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 2015

FINANCIAL HIGHLIGHT

	Six months ended 30 June		
	2015 (Unaudited)	2014 (Unaudited)	% change
Revenue (RMB'000)	**2,228,807**	3,838,879	–41.9%
Gross profit (RMB'000)	**528,382**	884,538	–40.3%
Gross margin (%)	**23.7%**	23.0%	
Operating profit (RMB'000)	**19,049**	365,698	–94.8%
Earnings attributable to equity shareholders of the Company (RMB'000)	**(29,874)**	199,745	–115.0%
(Loss)/Basic earnings per share (RMB cents)	**(0.940)**	6.286	–115.0%
(Loss)/Diluted earnings per share (RMB cents)	**(0.940)**	6.235	–115.1%

The Board does not recommend payment of interim dividend for the six months ended 30 June 2015.

INTERIM RESULTS

The Board of the Company hereby announces the unaudited interim financial results of the Group for the six months ended 30 June 2015, together with the comparative figures for the corresponding period in 2014.

The interim financial report for the six months ended 30 June 2015 is unaudited, but has been reviewed by PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagements 2400 "Review of Financial Statements" 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.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the six months ended 30 June 2015

		Unaudited Six months ended 30 June	
		2015	2014
	Note	***RMB'000***	*RMB'000*
Revenue	*4*	**2,228,807**	3,838,879
Cost of sales		**(1,700,425)**	(2,954,341)
Gross profit		**528,382**	884,538
Other revenue	*5*	**27,569**	32,782
Other operating (expenses)/income	*5*	**(12,906)**	28,288
Other income/(expenses)		**25,248**	(25,370)
Distribution costs		**(259,917)**	(284,874)
Administrative expenses		**(289,327)**	(269,666)
Operating profit		**19,049**	365,698
Finance income	*6(a)*	**103,275**	53,299
Finance costs	*6(a)*	**(157,110)**	(148,289)
Net finance expenses		**(53,835)**	(94,990)
Share of post-tax profits of associates		**340**	–
Share of losses of joint ventures		**(3,249)**	(1,508)
(Loss)/Profit before income tax	*4, 6*	**(37,695)**	269,200
Income tax expense	*7*	**10,770**	(56,868)
(Loss)/Profit for the period		**(26,925)**	212,332
(Loss)/profit attributable to:			
— Owners of the Company		**(29,874)**	199,745
— Non-controlling interests		**2,949**	12,587
		(26,925)	212,332
(Loss)/Earnings per share for profit attributable to owners of the Company *(expressed in RMB cents per share)*			
(Loss)/Basic earnings per share	*8(a)*	**(0.940)**	6.286
(Loss)/Diluted earnings per share	*8(b)*	**(0.940)**	6.235

INTERIM CONDENSED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2015

	Unaudited Six months ended 30 June	
	2015	2014
	RMB'000	*RMB'000*
(Loss)/Profit for the period	**(26,925)**	212,332
Other comprehensive income		
Items that may be reclassified to profit or loss		
Fair value losses on available-for-sale financial assets, net of tax	**(826)**	(195)
Currency translation differences	**(11,748)**	22,609
Other comprehensive income for the period, net of tax	**(12,574)**	22,414
Total comprehensive income for the period	**(39,499)**	234,746
Total comprehensive income attributable to:		
— Owners of the Company	**(42,643)**	220,940
— Non-controlling interests	**3,144**	13,806
	(39,499)	234,746

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2015

	Note	**Unaudited 30 June 2015** *RMB'000*	Audited 31 December 2014 *RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment	*10*	**2,855,696**	2,837,994
Interests in leasehold land held for own use under operating leases	*10*	**414,595**	402,784
Freehold land	*10*	**4,929**	4,934
Deposits for acquisition of leasehold land		**157,320**	163,192
Construction in progress		**353,853**	362,312
Goodwill	*10*	**13,484**	13,484
Intangible assets	*10*	**205,564**	212,829
Investments in associates		**50,678**	9,000
Investments in joint ventures		**43,698**	86,914
Deferred income tax assets		**272,298**	201,189
Other investment		**118,377**	118,091
Trade and other receivables	*12*	**575,742**	825,445
Total non-current assets		**5,066,234**	5,238,168
Current assets			
Inventories		**2,497,081**	2,980,996
Trade and other receivables	*12*	**4,719,439**	4,663,587
Amount due from customers for contract work	*9*	**80,545**	217,001
Current tax recoverable		**2,587**	8,002
Other financial assets		**–**	331,826
Pledged bank deposits		**330,285**	612,743
Bank deposits maturing over three months		**–**	4,003
Cash and cash equivalents		**1,065,825**	1,442,014
Total current assets		**8,695,762**	10,260,172
Total assets		**13,761,996**	15,498,340

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(CONTINUED)
As at 30 June 2015

	Note	**Unaudited 30 June 2015** *RMB'000*	Audited 31 December 2014 *RMB'000*
EQUITY			
Equity attributable to owners of the Company			
Share capital		**300,983**	300,983
Other reserves		**2,944,570**	2,954,593
Retained profits		**1,444,443**	1,473,401
		4,689,996	4,728,977
Non-controlling interests		**237,937**	234,793
Total equity		**4,927,933**	4,963,770
LIABILITIES			
Non-current liabilities			
Interest-bearing borrowings		**2,189,194**	2,320,097
Trade and other payables	*13*	**33,528**	9,236
Total non-current liabilities		**2,222,722**	2,329,333
Current liabilities			
Trade and other payables	*13*	**3,998,569**	5,270,762
Current income tax liabilities		**64,787**	60,641
Interest-bearing borrowings		**2,492,588**	2,806,956
Provisions for other liabilities and charges		**55,397**	66,878
Total current liabilities		**6,611,341**	8,205,237
Total liabilities		**8,834,063**	10,534,570
Total equity and liabilities		**13,761,996**	15,498,340
Net current assets		**2,084,421**	2,054,935
Total assets less current liabilities		**7,150,655**	7,293,103

1 GENERAL INFORMATION

Honghua Group Limited (the "Company") and its subsidiaries (together the "Group") are principally engaged in manufacturing drilling rigs, offshore engineering, and oil & gas exploitation equipment and providing drilling services.

