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 2016

FINANCIAL HIGHLIGHT

	Six months ended 30 June		
	2016	2015	% change
	(Unaudited)	(Unaudited)	
Revenue (RMB'000)	**1,295,927**	2,228,807	-41.9%
Gross profit (RMB'000)	**203,504**	528,382	-61.5%
Gross profit margin (%)	**15.7%**	23.7%	
Operating (loss)/profit (RMB'000)	**(201,200)**	19,049	-1,156.2%
Loss attributable to equity shareholders of the Company (RMB'000)	**(250,894)**	(29,874)	739.8%
Basic and diluted loss per share (RMB cents)	**(7.89)**	(0.94)	739.4%

The Board does not recommend payment of interim dividend for the six months ended 30 June 2016.

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 2016, together with the comparative figures for the corresponding period in 2015.

The interim financial report for the six months ended 30 June 2016 is unaudited, but has been reviewed by PricewaterhouseCoopers, 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.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

	Note	Unaudited Six months ended 30 June 2016 RMB'000	2015 RMB'000
Revenue	5	**1,295,927**	2,228,807
Cost of sales		**(1,092,423)**	(1,700,425)
Gross profit		**203,504**	528,382
Distribution expenses		**(131,560)**	(259,917)
Administrative expenses		**(278,240)**	(289,327)
Other (losses)/gains, net		**(9,039)**	25,248
Other income		**14,135**	14,663
Operating (loss)/profit	6	**(201,200)**	19,049
Finance income		**82,702**	103,275
Finance expenses		**(130,506)**	(157,110)
Finance expenses-net		**(47,804)**	(53,835)
Share of post-tax profits of associates		**2,535**	340
Share of post-tax losses of joint ventures		**(1,421)**	(3,249)
Loss before income tax		**(247,890)**	(37,695)
Income tax expense	7	**(2,389)**	10,770
Loss for the period		**(250,279)**	(26,925)
Loss attributable to:			
— Owners of the Company		**(250,894)**	(29,874)
— Non-controlling interests		**615**	2,949
		(250,279)	(26,925)
Loss per share for loss attributable to owners of the Company (expressed in RMB cents per share)			
Basic and diluted	8	**(7.89)**	(0.94)

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2016

	Unaudited	
	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
Loss for the period	**(250,279)**	(26,925)
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)
Currency translation differences	**10,223**	(11,748)
Other comprehensive income for the period, net of tax	**10,223**	(12,574)
Total comprehensive income for the period	**(240,056)**	(39,499)
Total comprehensive income attributable to:		
— Owners of the Company	**(243,454)**	(42,643)
— Non-controlling interests	**3,398**	3,144
	(240,056)	(39,499)

UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2016

	Note	**Unaudited 30 June 2016** *RMB'000*	Audited 31 December 2015 *RMB'000*
ASSETS			
Non-current assets			
Lease prepayments		**392,732**	405,732
Property, plant and equipment	*9*	**3,025,373**	3,139,093
Payment for acquisition of leasehold prepayments		**163,192**	163,192
Intangible assets	*9*	**221,831**	234,261
Investments in associates		**60,696**	52,161
Investments in joint ventures		**47,129**	48,239
Deferred income tax assets		**326,660**	318,263
Available-for-sale financial assets		**74,053**	74,053
Trade and other receivables	*10*	**319,687**	356,985
Total non-current assets		**4,631,353**	4,791,979
Current assets			
Inventories		**2,358,881**	2,164,432
Trade and other receivables	*10*	**3,840,573**	4,537,569
Amount due from customers for contract work	*11*	**23,961**	20,778
Current tax recoverable		**7,184**	9,592
Available-for-sale financial assets		**8,000**	39,203
Held-to-maturity financial assets		**48,076**	46,734
Pledged bank deposits		**603,232**	368,884
Bank deposits maturing over three months		**103,126**	100,518
Cash and cash equivalents		**629,287**	1,102,651
Total current assets		**7,622,320**	8,390,361
Total assets		**12,253,673**	13,182,340

UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEET *(Continued)*
AS AT 30 JUNE 2016

	Note	**Unaudited 30 June 2016** *RMB'000*	Audited 31 December 2015 *RMB'000*
EQUITY			
Equity attributable to owners of the Company			
Share capital		**300,983**	300,983
Other reserves		**3,054,950**	3,046,576
Retained earnings		**953,912**	1,204,470
		4,309,845	4,552,029
Non-controlling interests		**225,555**	222,157
Total equity		**4,535,400**	4,774,186
LIABILITIES			
Non-current liabilities			
Deferred income		**55,509**	51,376
Borrowings	*12*	**2,225,474**	2,331,886
Trade and other payables	*13*	**10,290**	23,255
Total non-current liabilities		**2,291,273**	2,406,517
Current liabilities			
Deferred income		**5,126**	4,923
Trade and other payables	*13*	**3,113,720**	3,556,059
Current income tax liabilities		**23,807**	54,130
Borrowings	*12*	**2,242,516**	2,332,545
Provisions for other liabilities and charges		**41,831**	53,980
Total current liabilities		**5,427,000**	6,001,637
Total liabilities		**7,718,273**	8,408,154
Total equity and liabilities		**12,253,673**	13,182,340

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 and 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 address of its registered office is Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman, KY1-1108, Cayman Islands.

The Company's shares are listed on The Stock Exchange of Hong Kong Limited.

This interim condensed consolidated financial information is presented in Chinese Renminbi ("RMB"), unless otherwise stated.

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 2016 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 2015, 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 2015, as described in those annual financial statements.

(a) Amendments to IFRSs effective for the financial year ending 31 December 2016 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.

(b) Impact of standards issued but not yet applied by the Group

(i) IFRS 9 Financial instruments

IFRS 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities and a new impairment model for financial assets. The standard does not need to be applied until 1 January 2018 but is available for early adoption. The Group is currently assessing whether it should adopt IFRS 9 before its mandatory date.

While the Group has yet to undertake a detailed assessment of the classification and measurement of financial assets, debt instruments currently classified as available-for-sale (AfS) financial assets would appear to satisfy the conditions for classification as at fair value through other comprehensive income (FVOCI) and hence there will be no change to the accounting for these assets.

The other financial assets held by the Group include

- equity instruments currently classified as AfS for which a FVOCI election is available
- debt instruments currently classified as held-to-maturity and measured at amortised cost which appear to meet the conditions for classification at amortised cost under IFRS 9.

