宏华集团有限公司
HONGHUA GROUP LIMITED

(incorporated in the Cayman Islands with limited liability)

Stock Code: 196

智能制造

INTERIM REPORT 2016


USINESS
LOADING 100
NETWORK

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Zhang Mi *(Chairman)*
Ren Jie
Liu Zhi

Non-Executive Directors

Siegfried Meissner
Popin Su
(The alternate director to Siegfried Meissner)

Independent Non-Executive Directors

Liu Xiaofeng
Qi Daqing
Chen Guoming
Shi Xingquan
Guo Yanjun

SECRETARY OF BOARD OF DIRECTORS

He Bin

BOARD COMMITTEES

Audit Committee

Qi Daqing *(Committee Chairman)*
Liu Xiaofeng
Chen Guoming
Shi Xingquan
Guo Yanjun

Remuneration Committee

Liu Xiaofeng *(Committee Chairman)*
Zhang Mi
Qi Daqing

Strategic Investment and Risk Control Committee

Zhang Mi *(Committee Chairman)*
Ren Jie
Liu Zhi
Shi Xingquan
Liu Xiaofeng

JOINT COMPANY SECRETARIES

He Bin
Lee Mei Yi

LEGAL ADVISOR

As To Hong Kong Law

King & Wood Mallesons

PRINCIPAL BANKERS

Bank of China Limited
The Export-Import Bank of China
Industrial Bank Co.,Ltd
Industrial and Commercial Bank of China Limited
Ping An Bank Co.,Ltd
China Citic Bank Co.,Ltd.
Industrial and Commercial Bank of China (Asia) Limited
China Development Bank
China Construction Bank Corporation
Bank of Communication Co., Ltd.

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

REGISTERED OFFICE

Clifton House, 75 Fort Street
PO Box 1350
Grand Cayman, KY1-1108
Cayman Islands

HEAD OFFICE

99 East Road, Information Park
Jinniu District
Chengdu, Sichuan, PRC
Post code: 610036

PLACE OF BUSINESS IN HONG KONG

Room 2508, Harcourt House
39 Gloucester Road
Wan Chai
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Appleby Trust (Cayman) Ltd.
Clifton House, 75 Fort Street
PO Box 1350
Grand Cayman, KY1-1108
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712–1716
17th Floor Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

STOCK CODE

The Stock Exchange of Hong Kong Limited: 0196

WEBSITE

http://www.hh-gltd.com

FINANCIAL HIGHLIGHTS

OPERATING RESULTS

	Six months ended 30 June 2016 RMB'000	2015 RMB'000	change
Turnover	**1,295,927**	2,228,807	-41.9%
Operating (Loss)/profit	**-201,200**	19,049	-1156.2%
Loss before income tax	**-247,890**	-37,695	557.6%
Loss attributable to owners of the Company	**-250,894**	-29,874	739.8%
Figures per Share			
Loss per Share-Basic (RMB cents)	**-7.89**	-0.94	739.4%
Loss per Share-Diluted (RMB cents)	**-7.89**	-0.94	739.4%

FINANCIAL POSITION

	30 June 2016 RMB'000	31 December 2015 RMB'000	change
Total non-current assets	**4,631,353**	4,791,979	-3.4%
Total current assets	**7,622,320**	8,390,361	-9.2%
Total assets	**12,253,673**	13,182,340	-7.0%
Total current liabilities	**5,427,000**	6,001,637	-9.6%
Total non-current liabilities	**2,291,273**	2,406,517	-4.8%
Total liabilities	**7,718,273**	8,408,154	-8.2%
Total equity	**4,535,400**	4,774,186	-5.0%

KEY FINANCIAL RATIOS*

	Six months ended 30 June 2016	2015	change
Gross Margin	15.7%	23.7%	-33.8%
Net Margin	-19.4%	-1.3%	1,392.3%
Return on average assets	-2.0%	-0.2%	900.0%
Return on average equity	-5.7%	-0.6%	850.0%

	30 June 2016	31 December 2015	change
Current ratio	1.40	1.40	0.00
Quick ratio	0.97	1.04	-0.07
Total debt/Total assets	36.5%	35.4%	3.1%
Total liabilities/Total assets	63.0%	63.8%	-1.3%

* Earnings exclude non-controlling interests
Equity excludes non-controlling interests

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.

MANAGEMENT DISCUSSION ANALYSIS

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 2,000 HP 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 LNG-powered 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.

MANAGEMENT DISCUSSION ANALYSIS

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.

MANAGEMENT DISCUSSION ANALYSIS

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

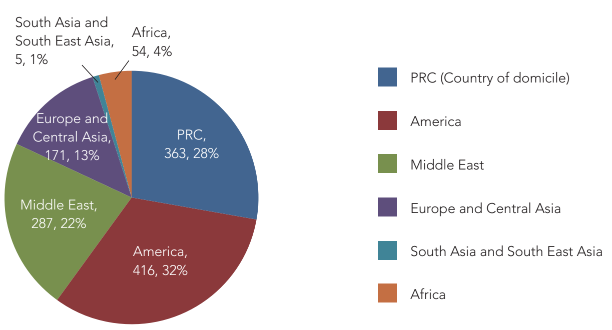
The Group's revenue by geographical segment during the Period: (1) The Group's export revenue amounted to approximately RMB933 million, accounting for approximately 72.0% of total revenue, representing a decrease of RMB958 million as compared to the corresponding period last year; (2) Mainland China's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

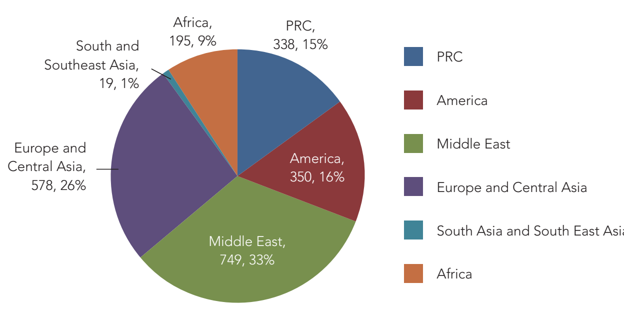
Six months ended 30 June 2016

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.

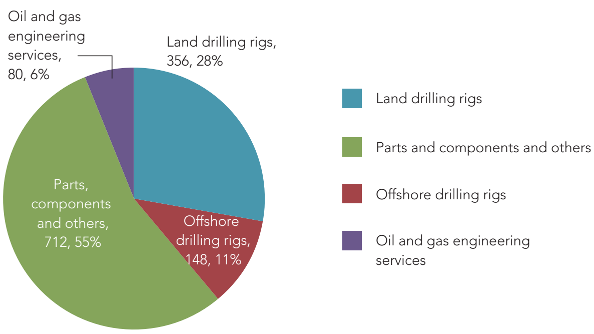
During the Period, external revenue from offshore drilling rigs amounted to approximately RMB148 million, representing an increase of RMB158 million or 1580% as compared to RMB-10 million in the corresponding period last year.

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

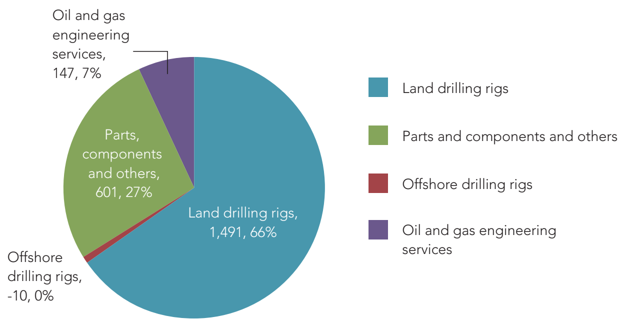
Six months ended 30 June 2016

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 557.6% 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 revoked 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.

1. OVERVIEW OF CORPORATE GOVERNANCE AND COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Group is committed to achieving high standards of corporate governance to safeguard the interests of Shareholders and to enhancing corporate value and accountability.

The Group strives to attain and maintain high standards of corporate governance to enhance Shareholder value and safeguard Shareholder interests. The Group's corporate governance principles emphasize a quality Board, effective internal control and accountability to Shareholders.