The Company was incorporated in the Cayman Islands on 15 June 2007 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited.

This interim condensed consolidated financial information is presented in Chinese Renminbi ("RMB"), unless otherwise stated, and was approved for issue on 19 August 2015.

This interim condensed consolidated financial information has not been audited.

2 BASIS OF PREPARATION

This interim condensed consolidated financial information for the six months ended 30 June 2015 has been prepared in accordance with IAS 34, 'Interim financial reporting'. The interim condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2014, which have been prepared in accordance with IFRSs.

3 ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2014, as described in those annual financial statements.

Amendments to IFRSs effective for the financial year ending 31 December 2015 do not have a material impact on the Group.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

There are no other amended standards or interpretations that are effective for the first time for this interim period that could be expected to have a material impact on the Group.

4 SEGMENT INFORMATION

The senior executive management is the Group's chief operating decision-maker. Management has determined the operating segments based on the information reviewed by the senior executive management for the purposes of allocating resources and assessing performance.

The Group manages its businesses by divisions, which are organised by business lines (land drilling rigs, offshore drilling rigs, parts and components, oil and gas engineering services and other services) and geographically. 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.

The senior executive management assesses the performance of the operating segments based on a measure of segment profit or loss. This measurement basis excludes the share of post-tax profit or loss of joint ventures and associates, other revenue and other operating expenses and other income or expenses. Finance income and costs are not allocated to segments, as this type of activity is driven by the central treasury function, which manages the cash position of the Group. Other information provided, except as noted below, to the senior executive management is measured in a manner consistent with that in the financial statements.

Sales between segments are carried out in the ordinary course of business and in accordance with the terms of the underlying agreements. The revenue from external parties reported to the senior executive management is measured in a manner consistent with that in the interim condensed consolidated statement of profit or loss.

The following table presents revenue and profit information regarding the Group's operating segments for the six months ended 30 June 2015 and 2014 respectively.

	Land drilling rigs Six months ended 30 June		Offshore drilling rigs (i) Six months ended 30 June		Parts and components and others Six months ended 30 June		Oil and gas engineering services Six months ended 30 June		Total Six months ended 30 June	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Revenue from external customers	**1,490,762**	2,723,901	**(9,515)**	52,776	**600,802**	857,769	**146,758**	204,433	**2,228,807**	3,838,879
Inter-segment revenue	**–**	–	**–**	299	**208,819**	604,006	**–**	25,641	**208,819**	629,946
Reportable segment revenue	**1,490,762**	2,723,901	**(9,515)**	53,075	**809,621**	1,461,775	**146,758**	230,074	**2,437,626**	4,468,825
Reportable segment profit/(loss)	**167,419**	426,032	**(103,737)**	(46,672)	**3,088**	43,914	**(61,549)**	(60,917)	**5,221**	362,357

Note:

(i) During the period ended 30 June 2015, a vessel returned to the Group with the amount of approximately RMB128,834,000 was debited to revenue.

A reconciliation of segment profit to (loss)/profit before income tax is provided as follows:

	Six months ended 30 June	
	2015	2014
	RMB'000	*RMB'000*
Segment profit		
— for reportable segments	**5,221**	362,357
Elimination of inter-segment profits	**(4,129)**	3,419
Segment profit derived from Group's external customers	**1,092**	365,776
Share of losses of joint ventures	**(3,249)**	(1,508)
Share of post-tax profits of associates	**340**	–
Other revenue, other operating expenses/income and other income/expenses	**39,911**	35,700
Finance income	**103,275**	53,299
Finance costs	**(157,110)**	(148,289)
Unallocated head office and corporate expenses	**(21,954)**	(35,778)
(Loss)/Profit before income tax	**(37,695)**	269,200

Given the manufacturing processes 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 operations segments. During the six months ended 30 June 2015, such information was not reviewed by the Group's chief operating decision maker. Accordingly, no segment assets and liabilities are presented.

5 OTHER REVENUE AND OTHER OPERATING (EXPENSES)/INCOME

	Six months ended 30 June	
	2015	2014
	RMB'000	*RMB'000*
Other revenue		
Government grants (i)	**9,872**	13,738
Sales of scrap materials	**6,854**	10,154
Rental income	**4,690**	–
Repair services income	**3,745**	2,833
Others	**2,408**	6,057
	27,569	32,782

Note:

(i) Government grants are subsidies received from government mainly for expenses reimbursement of certain projects or industry development encouragement.

	Six months ended 30 June	
	2015	2014
	RMB'000	*RMB'000*
Other operating (expenses)/income		
Reversal of provision for a legal claim with former sales agency	**–**	33,241
Others	**(12,906)**	(4,953)
	(12,906)	28,288