Accordingly the Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from IAS 39 *Financial Instruments: Recognition and Measurement* and have not been changed.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under IFRS 15 *Revenue from Contracts with Customers*, lease receivables, loan commitments and certain financial guarantee contracts. While the Group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, it may result in earlier recognition of credit losses.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

(ii) IFRS 15 Revenue from contracts with customers

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers revenue arising from the sale of goods and the rendering of services and IAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption. The new standard is effective for first interim periods within annual reporting periods beginning on or after 1 January 2018, and will allow early adoption.

Management is currently assessing the effects of applying the new standard on the Group's financial statements.

At this stage, the Group is not able to estimate the effect of the new rules on the Group's financial statements. The Group will make more detailed assessments of the effect over the next twelve months. The Group does not expect to adopt the new standard before 1 January 2018.

(iii) IFRS 16 Leases

IFRS 16 *Leases* addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on balance sheet for lessees. The standard replaces IAS 17 Leases, and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted subject to the entity adopting IFRS 15 *Revenue from contracts with customers* at the same time. The Group is currently assessing the impact of IFRS 16.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on this Group.

4 ESTIMATES

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this interim condensed consolidated financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2015.

5 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, parts and components and others, offshore drilling rigs, oil and gas engineering 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 income and other (losses)/gains, net. Finance income and expenses 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 2016 and 2015 respectively.

	Land drilling rigs Six months ended 30 June		**Parts and components and others Six months ended 30 June**		**Offshore drilling rigs Six months ended 30 June**		**Oil and gas engineering services Six months ended 30 June**		**Total Six months ended 30 June**	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Revenue from external customers	**355,631**	1,490,762	**712,379**	600,802	**148,409**	(9,515)	**79,508**	146,758	**1,295,927**	2,228,807
Inter-segment revenue	**–**	–	**128,872**	208,819	**1,197**	–	**–**	–	**130,069**	208,819
Reportable segment revenue	**355,631**	1,490,762	**841,251**	809,621	**149,606**	(9,515)	**79,508**	146,758	**1,425,996**	2,437,626
Reportable segment profit/(loss)	**14,315**	167,419	**14,137**	3,088	**(46,119)**	(103,737)	**(150,832)**	(61,549)	**(168,499)**	5,221

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 2016, such information was not reviewed by the Group's chief operating decision maker. Accordingly, no segment assets and liabilities are presented.

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

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
Segment (loss)/profit		
— for reportable segments	**(168,499)**	5,221
Elimination of inter-segment profits	**(1,805)**	(4,129)
Segment (loss)/profit derived from Group's external customers	**(170,304)**	1,092
Share of post-tax profits of associates	**2,535**	340
Share of post-tax losses of joint ventures	**(1,421)**	(3,249)
Other income and other (losses)/gains, net	**5,096**	39,911
Finance income	**82,702**	103,275
Finance expenses	**(130,506)**	(157,110)
Unallocated head office and corporate expenses	**(35,992)**	(21,954)
Loss before income tax	**(247,890)**	(37,695)

The following table sets out revenue from external customers by geographical location, based on the destination of the customer:

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
PRC (country of domicile)	**363,334**	337,944
Americas	**415,763**	350,266
Middle East	**287,084**	748,746
Europe and Central Asia	**171,596**	577,625
South Asia and South East	**4,649**	19,013
Africa	**53,501**	195,213
	1,295,927	2,228,807

The following table sets out non-current assets, other than financial instruments and deferred income tax assets, by geographical location:

	30 June 2016 *RMB'000*	31 December 2015 *RMB'000*
PRC (country of domicile)	**3,834,830**	3,955,942
Americas	**52,496**	54,203
Middle East	**179,512**	184,269
Europe and Central Asia	**118,321**	158,658
South Asia and South East	**–**	–
Africa	**45,481**	46,591
	4,230,640	4,399,663

For the six months ended 30 June 2016, revenue of approximately RMB322 million (for the six months ended 30 June 2015: RMB667 million) is derived from one external customer (for the six months ended 30 June 2015: two external customers). The revenue is attributable to the sales of parts and components in the Americas (for the six months ended 30 June 2015: land drilling rigs and related parts and components in the Middle East and Europe and Central Asia).

6 OPERATING (LOSS)/PROFIT

The following items have been charged/(credited) to the operating (loss)/profit during the period:

	Six months ended 30 June	
	2016 *RMB'000*	2015 *RMB'000*
Write down of inventories	**20,824**	5,319
Provision/(reversal) for impairment of trade and other receivables	**13,979**	(6,924)
Gains on disposal of property, plant and equipment, lease prepayments and other intangible assets	**(3,789)**	(1,992)
Impairment charge relating to oil and gas engineering services cash generating unit ("O&GCGU") (i)	**49,907**	–

(i) The impairment charge of RMB49,907,000 for the six months ended 30 June 2016 relates to the impairment of the O&GCGU, which operates in the oil and gas engineering services segment.

The recoverable amount is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a nine and half-year period, cash flows beyond the five-year period are calculated based on a forecasted growth rate according to historical industry cycle. The discount rate applied to the cash flow projections primarily ranging from 8.1%–8.8% (2015: 8.9%–9.8%), which represents the weighted-average cost of capital for the industry. The impairment charge has been recognised against goodwill of RMB13,484,000 and property, plant and equipment of RMB36,423,000.

7 INCOME TAX EXPENSE

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

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
Current income tax		
— Hong Kong Profits Tax [(i)]	**839**	2,780
— the People's Republic of China (the "PRC") [(ii)]	**7,028**	42,000
— Other jurisdictions [(iii)]	**2,986**	16,211
Deferred income tax	**(8,464)**	(71,761)
	2,389	(10,770)

(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 and 2016.

(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 2015 and 2016, except for the following companies:

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

Corporate income tax ("CIT") of Honghua Company 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 2015 and 2016.

(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. The estimated average annual tax rate used for the year ending 31 December 2016 is 18% (the estimated tax rate for the six months ended 30 June 2015 is 20%).

8 LOSS PER SHARE

The calculation of basic loss per share for the six months ended 30 June 2016 is based on the loss attributable to owners of the Company for the period of RMB250,894,000 (six months ended 30 June 2015: loss of RMB29,874,000) and the weighted average number of shares of 3,178,968,000 (six months ended 30 June 2015: 3,178,968,000 shares) in issue during the period.

Diluted earnings per share is the same as basic loss per share as there are no potential dilutive shares outstanding for all periods presented.

