-controlling interests		**12,587**	17,000
Profit for the Period		**212,332**	256,346
Earnings per Share (RMB cents)			
Basic	*7(a)*	**6.286**	7.549
Diluted	*7(b)*	**6.235**	7.439

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2014 — unaudited
(Expressed in Renminbi)

	Six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
Profit for the Period	**212,332**	256,346
Other comprehensive income for the Period:		
Items that may be reclassified subsequently to profit or loss:		
Net movement in the fair value reserve of available-for-sales securities	**(195)**	–
Exchange differences on translation of financial statements of operations outside the People's Republic of China ("PRC"), net of tax	**22,609**	(26,637)
Total comprehensive income for the Period	**234,746**	229,709
Attributable to:		
Equity shareholders of the Company	**220,940**	212,580
Non-controlling interests	**13,806**	17,129
Total comprehensive income for the Period	**234,746**	229,709

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
at 30 June 2014 — unaudited
(Expressed in Renminbi)

	Note	**30 June 2014** *RMB'000*	31 December 2013 *RMB'000*
Non-current assets			
Fixed assets	*8*		
— Property, plant and equipment		**2,181,879**	2,148,103
— Interests in leasehold land held for own use under operating leases		**358,370**	361,890
— Freehold land		**4,961**	4,916
		2,545,210	2,514,909
Deposits paid for acquisition of leasehold land		**162,823**	147,320
Construction in progress		**822,324**	728,019
Intangible assets	*9*	**205,223**	213,637
Goodwill		**13,484**	13,484
Interests in joint ventures		**46,393**	47,924
Interest in an associate		**9,000**	9,000
Other investment		**74,053**	74,053
Trade and other receivables	*11*	**636,135**	676,050
Deferred tax assets		**149,644**	123,975
Total non-current assets		**4,664,289**	4,548,371
Current assets			
Inventories	*10*	**2,924,094**	2,801,307
Trade and other receivables	*11*	**4,542,962**	3,961,427
Gross amount due from customers for contract work		**215,847**	176,158
Amounts due from related companies		**42,658**	44,819
Current tax recoverable		**9,544**	16,406
Other financial assets		**190,757**	804,102
Pledged bank deposits		**925,183**	593,337
Bank deposits maturing over three months		**9,191**	8,619
Cash and cash equivalents		**1,539,575**	1,274,509
Total current assets		**10,399,811**	9,680,684

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*
at 30 June 2014 — unaudited
(Expressed in Renminbi)

	Note	**30 June 2014** *RMB'000*	31 December 2013 *RMB'000*
Current liabilities			
Interest-bearing borrowings		**3,561,268**	3,273,544
Trade and other payables	*12*	**4,810,329**	4,240,962
Amounts due to related companies		**23,554**	27,465
Current tax payable		**74,058**	51,453
Provisions		**74,591**	168,421
Total current liabilities		**8,543,800**	7,761,845
Net current assets		**1,856,011**	1,918,839
Total assets less current liabilities		**6,520,300**	6,467,210
Non-current liabilities			
Interest-bearing borrowings		**1,427,742**	1,457,953
Deferred tax liabilities		**41,919**	50,611
Trade and other payables	*12*	**8,386**	–
Total non-current liabilities		**1,478,047**	1,508,564
NET ASSETS		**5,042,253**	4,958,646
EQUITY			
Share capital		**300,942**	300,833
Reserves		**4,535,359**	4,462,518
Total equity attributable to equity shareholders of the Company		**4,836,301**	4,763,351
Non-controlling interests		**205,952**	195,295
TOTAL EQUITY		**5,042,253**	4,958,646

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*, issued by the International Accounting Standards Board ("IASB"). It was authorised for issue on 21 August 2014.

The interim financial report has been prepared in accordance with the same accounting policies adopted by the Group in the 2013 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2014 annual financial statements. Details of any changes in accounting policies are set out in note 2.

2 CHANGES IN ACCOUNTING POLICIES

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

— Amendments to IFRS 10, IFRS 12 and IAS 27, *Investment entities*

— Amendments to IAS 32, *Offsetting financial assets and financial liabilities*

— Amendments to IAS 36, *Recoverable amount disclosures for non-financial assets*

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

Amendments to IFRS 10, IFRS 12 and IAS 27, *Investment entities*

The amendments provide consolidation relief to those parents which qualify to be an investment entity as defined in the amended IFRS 10. Investment entities are required to measure their subsidiaries at fair value through profit or loss. These amendments do not have an impact on the Group's interim financial report as Honghua Group Limited does not qualify to be an investment entity.

Amendments to IAS 32, *Offsetting financial assets and financial liabilities*

The amendments to IAS 32 clarify the offsetting criteria in IAS 32. The amendments do not have an impact on the Group's interim financial report as they are consistent with policies already adopted by the Group.

Amendments to IAS 36, *Recoverable amount disclosures for non-financial assets*

The amendments to IAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or CGU whose recoverable amount is based on fair value less costs of disposal. The Group has not early adopted the amendments and the initial adoption in 2014 has no material impact on the interim financial report.

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 mainly represents revenue recognised for the sales value of goods supplied, revenue from construction contracts 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 2014, the Group's customer base includes two customers (six months ended 30 June 2013: three customers) with whom transactions have exceeded 10% of the Group's revenue and representing a total of 38% (six months ended 30 June 2013: 52%) of the Group's revenue. For the six months ended 30 June 2014, revenue from sales of land drilling rigs and related parts and components to these customers arose in the Europe and Central Asia regions and Middle East (six months ended 30 June 2013: PRC, Americas, and Europe and Central Asia regions).