6 (LOSS)/PROFIT BEFORE INCOME TAX

	Six months ended 30 June	
	2015	2014
	RMB'000	*RMB'000*
(a) Net finance expenses		
Interest income on bank deposits	**(27,616)**	(27,488)
Interest income from long-term receivables	**(22,960)**	(20,927)
Net gain on disposal of other financial assets	**(5,019)**	(4,884)
Net foreign exchange gain	**(47,680)**	–
Finance income	**(103,275)**	(53,299)
Net foreign exchange loss	**–**	26,242
Bank charges	**18,244**	29,202
Interest on interest-bearing borrowings wholly repayable within five years	**159,161**	115,261
Less: interest expense capitalised into assets under construction	**(20,295)**	(22,416)
Finance expenses	**157,110**	148,289
Net finance expenses	**53,835**	94,990
(b) Staff cost		
Contributions to defined contribution retirement schemes	**57,329**	66,005
Equity-settled share-based payment expenses	**3,662**	1,590
Salaries, wages and other benefits	**236,182**	365,389
Total staff cost	**297,173**	432,984
(c) Other items		
Amortisation and depreciation		
— leasehold land held for own use under operating leases	**4,489**	3,531
— property, plant and equipment	**158,917**	130,502
— intangible assets	**19,820**	20,296
Reversal of impairment losses on trade and other receivables	**(6,924)**	(2,523)
Provision for inventory write-down	**5,319**	88,631
Research and development costs other than amortisation costs	**35,288**	32,770
Gains/(Losses) from forward exchange contracts (i)	**16,582**	(18,041)

Note:

(i) Gains/(Losses) from forward exchange contracts are presented in "Other income/(expenses)" in the interim condensed consolidated statement of profit or loss.

7 INCOME TAX EXPENSE

Taxation in the interim condensed consolidated statement of profit or loss represents:

	Six months ended 30 June	
	2015	2014
	RMB'000	*RMB'000*
Current income tax — Hong Kong Profits Tax (i)		
Provision for the period	**2,780**	2,842
Current income tax — PRC (ii)		
Provision for the period	**42,141**	81,463
Over provision in respect of prior years	**(141)**	(240)
Current income tax — Other jurisdictions (iii)		
Provision for the period	**19,303**	5,701
(Over)/under-provision in respect of prior years	**(3,092)**	1,423
Total current income tax	**60,991**	91,189
Deferred income tax	**(71,761)**	(34,321)
Income tax expense	**(10,770)**	56,868

(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 2015.

(ii) PRC

Pursuant to the income tax rules and regulations of the PRC, the subsidiaries of the Group in the PRC are subject to PRC enterprise income tax at a rate of 25% during the six months ended 30 June 2014 and 2015, except for the following companies:

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

Corporate income tax ("CIT") 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 2014 and 2015.

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

On 6 April 2012, State Taxation Administration issued Notice 12(2012) ("the Notice") in respect of favourable CIT policy applicable to qualified enterprises located in western China. Honghua Electric applied and obtained an approval from in-charge tax authority under the policy for the 15% preferential CIT rate and is qualified for the 15% preferential CIT rate from 2012 to 2020.

(iii) Others

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

Income tax expense is recognised based on management's estimate of the weighted average annual income tax rate expected for the full financial year.

8 (LOSS)/EARNINGS PER SHARE

(a) (Loss)/Basic earnings per share

The calculation of loss/basic earnings per share for the six months ended 30 June 2015 is based on the loss attributable to owners of the Company for the period of RMB29,874,000 (six months ended 30 June 2014: a profit of RMB199,745,000) and the weighted average number of shares of 3,178,968,000 (six months ended 30 June 2014: 3,177,556,000 shares) in issue during the period.

	Six months ended 30 June	
	2015	2014
	(thousands)	(thousands)
Issued ordinary shares at 1 January	**3,241,057**	3,239,167
Effect of the share award scheme	**(62,089)**	(62,089)
Effect of share options exercised	**–**	478
Weighted average number of ordinary shares at 30 June	**3,178,968**	3,177,556

(b) (Loss)/Diluted earnings per share

The calculation of loss/diluted earnings per share for the six months ended 30 June 2015 is based on the loss attributable to owners of the Company of RMB29,874,000 (six months ended 30 June 2014: a profit of RMB199,745,000) and the weighted average number of shares of 3,178,968,000 (six months ended 30 June 2014: 3,203,594,000 shares), calculated as follows:

	Six months ended 30 June	
	2015	2014
	(thousands)	(thousands)
Weighted average number of ordinary shares at 30 June	**3,178,968**	3,177,556
Effect of deemed issue of shares under the share option scheme	**–**	26,038
Weighted average number of ordinary shares (diluted) at 30 June	**3,178,968**	3,203,594

9 CONTRACT WORK-IN-PROGRESS

	30 June 2015	31 December 2014
	RMB'000	*RMB'000*
Contract cost incurred plus recognised profit less recognised losses	**316,390**	235,517
Less: progress billings	**(235,845)**	(18,516)
Contract work-in-progress	**80,545**	217,001
Representing:		
Amount due from customers for contract work	**80,545**	217,001

	Six months ended 30 June	
	2015	2014
	RMB'000	*RMB'000*
Contract revenue recognised as revenue	**(9,515)**	52,776

10 PROPERTY, PLANT AND EQUIPMENT, FREEHOLD LAND AND INTANGIBLE ASSETS

	Property, plant and equipment *RMB'000*	Freehold land *RMB'000*	Interests in leasehold land held for own use under operating leases *RMB'000*	Goodwill *RMB'000*	Other intangible assets[i] *RMB'000*
Six months ended 30 June 2015					
Net book value					
Opening amount as at 1 January 2015	**2,837,994**	**4,934**	**402,784**	**13,484**	**212,829**
Additions	**184,673**	**–**	**16,300**	**–**	**12,554**
Disposals	**(7,906)**	**–**	**–**	**–**	**–**
Depreciation and amortisation	**(158,917)**	**–**	**(4,489)**	**–**	**(19,820)**
Currency translation difference	**(148)**	**(5)**	**–**	**–**	**1**
Closing amount as at 30 June 2015	**2,855,696**	**4,929**	**414,595**	**13,484**	**205,564**
Six months ended 30 June 2014					
Net book value					
Opening amount 1 January 2014	2,148,103	4,916	361,888	13,484	213,638
Additions	164,001	–	13	–	10,184
Disposals	(2,151)	–	–	–	–
Depreciation and amortisation	(130,502)	–	(3,531)	–	(20,296)
Currency translation difference	2,428	45	–	–	1,698
Closing amount 30 June 2014	2,181,879	4,961	358,370	13,484	205,224

Note:

(i) During the six months ended 30 June 2015, the Group capitalised development cost of RMB9,009,000 (six months ended 30 June 2014: RMB9,645,000).