	Six months ended 30 June	
	2016	2015
Loss attributable to owners of the Company (RMB'000)	**(250,894)**	(29,874)
Issued ordinary shares (thousands)	**3,241,057**	3,241,057
Effect of the share award scheme (thousands)	**(62,089)**	(62,089)
Effect of share options exercised (thousands)	**–**	–
Weighted average number of ordinary shares in issue (thousands)	**3,178,968**	3,178,968
Basic and diluted loss per share (RMB cents per share)	**(7.89)**	(0.94)

9 PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	Property, plant and equipment *RMB'000*	Freehold land *RMB'000*	Construction in progress *RMB'000*	Goodwill *RMB'000*	Other intangible assets (i) *RMB'000*
Six months ended 30 June 2016					
Net book value					
Opening amount as at 1 January 2016	**2,332,906**	**5,995**	**800,192**	**13,484**	**220,777**
Additions	**14,482**	**–**	**40,257**	**–**	**20,100**
Transfer from construction in progress	**46,179**	**–**	**(46,179)**	**–**	**–**
Disposals	**(27,160)**	**–**	**–**	**–**	**(1,060)**
Impairment	**(36,423)**	**–**	**–**	**(13,484)**	**–**
Depreciation and amortisation	**(109,346)**	**–**	**–**	**–**	**(20,059)**
Currency translation difference	**4,343**	**127**	**–**	**–**	**2,073**
Closing amount as at 30 June 2016	**2,224,981**	**6,122**	**794,270**	**–**	**221,831**
Six months ended 30 June 2015					
Net book value					
Opening amount 1 January 2015	2,837,994	4,934	362,312	13,484	212,829
Additions	84,488	–	91,726	–	12,554
Transfer from construction in progress	100,185	–	(100,185)	–	–
Disposals	(7,906)	–	–	–	–
Depreciation and amortisation	(158,917)	–	–	–	(19,820)
Currency translation difference	(148)	(5)	–	–	1
Closing amount 30 June 2015	2,855,696	4,929	353,853	13,484	205,564

(i) During the six months ended 30 June 2016, the Group capitalised development cost of RMB10,931,000 (30 June 2015: RMB9,009,000).

(ii) As at 30 June 2016, bank borrowings are secured by property, plant and equipment with a net book value of approximately RMB451,314,000 (31 December 2015: RMB455,650,000) (Note 12).

10 TRADE AND OTHER RECEIVABLES

	30 June 2016 *RMB'000*	31 December 2015 *RMB'000*
Trade receivables [(i)]	**3,071,107**	3,618,306
Bills receivable	**42,251**	102,143
Less: provision for impairment of trade receivables	**(260,807)**	(247,151)
	2,852,551	3,473,298
Amount due from related parties		
— Trade	**46,189**	77,683
— Non-trade	**56,739**	54,796
Finance lease receivable	**198,917**	207,920
Less: provision for impairment of finance lease receivable	**(7,734)**	(7,734)
Value-added tax recoverable	**193,789**	273,163
Prepayments	**373,463**	442,666
Other receivables [(ii)]	**455,725**	381,818
Less: provision for impairment of other receivables	**(9,379)**	(9,056)
	4,160,260	4,894,554
Representing:		
Current portion [(iii)]	**3,840,573**	4,537,569
Non-current portion [(iv)]	**319,687**	356,985
Total	**4,160,260**	4,894,554

(i) As at 30 June 2016 and 31 December 2015, the ageing analysis of the net amount of trade receivables and bills receivable (including amounts due from related parties of trading in nature), based on the invoice date were as follows:

	30 June 2016 *RMB'000*	31 December 2015 *RMB'000*
Within 3 months	**531,792**	1,906,084
3 to 12 months	**1,273,280**	750,856
Over 1 year	**1,093,668**	894,041
	2,898,740	3,550,981

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 2016 is an amount of RMB32,317,000 (31 December 2015: 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 2016 include receivables of RMB46,047,000 (31 December 2015: RMB100,292,000) 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 RMB27,488,000 (31 December 2015: RMB37,192,000), prepayment for acquisition of property, plant and equipment of RMB204,073,000 (31 December 2015: RMB177,422,000) and deposit placed as security for borrowings of RMB42,079,000 (31 December 2015: RMB42,079,000).

(v) As at 30 June 2016, the Group's current portion of trade and other receivables of approximately RMB17,464,000 (31 December 2015: RMB17,464,000) are secured for the Group's borrowings.

11 CONTRACT WORK-IN-PROGRESS

	30 June 2016	31 December 2015
	RMB'000	*RMB'000*
Contract cost incurred plus recognised profit less recognised losses	**286,234**	439,350
Less: progress billings	**(262,273)**	(418,572)
Contract work-in-progress	**23,961**	20,778
Representing:		
Amount due from customers for contract work	**23,961**	20,778

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
Contract revenue recognised as revenue	**148,409**	(9,515)

12 BORROWINGS

	30 June 2016 *RMB'000*	31 December 2015 *RMB'000*
(a) Bank loans		
Secured [i]		
— Current portion	**391,586**	391,333
— Non-current portion	**325,631**	257,961
	717,217	649,294
Unsecured		
— Current portion	**1,850,930**	1,941,212
— Non-current portion	**594,000**	796,000
	2,444,930	2,737,212
Total bank loans	**3,162,147**	3,386,506
(b) Others		
Senior notes [ii]	**1,305,843**	1,277,925
Total borrowings	**4,467,990**	4,664,431
Current borrowings	**2,242,516**	2,332,545
Non-current borrowings	**2,225,474**	2,331,886
Total borrowings	**4,467,990**	4,664,431

(i) As at 30 June 2016, the bank loans were secured by land use right of RMB184,925,000 (31 December 2015: RMB186,953,000), property, plant and equipment of RMB451,314,000 (31 December 2015: RMB455,650,000), bank deposits of RMB89,000,000 (31 December 2015: RMB10,778,000), trade and other receivables of RMB59,543,000 (31 December 2015: RMB59,543,000) and 20% equity interest in Honghua Company.

(ii) On 25 September 2014, the Company issued listed senior notes in the aggregate principal amount of USD200,000,000 ("Senior Notes"). The Senior Notes bear interest at 7.45% per annum, payable semi-annually in arrears and will be due in 2019.