(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 chief operating decision maker 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 chief operating decision maker for the purposes of resource allocation and assessment of segment performance for the Period is set out below.

	Land drilling rigs Six months ended 30 June		**Offshore drilling rigs Six months ended 30 June**		**Parts and components Six months ended 30 June**		**Oil and gas engineering services Six months ended 30 June**		**Total Six months ended 30 June**	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Revenue from external customers	**2,723,901**	1,750,438	**52,776**	–	**857,769**	614,002	**204,433**	121,917	**3,838,879**	2,486,357
Inter-segment revenue	**–**	–	**299**	10,008	**604,006**	551,660	**25,641**	–	**629,946**	561,668
Reportable segment revenue	**2,723,901**	1,750,438	**53,075**	10,008	**1,461,775**	1,165,662	**230,074**	121,917	**4,468,825**	3,048,025
Reportable segment profit/(loss)	**426,032**	310,391	**(46,672)**	(28,596)	**43,914**	76,311	**(60,917)**	(2,980)	**362,357**	355,126

Given the manufacturing process of the Group's business are in a form of vertical integration, the Group's chief operating decision maker considered segment assets and liabilities information was not relevant in assessing performance of and allocating resources to the operating segments. In the first half of 2014, such information was not reviewed by the Group's chief operating decision maker. Accordingly, no segment assets and liabilities are presented.

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

	Six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
Profit		
Reportable segment profit	**362,357**	355,126
Elimination of inter-segment profits	**3,419**	(13,597)
Reportable segment profit derived from Group's external customers	**365,776**	341,529
Share of loss from joint ventures	**(1,508)**	(4,537)
Other revenue, other operating expenses and other net income/(expenses)	**35,700**	36,583
Net finance expenses	**(94,990)**	(49,142)
Unallocated head office and corporate expenses	**(35,778)**	(18,334)
Consolidated profit before taxation	**269,200**	306,099

(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 revenue than the second half.

4 OTHER REVENUE

	Six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
Sales of scrap materials	**10,154**	15,475
Government grants *(note)*	**13,738**	8,863
Rental income	**–**	5,939
Repair services income	**2,833**	3,158
Others	**6,057**	5,329
	32,782	38,764

Note: Government grants are subsidies received from government mainly for expenses reimbursement of certain projects or industry development encouragement.

5 PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
(a) Net finance expenses		
Interest income on bank deposits	**(27,488)**	(12,438)
Interest income from long-term receivables	**(20,927)**	(8,896)
Net gain on disposal of other financial assets	**(4,884)**	(1,356)
Net foreign exchange gain	**–**	(707)
Finance income	**(53,299)**	(23,397)
Net foreign exchange loss	**26,242**	–
Bank charges	**29,202**	18,094
Interest on interest-bearing borrowings wholly repayable within five years	**115,261**	72,953
Less: interest expense capitalised into assets under construction *	**(22,416)**	(18,508)
Finance expenses	**148,289**	72,539
Net finance expenses	**94,990**	49,142

* The borrowing costs have been capitalised at a rate of 1.83%–7.80% per annum (six months ended 30 June 2013: 1.17%–7.78%).

(b) Staff costs		
Contributions to defined contribution retirement schemes	**66,005**	42,691
Equity-settled share-based payment expenses	**1,590**	52,743
Salaries, wages and other benefits	**365,389**	223,117
	432,984	318,551
(c) Other items		
Amortisation and depreciation		
— leasehold land held for own use under operating leases	**3,531**	3,191
— property, plant and equipment	**130,502**	82,773
— intangible assets	**20,296**	17,191
(Reversal of)/impairment losses on trade and other receivables	**(2,523)**	15,937
Reversal of provision for a legal claim with former sales agency	**(33,241)**	–
Research and development costs other than amortisation costs	**32,770**	18,478

6 INCOME TAX EXPENSES

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

	Six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
Current tax — Hong Kong Profits Tax		
Provision for the Period	**2,842**	2,229
Current tax — PRC		
Provision for the Period	**81,463**	29,655
(Over)/under-provision in respect of prior years	**(240)**	97
	81,223	29,752
Current tax — Other jurisdictions		
Provision for the Period	**5,701**	3,070
Under-provision in respect of prior years	**1,423**	3,573
	7,124	6,643
Current tax — total	**91,189**	38,624
Deferred tax		
(Reversal)/origination of temporary differences	**(34,321)**	11,129
Income tax expenses	**56,868**	49,753

(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 2014.

(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 2013 and 2014, 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 2013 and 2014.

(b) Sichuan Honghua Electric Co., Ltd. ("Honghua Electric")

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. Honghua Electric applied for and successfully obtained the Tax Concession with 15% preferential income tax rate during the year ended 31 December 2013. 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. During the year ended 31 December 2013, the Company's PRC subsidiary obtained approval from the respective tax authority for paying withholding tax of dividend income at the reduced 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.

7 EARNINGS PER SHARE

(a) Basic earnings per Share

The calculation of basic earnings per Share for the six months ended 30 June 2014 is based on the profit attributable to equity shareholders of the Company for the Period of RMB199,745,000 (six months ended 30 June 2013: RMB239,346,000) and the weighted average number of Shares of 3,177,556,000 (six months ended 30 June 2013: 3,170,607,000 shares) in issue during the interim period.