The Company has applied the principles and code provisions as set out in the Corporate Governance Code (the "CG Code") as contained in Appendix 14 of the Listing Rules.

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 of the Code Provisions A.2.1 and A.5.1 of the CG Code as mentioned below.

2. CHAIRMAN AND PRESIDENT (CHIEF EXECUTIVE)

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. He is one of the founders of the Group and possesses with knowledge and experience of the industry and the related industries. The Board believes that vesting the roles of both Chairman and President (Chief Executive) in Mr. Zhang Mi provides the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies.

The Board is of the view that it is in the best interests of the Group to have the two roles performed by Mr. Zhang Mi so that the Board can have the benefit of a chairman who is knowledgeable about the business of the Group and is most capable to guide discussions and brief the Board in a timely manner on pertinent issues and developments to facilitate open dialogue between the Board and the management.

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.

3. MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted its own code of conduct regarding Directors' dealings in the Company's securities (the "Company's Code") on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all Directors and all Directors have confirmed that they have complied with the Company's Code and the Model Code throughout the reporting period for the six months ended 30 June 2016.

The Company has also established written guidelines no less exacting than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of unpublished inside information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

4. INDEPENDENT NON-EXECUTIVE DIRECTORS

During the six months ended 30 June 2016, the Board at all times met the requirements of the Listing Rules relating to the appointment of independent non-executive directors representing at least one-third of the board. The Company had five Independent Non-executive Directors with two of whom possessing appropriate professional qualifications or accounting or related financial management expertise so that there is a strong independent element on the Board, which can effectively make independent judgment.

5. AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") with written terms of reference in compliance with Rules 3.21 and 3.22 of the Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Company and provide advices and comments 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 comprises all the five Independent Non-executive Directors, namely Qi Daqing (Chairman), Liu Xiaofeng, Chen Guoming, Shi Xingquan and Guo Yanjun. Two of Independent Non-executive Directors possess the appropriate professional qualifications or accounting or related financial management expertise.

The Audit Committee shall hold at least two meetings a year and review opinions of internal auditors, internal control, risk management and financial reporting. The Audit Committee has reviewed the unaudited financial reports for the six months ended 30 June 2016 of the Company and the Group.

6. NOMINATION COMMITTEE

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.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

At 30 June 2016, the interests and short positions of each Director and Chief Executive in the Shares , underlying Shares and debentures of the Company and its associated corporations (within the meaning of the SFO), as recorded in the register required to be kept by the Company under Section 352 of Part XV of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code contained in Appendix 10 to the Listing Rules were as follows:

(A) ORDINARY SHARES OF HK$0.1 EACH OF THE COMPANY

	Long/Short position	Nature of interest	Number of shares held	% of the issued share capital of the Company
Mr. Zhang Mi	Long	Personal interest, corporate interest and settlor of a discretionary trust	1,510,128,620(1)(4)	46.59%
Mr. Ren Jie	Long	Personal interest, corporate interest and settlor of a discretionary trust	1,510,128,620(2)(4)	46.59%
Mr. Liu Zhi	Long	Personal interest, corporate interest and settlor of a discretionary trust	1,510,128,620(3)(4)	46.59%

(1) Zhang Mi individually owns 3,050,000 Shares. Yi Langlin, spouse of Zhang Mi owns 2,156,000 Shares. Zhang Mi is a member of the Concert Group. He is the settlor of a discretionary trust, The ZYL Family Trust, whose trustee, through Wealth Afflux Limited, holds the entire issued share capital of Ally Smooth Investments Limited, which in turn is the beneficial owner of 36% of the issued share capital of Ample Chance International Limited, which in turn is the beneficial owner of the entire issued share capital of Ally Giant Limited which holds 1,187,727,837 Shares. The Trustee of The ZYL Family Trust owns 157,800,000 Shares.

Ren Jie, another member of the Concert Group and the settlor of a discretionary trust, The RJDJ Victory Trust, individually owns 1,549,000 Shares. The Trustee of The RJDJ Victory Trust owns 33,227,200 Shares. The Trustee of a discretionary trust, The LZWM Family Trust, whose settlor is Liu Zhi, another member of the Concert Group, individually owns 1,250,000 Shares. The Trustee of The LZWM Family Trust owns 28,105,000 Shares. The Trustee of a discretionary trust, The FBX Family Trust, whose settlor is Fan Bing, another member of the Concert Group, individually owns 30,000 Shares. The Trustee of The FBX Family Trust owns 18,581,000 Shares. The Trustee of a discretionary trust, The ZHH Family Trust, whose settlor is Zuo Huixian, another member of the Concert Group, individually owns 210,000 Shares. The Trustee of The ZHH Family Trust owns 18,804,400 Shares. The Trustee of a discretionary trust, The Hong Xu Family Trust, whose settlor is Zhang Xu, another member of the Concert Group, individually owns 12,686 Shares. The Trustee of The Hong Xu Family Trust owns 13,557,400 Shares. The Trustee of a discretionary trust, The LXYY Family Trust, whose settlor is Liu Xuetian (deceased), another member of the Concert Group, owns 6,052,400 Shares. The other members of the Concert Group totally own 38,015,697 Shares.

(2) Ren Jie individually owns 1,549,000 Shares. Ren Jie is a member of the Concert Group. He is the settlor of a discretionary trust, The RJDJ Victory Trust, whose trustee, through Mowbray Worldwide Limited, holds approximately 41.34% of the issued share capital of Charm Moral International Limited, which in turn is the beneficial owner of approximately 19.09% of the issued share capital of Ample Chance International Limited, which in turn is the beneficial owner of the entire issued share capital of Ally Giant Limited which holds 1,187,727,837 Shares. The Trustee of The RJDJ Victory Trust owns 33,227,200 Shares.

Zhang Mi, another member of the Concert Group and the settlor of a discretionary trust, The ZYL Family Trust, individually owns 3,050,000 Shares. The Trustee of The ZYL Family Trust owns 157,800,000 Shares. Yi Langlin, spouse of Zhang Mi owns 2,156,000 Shares. The Trustee of a discretionary trust, The LZWM Family Trust, whose settlor is Liu Zhi, another member of the Concert Group, individually owns 1,250,000 Shares. The Trustee of The LZWM Family Trust owns 28,105,000 Shares. The Trustee of a discretionary trust, The FBX Family Trust, whose settlor is Fan Bing, another member of the Concert Group, individually owns 30,000 Shares. The Trustee of The FBX Family Trust owns 18,581,000 Shares. The Trustee of a discretionary trust, The ZHH Family Trust, whose settlor is Zuo Huixian, another member of the Concert Group, individually owns 210,000 Shares. The Trustee of The ZHH Family Trust owns 18,804,400 Shares. The Trustee of a discretionary trust, The Hong Xu Family Trust, whose settlor is Zhang Xu, another member of the Concert Group, individually owns 12,686 Shares. The Trustee of The Hong Xu Family Trust owns 13,557,400 Shares. The Trustee of a discretionary trust, The LXYY Family Trust, whose settlor is Liu Xuetian (deceased), another member of the Concert Group, owns 6,052,400 Shares. The other members of the Concert Group totally own 38,015,697 Shares.

(3) Liu Zhi individually owns 1,250,000 Shares. Liu Zhi is a member of the Concert Group. He is the settlor of a discretionary trust, The LZWM Family Trust, whose trustee, through Ecotech Enterprises Corporation, holds approximately 29.33% of the issued share capital of Charm Moral International Limited, which in turn is the beneficial owner of approximately 19.09% of the issued share capital of Ample Chance International Limited, which in turn is the beneficial owner of the entire issued share capital of Ally Giant Limited which holds 1,187,727,837 Shares. The Trustee of The LZWM Family Trust owns 28,105,000 Shares.