The Senior Notes are guaranteed by the Group's existing subsidiaries other than those established/incorporated under the laws of the PRC, Honghua America, LLC, Sichuan Honghua International (H.K.) Limited, Alaman Tech Story Limited Liability Partnership, PT. Newco Indo Resources, Sichuan Honghua Petroleum Equipment (H.K.) Limited and Golden Asia Success Limited as stated in the Company's offering memorandum on 25 September 2014.

Movements in borrowings is analysed as follows:

	RMB'000
Six months ended 30 June 2016	
Opening amount as at 1 January 2016	4,664,431
Additions	1,293,247
Repayments	(1,503,814)
Currency translation differences	14,126
Closing amount as at 30 June 2016	4,467,990
Six months ended 30 June 2015	
Opening amount as at 1 January 2015	5,127,053
Additions	1,355,812
Repayments	(1,799,708)
Currency translation differences	(1,375)
Closing amount as at 30 June 2015	4,681,782

The borrowings at 30 June 2016 bear annual interest ranging from 1.20%–7.45% (31 December 2015: 1.78%–7.45%).

13 TRADE AND OTHER PAYABLES

	30 June 2016 *RMB'000*	31 December 2015 *RMB'000*
Trade payables	**1,375,281**	1,386,017
Amounts due to related companies		
— Trade	**19,260**	16,451
— Non-trade	**8,418**	65
Bills payable (i)	**667,819**	857,472
Receipts in advance	**513,697**	780,861
Other payables	**539,535**	538,448
	3,124,010	3,579,314
Representing:		
Current portion (ii)	**3,113,720**	3,556,059
Non-current portion	**10,290**	23,255
Total	**3,124,010**	3,579,314

As at 30 June 2016 and 31 December 2015, the ageing analysis of the trade payables and bills (including amounts due to related parties of trading in nature) based on invoice date were as follows:

	30 June 2016 *RMB'000*	31 December 2015 *RMB'000*
Within 3 months	**905,585**	1,004,615
3 to 6 months	**199,948**	371,021
6 to 12 months	**299,870**	260,563
Over 1 year	**656,957**	623,741
	2,062,360	2,259,940

(i) Bills payable as at 30 June 2016 and 31 December 2015 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.

14 DIVIDENDS

No dividend was approved or paid in respect of the previous financial year during the six months ended 30 June 2016 (2015: Nil).

The board of directors does not recommend the payment of an interim dividend for the six months ended 30 June 2016 (2015: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2016, the Group's revenue amounted to approximately RMB1.296 billion, representing a decrease of 41.9% from RMB2.229 billion in the corresponding period last year; gross profit was approximately RMB204 million, representing a decrease of 61.5% from RMB528 million in the corresponding period last year; and the loss attributable to equity shareholders was approximately RMB251 million, representing an increase of 739.8% from RMB30 million in the corresponding period last year.

MARKET REVIEW

In the first half of 2016, the world witnessed a complex global economic environment and incessant geopolitical conflict. Affected by the macroeconomic environment and continued surplus output of main oil-producing countries, the fundamentals of imbalance between supply and demand in the global crude oil market have not changed much. Although Brent, WTI crude oil prices rebounded and remained stable during the Period as compared with the average prices at the end of last year after touching the bottom in the first quarter, they still lingered at the low level of USD50/barrel. The sustaining low oil prices affect the activities of global oil and gas exploration. Domestic and foreign oil companies further reduce investment in the upstream oil and gas exploration and development, thus bringing continual pressure for operations in the equipment manufacturing industry and the downstream oil and gas field services market.

Facing the fact of low oil prices and deepened cost-cutting strategy by oil companies, the international leading oilfield services companies have taken such measures as laying off employees and optimizing assets to maintain business operation. Another significant trend is the industry merging during the low-oil price cycle. While strengthening their market share, the oilfield services companies could also expect to integrate internal technical resources and enhance core competitiveness through strategic merge & acquisition. Thus, they can be better positioned to capture the huge opportunities brought by the industry's recovery after the low-oil-price period.

Nowadays, there is a trend of circumfluence of the high-end manufacturing sector to Europe and the United States and other developed countries. Germany and the United States have initiated "Industry 4.0" and "Industrial Internet" concepts. The Chinese government also released "Made in China 2025 — Energy Equipment Implementation Plan" in June this year, clarifying the action targets and main tasks of energy equipment industry, calling for industrial upgrading and innovation of traditional energy technologies and equipment. China's oil and gas equipment manufacturing and oilfield services companies are also actively responding to "Made in China 2025" and "Going Global" strategies by adjusting their operational strategy. They strengthen the capabilities of independent innovation and upgrade to high-end equipment manufacturing. Furthermore, confronting the contraction in domestic oilfield services market, they leverage on advantages in equipment manufacturing technology and high levels of oilfield services team to expand the international market, focusing in enhancing the influence of China's oil and gas equipment manufacturing and oilfield services in the developed markets especially in the Middle East and Russia.

BUSINESS REVIEW

I. Land Drilling Rig and Related Products Businesses

According to Baker Hughes, as of June 2016, the global active rig counts were 1,407 sets (excluding Chinese land drilling rigs and Russian drilling rigs), representing a decrease of 34.1% in the corresponding period last year under low oil prices circumstance. This led to a substantial reduction in demand for new drilling rigs and seriously affecting the development of the Group's land drilling equipment and related products business.

The Group integrated the land equipment business at the end of 2015, which is in the early stage of integrated operation, to utilize the research & design, manufacture and marketing management in order to enhance the efficiency. In the first half of 2016, we reached sales record for a total of 7 sets of land drilling rigs, with an aggregate amount of RMB356 million. In the business of parts and components, the sales revenue reached RMB712 million, including 7 sets of top drivers and 41 sets of mud pumps.

In terms of new orders, we signed sales contracts for 3 sets of land drilling rigs worth approximately US$43 million as of the first half of 2016. In the Middle East market, we signed sales contracts for one set of 3,000HP ultra-deep well drilling rig and one set of cluster wells drilling rig with Kuwait Drilling Company ("KDC") respectively, marked the first domestic ultra-deep drilling rig and cluster wells drilling rig made by Honghua entered into Kuwait market and broke the long-term monopoly of the Middle East high-end drilling rigs market by western drilling rigs manufacturer. The continued cooperation between KDC and the Company not only represented high recognition of our quality products in local market, but also showed a high customer loyalty to Honghua brand. In North American market, our self-developed parts and components like transferring system, electric pump sets and others have recorded sales for the first time. Confronting the recessed drilling rig market, we continue to cooperate with old clients to expand high-end drilling rig market in the Middle East, as well as capture the drilling rigs upgrade needs of small and middle oilfield services companies in North American market to expand the sales of moving drilling rigs and automation appliances etc..