Weighted average number of ordinary shares

	Six months ended 30 June	
	2014	2013
Issued ordinary shares at 1 January	**3,239,167,000**	3,231,132,000
Effect of the share award scheme	**(62,089,000)**	(64,594,000)
Effect of share options exercised	**478,000**	4,069,000
Weighted average number of ordinary shares at 30 June	**3,177,556,000**	3,170,607,000

(b) Diluted earnings per Share

The calculation of diluted earnings per Share for the six months ended 30 June 2014 is based on the profit attributable to equity shareholders of the Company of RMB199,745,000 (six months ended 30 June 2013: RMB239,346,000) and the weighted average number of Shares of 3,203,594,000 (six months ended 30 June 2013: 3,217,379,000 shares), calculated as follows:

Weighted average number of ordinary shares (diluted)

	Six months ended 30 June	
	2014	2013
Weighted average number of ordinary shares at 30 June	**3,177,556,000**	3,170,607,000
Effect of deemed distribution of shares under the share award scheme	**–**	606,000
Effect of deemed issue of shares under the share option scheme	**26,038,000**	46,166,000
Weighted average number of ordinary shares (diluted) at 30 June	**3,203,594,000**	3,217,379,000

8 FIXED ASSETS

During the six months ended 30 June 2014, the Group acquired items of fixed assets with a cost of RMB67,747,000 (six months ended 30 June 2013: RMB103,107,000), primarily in respect of plant and machineries used for production. In addition, certain items of property, plant and machineries were transferred from construction in progress and inventories at their respective carrying amount of RMB78,953,000 and RMB17,301,000 (six months ended 30 June 2013: RMB442,197,000 and RMB175,750,000).

9 INTANGIBLE ASSETS

During the six months ended 30 June 2014, the Group capitalised development cost of RMB9,645,000 (six months ended 30 June 2013: RMB16,232,000).

10 INVENTORIES

During the six months ended 30 June 2014, write-down of inventories to estimated net realisable value of RMB39,467,000 has been recognised as expense in profit or loss.

During the six months ended 30 June 2013, provision for obsolete inventories of RMB10,291,000 was reversed. 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.

11 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 2014 *RMB'000*	31 December 2013 *RMB'000*
Within 3 months	**2,671,027**	2,052,095
3 to 12 months	**439,797**	719,894
Over 1 year	**385,565**	344,785
Trade debtors and bills receivable, net of allowance for doubtful debts *(note (i))*	**3,496,389**	3,116,774
Finance lease receivable	**100,138**	–
Value-added tax recoverable	**354,749**	275,664
Prepayments	**938,800**	899,616
Other receivables *(note (ii))*	**289,021**	345,423
	5,179,097	4,637,477
Representing:		
Current portion	**4,542,962**	3,961,427
Non-current portion *(note (iii))*	**636,135**	676,050
	5,179,097	4,637,477

Notes:

(i) The Group maintains different billing policies for different customers based on the negotiated terms with each of the customers. The Group issues progress billing 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 within 90 days from the date of billing.

(ii) Included in other receivables of the Group as at 30 June 2014 is an amount of RMB32,317,000 (31 December 2013: RMB32,317,000) to be indemnified by some beneficiary owners of the Company ("Indemnifiers") in relation to a legal claim.

(iii) Non-current trade and other receivables as at 30 June 2014 include receivables of RMB376,857,000 (31 December 2013: RMB441,908,000) arising from instalment sales which are due for payment 1 year after the end of the reporting period and are discounted at market interest rate, finance lease receivables of RMB69,669,000 (31 December 2013: Nil), prepayment for acquisition of fixed assets of RMB146,549,000 (31 December 2013: RMB 191,673,000) and deposit placed as security for borrowings of RMB43,060,000 (31 December 2013: RMB42,469,000).

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

12 TRADE AND OTHER PAYABLES

	30 June 2014	31 December 2013
	RMB'000	*RMB'000*
Trade payables	**1,817,760**	1,823,918
Bills payable	**1,198,081**	937,008
Receipts in advance	**1,368,507**	1,005,880
Other payables	**434,367**	474,156
	4,818,715	4,240,962
Representing:		
Current portion	**4,810,329**	4,240,962
Non-current portion	**8,386**	–
	4,818,715	4,240,962

Bills payable as at 30 June 2014 and 31 December 2013 were secured by certain pledged bank deposits.

Except for the non-current trade and other payables, 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 2014	31 December 2013
	RMB'000	*RMB'000*
Within 3 months	**1,622,943**	1,793,608
3 months to 6 months	**944,775**	642,406
6 months to 1 year	**246,157**	168,282
Over 1 year	**201,966**	156,630
	3,015,841	2,760,926

MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2014, the Group's revenue amounted to RMB3,839 million, representing an increase of 54.4% as compared to RMB2,486 million in the same period last year. The gross profit was approximately RMB885 million, representing an increase of 10.6% as compared to RMB800 million in the same period last year. The profit attributable to shareholders of the Company was approximately RMB200 million, representing a decrease of 16.5% as compared to RMB239 million in the same period last year.

Market Review

The first half of 2014 witnessed a sustainable global economy recovery. US economy showed a sign of resilience, while the European economy recovered slightly. The emerging economies that boosted the growth of global economy after the economic crisis slowed down moderately. During the Period, the international oil prices rose slightly due to the political unrest in Ukraine and Iraq. The prices of New York WTI and London Brent crude oil remained at relatively high levels of US$91.36 and US$103.37 per barrel respectively. Barclays Capital estimated that the expenditure of global oil and gas exploration will reach US$723 billion in 2014, representing a growth of 6.1% as compared with 2013. This will stimulate drilling activities around the world. According to a survey by Baker Hughes, the global average number of active land rigs amounted to 3,523 units in the first half of 2014 (Note: not including China and Russia), representing a growth of nearly 4% as compared with the same period last year. On the other hand, the numbers of active land rigs in North America and other areas both grew. With regard to offshore oil and gas equipment, the average age of current active jack-up platforms has reached approximately 18 years. Replacement demand has been constantly increasing as a result of the declining utilization rate of old drilling platforms.