Zhang Mi and Ren Jie, the other two members of the Concert Group, collectively hold 4,599,000 Shares. The Trustees of the two discretionary trusts, whose settlors are Zhang Mi and Ren Jie respectively, collectively own 191,027,200 Shares. Yi Langlin, spouse of Zhang Mi owns 2,156,000 Shares. The Trustee of a discretionary trust, The FBX Family Trust, whose settlor is Fan Bing, another member of the Concert Group, individually owns 30,000 Shares. The Trustee of The FBX Family Trust owns 18,581,000 Shares. The Trustee of a discretionary trust, The ZHH Family Trust, whose settlor is Zuo Huixian, another member of the Concert Group, individually owns 210,000 Shares. The Trustee of The ZHH Family Trust owns 18,804,400 Shares. The Trustee of a discretionary trust, The Hong Xu Family Trust, whose settlor is Zhang Xu, another member of the Concert Group, individually owns 12,686 Shares. The Trustee of The Hong Xu Family Trust owns 13,557,400 Shares. The Trustee of a discretionary trust, The LXYY Family Trust, whose settlor is Liu Xuetian (deceased), another member of the Concert Group, owns 6,052,400 Shares. The other members of the Concert Group totally own 38,015,697 Shares.

(4) Concert Group is defined in the prospectus of the Company dated 25 February 2008.

(B) SHARE OPTIONS OF THE COMPANY

	Long/Short Position	Number of options held — Personal interest	Number of options held — Interest of the Concert Group
Mr. Zhang Mi	Long	16,217,000	32,197,000
Mr. Ren Jie	Long	7,457,000	40,957,000
Mr. Liu Zhi	Long	6,623,000	41,791,000
Mr. Qi Daqing	Long	2,750,000	–
Mr. Liu Xiaofeng	Long	2,750,000	–
Mr. Chen Guoming	Long	2,050,000	–
Mr. Shi Xingquan	Long	2,050,000	–
Mr. Guo Yanjun	Long	1,450,000	–

(C) INTERESTS IN DEBENTURES OF THE COMPANY

	Nature of interest	Total amount of debentures interested
Mr. Liu Zhi	Corporate interest [1]	USD500,000

(1) Liu Zhi owns debentures with amount of USD500, 000 through his directly 95%-owned company, Long Joy (HK) Limited.

Saved as disclosed above, at 30 June 2016, none of the Directors and Chief Executives (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for Shares (or warrants or debentures, if applicable) of the Company and its associated corporations required to be disclosed pursuant to the SFO.

SUBSTANTIAL SHAREHOLDERS' INTERESTS OR/AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

The register of substantial shareholders required to be kept under section 336 of Part XV of the SFO shows that, as at 30 June 2016, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors and Chief Executives of the Company.

		Number of shares held						
		Personal Interest						
Name	Long/Short Position	Share Option	Shares Interest	Corporate Interest	Corporate Interest and Settlor of a Discretionary Trust	Interest of the Concert Group	Total	% of the Issued Share Capital of the Company
Ally Giant Limited	Long	–	1,187,727,837	–	–	370,814,783	1,558,542,620[1]	48.08%
Ample Chance International Limited	Long	–	–	1,187,727,837	–	370,814,783	1,558,542,620[2]	48.08%
Wealth Afflux Limited	Long	–	157,800,000	1,187,727,837	–	213,014,783	1,558,542,620[3]	48.08%
Ally Smooth Investments Limited	Long	–	–	1,187,727,837	–	370,814,783	1,558,542,620[3]	48.08%
Equity Trustee Limited	Long	–	–	–	1,509,613,237	–	1,509,613,237[3][5][6][9][10][14][20][22]	46.57%
Charm Moral International Limited	Long	–	–	1,187,727,837	–	370,814,783	1,558,542,620[4]	48.08%
Mowbray Worldwide Limited	Long	–	33,227,200	1,187,727,837	–	337,587,583	1,558,542,620[5]	48.08%
Ecotech Enterprises Corporation	Long	–	28,105,000	1,187,727,837	–	342,709,783	1,558,542,620[6]	48.08%
Mr. Zheng Yong	Long	2,263,000	20,020,950	1,187,727,837	–	348,530,833	1,558,542,620[7]	48.08%
Beauty Clear Holdings Limited	Long	–	–	1,187,727,837	–	370,814,783	1,558,542,620[8]	48.08%
Mr. Zuo Huixian	Long	2,264,000	210,000	–	1,206,532,237	349,536,383	1,558,542,620[9]	48.08%
Vast & Fast Corporation	Long	–	18,804,400	1,187,727,837	–	352,010,383	1,558,542,620[9]	48.08%
Mr. Zhang Xu	Long	1,899,000	12,686	–	1,201,285,237	355,345,697	1,558,542,620[10]	48.08%
Cavendish Global Corporation	Long	–	13,557,400	1,187,727,837	–	357,257,383	1,558,542,620[10]	48.08%
Elegant Scene International Limited	Long	–	–	1,187,727,837	–	370,814,783	1,558,542,620[11]	48.08%
Mr. Wang Jiangyang	Long	1,611,000	6,752,600	1,187,727,837	–	362,451,183	1,558,542,620[11]	48.08%
Mr. Chen Jun	Long	922,000	2,074,599	1,187,727,837	–	367,818,184	1,558,542,620[12]	48.08%
Believe Power International Limited	Long	–	–	1,187,727,837	–	370,814,783	1,558,542,620[13]	48.08%
Mr. Fan Bing	Long	1,744,000	30,000	–	1,206,308,837	350,459,783	1,558,542,620[14]	48.08%
Brondesbury Enterprises Limited	Long	–	18,581,000	1,187,727,837	–	352,233,783	1,558,542,620[14]	48.08%
Mr. Zhang Yanyong	Long	1,500,000	1,720	1,187,727,837	–	369,313,063	1,558,542,620[15]	48.08%
Mr. Ao Pei	Long	537,000	962,308	1,187,727,837	–	369,315,475	1,558,542,620[16]	48.08%
Mr. Tian Diyong	Long	608,000	260,400	1,187,727,837	–	369,946,383	1,558,542,620[17]	48.08%
Mr. Shen Dingjian	Long	304,000	1,285,720	1,187,727,837	–	369,225,063	1,558,542,620[18]	48.08%
Benefit Way International Limited	Long	–	–	1,187,727,837	–	370,814,783	1,558,542,620[19]	48.08%
Mr. Liu Xuetian (deceased)	Long	–	–	–	1,193,780,237	364,762,383	1,558,542,620[20]	48.08%
Dobson Global Inc.	Long	–	6,052,400	1,187,727,837	–	364,762,383	1,558,542,620[20]	48.08%
Ms. Qu Yihong	Long	–	–	1,193,780,237	–	364,762,383	1,558,542,620[21]	48.08%
Ms. Liu Ying	Long	–	–	1,193,780,237	–	364,762,383	1,558,542,620[21]	48.08%
Mr. Zhou Bing	Long	1,805,000	3,856,714	–	1,187,727,837	365,153,069	1,558,542,620[22]	48.08%
Darius Enterprises Limited	Long	–	–	1,187,727,837	–	370,814,783	1,558,542,620[22]	48.08%

Name	Long/Short Position	Number of shares held: Personal Interest: Share Option	Shares Interest	Corporate Interest	Corporate Interest and Settlor of a Discretionary Trust	Interest of the Concert Group	Total	% of the Issued Share Capital of the Company
Ms. Lv Lan	Long	883,000	250,808	1,187,727,837	–	369,680,975	1,558,542,620[23]	48.08%
Mr. Tian Yu	Long	780,000	1,508,478	1,187,727,837	–	368,526,305	1,558,542,620[24]	48.08%
Mr. Li Hanqiang	Long	281,000	311,000	1,187,727,837	–	370,222,783	1,558,542,620[25]	48.08%
Mr. Liu Yingguo	Long	242,000	264,000	1,187,727,837	–	370,308,783	1,558,542,620[26]	48.08%
Mrs. Liu Lulu	Long	474,000	466,400	1,187,727,837	–	369,874,383	1,558,542,620[27]	48.08%
Yi Langlin	Long	–	2,156,000 1,556,386,620 (family interest)		–	–	1,558,542,620[28]	48.08%

(1) Ally Giant Limited is wholly-owned by Ample Chance International Limited and holds 1,187,727,837 Shares.