11 DIVIDENDS

No dividend was approved or paid in respect of the previous financial year during the six months ended 30 June 2015 (six months ended 30 June 2014: RMB150,946,000).

The board of directors does not recommend the payment of an interim dividend for the six months ended 30 June 2015 (six months ended 30 June 2014: Nil).

12 TRADE AND OTHER RECEIVABLES

As at 30 June 2015 and 31 December 2014, the ageing analysis of trade debtors and bills receivable (including amounts due from related parties of trading in nature), based on the invoice date is as follows:

	30 June 2015 *RMB'000*	31 December 2014 *RMB'000*
Within 3 months	**1,289,691**	1,857,583
3 to 12 months	**2,080,870**	1,223,358
Over 1 year	**705,054**	827,449
Trade debtors and bills receivable — gross (i)	**3,985,400**	3,786,896
Less: provision for impairment of trade receivables	**(218,646)**	(225,660)
Amount due from related parties		
— Trade	**90,215**	121,494
— Non-trade	**43,467**	32,608
Finance lease receivable	**222,259**	199,128
Value-added tax recoverable	**375,593**	408,408
Prepayments	**553,343**	875,769
Other receivables (ii)	**252,267**	299,016
Less: provision for impairment of other receivables	**(8,717)**	(8,627)
	5,295,181	5,489,032
Representing:		
Current portion (iii)	**4,719,439**	4,663,587
Non-current portion (iv)	**575,742**	825,445
Total	**5,295,181**	5,489,032

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 generally due for payment within 90 days from the date of billing.

(ii) Included in other receivables of the Group as at 30 June 2015 is an amount of RMB32,317,000 (31 December 2014: RMB32,317,000) to be indemnified by some beneficiary owners of the Company in relation to a legal claim.

(iii) 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.

(iv) Non-current trade and other receivables as at 30 June 2015 include receivables of RMB246,989,000 (31 December 2014: RMB490,038,000) 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 RMB110,252,000 (31 December 2014: RMB129,215,000), prepayment for acquisition property, plant and equipment of RMB176,422,000 (31 December 2014: RMB164,113,000) and deposit placed as security for borrowings of RMB42,079,000 (31 December 2014: RMB42,079,000).

13 TRADE AND OTHER PAYABLES

At 30 June 2015 and 31 December 2014, the ageing analysis of the trade payables and bills (including amounts due to related parties of trading in nature) based on invoice date is as follows:

	30 June 2015 *RMB'000*	31 December 2014 *RMB'000*
Within 3 months	**939,162**	1,953,411
3 to 6 months	**644,735**	1,039,606
6 to 12 months	**442,465**	168,180
Over 1 year	**469,188**	371,514
Trade payables	**1,783,966**	2,003,822
Amounts due to related companies		
— Trade	**19,449**	24,250
— Non-trade	**42**	–
Bills payable (i)	**692,135**	1,504,639
Receipts in advance	**894,654**	1,110,543
Other payables	**641,851**	636,744
	4,032,097	5,279,998
Representing:		
Current portion (ii)	**3,998,569**	5,270,762
Non-current portion	**33,528**	9,236
Total	**4,032,097**	5,279,998

Notes:

(i) Bills payable as at 30 June 2015 and 31 December 2014 were secured by certain pledged bank deposits.

(ii) 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.

MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2015, the Group's revenue amounted to approximately RMB2.229 billion, representing a decrease of 41.90% from RMB3.839 billion in the corresponding period last year; gross profit was approximately RMB528 million, representing a decrease of 40.30% from RMB885 million in the corresponding period last year; and earnings attributable to equity shareholders was approximately RMB-30 million, representing a decrease of 115% from RMB200 million in the corresponding period last year.

Market Review

In the first half of 2015, the global economic recovery was slow and the recovery rates were obviously different in various economies, while geopolitical conflicts also increased slightly. With the rebound of the crude oil demand in China and other developing countries as well as the slowdown in the supply of shale oil in the United States and the oil supply in other oil-producing countries, international oil prices has bottomed out from the lowest point at the beginning of 2015 after oil prices sharply fell in 2014. During the Period, crude oil prices tended to stabilize after rising in turbulence. Brent and WTI crude oil prices had been recovering since they bottomed out in January 2015, and their average prices had been hovering below US$60 per barrel. However, the global oversupply situation of crude oil did not change fundamentally during the Period, narrowing the rebound rate of oil prices. The trend of oil prices hovering at low levels is still affecting the exploration activity in the global oil and gas industry. According to Baker Hughes statistics, as of June 2015, there were 1,827 sets of land drilling rigs (excluding those in China and Russia) and 309 sets of offshore drilling platforms continuously operating worldwide on average. Against this backdrop, the investment climate of the global oil and gas exploring and production equipment and oilfield service market has improved, especially in the developed oil markets such as the Middle East and Russia. Meanwhile, Africa and Southeast Asia markets are actively developing their offshore oil resources and may become the focus of the market.