Business Review

As our guiding principle, "creative manufacturing" runs through our strategy and project execution. While improving our high quality "creative manufacturing" system, we have kept "creativity" and "innovation" in mind. We constantly develop new leading products, and endeavor to maintain our global competitiveness in project execution, product quality and innovative development, providing a wider range of customized products to create higher value for clients. During the Period, we significantly expanded the production, sales and trading of self-developed parts and components to meet the market demands while continuing the sales and production of rigs. After the NDC (National Drilling Company) phase 1 project was completed successfully, the Middle East market brought us new orders continuously. Moreover, the self-developed quintuple mud pump and other new products achieved further sales breakthroughs in North American market, enabling us to expand our footprints in the local market again. During the Period, we actively enhanced promotion of new products, new programs and the company brand. We promoted many new products with wide concern, such as the full hydraulic high-speed top drive and the automatic hanging full hydraulic pipe-layout machine at ten exhibitions, including Offshore Technology Conference and China International Petroleum & Petrochemical Technology and Equipment Exhibition. At the exhibitions, the Tiger series drilling packages for drilling ships which are used in deep water operation and equipped with many self-developed products stimulated clients' strong interests in our offshore equipment.

Land Drilling Equipment and Relevant Products

In terms of the sales of land drilling rigs, we continued to promote the "localization" strategy in the European, Asian, Middle Eastern, African and Chinese markets. We insisted on strengthening communication with clients through our local factories, sales offices and high-quality agents. With a worldwide client resource base, we obtained many sales contracts with existing clients again during the Period. In the Eurasian market, we successfully renewed a sales contract of land rigs worth approximately US$32 million with a subsidiary of Eriell Group. In the Middle Eastern market, we renewed sales contracts of three land rigs worth US$14 million and US$32 million with Kuwait Drilling Company K.S.C and Abraj Energy Services LLC respectively subsequent to the success of our first signed contract. In addition, we made breakthroughs in new markets as we entered Africa and Malaysia. In the African market, we signed a contract of two 1,500HP land rigs with the new client Sino-Tharwa Drilling Company after four months' efforts. In Asia, we adopted the sales strategy of "diversity" to open new markets, and successfully led three high-end 8,000m rigs into the Malaysian market through an innovative mode of finance lease. During the Period, domestic orders dropped due to falling demand from state-owned enterprises. To maneuver in this difficult situation, our sales force shifted the focus to private companies again. We successfully sold two land rigs under fierce market competition. During the Period, our accumulated newly signed agreements of land rigs amounted to 21 units, worth approximately US$200 million.

During the Period, we made significant progress in the production and sales of self-developed parts and components. As clients were satisfied with our products, the sales of our self-innovated series of direct-drive top drive products reached 6 sets as part of the drilling rigs and 8 sets individual sales during the Period. Based on the strong demand in North America, 57 mud pumps were sold, representing a growth of 42.5% as compared with the same period last year. Our innovative product — quintuple mud pump entered the US market further, 15 sets were sold, and 21 sets of direct-driven mud pump were also sold. Moreover, we actively made full use of our global procurement network to provide integrated procurement services for international clients. During the Period, our new trade orders for parts and components amounted to approximately US$178 million.

Hongteng, our subsidiary in Gansu, also achieved sales results during the Period. With the recognition received from the successful completion of three cementing trucks, Hongteng signed a contract of seven cementing trucks with Eriell Group in June 2014. The contract showed Eriell Group's recognition and trust on Hongteng products and its team. It also laid a solid foundation for the transformation and development of this subsidiary.

In the first half of 2014, we achieved the goal of sales and production, and our business volume of after-sales service also rose by 31% as compared with the same period last year. 35 rigs and 15 top drive units were installed. By the end of June 2014, another 15 rigs and 10 top drive units were under installation.

In the first half of 2014, we successfully delivered seven 9,000m rigs of the NDC Phase I project to the client's drilling site, of which the first set was successfully used in Abu Dhabi Island at the end of February. NDC signed the contract of Phase II project of two 9,000m rigs later to reaffirm the success of our Phase I project, and proved our good competitiveness in the global high-end market. NDC project not only showed our success in optimizing global market allocation and the capacity distribution strategy, but also reflected our significant improvements in overall strength. NDC project enables us to further consolidate the market position while greatly enhances our reputation and competitiveness in the global market. In terms of production operation, NDC project also gave us a rare opportunity of improvement. During the entire project, we enhanced team building and efficient communication, and optimized the sequence and procedures of assembly and testing. The assembly and testing time of the seventh set rig was nearly 70% shorter than the first set. Based on that, we continued to implement the "zero defect" policies during the Period to improve efficiency of production and testing, as well as to control quality and strive to ensure project management and product quality.

Oil and Gas Engineering Service Business

Facing a relatively sluggish domestic market, our oil and gas engineering service achieved steady expansion in the domestic and overseas markets during the Period, especially in terms of outstanding performance in the unconventional oil and gas drilling business. To meet the new market demand, we expanded the market share of shale gas service in Sichuan. In 2013, our first shale gas drilling project was highly recognized by the client. Then in the first half of 2014, we acquired approximately 16 contracts in the Yibin shale gas block, which were located in three drilling pads respectively. Currently, seven drilling teams have successfully moved to the Sichuan shale gas drilling site. They have started field operation and conducted special technique processing according to well situation. For example, they adopted the "PDC + screw + hydraulic pressurizer" process for surface drilling to achieve anti-collision, anti-deviation and acceleration, and adopted the "PDC+bent screw+MWD" process to monitor during drilling of intermediate hole, so as to achieve anti-deviation and acceleration.