(2) Ample Chance International Limited is owned approximately 36% by Ally Smooth Investments Limited, approximately 19.09% by Charm Moral International Limited, approximately 18.51% by Beauty Clear Holdings Limited, approximately 12.71% by Believe Power International Limited, approximately 10.50% by Benefit Way International Limited and approximately 3.19% by a corporation.

(3) The entire issued share capital of Ally Smooth Investments Limited is owned by Wealth Afflux Limited, which in turn is held by Equity Trustee Limited as trustee of The ZYL Family Trust. The ZYL Family Trust is a discretionary trust established by Zhang Mi as settlor, with Equity Trustee Limited as trustee. The beneficiaries under The ZYL Family Trust are Zhang Mi and his family members. Zhang Mi is a member of the Concert Group.

(4) Charm Moral International Limited is owned approximately 41.34% by Mowbray Worldwide Limited, approximately 29.33% by Ecotech Enterprises Corporation and approximately 29.33% by Zheng Yong.

(5) Approximately 41.34% of the issued share capital of Charm Moral International Limited is owned by Mowbray Worldwide Limited, which in turn is held by Equity Trustee Limited as trustee of The RJDJ Victory Trust. The RJDJ Victory Trust is a discretionary trust established by Ren Jie as settlor, with Equity Trustee Limited as trustee. The beneficiaries under The RJDJ Victory Trust are Ren Jie and his family members. Ren Jie is a member of the Concert Group.

(6) Approximately 29.33% of the issued share capital of Charm Moral International Limited is held by Ecotech Enterprises Corporation, which in turn is held by Equity Trustee Limited as trustee of The LZWM Family Trust. The LZWM Family Trust is a discretionary trust, established by Liu Zhi as settlor, with Equity Trustee Limited as trustee. The beneficiaries under The LZWM Family Trust are Liu Zhi and his family members. Liu Zhi is a member of the Concert Group.

(7) Zheng Yong is the beneficial owner of approximately 29.33% of the issued share capital of Charm Moral International Limited, which is in turn the beneficial owner of approximately 19.09% of the issued share capital of Ample Chance International Limited. Zheng Yong is a member of the Concert Group.

(8) Beauty Clear Holdings Limited is owned approximately 23.63% by Vast & Fast Corporation, approximately 22.77% by Cavendish Global Corporation, approximately 5.76% by Elegant Scene International Limited, approximately 5.10% by Chen Jun, and a total of approximately 42.74% by 3 other shareholders.

(9) Approximately 23.63% of issued share capital of Beauty Clear Holdings Limited is owned by Vast & Fast Corporation, which in turn is held by Equity Trustee Limited as trustee of The ZHH Family Trust. The ZHH Family Trust is a discretionary trust, established by Zuo Huixian as settlor, with Equity Trustee Limited as trustee. The beneficiaries under The ZHH Family Trust are Zuo Huixian and his family members. Zuo Huixian is a member of the Concert Group.

(10) Approximately 22.77% of the issued share capital of Beauty Clear Holdings Limited is held by Cavendish Global Corporation, which in turn is held by Equity Trustee Limited as trustee of The Hong Xu Family Trust. The Hong Xu Family Trust is a discretionary trust, established by Zhang Xu as settlor, with Equity Trustee Limited as trustee. The beneficiaries under The Hong Xu Family Trust are Zhang Xu and his family members. Zhang Xu is a member of the Concert Group.

(11) Approximately 5.76% of the issued share capital of Beauty Clear Holdings Limited is held by Elegant Scene International Limited, which in turn is wholly-owned by Wang Jiangyang. Beauty Clear Holdings Limited is the beneficial owner of approximately 18.51% of the issued share capital of Ample Chance International Limited. Wang Jiangyang is a member of the Concert Group.

(12) Chen Jun is the beneficial owner of approximately 5.10% of the issued share capital of Beauty Clear Holdings Limited, which in turn is the beneficial owner of approximately 18.51% of the issued share capital of Ample Chance International Limited. Chen Jun is a member of the Concert Group.

(13) Believe Power International Limited is owned approximately 32.72% by Brondesbury Enterprises Limited, approximately 29.16% by Zhang Yanyong, approximately 7.30% by Ao Pei, approximately 2.85% by Tian Diyong, approximately 2.24% by Shen Dingjian, and a total of approximately 25.73% by 4 other shareholders.

(14) Approximately 32.72% of the issued share capital of Believe Power International Limited is held by Brondesbury Enterprises Limited, which in turn is held by Equity Trustee Limited as trustee of The FBX Family Trust. The FBX Family Trust is a discretionary trust, established by Fan Bing as settlor, with Equity Trustee Limited as trustee. The beneficiaries under The FBX Family Trust are Fan Bing and his family members. Fan Bing is a member of the Concert Group.

(15) Zhang Yanyong is the beneficial owner of approximately 29.16% of the issued share capital of Believe Power International Limited, which in turn is the beneficial owner of approximately 12.71% of the issued share capital of Ample Chance International Limited. Zhang Yanyong is a member of the Concert Group.

(16) Ao Pei is the beneficial owner of approximately 7.30% of the issued share capital of Believe Power International Limited, which in turn is the beneficial owner of approximately 12.71% of the issued share capital of Ample Chance International Limited. Ao Pei is a member of the Concert Group.

(17) Tian Diyong is the beneficial owner of approximately 2.85% of the issued share capital of Believe Power International Limited, which in turn is the beneficial owner of approximately 12.71% of the issued share capital of Ample Chance International Limited. Tian Diyong is a member of the Concert Group.

(18) Shen Dingjian is the beneficial owner of approximately 2.24% of the issued share capital of Believe Power International Limited, which in turn is the beneficial owner of approximately 12.71% of the issued share capital of Ample Chance International Limited. Shen Dingjian is a member of the Concert Group.

(19) Benefit Way International Limited is owned approximately 35.57% by Dobson Global Inc., approximately 19.36% by Darius Enterprises Limited, approximately 6.49% by Lv Lan, approximately 3.91% by Tian Yu, approximately 3.50% by Li Hangqiang, approximately 1.52% by Liu Yingyuo, approximately 1.22% by Liu Lulu and approximately 28.43% by 6 other shareholders.

(20) Approximately 35.57% of the issued share capital of Benefit Way International Limited is held by Dobson Global Inc., which in turn is held by Equity Trustee Limited as trustee of The LXYY Family Trust. The LXYY Family Trust is a discretionary trust, established by Liu Xuetian (deceased) as settlor, with Equity Trustee Limited as trustee. The beneficiaries under The LXYY Family Trust are Liu Xuetian (deceased) and his family members. Liu Xuetian (deceased) was a member of the Concert Group and passed away on 23 January 2008.

(21) Qu Yihong and Liu Ying, family members of Liu Xuetian (deceased), are deemed to be interested in 1,193,780,237 Shares as directors of Dobson Global Inc..

(22) Approximately 19.36% of the issued share capital of Benefit Way International Limited is held by Darius Enterprises Limited, which in turn is held by Equity Trustee Limited as trustee of The Fang Zhou Family Trust. The Fang Zhou Family Trust is a discretionary trust, established by Zhou Bing as settlor, with Equity Trustee Limited as trustee. The beneficiaries under The Fang Zhou Family Trust are Zhou Bing and his family members. Zhou Bing is a member of the Concert Group.

(23) Lv Lan is the beneficial owner of approximately 6.49% of the issued share capital of Benefit Way International Limited, which in turn is the beneficial owner of approximately 10.50% of issued share capital of Ample Chance International Limited. Lv Lan is a member of the Concert Group.

(24) Tian Yu is the beneficial owner of approximately 3.91% of the issued share capital of Benefit Way International Limited, which in turn is the beneficial owner of approximately 10.50% of issued share capital of Ample Chance International Limited. Tian Yu is a member of the Concert Group.

(25) Li Hanqiang is the beneficial owner of approximately 3.50% of the issued share capital of Benefit Way International Limited, which in turn is the beneficial owner of approximately 10.50% of issued share capital of Ample Chance International Limited. Li Hanqiang is a member of the Concert Group.