In order to take the initiative to tackle with the profound changes of the global situation and promote the GDP to keep growing at an annual growth rate of 7%, the Chinese government continued to implement the "One Belt and One Road" strategy in the first half of 2015, creating a brightest outlook for many industries, including the oil and gas industry. For example, this move has promoted cross-border cooperation in the oil and gas exploration and production field, as well as the interconnection of energy networks in different countries, thus enabling oil and gas equipment manufacturing and oil and gas field service enterprises, which master the core technology and have rich experience in the industry, further expand its business layout covering those markets under the "One Belt and One Road" strategy. In the past few years, we have already developed its international market layout, which was in line with the China's "One Belt and One Road" strategy. Among 65 countries included in the "One Belt and One Road" strategy, we have achieved sales in 29 countries, and its oilfield service teams are operating in Russia and the Middle East, thus laying a solid foundation for its future business expansion and regional coverage.

Business Review

I. Land Drilling Rig and Related Products Businesses

In the first half of 2015, crude oil prices still hovered at low levels and oil enterprises slashed its exploration and production investment, leading to that the global market demand for drilling rigs declined significantly as compared with the same period last year. We adopted technology-driven sales and integrated marketing approaches to open up new markets and recommended the Group's new products and other diversified product series, such as auxiliary components for drilling rigs to customers worldwide.

In the aspect of land drilling rig sales, we signed sales contracts for a total of 9 sets of land drilling rigs during the Period, with an aggregate amount of US$72 million. In the African market, we strived to explore new customers and successfully signed with a new Nigerian customer a sales contract of US$15 million for a set of land drilling rig, and we also acquired a sales contract of US$10 million from our Egyptian client for a set of land drilling rig. In the Middle East market, we continued to maintain close contact with our existing clients, namely National Drilling Company ("NDC") and Kuwait Drilling Company ("KDC") and signed with KDC a sales contract for 2 sets of land drilling rigs amounted to US$18 million. In Asian and European markets, we signed with Russian clients and other customers sales contracts for 3 sets of land drilling rigs, including 1 set of polar drilling rig. In the domestic market, we successfully broke through the weak market situation and signed with China National Offshore Oil Corporation ("CNOOC") and other customer sales contracts for 2 sets of land drilling rigs.

In the aspect of parts and components, while consolidating our existing regional advantages, we actively developed new markets and new customers and expanded the sales scope of parts and components in the places where our overseas subsidiaries are located. In the first half of 2015, key rig parts and components developed and produced by Honghua independently were sold to customers, including 85 sets of mud pumps, 2 sets of top drivers, 1 set of direct driver and 10 sets of flexible water tanks. Meanwhile, we continued to make full use of our own global procurement network advantages and achieved the new trade and sales of parts and components contracts worth of an aggregate amount of US$30 million during the Period.

We provided excellent after-sales services while expanding sales. We have a professional technical service team with about 200 people and have set up after-sales service outlets in the United States, Egypt, the United Arab Emirates, Russia, Venezuela and China. The team can install and debug a variety of drilling rigs and tackle with various problems occurring in the use of the rigs on the site. In the first half of 2015, under the severe industry situation, the volume of the after-sales service business decreased by 37.5% compared to the same period of last year and we completed the installation of 32 sets of land drilling rigs and 14 sets of top drivers.

In the first half of 2015, we continued to take "zero defect" as the operation standard, strengthen production management and improve production efficiency. The one-time delivery-check qualified rate of our products improved to 98.82% during the Period, which was highly appraised by domestic and international customers' supervisors.

II. *Oil and Gas Engineering Service Business*

Facing a retrenchment of global oil companies and in-depth adjustments in the oil and gas industry, the oil and gas engineering service business committed to expand and consolidate its market shares towards the domestic and overseas markets and made a breakthrough despite the downturn of industry. By the end of June 2015, we had a total of 16 oilfield service teams in operation. During the Period, we drilled 26 wells (16 wells were completed) and the footage drilled amounted to approximately 77,000 meters, representing an increase of 4.6% as compared with the same period of last year.

In domestic market, based on the enhancement and basic formation of the layout, the oil and gas engineering service business continues to operate in Xinjiang, Northeastern China, Sichuan and Inner Mongolia. In overseas markets, with the positive influence brought by the good Sino-Russian relation, which is embodied in signing and implementation of Sino-Russian oil and gas agreement and cross-border pipelines covering oil production areas, our project has successfully started in Russia while two drilling rigs subsequently started to operate in the second quarter this year. As the Iraqi market has been gradually recovering, together with the brand effect of our oil and gas engineering services in Iraq, we also acquired a new contract for two drilling rigs which will subsequently start operating in the near future.

Benefiting from the stringent cost control and project management policies, the drilling and construction standard has also been improving while the production efficiency of the team reached 90.56%, representing an increase of 15.0% as compared with the same period of last year.

III. *Offshore Engineering Equipment and Related Products Business*

In the first half of 2015, Phase I of our offshore base located in Qidong, Jiangsu Province, was completed. The construction of Honghai Crane, a type of large lifting equipment was 80% completed, which is expected to fully complete and pass the quality check in the end of September 2015.

In terms of production, Tiger-I, the first deep-water drilling package for drillship in China we produced, was successfully delivered and debugged in 2014. Tiger-II is scheduled to be shipped in August 2015, and Tiger-III and Tiger-IV are in the production as scheduled.

Facing the current low oil prices level and the challenging offshore engineering market situation, we manage the progress of our existing projects under the premise of risks and cash flow control. Subsequent to the successful delivery of the drilling package, together with taking deep-water drilling packages and semi-submersible rigs as our key businesses, we actively expand the market. To cater the outsourcing demand of ship enterprises, we have formed long-term outsourcing partnership with large and medium-sized ship enterprises in Shanghai, Jiangsu, Zhejiang and other places. Meanwhile, leveraging on our advantages of largest lifting equipment and advanced production base, we undertake ship hull manufacturing, anticorrosion, venue lease and large equipment installation by lifting to expand our sources of income.