We lay emphasis on innovation while expanding business. We continued to enhance technical strength through different channels and minimize potential risk. During the Period, we enhanced employee training including HSE, well control and professional English to improve the oil and gas service team's safety awareness and professional skills. With accumulation of experience and technical innovation, the operational efficiency of the oil and gas service business was further improved.

By the end of June 2014, we had 23 drilling service teams, of which 15 teams provided directional services. We also had 25 drilling fluids service teams. The accumulated personnel amounted to approximately 1,300. During the Period, we drilled 31 wells, including 11 horizontal wells and 2 directional wells, and the footage drilled amounted to approximately 73,900 meters.

Offshore Engineering Equipment and Related Products Business

In the first half of 2014, construction of the offshore engineering equipment base proceeded as scheduled, and we also made breakthroughs in production. In terms of base construction, the harbor basin which is 150m long and 110m wide was completed in early January 2014, and was accepted by Nantong Port Quality Supervision Station and water resources and fire departments. The construction process of Honghai crane, the core equipment enshrining the innovative concept of "onshore manufacturing of offshore equipment", is progressing as planned, with the production of member axles and painting completed. The first Honghai crane started integral lifting as scheduled at the end of July, and the assembly and testing will be completed in the third quarter of 2014. Production of segments of the second crane is completed, and the general assembly will begin after the first crane is lifted and slided. It is expected that the overall lifting will be completed at the end of 2014, and "Honghai crane" will be delivered in early 2015.

In terms of production, the 565-ton derrick, the core part of the Tiger-1 drilling package for drilling ship, started installation in Shanghai Shipyard in January 2014, and the integral hoisting and hoisting of the pipe-layout machine was completed at the end of May. This marks that the assembly of machines and tools of the Tiger-1 project is completed and enters into testing stage, symbolizing another solid step towards completion of the entire project. Tiger-2 has entered the assembly and commissioning stage, and will be shipped at the end of 2014. Over 80% of the PSV project has been completed. Now it has entered into the final stage of general assembly, which is scheduled in the third quarter of 2014, and the trial trip will be available in early 2015.

In terms of market expansion, we insist on promoting the innovative concept of "onshore manufacturing of offshore equipment" through OTC and other international exhibitions. In July, we entered into a sales and purchase agreement with Shanghai Shipyard Co., Ltd. ("Shanghai Shipyard") for the sale of two sets of drilling packages for Tiger series drilling ships, Tiger-3 and Tiger-4, worth approximately US$56 million. Since August, we subsequently signed a shipbuilding contract with UDIN Engineering Co., Ltd. worth over US$200 million and a Letter of Award with Orion Engineering and Management Ltd. for a semi-sub drilling rig worth approximately US$320 million. These further strengthen the close cooperation among Honghua and international offshore industry companies, and prove Honghua's innovative construction model, powerful self-research and development capabilities and production techniques in offshore sector once again received recognition from the market. In addition, we have maintained long-term communication with some potential marine clients, further boosting their confidence on our innovative concept and product quality.

Unconventional Oil and Gas Development Business

Our oil and gas service teams have participated in the exploration activities of unconventional oil and gas since 2013, and completed the exploration of first shale gas well with drilling depth of 4,115m and horizontal section length of 1,350m in December 2013. It was highly recognized by the client, and we also got precious construction experience. As mentioned in Oil and Gas Engineering Service Business section, we have got approximately 16 contracts in the Yibin shale gas block in 2014, and seven rigs are in operation in the block. Besides, our 6000HP fracturing pump completed the "smoking test" and the well site industrial test witnessed by Baker Hughes' experts during the Period, and the basic condition of the equipment was tested. In addition, our self-innovated electric fracturing blender truck is under prototype trial production.

Besides increasing our strength, we also actively seek cooperation opportunities with internationally renowned companies. During the Period, we entered into an MOU for strategic cooperation with GE to jointly build an efficient and energy-saving integrated shale gas solution. According to the MOU, Honghua will install GE gas power products, including aero derivative gas turbine and gas engine in its self-developed and manufactured innovative oil & gas drilling equipment, and will complete the integration in the Group's production base in China. This equipment will be developed as an integrated on-site power solution for well drilling, well completion and output production by using conventional/unconventional natural gas or associated gas in the field.

Quality Management and Research and Development

In the first half of 2014, we continued to strengthen construction of the quality management system and improve application of various qualifications. In production of land drilling equipment business, our overseas subsidiary EPHH successfully passed the recertification review of API Q1 and API 4F in April 2014, after months' preparation. It created conditions for promotion of sales after entering African market. In oil and gas engineering service business, we got the drilling permit for the Biryuk and Mukhin blocks of Sakha (Yakutia) Republic, and re-integrated the QHSE management system built in 2012. We started to implement the quality management system documents in compliance with API Q2 standard in China that was launched earlier and passed the Grade II enterprise review for work safety standardization conducted by State Administration of Work Safety in June. In terms of offshore equipment manufacture we got the ISO9001, ISO14001 and OSAHS18001 certifications issued by ABS QE, further improving the QHSE management system.

During the Period, the accumulated amount invested in research and development reached approximately RMB44 million, and the results were significant. We displayed the new generation "Honghua America No.1" rig at OTC in May. The rig features fast lifting, less transportation modules and high automation, resulting in higher operation safety, lower costs and faster installation, thus increasing its economic value. The trial production of the rack and pinion drilling rig is being tested smoothly. As at 30 June 2014, we filed application of 367 patents, and 220 patents were obtained.