After the integration of land equipment business, we began to optimize the after-sales service resources, and established a global service center, offering and expanding diversified services to upstream and downstream companies. In addition to the conventional services, we will also develop some new businesses such as steel structure engineering, downhole tools, research projects cooperated with universities or institutes, and engineering and technical services business. And we will try to provide oilfield services in the field of well completion, well flushing, environment work, etc. In the first half of 2016, our after-sales service team completed the installation of 17 sets of land drilling rigs, 5 sets of top drivers and provided 23 times of emergency service.

In May 2016, we participated in Offshore Technology Conference (OTC) with the new Ruiling Rig (睿靈鑽機, tentative name), iDrill Simulator, a drilling simulation training solutions and LNG FSP tank, showing the Company's advantages in land, offshore equipment and unconventional oil and gas services fields. The Ruiling Rig has adopted a series of new invention, including a new integrated vertical lifting and laying down derrick base structure, an automation pipe processing system and other automatic appliances. By using Ruiling Rig, two rigs can work in the 100 meters x 60 meters well site for 8 wells in double row simultaneously, which could greatly improve the drilling efficiency. Meanwhile, the Rig adapts itself better to the complex geological environment in China and can be widely used in domestic shale gas exploration.

In the aspect of unconventional oil and gas equipment and exploration, we accumulated leading shale gas exploration technologies and equipment manufacturing experience after completed fracturing stimulation for 12 wells in California, USA and the shale gas project in Yibin, Sichuan last year. Our self-developed 6,000 horsepower fracturing pump has completed the industrial test and is under market promotion. The products mentioned above and the launch of Ruiling Rig marked that our major parts of the integrated production solution for shale gas are ready for promotion in large areas in China.

II. Oil and Gas Engineering Service Business

In the first half of 2016, there is no sign of the recovery of oil and gas drilling and exploitation activity, making oil and gas engineering services business operated toughly in the industry downturn. During the Period, we continued to operate in Yan'an, Northeastern China, Sichuan in China, as well as the Middle East and other overseas area. And we drilled 7 wells and the footage drilled amounted to approximately 16,106 meters.

Based on the market situations, we actively allocated the oilfield service resources and marketing strategy, constricted the scale of domestic market and focused on the expansion overseas market. We took cash inflow as the first priority and further optimized the personnel structure. During the Period, our oilfield services team finished the drilling of one well in the Middle East. Regarding the overseas market, the Group will continue to focus on the Middle East and Russian market to obtain more high profit projects and consolidate the leading position in its dominant markets.

III. Offshore Engineering Equipment and Related Products Business

In the first half of 2016, the Group was focusing on the production and delivery of the Tiger series drilling packages, LNG-powered ships project, and FSP LNG tank-containment system project.

In terms of production, as of 30 June 2016, Tiger III, the deep-water drilling package for drillship, has been generally completed and delivered; Tiger-IV was 90% completed. PSV project is waiting for the examination and acceptance by the ship owner. The 200 sets of LNG-powered ships with certain specifications are under construction, and the first batch of 60 ships are expected to deliver within the year. At the present, 85 ships have completed the node of hull joint. The construction progress and product quality have been well recognized by the ship owner.

In addition, we continued to cooperate with industry leading enterprises, such as Braemar Shipping Service PLC, to develop the new type of FSP LNG tank-containment system. The design of 100 m^3 FSP LNG tank-containment has obtained the Approval In Principle (AIP) from Bureau Veritas (BV). And we will start the design and trial-manufacture of larger size of FSP LNG tank-containment in the second half of this year.

QUALITY MANAGEMENT AND RESEARCH AND DEVELOPMENT

Confronting the pressure on the industry and the oil company's demand of "cost reduction and efficiency enhancement", we continue to enhance the R&D strength and quality management, closely following the national high-end equipment industrial plan and the technology development trend of oilfield services industry. The Company also made outstanding achievement in intelligent property, which has been selected as the first batch of iconic industrial enterprise of intelligence property application, announced by Ministry of Industry and Information in early 2016. In the first half of 2016, we have newly obtained 25 patent applications, 10 patent applications for invention, 30 authorized patents and 19 authorized invention. As of 30 June 2016, the Group has obtained 499 patents, including 377 authorized patents.

During the Period, in terms of the new product R&D, the automatic appliances for land rigs have already realized sales, while the design of new type top driver, supporting equipment to ocean mining system and bucking-out system of offshore drilling equipment has been completed. In the second half of 2016, we will continue the R&D of exploitation equipment for unconventional oil and gas, drilling equipment for offshore platform, automatic appliances for land drilling rigs and comprehensive intelligent drilling system. We will also carry out the deployment of unconventional oil and gas exploration and development and LNG business by developing LNG related equipment and integrated solution of LNG electricity generating ship, in order to capture the opportunity of oil and gas production and transportation equipment and clean energy market in the future.

Supporting by our internal innovative & entrepreneurship platform, Sichuan XReal Technology Co., Ltd. ("XReal") was established in 2015 and operated well. Based on the virtual reality ("VR") and its industry leading technology, the second generation of iDrill Simulator has already recorded sales during the Period and become the first set of oil and gas drilling simulation system that realized sales in China. iDrill simulation system could create an all-around and immersive drilling simulation scenario for customers by integrating with the latest VR technology. Adopting drilling control chair with helmet or portable simulator, iDrill Simulator provides simulation training module to drilling power system, lifting system, rotary system, circulation system, well control system and surveillance & monitoring system, with a clear interactive 3D dynamic view and 360° real time panorama. In the future, XReal will not only continue to expand the separate sales of iDrill simulation system in oil and gas industry, but deepen the R&D of VR technology in industrial field to become the pioneer in industrial intelligent application.

Meanwhile, to respond to the national policy of "Innovation & Entrepreneurship" and "High-end equipment intelligent manufacturing", we participated and witnessed the signing ceremony of Sino-German Cooperation Agreements in Innovative Manufacturing Industry in June 2016. We will cooperate with renowned venture capital funds to build up "Intelligent Manufacturing Accelerator", and will jointly develop an intelligent manufacturing industrial park in Chengdu, Sichuan. It will make an outstanding contribution to propel the cooperation in Sino-German high-end equipment and intelligent manufacturing field.