IV. Unconventional Oil and Gas Development Business

Our oilfield service team has accumulated very rich experience through participating in the exploration of unconventional oil and gas resources in complex geological conditions. After implementing the shale gas project we won in Yibin, Sichuan province in 2014, the teams have owned China's leading shale gas exploration technologies and equipment manufacturing experience, as well as proficiently mastered the coordination of on-site drilling processes (referring to the shaft engineering), the directional technology and the oil-based mudding in the shale gas exploitation.

During the Period, the flexible water tank developed by us independently achieved continued sales shortly while the in-house developed 6,000 horsepower fracturing pump has completed the second industrial test in the United States under the testimony of Baker Hughes. Baker Hughes and the users are quite satisfactory about the testing results and are waiting for further more in-depth and greater power tests. The shale gas-specific drilling rig developed by us independently has completed design and is ready to be put into production. This drilling rig is a new type of low-cost shale gas drilling rig, which can better adapt to the geological conditions and site requirements of shale gas exploitation in China.

In the first half of 2015, we continued to implement strategic cooperation with General Electric (GE) and introduced GE's gas-powered products to utilize unconventional natural gas or oilfield-associated gas generated in the oil and gas drilling and production process to provide energy for the drilling rig to achieve energy saving and emission reduction and green production. The first field test demonstrating the change of power of the drilling rig from oil to gas will be conducted in Sichuan in August, which indicates the major parts of the integrated solution for Shale Gas will be under field test.

Quality Management and Research and Development

During the Period, we continued to improve our quality management and R&D capabilities and successfully obtained application of various qualifications. Our products have successfully obtained from Norwegian Det Norske Veritas ("DNV") the approval of ISO 9001 quality system certification, HSE certification, API certification, ABB transmission system integration certification and related electrical product explosion-proof certification. In production of land drilling equipment business, we have passed the annual HSE review in the first half of 2015. In the oil and gas engineering services segment, we have renewed the safety production license, Grade II work safety standardization conducted by State Administration of Work Safety, ISO9001 quality management system certification, ISO4001 environmental management system certification, OHSAS18001 occupational health and safety management system certification and the membership of the International Association of Drilling Contractors ("IADC"). Also, we completed the registration for the SOC oilfield in southern Iraq and obtained the operation qualifications of large independent contractor and drilling services sub-contractor to solidify our leading position in the Middle East and expand our local business. In terms of offshore equipment manufacture, we are successfully awarded as the "Provincial high-tech enterprises", and realized the advanced technology level of our offshore production base while will bring premium tax-free to the offshore segment.

In the aspect of intelligent manufacturing, we plan to introduce specific robots, namely Ear-shape welding robots and Box-shape welding robots to minimize our labour force and enhance the precision of our technology application and production processes. In the future, with the broader application of industrial informationization and artificial intelligence, we will consider introducing more intelligent manufacturing applications into a wide range of manufacturing procedures, including manufacturing process (production) planning, production adjustment, process monitoring to realize the entire process of intelligentization.

In the research and development of new products, the amount invested in R & D reached approximately RMB48 million during the Period. Especially, we have obtained outstanding achievements in the research and development of new-type high-end land drilling rigs. The smart rig, which we are developing will integrate a number of new technologies that will enable us to produce a wide range of mechanized, automated and informational land drilling rigs, featuring safety and high operational efficiency, as well as monitoring the operation in real time. Meanwhile, it can also reduce the number of drilling workers and operating costs. At present, the research and development of the smart drilling rig have entered into the prototype stage. And in June 2015, Honghua's polar drilling rig has debuted at the 13th Moscow International Oil and Gas Exhibition ("MIOGE"). Honghua is the world's second enterprise owning the technologies applied in polar drilling rig, which the Group has developed for the Russia's arctic environment and it is China's first polar rig. This new type drilling rig can be used under the stormy weather, ultra-low temperature and other harsh climatic environments which can well fit the operational demand in Russia's extremely cold areas. In the first half of 2015, a set of polar drilling rig was sold to a foreign customer. As of 30 June 2015, we had obtained 301 and 18 patents in land and offshore equipment manufacturing segments respectively.

Human resource management

We continued to adjust and optimize our human resources management, especially the performance appraisal system, and strengthen the technological talents introduction to achieve the strategic deployment of optimizing human resources allocation and efficiency improvement. As of 30 June 2015, the total number of the Group's employees was 6,293, representing a decrease of 14.71% compared with the same period last year, in which the number of R & D staffs reached 673, representing an increase of 4.83%. During the period, on top of layoff and labour costs reduction, we focused on adjusting our personnel structure, strengthening the construction of our training system and improving our efficiency. We organized a total of approximately 300 training programs, which covered products, equipment, standardized operation, the Internet, finance and other areas. In addition, with the support of the Group's innovative entrepreneurship platform, we encouraged innovative thinking, transformed management approaches, formulated incentive mechanism, made good use of the individual advantages of employees and motivated their work enthusiasm. In 2015, under the industry trend of the "Internet plus manufacturing" and intelligent manufacturing, we will actively explore new forms of human resource management mechanism to reserve human resources for the Group's innovation and transformation in the future.

Outlook

In 2015, the whole industry is still expected to embrace a prudent attitude. However, the market environment of the year is expected to be more stable than it in the second half of 2014. J.P. Morgan reset the average price forecasts of North America crude oil to US$50 per barrel for the second half of 2015. The global oil supply and demand still needs a certain period of time to reach a new balance. In the medium and long term, oil and gas will still retain their important roles in the energy mix and all kinds of exploration and production activities will gradually recover along with the development of the global economy. The industry outlook remains promising. The accelerating replacement of outdated land drilling rigs and offshore drilling rigs worldwide will bring a new round of business opportunities.