(26) Liu Yingyuo is the beneficial owner of approximately 1.52% of the issued share capital of Benefit Way International Limited, which in turn is the beneficial owner of approximately 10.50% of issued share capital of Ample Chance International Limited. Liu Yingguo is a member of the Concert Group.

(27) Liu Lulu is the beneficial owner of approximately 1.22% of the issued share capital of Benefit Way International Limited, which in turn is the beneficial owner of approximately 10.50% of issued share capital of Ample Chance International Limited. Liu Lulu is a member of the Concert Group.

(28) Yi Langlin, spouse of Zhang Mi, is deemed to be interested in 1,558,542,620 Shares.

Save as disclosed above, to the best of the Directors and the Chief Executives of the Company's knowledge, as at 30 June 2016, none of the persons, other than the Directors or the Chief Executives of the Company, had interests or short positions in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or recorded in the register as required under Section 336 of the SFO.

SHARE OPTION SCHEME

(A) Pre-Ipo Share Option Scheme

The principal terms of Pre-IPO share option scheme have been approved by resolutions in writing by all the Shareholders on 21 January 2008. As at the date of this report, a total of 270 eligible participants have been conditionally granted share options to subscribe for an aggregate of 60,000,000 Shares at an exercise price of offer price of HK$3.83 per Share. As at 30 June 2016, none of the grantees has exercised the share options granted to him under the Pre-IPO share option scheme and 6,209,000 shares options have been lapsed.

Each share option granted under the Pre-IPO share option scheme is exercisable within a period of five years commencing from 7 March 2008 (the "Listing Date") and the vesting period is ten years from the date of grant. As at 30 June 2016, the total number of the share options granted (if not cancelled) can be exercised under the Pre-IPO share option scheme.

No further options were granted under Pre-IPO share option scheme on or after the Listing Date.

(B) Share Option Scheme after Listing

Upon conditional approval by resolution in writing by all Shareholders on 21 January 2008, the Company adopted a share option scheme (the "Share Option Scheme"). Details of the grant under the Share Option Scheme ended 30 June 2016 were as follows:

Date of grant	Number of grant (shares)	Exercise price per Share (HK$)	Exercise period of share options	Valid period of the share options
15 April 2009	60,000,000	1.27	up to 30% of the share options granted to each grantee from 1 December 2009 to 14 April 2010; up to 60% of the share options granted to each grantee on or before 14 April 2011; all the remaining share options granted to each grantee on or after 15 April 2011	up to 14 April 2019
11 October 2010	2,200,000	1.05	up to 40% of the share options granted to each grantee from 25 October 2010 to 10 October 2011; up to 70% of the share options granted to each grantee on or before 10 October 2012; all the remaining share options granted to each grantee on or after 11 October 2012	up to 10 October 2020

Date of grant	Number of grant (shares)	Exercise price per Share (HK$)	Exercise period of share options	Valid period of the share options
20 June 2011	7,600,000	0.83	up to 30% of the share options granted to each grantee from 19 July 2011 to 19 June 2012; up to 60% of the share options granted to each grantee on or before 19 June 2013; all the remaining share options granted to each grantee on or after 20 June 2013	up to 19 June 2021
5 April 2012	15,400,000	1.19	up to 30% of the share options granted to each grantee from 5 April 2013 to 4 April 2014; up to 60% of the share options granted to each grantee on or before 4 April 2015; all the remaining share options granted to each grantee on or after 5 April 2015	up to 4 April 2022
24 March 2014	3,200,000	2.024	up to 30% of the share options granted to each grantee from 24 April 2014 to 23 April 2015; up to 60% of the share options granted to each grantee on or before 23 April 2016; all the remaining share options granted to each grantee on or after 24 April 2016	up to 23 March 2024
2 July 2014	40,575,000	1.96	vesting of the share options is conditional upon the achievement of corporate goals of the Company and the individual performance of the respective Grantees. The share options or any portion thereof shall lapse if the relevant corporate goals cannot be achieved. Up to 30% of the share options granted to each grantee after April 2015; up to 60% of the share options granted to each grantee after April 2016; all the remaining share options granted to each grantee after April 2017	up to1 July 2024

Particulars and movements of share options under the Share Option Scheme during the six month ended 30 June 2016 were as follows:

		Number of share options								
Name or category of participant	Outstanding as at 01/01/2016	Granted during the six month ended 30 June 2016	Exercised during the six month ended 30 June 2016	Lapsed during the six month ended 30 June 2016	Cancelled during the six month ended 30 June 2016	Outstanding as at 30/06/2016	Date of grant (DD/MM/YY)	Exercise period (DD/MM/YY)	Exercise price per Share HK$	Price immediately preceding the grant date of share options HK$
Directors										
Mr. Zhang Mi	3,937,000	–	–	–	–	3,937,000	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
	2,380,000					2,380,000	02/07/2014	02/07/2014–01/07/2024	1.96	1.92
Mr. Liu Zhi	2,373,000	–	–	–	–	2,373,000	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
	1,450,000					1,450,000	02/07/2014	02/07/2014–01/07/2024	1.96	1.92
Mr. Ren Jie	2,587,000	–	–	–	–	2,587,000	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
	1,770,000					1,770,000	02/07/2014	02/07/2014–01/07/2024	1.96	1.92
Mr. Chen Guoming	750,000	–	–	–	–	750,000	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
	750,000		–	–	–	750,000	20/06/2011	19/07/2011–19/06/2021	0.83	0.79
	550,000					550,000	24/03/2014	24/04/2014–23/03/2024	2.024	2.02
Mr. Liu Xiaofeng	1,000,000	–	–	–	–	1,000,000	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
	1,000,000		–	–	–	1,000,000	20/06/2011	19/07/2011–19/06/2021	0.83	0.79
	750,000					750,000	24/03/2014	24/04/2014–23/03/2024	2.024	2.02
Mr. Qi Daqing	1,000,000	–	–	–	–	1,000,000	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
	1,000,000	–	–	–	–	1,000,000	20/06/2011	19/07/2011–19/06/2021	0.83	0.79
	750,000					750,000	24/03/2014	24/04/2014–23/03/2024	2.024	2.02
Mr. Shi Xingquan	750,000	–	–	–	–	750,000	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
	750,000	–	–	–	–	750,000	20/06/2011	19/07/2011–19/06/2021	0.83	0.79
	550,000					550,000	24/03/2014	24/04/2014–23/03/2024	2.024	2.02
Mr. Guo Yanjun	850,000	–	–	–	–	850,000	20/06/2011	19/07/2011–19/06/2021	0.83	0.79
	600,000					600,000	24/03/2014	24/04/2014–23/03/2024	2.024	2.02
Sub-total	**25,547,000**	**–**	**–**	**–**	**–**	**25,547,000**				