As of 30 June 2016, the Group has already obtained below qualifications:

Item	Qualification
Product certification	ISO 9001 quality system certification, HSE certification, API certification, ABB transmission system integration certification and related electrical product explosion-proof certification etc.
Land Equipment Sector	Passed the annual HSE review

Offshore Engineering Sector	"National High and New Technology Enterprise", "Private science and technology enterprises of Jiangsu Province" and "Preferred LNG-powered demonstration ship manufacture of Jiangsu Province (江蘇省LNG動力示範船定點廠家) etc.
Oil and Gas Engineering Service Sector	Membership of the International Association of Drilling Contractors ("IADC"), 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.
Oilfield Access	Market access to PetroChina's Yumen oil field, the qualification of Sinopec's Northeast Bureau, qualified supplier of well drilling AC directional well of Sichuan Oil Service CNOOC, and the second level contractor and SOC turnkey contractor of Hong Kong Oil Service CNOOC etc.. Oilfield service suppliers' certificate: certified oilfield service suppliers of Halliburton in the Middle East, Netherlands Royal Dutch Shell Majnoon oil field and the Exxon Mobil's Iraq Company.

HUMAN RESOURCE MANAGEMENT

During the Period, we actively optimize the human resources structure and strengthen the technological talents introduction to achieve the strategic deployment of optimizing human resources allocation and efficiency improvement. As of 30 June 2016, the total number of the Group's employees was 4,647, representing a decrease of 26.1% compared with corresponding period last year, in which the number of R&D staffs reached 543, representing a decrease of 19.3%. During the Period, driven by industry trend and the status of business development, we enhanced the differentiated deployment of human resources system according to the characteristics of business sectors; strengthened the professional talents recruitment and cultivation for the field of geophysical prospecting, software, EPC engineering etc. in order to capture the opportunity from turnkey projects. We also launched "Hong Xin Project" (宏芯計劃), focusing on the introduction and training of China's major university graduates, to expand the talents resources. During the Period, we organized a total of approximately 260 training programs and customized trainings for employees according to the demands of intelligent manufacturing and strategic transformation, in order to cultivate their innovative thinking and enhance core capability.

In 2016, the strategic focus of human resources management and development remains to enhance the core competitiveness of scientific and technological innovation. We will ensure the resources allocation of core talents as the priority and adjust the incentive mechanism. At the same time, we will take advantage of our internal innovative and entrepreneurship platform to encourage the innovative capability of our employees and gradually realize the human resources reserve for strategic transformation.

OUTLOOK

In the second half of 2016, despite many uncertain factors in the global economic and political environment, the international oil prices are expected to remain stable following the rebound from a low level in the first half of the year. According to the "Short-term Energy Outlook" (STEO) report issued by the U.S. Energy Information Administration, the international crude oil prices in the second half of 2016 are expected to maintain at an average level of USD48/barrel, and rise to the average USD52/barrel in 2017, while the global crude oil inventories will start falling in the third quarter of 2017.

The upstream equipment manufacturing companies in the oil and gas industry are under huge pressure during the slower economic growth and low oil price cycle. In spite of this, it is difficult to change the competitive landscape in the short term due to the high degree of specialization of the industry and distinct technical entry barriers, thus creating conditions for the leading companies in the industry to optimize internal resources and technical reserves. In the future, we will benefit from the implementation of "Made in China 2025 — Energy Equipment Implementation Plan", look forward to the market potential in the deepwater drilling equipment, unconventional oil and gas exploration and development as well as the specific container in the field of oil and gas storage and transportation. It is expected the industry leader could act the supporting and guiding role of independent innovation of energy equipment in the revolution of energy technology and upgrade of equipment manufacturing industry. At the same time, we will also benefit from the background of global energy conservation and emissions reduction and, by leveraging on domestic policies like "Green Yangtze River", "Green Huangpu River", develop the LNG market and natural gas business in advance. We will comprehensively take advantage of our technologies, management and global resources to capture the business opportunities brought by green energy market.

Looking forward, we will continue to operate closely with the theme of "strategic transformation", in order to realize the strategic transformation target from traditional equipment manufacturer to the integrated solutions service provider combining the equipment and service. To establish the strategic foundation that takes the high-end equipment R&D manufacturing capacity and systematic service ability as core competitiveness.

In terms of the land drilling rigs and related products business, the Group will continue to adopt the integration approach to realize the optimized allocation of resources like technology, production and market and improve the efficiency of operations. With regard to products, we will further promote the utilization of the new generation of intelligent drilling equipments such as "Beyond Drilling Rig" (超越鑽機) and "Ruiling Drilling Rig" (睿靈鑽機), as well as independently developed new type of supporting automation equipment of drilling rig. With regard to market layout and expansion, we will further tap into the Middle East, Russian and other old customer markets, pay attention to the worldwide drilling rig upgrade projects, and continue to develop new markets.

In terms of the offshore engineering equipment and related products business, the Group will continue to strengthen the execution management of the current projects, and strictly control the risk of project implementation. At the same time, we will continue to focus on the global demand for energy conservation and emissions reduction, in response to the policy like "Green Yangtze River". Based on the jointly developed new type of FSP LNG tank-containment system technology with leading enterprises, we will provide customers with LNG-based overall solution, integrate the independently developed innovative Honghua gas generator set and one-stop solution for shale gas field, to comprehensively deploy the LNG industrial chain and the natural gas business.

In terms of the oil and gas engineering service business, the Group will actively adjust the marketing strategy, shrink domestic market scale, focus on the overseas market, and make full use of the "One Belt and One Road" energy cooperation opportunities to promote the turnkey contract model of EPC project and trade business.

In 2016, we will always take "cost reduction, efficiency enhancement and liquidity maintenance" as the priority to ensure the Group can go through a rough time. In the second half of 2016, the Group will strengthen budget control, strictly manage inventory and procurement, increase the asset utilization rate and optimize human resources structure to realize cost reduction and efficiency enhancement. We will also explore various financing channels and enhance the financing capability to maintain the cash liquidity.

As of 18 August, 2016, we have had onshore business backlogs worth approximately RMB3.90 billion, which including 13 sets of land drilling rig backlogs, with an aggregate amount of approximately RMB890 million.

As of 18 August, 2016, we have had offshore business backlogs worth approximately RMB5.30 billion.

As of 18 August, 2016, we have had oil and gas services business backlogs worth approximately RMB80 million.