"Products and businesses innovation, costs reduction and efficiency enhancement and liquidity maintenance" will be the focus of our work. With the support of the national policy and funding, as well as the growth driver brought by the "One Belt and One Road" strategy, we will actively participate in more "One Belt and One Road" projects. In the Chinese market, we will continue to pay attention to the mixed ownership reform of the state-owned oil and gas companies and other reform measures, in order to enhance our market shares in the domestic market in the fields of drilling equipment and oil and gas engineering services.

As of 12 August 2015, we have had approximately 24 sets of land drilling rig backlogs, with an aggregate amount of approximately RMB1,367 million, which are expected to be delivered successively in 2015 and 2016.

As of 12 August 2015, we have had parts and components backlogs worth approximately RMB1,210 million.

As of 12 August 2015, we have had offshore engineering equipment backlogs worth approximately RMB5,026 million.

As of 12 August 2015, we have had oil and gas engineering service contracts worth approximately RMB353 million.

FINANCIAL REVIEW

During the Period, the Group's gross profit and loss attributable to shareholders of the Company amounted to approximately RMB528 million and RMB30 million respectively, and gross margin and net margin amounted to approximately 23.7% and -1.3% respectively; In the same period last year, gross profit and profit attributable to shareholders of the Company amounted to approximately RMB885 million and RMB200 million respectively, gross margin and net margin amounted to approximately 23.0% and 5.2% respectively. During the Period, the decrease in the Group's gross profit and profit attributable to shareholders of the Company was mainly attributable to the fact that there is no significant improvement in the global oil and gas market and the oil and gas industry is under a deep adjustment.

Turnover

During the Period, the Group's turnover amounted to approximately RMB2,229 million, representing an decrease of RMB1,610 million or 41.9% as compared to RMB3,839 million in the same period last year. The decrease was mainly attributable to the declined demand for oil equipment due to the relating low level of the oil price. The number of drilling rigs sold during the Year decreased to 23 units from 34 units in the same period Last Year.

(a) *Revenue by Geographical Areas*

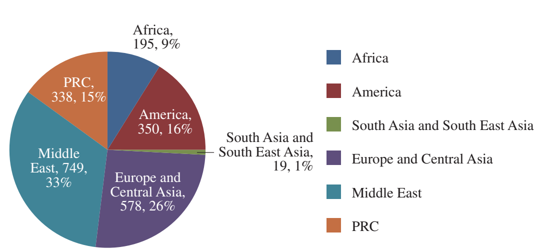
The Group's revenue by geographical segment during the Period: (1) The Group's export revenue amounted to approximately RMB1,891 million, accounting for approximately 84.8% of total revenue, representing a decrease of RMB1,518 million as compared to the same period last year; (2) Mainland China's revenue amounted to approximately RMB338 million, accounting for approximately 15.2% 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 markets, constantly develops new customers, and gains new purchase orders, ensuring the sustained growth of sales revenue.

Revenue by Geographical Areas

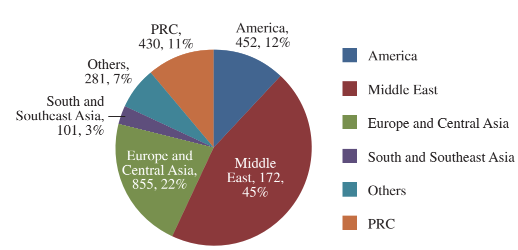
For the six months ended 30 June 2015

Expressed in RMB'million



For the six months ended 30 June 2014

Expressed in RMB'million



(b) Revenue by product categories

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

During the Period, external revenue from land drilling rigs amounted to approximately RMB1,491 million, representing a decrease of RMB1,233 million or 45.3% as compared to RMB2,724 million in the same period last year. The decrease in Land drilling rig sales revenue was mainly attributable to the decrease in the number of sales volume from 34 units to 23 units.

During the Period, external revenue from offshore drilling rigs amounted to approximately RMB-10 million, and there was amounted to approximately RMB53 million external revenue in the same period last year. The reason for the negative revenue is that a vessel returned to the Group with the amount of approximately RMB129 million was debited to revenue. A contract of this vessel has been signed after this period.

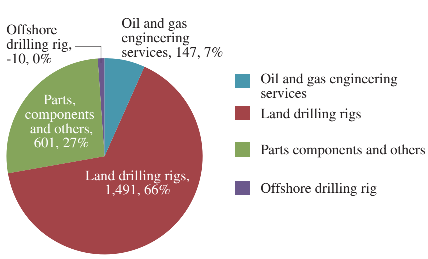
During the Period, external revenue from land drilling rig parts and components amounted to approximately RMB601 million, representing a decrease of RMB257 million or 30.0% as compared to RMB858 million in the same period last year.

During the Period, revenue from oil and gas engineering services amounted to approximately RMB147 million, representing a decrease of RMB57 million or 27.9% as compared to RMB204 million in the same period last year.

Revenue by business categories was as follows:

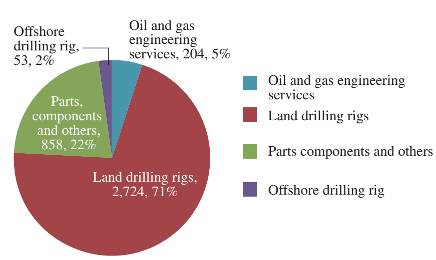
For the six months ended 30 June 2015

Expressed in RMB'million



For the six months ended 30 June 2014

Expressed in RMB'million



Cost of Sales

During the Period, the Group's cost of sales amounted to approximately RMB1,700 million, representing a decrease of approximately 42.5% or RMB1,254 million as compared to the same period last year, mainly due to the decrease in sales of rigs.

Gross profit and Gross Margin

During the Period, the Group's gross profit amounted to approximately RMB528 million, representing a decrease of RMB357 million or 40.3% as compared to the same period last year.