Name or category of participant	Outstanding as at 01/01/2016	Number of share options Granted during the six month ended 30 June 2016	Exercised during the six month ended 30 June 2016	Lapsed during the six month ended 30 June 2016	Cancelled during the six month ended 30 June 2016	Outstanding as at 30/06/2016	Date of grant (DD/MM/YY)	Exercise period (DD/MM/YY)	Exercise price per Share HK$	Price immediately preceding the grant date of share options HK$
Substantial Shareholders										
Mr. Zheng Yong	695,000	–	–	–	–	695,000	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
	178,000					178,000	02/07/2014	02/07/2014–01/07/2024	1.96	1.92
Mr. Zuo Huixian	674,000	–	–	–	–	674,000	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
	530,000					530,000	02/07/2014	02/07/2014–01/07/2024	1.96	1.92
Mr. Zhang Xu	642,000	–	–	–	–	642,000	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
	66,000					66,000	02/07/2014	02/07/2014–01/07/2024	1.96	1.92
Mr. Wang Jiangyang	301,000	–	–	–	–	301,000	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
	250,000	–	–	–	–	250,000	05/04/2012	05/04/2013–04/04/2022	1.19	1.20
	420,000					420,000	02/07/2014	02/07/2014–01/07/2024	1.96	1.92
Mr. Chen Jun	332,000	–	–	–	–	332,000	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
	50,000					50,000	02/07/2014	02/07/2014–01/07/2024	1.96	1.92
Mr. Fan Bing	569,000	–	–	–	–	569,000	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
Mr. Zhang Yanyong	480,000	–	–	–	–	480,000	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
	20,000					20,000	02/07/2014	02/07/2014–01/07/2024	1.96	1.92
Mr. Tian Diyong	183,000	–	–	–	–	183,000	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
	70,000					70,000	02/07/2014	02/07/2014–01/07/2024	1.96	1.92
Mr. Shen Dingjian	87,000	–	–	–	–	87,000	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
	42,000					42,000	02/07/2014	02/07/2014–01/07/2024	1.96	1.92
Mr. Zhou Bing	695,000	–	–	–	–	695,000	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
	360,000					360,000	02/07/2014	02/07/2014–01/07/2024	1.96	1.92
Ms. Lv Lan	175,000	–	–	–	–	175,000	05/04/2012	05/04/2013–04/04/2022	1.19	1.20
	363,000					363,000	02/07/2014	02/07/2014–01/07/2024	1.96	1.92
Mr. Tian Yu	90,000	–	–	–	–	90,000	05/04/2012	05/04/2013–04/04/2022	1.19	1.20
	450,000					450,000	02/07/2014	02/07/2014–01/07/2024	1.96	1.92
Mr. Ao Pei	97,000					97,000	02/07/2014	02/07/2014–01/07/2024	1.96	1.92
Mr. Li Hanqiang	66,000					66,000	02/07/2014	02/07/2014–01/07/2024	1.96	1.92
Mr. Liu Yingguo	117,000	–	–	–	–	117,000	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
Ms. Liu Lulu	108,000	–	–	–	–	108,000	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
	231,000					231,000	02/07/2014	02/07/2014–01/07/2024	1.96	1.92
Sub-total	**8,341,000**	**–**	**–**	**–**	**8,341,000**					

Name or category of participant	Outstanding as at 01/01/2016	Number of share options: Granted during the six month ended 30 June 2016	Exercised during the six month ended 30 June 2016	Lapsed during the six month ended 30 June 2016	Cancelled during the six month ended 30 June 2016	Outstanding as at 30/06/2016	Date of grant (DD/MM/YY)	Exercise period (DD/MM/YY)	Exercise price per Share HK$	Price immediately preceding the grant date of share options HK$
Other										
Employee	22,864,500	–	–	141,000	–	22,723,500	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
Employee	2,943,000	–	–	–	–	2,943,000	20/06/2011	19/07/2011–19/06/2021	0.83	0.79
Employee	13,861,000	–	–	90,000	–	13,771,000	05/04/2012	05/04/2013–04/04/2022	1.19	1.20
Employee	29,588,000	–	–	944,220	–	28,643,780	02/07/2014	02/07/2014–01/07/2024	1.96	1.92
Sub-total	**69,256,500**	**–**	**–**	**1,175,220**	**–**	**68,081,280**				
Total	**103,144,500**	**–**	**–**	**1,175,220**	**–**	**101,969,280**				

RESTRICTED SHARE AWARD SCHEME

On 30 December 2011, the Board approved and adopted a restricted share award scheme in which Selected Participant(s) including any Employee or Director (including, without limitation, any Executive Directors, Non-executive Directors or Independent Non-executive Directors), any consultant or adviser (whether on any employment or contractual or honorary basis and whether paid or unpaid) of the Company or any member of the Group, who in the absolute opinion of the Board, have contributed to the Company or the Group. Pursuant to the Scheme Rules, existing Shares will be purchased by the Trustee from the market out of cash contributed by the Company and be held in trust for the relevant Selected Participant until such Shares are vested with the relevant Selected Participants in accordance with the Scheme Rules. The Scheme shall be effective for a term of 10 years commencing on the Adoption Date subject to any early termination as may be determined by the Board. The Board will implement the Scheme in accordance with the Scheme Rules including providing necessary funds to the Trustee to purchase for Shares up to 5% of the issued share capital of the Company from time to time. The Selected Participant is not entitled to receive any income or distribution, such as dividend derived from the Restricted Shares allocated to him, prior to the vesting of the Restricted Shares in the Selected Participants. As at 30 June 2016, the Trustee has purchased 97,817,000 of the Company's Shares, accounting for 3.01% of the issued share capital of the Company and total of 36,917,700 shares were granted to the Selected Participants and out of which 190,000 Shares were subsequently cancelled.

Particulars and movements of the Restricted Share Award Scheme during the six month ended 30 June 2016 were as follows:

	Number of Shares					
	Outstanding during 01/01/2016	Purchased during the six months ended 30 June 2016	Granted during the six months ended 30 June 2016	Vested during the six months ended 30 June 2016	Cancelled during the six months ended 30 June 2016	Outstanding as at 30/6/2016
Total	61,089,300	–	–	–	–	61,089,300

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's Shares during the six months ended 30 June 2016.

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

Hong Kong, 23 August 2016

pwc 羅兵咸永道

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION
TO THE BOARD OF DIRECTORS OF HONGHUA GROUP LIMITED
(Incorporated in the Cayman Island with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 35 to 74, which comprises the interim condensed consolidated balance sheet of Honghua Group Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2016 and the related interim condensed consolidated statement of profit or loss, other comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review 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. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with the International Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 23 August 2016

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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	7	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	8	(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	13	2,535	340
Share of post-tax losses of joint ventures	14	(1,421)	(3,249)
Loss before income tax		(247,890)	(37,695)
Income tax expense	9	(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	10	(7.89)	(0.94)

The notes on pages 42 to 74 form an integral part of this unaudited interim condensed consolidated financial information.

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)

The notes on pages 42 to 74 form an integral part of this unaudited interim condensed consolidated financial information.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF 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	11	392,732	405,732
Property, plant and equipment	12	3,025,373	3,139,093
Payment for acquisition of leasehold prepayments		163,192	163,192
Intangible assets	12	221,831	234,261
Investments in associates	13	60,696	52,161
Investments in joint ventures	14	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	15	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	15	3,840,573	4,537,569
Amount due from customers for contract work	16	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	17	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 STATEMENT OF 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	18	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	19	2,225,474	2,331,886
Trade and other payables	21	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	21	3,113,720	3,556,059
Current income tax liabilities		23,807	54,130
Borrowings	19	2,242,516	2,332,545
Provisions for other liabilities and charges	20	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

The notes on pages 42 to 74 form an integral part of this unaudited interim condensed consolidated financial information.

	Unaudited										
	Attributable to owners of the Company										
	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000	Capital reserve RMB'000	Surplus reserve RMB'000	Exchange reserve RMB'000	Shares held for share award scheme RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total Equity RMB'000
Balance at 1 January 2016	300,983	2,349,292	51,210	531,049	413,360	(173,717)	(124,618)	1,204,470	4,552,029	222,157	4,774,186
Comprehensive income											
(Loss)/profit for the period	–	–	–	–	–	–	–	(250,894)	(250,894)	615	(250,279)
Other comprehensive income	–	–	–	–	–	7,440	–	–	7,440	2,783	10,223
Total comprehensive income for the period ended 30 June 2016	–	–	–	–	–	7,440	–	(250,894)	(243,454)	3,398	(240,056)
Total transactions with owners, recognised directly in equity											
Equity-settled share-based transactions	–	–	–	1,270	–	–	–	–	1,270	–	1,270
Options lapsed under share option schemes	–	–	–	(336)	–	–	–	336	–	–	–
Total transactions with owners, recognised directly in equity	–	–	–	934	–	–	–	336	1,270	–	1,270
Balance at 30 June 2016	300,983	2,349,292	51,210	531,983	413,360	(166,277)	(124,618)	953,912	4,309,845	225,555	4,535,400