FINANCIAL REVIEW

During the Period, the Group's gross profit and loss attributable to shareholders of the Company amounted to approximately RMB204 million and RMB251 million respectively, and gross margin and net margin amounted to approximately 15.7% and -19.4% respectively. In the corresponding period last year, gross profit and loss attributable to shareholders of the Company amounted to approximately RMB528 million and RMB30 million respectively, gross margin and net margin amounted to approximately 23.7% and -1.3% respectively. During the Period, the Group's gross profit and profit attributable to shareholders of the Company decreased substantially, which was attributed to the downturn of the global oil and gas market along with a significant cut of capital expenditure of the main oil companies, resulting a significant decrease in the Group's revenue.

Turnover

During the Period, the Group's turnover amounted to approximately RMB1,296 million, representing a decrease of RMB933 million or 41.9% as compared to RMB2,229 million in the corresponding 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, which leads to a decline of the sales volume of the Group's land drilling rigs part and the oil & gas engineering services part. Although the offshore drilling rigs part of the Group gained a substantial increase to the sales volume, it still had little impact to the Group's turnover according to its limited market scale.

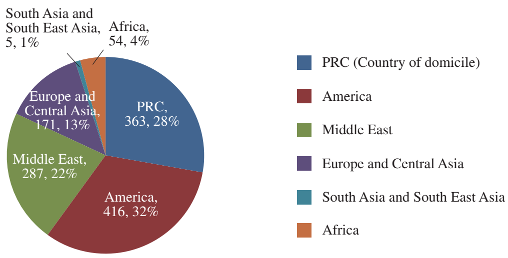
(a) *Revenue by Geographical Areas*

The Group's revenue by geographical segment during the Period: (1) The Group's export revenue amounted to approximately RMB933 million, accounting for approximately 72.0% of total revenue, representing a decrease of RMB958 million as compared to the corresponding period last year; (2) Mainland China's revenue amounted to approximately RMB363 million, accounting for approximately 28.0% of total revenue, representing an increase of RMB25 million as compared to the corresponding period last year.

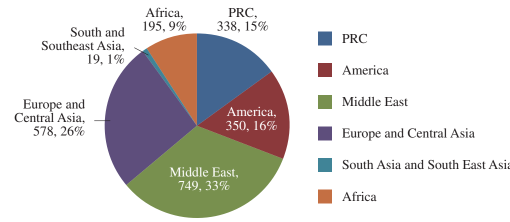
The revenues from different regions are affected by oil and gas exploration activities in various areas of the world. The Group actively explores markets, constantly develops new customers, and gains new purchase orders, ensuring the sustained development of the Group.

Revenue by Geographical Areas

Six months ended 30 June 2016
Expressed in RMB'million



Six months ended 30 June 2015
Expressed in RMB'million



(b) *Revenue by product categories*

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

During the Period, external revenue from land drilling rigs amounted to approximately RMB356 million, representing a decrease of RMB1,135 million or 76.1% as compared to RMB1,491 million in the corresponding period last year.

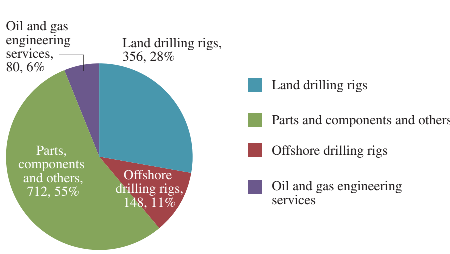
During the Period, external revenue from parts and components and others amounted to approximately RMB712 million, representing an increase of RMB111 million or 18.5% as compared to RMB601 million in the corresponding period last year.

During the Period, external revenue from offshore drilling rigs amounted to approximately RMB148 million, representing an increase of RMB158 million or 1580% as compared to RMB-10 million in the corresponding period last year.

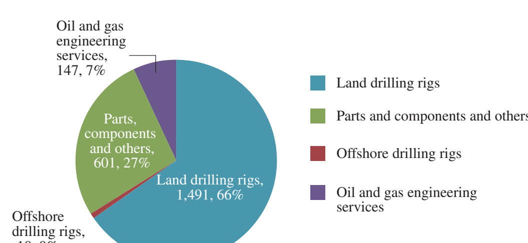
During the Period, revenue from oil and gas engineering services amounted to approximately RMB80 million, representing a decrease of RMB67 million or 45.6% as compared to RMB147 million in the corresponding period last year.

Revenue by business categories

Six months ended 30 June 2016
Expressed in RMB'million



Six months ended 30 June 2015
Expressed in RMB'million



Cost of Sales

During the Period, the Group's cost of sales amounted to approximately RMB1,092 million, representing a decrease of approximately 35.8% or RMB608 million as compared to RMB1,700 million in the corresponding period last year, mainly due to the decrease of material consumption and employee benefit expense, etc. because of the decline in sales volume. The decline of the sales cost was lower than the decline of the sales revenue which was mainly affected by the substantial asset impairment and the reform program to replace the business tax with a value-added tax.

Gross Profit and Gross Margin

During the Period, the Group's gross profit amounted to approximately RMB204 million, representing a decrease of RMB324 million or 61.5% as compared to RMB528 million in the corresponding period last year.

During the Period, the Group's overall gross margin was 15.7%, representing a decrease of 8 percentage points as compared to 23.7% in the corresponding period last year. This was mainly affected by the decline of the gross profit per unit and the impairment of the Group's asset. The reason of the decline of gross profit per unit was that the fixed cost decreased at a lower percentage than the revenue's decreasing and idle time cost increased greatly, especially affected by the Group's oil and gas engineering services part.

Expenses in the Period

During the Period, the Group's distribution expenses amounted to approximately RMB132 million, representing a decrease of RMB128 million or 49.2% as compared to RMB260 million in the corresponding period last year. This was mainly attributable to decreased transportation costs and commission brought on by the declined sales revenue, the Group's cost reduction strategy, such as travelling expenses and the employee benefit expense reduction by the optimization of the personnel structure.

During the Period, the Group's administrative expenses amounted to approximately RMB278 million, representing a decrease of RMB11 million or 3.8% as compared to RMB289 million in the corresponding period. This was mainly attributable to the strict cost control such as employee benefit. The decline of the administrative expense was not obvious as compared to the revenue's decline, mainly due to the substantial impairment of receivables and goodwill.