Human Resources Management

We have been considering how to optimize the effective support of staff on strategic development of subsidiaries while improving the work environment and performance culture. To achieve this goal, we focus on integration of global resources and strengthening of strategic support. During the Period, we organized 381 training programs including strengthening of the use of SAP information system, effectively improving the staff's professional skills and work efficiency. To motivate excellent staff, we granted a total of 40,575,000 share options to about 400 middle and senior managers, core technical staff and old shareholders in early July 2014. We recruited 423 new employees during the Period, most of them are technical personnel, while improving the value of existing employees. As of 30 June 2014, the Group had 7,378 employees, among which 642 are research personnel.

Outlook

Throughout the overall development trend of oil and gas industry, the demands in Asia, Latin America, Middle East and Russia are generally stable. We will seize the opportunities in the future. In the field of onshore oil and gas equipment, we will continue to implement the strategy of "localization" to consolidate the market share in each region of the world. We will impel the sales strategy of "market diversification", supported by our financial leasing firms to provide diversified financing channel to clients and further promote product sales in domestic and global market. By 19 August 2014, our onshore drilling rig about 54 sets, worth approximately RMB4,400 million and estimated to be delivered between 2014 and 2015.

As for the oil and gas engineering service business, we will rely on our self-produced equipment and develop other services driven by our drilling service. While focusing on expanding conventional oil and gas services markets worldwide, we will cooperate with renowned international oil and gas services companies and get well-prepared for the large scale development in the unconventional oil and gas industry. By 19 August 2014, oil and gas service backlog reached approximately RMB150 million.

In terms of offshore engineering equipment, we will continue to complete the construction of "Honghai crane" and the existing Tiger and PSV ship projects etc. At the same time, we will insist on the competitive advantage of innovative development and self-production. We will proactively make use of the international offshore companies' recognition towards our engineering, procurement and construction, to keep close communication in regard to fixed and jack-up drilling platforms and other offshore products with international clients. By 19 August 2014, our offshore engineering equipment backlog reached approximately RMB2,130 million.

Looking forward, we will adhere to the concept of "creative manufacturing", and 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 exploration business. We will strengthen our overall competitiveness; achieve sustainable and steady development, thus creating higher return for Shareholders.

FINANCIAL REVIEW

During the Period, the Group's gross profit and profit attributable to equity shareholders of the Company amounted to approximately RMB885 million and RMB200 million respectively, and gross margin and net margin amounted to approximately 23.0% and 5.2% respectively. In the same period last year, gross profit and profit attributable to equity shareholders of the Company amounted to approximately RMB800 million and RMB239 million respectively, gross margin and net margin amounted to approximately 32.2% and 9.6% respectively. During the Period, the Group's gross profit represented an increase of 10.6%, the decrease in profit attributable to equity shareholders of the Company was mainly due to the decrease in gross profit margin.

Turnover

During the Period, the Group's turnover amounted to approximately RMB3,839 million, representing an increase of RMB1,353 million or 54.4% as compared to RMB2,486 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 rigs parts and components. The number of land drilling rig sales during the Period increased to 34 units from 28 units in the same period last year.

(a) Revenue by Geographical Areas

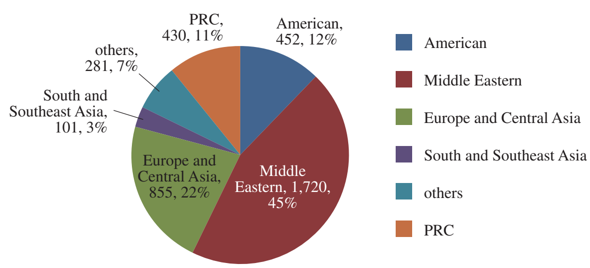
The Group's revenue by geographical segment during the Period: (1) The Group's export revenue amounted to approximately RMB3,409 million, accounting for approximately 88.8% of total revenue, representing an increase of RMB1,737 million as compared to the same period last year. Among which, the Middle Eastern market's revenue amounted to approximately RMB1,720 million, representing an increase of RMB1,571 million or 1,054.4% as compared to the same period last year; the European and Central Asia market's revenue amounted to approximately RMB855 million, representing an increase of RMB215 million or 33.6% as compared to the same period last year; the American market's revenue amounted to approximately RMB452 million, representing a decrease of RMB406 million or 47.3% as compared to the same period last year; the South and Southeast Asia market's revenue amounted to approximately RMB101 million, representing an increase of RMB80 million or 381.0% as compared to the same period last year; and the others market's revenue amounted to approximately RMB281 million, representing an increase of RMB277 million as compared to the same period last year; (2) Mainland China's revenue amounted to approximately RMB430 million, accounting for approximately 11.2% of total revenue.

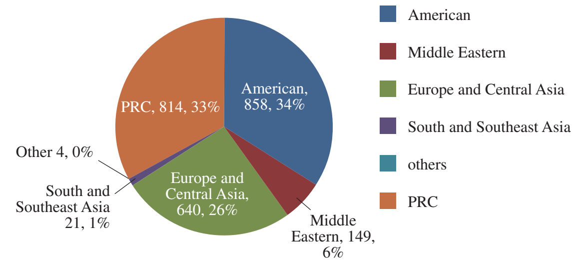
The revenues from different regions are affected by oil and gas exploration activities in various areas of the world. The Group actively explores new markets, constantly develops new customers and gains new purchase orders to ensure the sustained growth of sales revenue.