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 June 2016

	Unaudited											
	Attributable to owners of the Company											
	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000	Capital reserve RMB'000	Surplus reserve RMB'000	Exchange reserve RMB'000	Fair value reserve RMB'000	Shares held for share award scheme RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total Equity RMB'000
Balance at 1 January 2015	300,983	2,349,292	51,210	526,964	394,590	(243,584)	739	(124,618)	1,473,401	4,728,977	234,793	4,963,770
Comprehensive income												
(Loss)/profit for the period	–	–	–	–	–	–	–	–	(29,874)	(29,874)	2,949	(26,925)
Other comprehensive income	–	–	–	–	–	(12,030)	(739)	–	–	(12,769)	195	(12,574)
Total comprehensive income for the period ended 30 June 2015	–	–	–	–	–	(12,030)	(739)	–	(29,874)	(42,643)	3,144	(39,499)
Total transactions with owners, recognised directly in equity												
Equity-settled share-based transactions	–	–	–	3,662	–	–	–	–	–	3,662	–	3,662
Options lapsed under share option schemes	–	–	–	(916)	–	–	–	–	916	–	–	–
Total transactions with owners, recognised directly in equity	–	–	–	2,746	–	–	–	–	916	3,662	–	3,662
Balance at 30 June 2015	300,983	2,349,292	51,210	529,710	394,590	(255,614)	–	(124,618)	1,444,443	4,689,996	237,937	4,927,933

The notes on pages 42 to 74 form an integral part of this unaudited interim condensed consolidated financial information.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016

	Unaudited Six months ended 30 June 2016 RMB'000	2015 RMB'000
Cash flows from operating activities		
Cash (used in)/generated from operations	**(141,475)**	98,144
Income tax paid	**(38,768)**	(51,430)
Cash flows from operating activities — net	**(180,243)**	46,714
Cash flows from investing activities		
Proceeds from government grants related to assets	**12,084**	–
Payment for addition of property, plant and equipment and construction in progress	**(36,473)**	(165,957)
Proceeds from disposal/(payment for acquisition) of lease prepayment	**9,941**	(10,428)
Proceeds on disposal of property, plant and equipment and other intangible assets	**30,969**	7,864
Net proceeds from sales and purchase of available-for-sale financial assets	**31,508**	333,907
Interest received	**4,615**	48,207
Expenditure on development project and other intangible assets	**(20,100)**	(12,554)
(Increase)/decrease in bank deposits maturing over three months	**(2,608)**	4,003
Cash flows from investing activities — net	**29,936**	205,042
Cash flows from financing activities		
Repayments of borrowings	**(1,503,814)**	(1,799,708)
Proceeds from borrowings	**1,290,157**	1,355,812
Interest paid	**(131,549)**	(182,322)
Cash flows from financing activities — net	**(345,206)**	(626,218)
Net decrease in cash and cash equivalents	**(495,513)**	(374,462)
Cash and cash equivalents at the beginning of the period	**1,102,651**	1,442,014
Exchange gains/(losses)	**22,149**	(1,727)
Cash and cash equivalents at end of the period	**629,287**	1,065,825

The notes on pages 42 to 74 form an integral part of this unaudited interim condensed consolidated financial information.

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 address of its registered office is Clifton House, 75 Fort Street, PO 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.

3 ACCOUNTING POLICIES (continued)

(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.

3 ACCOUNTING POLICIES (continued)

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

(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 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk), credit risk and liquidity risk.

The interim condensed consolidated financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2015.

There have been no significant changes in the risk management policies since year end.

5.2 Liquidity risk

The contractual maturities of the Group's financial liabilities were as follows:

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total contractual cash flows RMB'000
At 30 June 2016					
Trade and other payables (i)	2,600,023	10,290	–	–	2,610,313
Senior notes	98,805	98,805	1,474,447	–	1,672,057
Borrowings (excluding senior notes)	2,354,055	455,483	459,267	102,425	3,371,230
Total financial liabilities	5,052,883	564,578	1,933,714	102,425	7,653,600
At 31 December 2015					
Trade and other payables (i)	2,775,198	23,255	–	–	2,798,453
Senior notes	96,755	96,755	1,492,229	–	1,685,739
Borrowings (excluding senior notes)	2,444,376	586,307	525,781	16,447	3,572,911
Total financial liabilities	5,316,329	706,317	2,018,010	16,447	8,057,103

(i) Trade and other payables include trade payables, bills payable, amounts due to related companies and other payables (Note 21).

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

5.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's financial assets that are measured at fair value at 30 June 2016.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Available-for-sale financial assets				
— equity investment	–	–	74,053	74,053
— debt investment	–	–	8,000	8,000
Forward exchange contracts	–	190	–	190
Total assets	–	190	82,053	82,243

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

5.3 Fair value estimation (continued)

The following table presents the Group's financial assets and liabilities that are measured at fair value at 31 December 2015.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Available-for-sale financial assets				
— equity investment	–	–	74,053	74,053
— debt investment	–	–	39,203	39,203
Total assets	–	–	113,256	113,256
Liabilities				
Forward exchange contracts	–	28	–	28
Total liabilities	–	28	–	28

During the six months ended 30 June 2016, there were no transfers among Levels 1, 2 and 3. There were no other changes in valuation techniques during the period.

5.4 Valuation techniques used to derive Level 2 fair values

The fair value of forward exchange contracts in Level 2 is determined by discounting the contractual forward price and deducting the current spot rate. The discount rate used is derived from the relevant government yield curve as at the end of the reporting period plus an adequate constant credit spread.

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

5.5 Fair value measurements using significant unobservable inputs (Level 3)

	30 June 2016 RMB'000	30 June 2015 RMB'000
Available-for-sale financial assets — equity investment		
Opening balance at 1 January	74,053	74,053
Changes in fair value	–	–
Closing balance at 30 June	74,053	74,053

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

5.5 Fair value measurements using significant unobservable inputs (Level 3) (continued)

	30 June 2016 RMB'000	30 June 2015 RMB'000
Available-for-sale financial assets — debt investment		
Opening balance at 1 January	39,203	331,826
Net proceeds from sales	(31,508)	(333,907)
Gain on disposal recognised in profit or loss	305	2,081
Closing balance at 30 June	8,000	–
Derivative financial instruments		
Opening balance at 1 January	–	324
Changes in fair value recognised in profit or loss during the period	–	–
Closing balance at 30 June	–	324

The gain arising from the disposal of the available-for-sale financial assets is presented in "Finance income" in the interim condensed consolidated statement of profit or loss.

5.6 Group's valuation processes

The Group has an established control framework with respect to the measurement of fair values. The management has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values and reports directly to the management.

The management regularly reviews significant unobservable inputs and valuation adjustments. If third party information is used to measure fair values, then the management assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

5.7 Fair value of financial assets and liabilities measured at amortised cost

The fair value of borrowings are as follows:

	30 June 2016 RMB'000	31 December 2015 RMB'000
Non-current	**1,658,552**	1,550,975
Current	**2,340,926**	2,439,233
	3,999,478	3,990,208

The fair value of the following financial assets and liabilities approximate their carrying amount:

- Trade and other receivables
- Cash and banks
- Trade and other payables

6 SEASONALITY OF OPERATIONS

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

7 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 component 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.

7 SEGMENT INFORMATION (continued)

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 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 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.

7 SEGMENT INFORMATION (continued)

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

7 SEGMENT INFORMATION (continued)

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).

8 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 prepayment 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**	–

8 OPERATING (LOSS)/PROFIT (continued)

(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.

9 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)

9 INCOME TAX EXPENSE (continued)

(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%).

10 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)

11 LEASE PREPAYMENTS

The Group's interests in land use rights represent prepaid operating lease payments for land located in the PRC, the net book values of which are analysed as follows:

	Six months ended 30 June	
	2016 **RMB'000**	2015 RMB'000
At 1 January	**405,732**	402,784
Additions	**–**	16,300
Disposals	**(8,901)**	–
Amortisation	**(4,099)**	(4,489)
At 30 June	**392,732**	414,595

(a) All the amortisation of the Group's land use rights was charged to administrative expenses.

(b) As at 30 June 2016, bank borrowings are secured by land use rights with the carrying amount of approximately RMB184,925,000 (31 December 2015: RMB186,953,000) (Note 19).

12 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 19).