During the Period, the Group's net finance expenses amounted to approximately RMB48 million, representing a decrease of RMB6 million, or 11.1% as compared to net finance expense of RMB54 million in the corresponding period last year. This was mainly attributable to the optimization of debt scale according to the Group's sales volume and the increasing net foreign exchange profit during the Period.

Loss Before Income Tax

During the Period, loss before income tax of the Group amounted to approximately RMB248 million, representing an increase of RMB210 million or 552.6% compared to loss before income tax of RMB38 million in the corresponding period last year.

Income Tax Expense

During the Period, the Group's income tax expense amounted to approximately RMB2 million as compared to the income tax expense of approximately RMB-11 million in the corresponding period last year.

Loss for the Period

During the Period, the Group's loss amounted to approximately RMB250 million, as compared to a loss of approximately RMB27 million in the corresponding period last year. Among which, loss attributable to equity shareholders of the Company was approximately RMB251 million, while profit attributable to non-controlling interests was approximately RMB1 million. During the Period, net margin was -19.4%, as compared to a net margin of -1.3% in the corresponding period last year.

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

During the Period, EBITDA amounted to RMB-67 million, as compared to approximately RMB199 million in the corresponding period last year, which was mainly attributable to the marked decrease in operating profit brought on by the decrease in revenue of the land drilling rigs and component, and the increasing loss of the offshore drilling rigs part and oil & gas engineering services part. The EBITDA margin was -5.1%, as compared to 8.9% in the corresponding period last year.

Dividends

As at 30 June 2016, the Board does not recommend the payment of 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 2016, the Group's bank borrowings and senior notes amounted to approximately RMB4,468 million, representing a decrease of approximately RMB196 million as compared to 31 December 2015. Among which, borrowings repayable within one year amounted to approximately RMB2,243 million, representing a decrease of RMB90 million or 3.9%,as compared to 31 December 2015.

Deposits and Cash Flow

As at 30 June 2016, the Group's cash and cash equivalents amounted approximately RMB629 million, representing a decrease of approximately RMB474 million as compared to 31 December 2015.

During the Period, the Group's net operating cash outflow from operations amounted to approximately RMB180 million, mainly affected by the increasing pledged bank deposits which amounted approximately RMB234 million; net cash inflow from investing assets, During the Period amounted to approximately RMB30 million; net cash outflow from financing activities amounted to approximately RMB345 million.

Assets Structure and Changes Thereof

As at 30 June 2016, the Group's total assets amounted to approximately RMB12,254 million, representing a decrease of approximately RMB928 million or 7.0% as compared to 31 December 2015. Among which, current assets amounted to approximately RMB7,622 million, accounting for approximately 62.2% of total assets, representing a decrease of RMB768 million as compared to 31 December 2015, which were mainly decrease of receivables, cash and cash equivalent. Non-current assets amounted to approximately RMB4,631 million, accounting for approximately 37.8% of total assets, representing a decrease of approximately RMB161 million as compared to 31 December 2015, and were mainly attributable to the decrease in long term trade receivables.

Liabilities

As at 30 June 2016, the Group's total liabilities amounted to approximately RMB7,718 million, representing a decrease of approximately RMB690 million as compared to 31 December 2015. Among which, current liabilities amounted to approximately RMB5,427 million, accounting for approximately 70.3% of total liabilities, representing a decrease of approximately RMB575 million as compared to 31 December 2015. Non-current liabilities amounted to approximately RMB2,291 million, accounting for approximately 29.7% of total liabilities, representing a decrease of approximately RMB115 million as compared to 31 December 2015. As at 30 June 2016, the Group's total liabilities/total assets ratio was approximately 63.0%, representing a decrease of 0.8 percentage points as compared to 31 December 2015.

Equity

As at 30 June 2016, total equity amounted to RMB4,535 million, representing a decrease of RMB239 million as compared to 31 December 2015. Total equity attributable to equity shareholders of the Company amounted to approximately RMB4,310 million, representing a decrease of RMB242 million as compared to 31 December 2015. Non-controlling interests totaled to approximately RMB225 million, representing an increase of RMB3 million as compared to 31 December 2015. During the Period, the Group's basic earnings per share were RMB-7.89 cents, and diluted earnings per share were RMB-7.89 cents.

Contingent Liabilities

A sales agency filed lawsuits against the subsidiary of the Company, alleged that it was owed commission in excess of USD18,000,000 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 2014, UAE Federal Court affirmed the original judgment. The sales agency and the Group filed an appeal to the UAE Federal Court of Appeal on the court's decision and On 11 November 2015, Union Supreme Court of the United Arab Emirates revoke the challenged judgment completely, and it ordered to refer the case to Abu Dhabi Federal Court of Appeals to reconsider the same again in another form, and the hearing is not yet to be made as at 30 June 2016. 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 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 RMB75 million, representing a decrease of approximately RMB135 million as compared to the corresponding period last year.

As at 30 June 2016, the Group had capital commitments of approximately RMB333 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.

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 2016.

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 2016.

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 2016 to 30 June 2016, 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.

For improving work efficiency, the nomination committee was dismissed with effect from 19 March 2013. The Board shall review its own structure, size and composition (including taking into account of the board diversity policy of the Company) regularly to ensure that it has a balance of expertise, skills, experience and diversity of 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 2016.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2016

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 2016 will be dispatched to shareholders of the Company and published on the aforesaid websites in due course.

DEFINITION

"Audit Committee"	the audit committee of the Company
"Board"	the Board of Directors of the Company
"Code for Securities Trading"	code for securities trading adopted by the Company since 21 January 2008
"Company" or "Honghua Group"	Honghua Group Limited
"CG Code"	Corporate Governance Code set out in Appendix 14 to the Listing Rules
"Directors"	directors of the Company
"Group"	the Company and its subsidiaries, its associate and its jointly controlled entities
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange (as amended from time to time)
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules
"Period"	the six months ended 30 June 2016
"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
"Corresponding Period Last Year"	the six months ended 30 June 2015
"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

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

Hong Kong, 23 August 2016

As at the date of this announcement, the executive directors of the Company are Mr. Zhang Mi (Chairman), Mr. Ren Jie and Mr. Liu Zhi, the non-executive directors of the Company is Mr. Siegfried Meissner (Mr. Popin Su as his alternate)and the independent non-executive directors of the Company are Mr. Liu Xiaofeng, Mr. Qi Daqing, Mr. Chen Guoming, Mr. Shi Xingquan and Mr. Guo Yanjun.