Revenue by Geographical Areas

For the six months ended 30 June 2014 **For the six months ended 30 June 2013**

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 RMB2,724 million, representing an increase of RMB974 million or 55.7% as compared to RMB1,750 million in the same period last year. The increase in revenue from land drilling rigs was mainly due to the added value of the drilling rigs sold and the selling price increased approximately 29%, as well as the increase in sales volume of drilling rigs from 28 units in the same period last year to 34 units during the Period.

During the Period, external revenue from offshore drilling rigs amounted to approximately RMB53 million, and there was no external revenue in the same period last year.

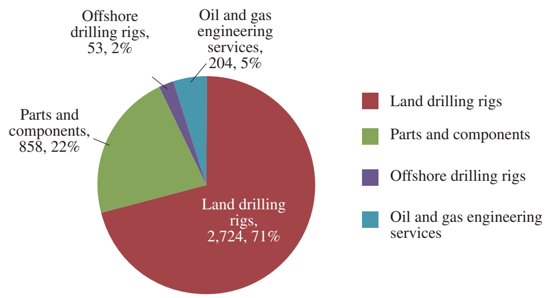
During the Period, external revenue from land drilling rig parts and components amounted to approximately RMB858 million, representing an increase of RMB244 million or 39.7% as compared to RMB614 million in the same period last year. The increase of land drilling rig parts and components' revenue was mainly due to active market exploration and new product sales. Among which, revenue from materials was RMB224 million; revenue from sales of 8 sets of top drive amounted to RMB72 million; revenue from drill stem amounted to RMB38 million; revenue from rig and component transformation was RMB35 million.

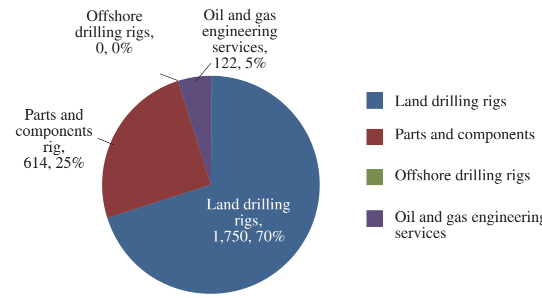
During the Period, revenue from oil and gas engineering services amounted to approximately RMB204 million, representing an increase of RMB82 million or 67.2% as compared to RMB122 million in the same period last year. The Group actively explores markets of oil and gas engineering services. Oil and gas engineering services have a total of 23 drilling crew in the first half of 2014, which operate in 5 areas, such as Sichuan, Xinjiang, Northeast China, Inner Mongolia, and Iraq.

Revenue by business categories

For the six months ended 30 June 2014 **For the six months ended 30 June 2013**

Expressed in RMB'million





Cost of Sales

During the Period, the Group's cost of sales amounted to approximately RMB2,954 million, representing an increase of approximately 75.1% or RMB1,267 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 RMB885 million, representing an increase of RMB85 million or 10.6% as compared to the same period last year.

During the Period, the Group's overall gross margin was 23.0%, representing a decrease of 9.2 percentage points as compared to 32.2% in the same period last year. This was mainly due to the Group's in proactive market development and taking the initiative to benefit customers in some markets.

Expenses in the Period

During the Period, the Group's selling expenses amounted to approximately RMB285 million, representing an increase of RMB38 million as compared to RMB247 million in the same period last year, as the result of substantial increase in sales revenue which led to an increase in transportation fees and service fees etc.

During the Period, the Group's general and administration expenses amounted to approximately RMB270 million, representing an increase of RMB40 million or 17.4% as compared to RMB230 million in the same period last year, which was mainly because the Group invested in research and development and more tenants are recruited for business expansion.

During the Period, the Group's net finance expenses amounted to approximately RMB95 million, representing an increase of RMB46 million as compared to net finance expenses of RMB49 million in the same period last year. The increase in net finance expense was mainly attributable to the increase in interest expenses which was in line with the increase in bank borrowings.

Profit before Taxation

During the Period, profit before taxation of the Group amounted to approximately RMB269 million, representing a decrease of RMB37 million as compared to RMB306 million in the same period last year. The decrease was mainly resulted from the increased expenses for the Period.

Income Tax Expenses

During the Period, the Group's income tax expense amounted to approximately RMB57 million as compared to the income tax expense of approximately RMB50 million in the same period last year.

Profit for the Period

During the Period, the Group's profit amounted to approximately RMB212 million, as compared to a profit of approximately RMB256 million in the same period last year. Among which, profit attributable to equity shareholders of the Company was approximately RMB200 million, while earnings attributable to non-controlling interests was approximately RMB12 million. During the Period, net margin was 5.2%, as compared to net margin of 9.6% in the same period last year, which was mainly resulted from the increased expenses for the Period.

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

During the Period, EBITDA amounted to RMB519 million, as compared to approximately RMB458 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 13.5%, as compared to 18.4% in the same period last year, which was mainly resulted from the decrease in the gross margin.

Dividends

For the period ended at 30 June 2014, 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 2014, the Group's bank borrowings amounted to approximately RMB4,989 million, representing an increase of approximately RMB258 million as compared to 31 December 2013. Among which, borrowings repayable within one year amounted to approximately RMB3,561 million, representing an increase of RMB288 million as compared to 31 December 2013.

Deposits and cash flow

As at 30 June 2014, the Group's cash and cash equivalents amounted approximately RMB1,540 million, representing an increase of approximately RMB265 million as compared to 31 December 2013.

During the Period, the Group's net operating cash outflow from operations amounted to approximately RMB40 million; net cash inflow from investing activities, during the Period amounted to approximately RMB338 million; net cash outflow from financing activities amounted to approximately RMB39 million.