During the Period, the Group's overall gross margin was 23.7%, representing an increase of 0.7 percentage points as compared to 23.0% in the same period last year. This was mainly due to the Group's production efficiency improvement and cost reduction.

Expenses in the period

During the Period, the Group's selling expenses amounted to approximately RMB260 million, representing a decrease of RMB25 million or 8.8% as compared to RMB285 million in the same period last year. This was mainly attributable to decreased transportation costs brought on by the declined sales revenue and the Group's cost reduction strategy.

During the Period, the Group's general and administration expenses amounted to approximately RMB289 million, representing an increase of RMB19 million or 7.0% as compared to RMB270 million in the same period last year. This was mainly attributable to capacity of the operating business as not fully used, resulting in parts of fixed costs that cannot be allocated increasing.

During the Period, the Group's net financing expenses amounted to approximately RMB54 million, representing a decrease of RMB41 million as compared to net financing expense of RMB95 million in the same period last year. This was mainly attributable to the increasingly net foreign exchange gain.

(Loss)/Profit before Taxation

During the Period, loss before taxation of the Group amounted to approximately RMB38 million, representing a decrease of RMB307 million or 114.1% compared to profit before taxation of RMB269 million in the same period last year. The decrease was mainly attributable to the decreased revenues for the period.

Income Tax Expenses

During the Period, the Group's income tax expense amounted to approximately RMB-11 million as compared to the income tax expense of approximately RMB57 million in the same period last year.

(Loss)/Profit for the period

During the Period, the Group's loss amounted to approximately RMB27 million, as compared to a profit of approximately RMB212 million in the same period last year. Among which, loss attributable to equity shareholders of the Company was approximately RMB30 million, while profit attributable to non-controlling interests was approximately RMB3 million. During the Period, net margin was -1.3%, as compared to a net margin of 5.2% in the same period last year, which was mainly attributable to the decrease of gross margin.

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

During the Period, EBITDA amounted to RMB199 million, as compared to approximately RMB519 million in the same period last year, which was mainly attributable to the marked decrease in operating profit brought on by the decrease in revenue. The EBITDA margin was 8.9%, as compared to 13.5% in the same period last year, which was mainly attributable to the decrease in the proportion of selling.

Dividends

For the period ended 30 June 2015, 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, bank borrowings and securities financing.

As at 30 June 2015, the Group's bank borrowings and senior notes amounted to approximately RMB4,682 million, representing a decrease of approximately RMB445 million as compared to 31 December 2014. Among which, borrowings repayable within one year amounted to approximately RMB2,493 million, representing a decrease of RMB314 million as compared to 31 December 2014.

Deposits and cash flow

As at 30 June 2015, the Group's cash and cash equivalents amounted approximately RMB1,066 million, representing a decrease of approximately RMB376 million as compared to 31 December 2014.

During the Period, the Group's net operating cash inflow from operations amounted to approximately RMB47 million; net cash inflow from investing assets, during the Period amounted to approximately RMB205 million; net cash outflow from financing activities amounted to approximately RMB626 million.

Assets structure and changes thereof

As at 30 June 2015, the Group's total assets amounted to approximately RMB13,762 million, representing a decrease of approximately RMB1,736 million or 11.2% as compared to 31 December 2014. Among which, current assets amounted to approximately RMB8,696 million, accounting for approximately 63.2% of total assets, representing a decrease of RMB1,564 million as compared to 31 December 2014, which were mainly decrease of inventories, cash and cash equivalent. Non-current assets amounted to approximately RMB5,066 million, accounting for approximately 36.8% of total assets, representing a decrease of approximately RMB172 million as compared to 31 December 2014, and were mainly attributable to the decrease in long term trade receivables.

Liabilities

As at 30 June 2015, the Group's total liabilities amounted to approximately RMB8,834 million, representing a decrease of approximately RMB1,701 million as compared to 31 December 2014. Among which, current liabilities amounted to approximately RMB6,611 million, accounting for approximately 74.8% of total liabilities, representing an increase of approximately RMB1,594 million as compared to 31 December 2014. Non-current liabilities amounted to approximately RMB2,223 million, accounting for approximately 25.2% of total liabilities, presenting a decrease of approximately RMB107 million as compared to 31 December 2014. As at 30 June 2015, the Group's total liabilities/total assets ratio was approximately 64.2%, representing a decrease of 3.8 percentage points as compared to 31 December 2014.

Equity

As at 30 June 2015, total equity amounted to RMB4,928 million, representing a decrease of RMB36 million as compared to 31 December 2014. Total equity attributable to equity shareholders of the Company amounted to approximately RMB4,690 million, representing a decrease of RMB39 million as compared to 31 December 2014. Non-controlling interests totaled to approximately RMB238 million, representing an increase of RMB3 million as compared to 31 December 2014. Net asset value reached approximately RMB1.48 per Share. During the Period, the Group's basic earnings per Share were RMB-0.940 cents, and diluted earnings per Share were RMB-0.940 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. On 21 October 2013, UAE Federal Court affirmed the original judgement. 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 2015. Having consulted the Group's legal advisors, management considered that the Group had legal and factual merit to defend in lawsuit. Accordingly, management determined that it was not probable that the outcome of the lawsuit will be unfavourable 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 RMB211 million, representing a decrease of approximately RMB69 million as compared to the same period last year.

As at 30 June 2015, the Group had capital commitments of approximately RMB348 million, which will be used for the construction of Jiangsu Qigong 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 6,293. The total amount of remuneration and benefit was about RMB297 million, decreased by RMB136 million or 31.4% as compared to that of 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.

PURCHASE, SALE OR BUY-BACK OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or bought back any of the Company's Shares during the six months ended 30 June 2015.

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 2015.

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 2015 to 30 June 2015, 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 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 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 2015.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2015

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 2015 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 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 2015
"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 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 2014
"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, 19 August 2015

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.