Assets structure and changes thereof

As at 30 June 2014, the Group's total assets amounted to approximately RMB15,064 million, representing an increase of approximately RMB835 million or 5.9% as compared to 31 December 2013. Among which, current assets amounted to approximately RMB10,400 million, accounting for approximately 69.0% of total assets, representing an increase of RMB719 million as compared to 31 December 2013, which were mainly increase of inventories, trade and other receivables and monetary funds. Non-current assets amounted to approximately RMB4,664 million, accounting for approximately 31.0% of total assets, representing an increase of approximately RMB116 million as compared to 31 December 2013, and was mainly attributable to the increase in construction in progress.

Liabilities

As at 30 June 2014, the Group's total liabilities amounted to approximately RMB10,022 million, representing an increase of approximately RMB751 million as compared to 31 December 2013. Among which, current liabilities amounted to approximately RMB8,544 million, accounting for approximately 85.3% of total liabilities, representing an increase of approximately RMB782 million as compared to 31 December 2013. Non-current liabilities amounted to approximately RMB1,478 million, accounting for approximately 14.7% of total liabilities, representing a decrease of approximately RMB31 million as compared to 31 December 2013. As at 30 June 2014, the Group's total liabilities/total assets ratio was approximately 66.5%, representing an increase of 1.3 percentage points as compared to 31 December 2013.

Equity

As at 30 June 2014, total equity amounted to RMB5,042 million, representing an increase of RMB84 million as compared to 31 December 2013. Total equity attributable to equity shareholders of the Company amounted to approximately RMB4,836 million, representing an increase of RMB73 million as compared to 31 December 2013. Non-controlling interests amounted to approximately RMB206 million, representing an increase of RMB11 million as compared to 31 December 2013. Net asset value reached approximately RMB1.56 per Share as at 30 June 2014. During the Period, the Group's basic earnings per Share was RMB6.286 cents, and diluted earnings per Share was RMB6.235 cents.

Contingent liabilities

A sales agency filed lawsuits against the subsidiaries of the Company, alleged that it was owed commission in excess of US$18,000,000 in relation to their services to the Group.

On 24 April 2013, the United Arab Emirates ("UAE") Federal Court of First Instance ordered the termination of the agency agreement and dismissed all claims from the sales agency. The sales agency filed an appeal to the UAE Federal Court of Appeal on the court's decision and hearing is yet to be made as at 30 June 2014.

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 this lawsuit.

Capital Expenditure, Major Investment and Capital Commitments

During the Period, capital expenditure of the Group on infrastructure and technical improvements amounted to approximately RMB280 million, representing a decrease of approximately RMB182 million as compared to the same period last year.

As at 30 June 2014, the Group had capital commitments of approximately RMB737 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.

Employee Remuneration and Benefits

During the Period, the average employee number of the Group was 7,554. The total amount of remuneration and benefit was about RMB433 million, increased by RMB114 million or 35.7% as compared to the same period last year.

The strategy of human resource management of the Group is the consistency between performance culture and enterprise culture. To realize a win-win situation between the development of the Group and the development of staff, the Group have built a future-oriented resources plan, attracting talents with high-performance and high-potential, establishing diverse salary incentive policies and reinforcing the training as well as the career planning of employees. During the Period, the Group develops the performance systems by breaking down the performance objectives into posts that matters most. It develops the compensation system by offering bonus to each subsidiary based on the completion of performance target and by adjusting employees' salary based on performance, capability, attitude and market situation. It develops the training system by providing performance improvement program and specialized training for low performance employees, so as to improve their knowledge, capability, skill and sense of belonging. The Group has also set up a share option scheme and a restricted share award scheme as a long-term incentive mechanism for core talented employee and excellent staff and senior and middle management in order to encourage them to grow with the Group. To improve the competitive advantage of human resource, the Group will enhance the passion, potential and spirit of employees by perfecting the system and procedure, emphasizing the employee relationship management and developing personalized training plan for the years to come.

PURCHASE, SALE OR REDEMPTION OF COMPANY'S LISTED SECURITIES

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 2014.

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 is also responsible for reviewing the compliance of the corporate governance issues, the corporate governance report and the corporate governance policy. 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 2014.

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 2014 to 30 June 2014, 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 the Company 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 E.1.2 of the CG Code stipulates that the Chairman of the Board should attend annual general meetings. Mr. Zhang Mi, the Chairman of the Board, was absent from the last annual general meeting of the Company held in May 2014 due to his important business trip at the relevant time.

Code Provision A.5.1 of the CG Code stipulates that Nomination Committee should be established with the Chairman of the Board or Independent Non-executive Director to be the chairman of the Nomination Committee.

For improving work efficiency, the Nomination Committee of the Group was dismissed with effect from 19 March 2013 and that its duties were taken over by the Board for reviewing its own structure, size and composition regularly (including taking into account of the board diversity policy of the Company) 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 with terms no less exacting than that of the Model Code. After the specific enquiry made of all the Directors 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 2014.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2014

This results 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 2014 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
"CG Code":	Corporate Governance Code set out in Appendix 14 to the Listing Rules
"Code for Securities Trading":	code for securities trading adopted by the Company since 21 January 2008
"Company" or "Honghua Group":	Honghua Group Limited
"Directors":	directors of the Company
"Group":	the Company and its subsidiaries, its associate and its joint ventures
"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 2014
"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 2013
"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 of the Group 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, 21 August 2014

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. Chen Guoming, Mr. Shi Xingquan and Mr. Guo Yanjun as independent non-executive Directors.