13 INVESTMENTS IN ASSOCIATES

	Six months ended 30 June 2016 RMB'000
Beginning of the period	52,161
Capital injection (i)	6,000
Share of post-tax profits of associates	2,535
End of the period	60,696

(i) As at 1 April 2016, the Group increased its equity share in Honghua Financial Leasing (Shenzhen) Co., Ltd. ("Honghua (Shenzhen)") from 44.44% to 51.11%, with a capital injection of RMB6,000,000. Whilst the Group's voting rights in board of directors of Honghua (Shenzhen) remained at 40%.

The associates are unlisted companies and there are no quoted market prices available for their equities.

Honghua (Shenzhen) is an associate of the Group as at 30 June 2016, which, in the opinion of the directors, is material to the Group.

Set out below are the summarised financial information for Honghua (Shenzhen) which is accounted for using the equity method.

	30 June 2016 RMB'000
Assets	144,362
Liabilities	(43,142)

	Six months ended 30 June 2016 RMB'000
Revenue	7,180
Share of post-tax profits	2,602

14 INVESTMENTS IN JOINT VENTURES

	Six months ended 30 June 2016 RMB'000
Beginning of the period	48,239
Currency translation difference	311
Share of post-tax losses of joint ventures	(1,421)
End of the period	47,129

Egyptian Petroleum HH Rigs Manufacturing Co. S.A.E. ("HH Egyptian Company") is a joint venture of the Group as at 30 June 2016, which, in the opinion of the directors, is material to the Group.

Set out below are the summarised financial information for HH Egyptian Company which is accounted for using the equity method.

	30 June 2016 RMB'000
Assets	146,563
Liabilities	(55,016)

	Six months ended 30 June 2016 RMB'000
Revenue	2,006
Share of post-tax losses	(1,421)

15 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

15 TRADE AND OTHER RECEIVABLES (continued)

(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 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.

16 CONTRACT WORK-IN-PROGRESS

	30 June 2016 RMB'000	31 December 2015 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 RMB'000	2015 RMB'000
Contract revenue recognised as revenue	148,409	(9,515)

17 PLEDGED BANK DEPOSIT

The deposits are pledged to banks as security for bills payable (Note 21) and certain borrowings (Note 19) granted to the Group.

18 SHARE CAPITAL

Ordinary shares, issued and fully paid:

	Number of shares (thousands)	Share capital RMB'000
At 1 January 2016	**3,241,057**	**300,983**
Proceeds from shares issued — employee share option scheme (i)	–	–
At 30 June 2016	**3,241,057**	**300,983**
At 1 January 2015	3,241,057	300,983
Proceeds from shares issued — employee share option scheme (i)	–	–
At 30 June 2015	3,241,057	300,983

(i) Employee share option scheme: No options were exercised during the six months ended 30 June 2016 resulted in no shares being issued (2015: Nil).

19 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.

19 BORROWINGS (continued)

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%).

20 PROVISIONS FOR OTHER LIABILITIES AND CHARGES

	Legal claims with former shareholders[(i)] RMB'000	Product warranties RMB'000	Total RMB'000
Six months ended 30 June 2016			
Opening amount at 1 January 2016	32,317	21,663	53,980
Additional provisions	–	1,458	1,458
Utilised during the period	–	(13,607)	(13,607)
Closing amount at 30 June 2016	32,317	9,514	41,831

	Legal claims with former shareholders[(i)] RMB'000	Product warranties RMB'000	Total RMB'000
Six months ended 30 June 2015			
Opening amount at 1 January 2015	32,317	34,561	66,878
Additional provisions	–	–	–
Utilised during the period	–	(11,481)	(11,481)
Closing amount at 30 June 2015	32,317	23,080	55,397

(i) Details of the legal claim with former shareholders were disclosed in note 30 of the 2015 consolidated financial statements. During the six months ended 30 June 2016, Honghua Company filed an appeal pursuant to the applicable law.

21 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 (Note 17).

(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.

22 CONTINGENT LIABILITIES

A sales agency filed lawsuits against the subsidiaries 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 judgement. 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 unfavourable to the Group. No provision was made for the potential claims under this lawsuit.

23 COMMITMENTS

(a) Capital commitments

Capital expenditure contracted for or authorised but not contracted for at the balance sheet date but not yet incurred is as follows:

	30 June 2016 RMB'000	31 December 2015 RMB'000
Contracted for	**328,908**	283,049
Authorised but not contracted for	**4,506**	3,310
	333,414	286,359

(b) Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	30 June 2016 RMB'000	31 December 2015 RMB'000
Within 1 year	**6,165**	12,707
After 1 year but within 5 years	**6,690**	7,329
	12,855	20,036

23 COMMITMENTS (continued)

(b) Operating lease commitments (continued)

The Group is the lessee in respect of a number of properties held under operating leases. None of the leases includes contingent rentals.

24 RELATED-PARTY TRANSACTIONS

In addition to the related party information disclosed elsewhere in the interim condensed consolidated financial information, transactions with the following parties are considered as related party transactions:

Name of party	Relationship
Guanghan Hongtai Business Trading Co., Ltd. (廣漢市宏泰商貿有限公司) ("Hongtai")	Hongtai is a party over which spouses of certain directors and management have equity interests
Luzhou City Jianming Decorating Design Company (瀘州市劍鳴裝飾設計公司) ("Luzhou Jianming")	Luzhou Jianming is a party of which the brother of the spouse of a subsidiary's director is its legal representative
Chengdu Juzhong Technology Co., Ltd. (成都巨中科技有限公司) ("Chengdu Juzhong")	Chengdu Juzhong is a party over which the sister and the sister's husband of a subsidiary's director has equity interests
Sichuan Deep & Fast Oil Drilling Tools Co., Ltd. (四川深遠石油鑽井工具有限公司) ("Sichuan Shenyuan")	Sichuan Shenyuan is a party of which spouse of a director has equity interests
HH Egyptian Company	Joint venture
Honghua Oil Equipment Trading Co., Ltd ("Honghua Oil Equipment")	Joint venture
Honghua (Shenzhen)	Associate
Prime FSP, LLC ("Prime FSP")	Associate
Mr. Li Ming (黎明)	Director of a Group's subsidiary

24 RELATED-PARTY TRANSACTIONS (continued)

(a) Significant related party transactions

	Six months ended 30 June	
	2016 RMB'000	2015 RMB'000
Purchases of parts and components		
— Hongtai	5,129	5,641
— Sichuan Shenyuan	–	3,095
	5,129	8,736
Sales of drilling rigs, parts and components		
— HH Egyptian Company	4,838	13,000
— Sichuan Shenyuan	23	–
	4,861	13,000
Decoration service received		
— Luzhou Jianming	–	177
Consulting service provided from		
— Honghua (Shenzhen)	1,304	892
Loan to		
— Prime FSP	–	6,725
— Honghua (Shenzhen)	–	3,000
— Mr. Li Ming	–	1,114
	–	10,839
Capital injection into		
— Honghua (Shenzhen)	6,000	–

24 RELATED-PARTY TRANSACTIONS (continued)

(b) Amounts due from related companies

	30 June 2016 RMB'000	31 December 2015 RMB'000
Trade		
— Joint ventures	46,132	44,482
— Other related companies	57	33,201
	46,189	77,683
Non-trade		
— Director of a Group's subsidiary and his controlled entity	27,753	27,753
— Joint ventures	1,668	1,583
— Other related companies	27,318	25,460
	56,739	54,796

24 RELATED-PARTY TRANSACTIONS (continued)

(c) Amounts due to related companies

	30 June 2016 RMB'000	31 December 2015 RMB'000
Trade		
— Joint ventures	840	2,196
— Other related companies	18,420	14,255
	19,260	16,451
Non-trade		
— Director of a Group's subsidiary and his controlled entity	381	–
— Joint ventures	–	65
— Other related companies	8,037	–
	8,418	65

(d) Amounts due from certain shareholders

The amounts due from certain shareholders as at 30 June 2016 is an amount of RMB32,317,000 (as at 31 December 2015: RMB32,317,000), being the amount indemnified by certain shareholders in relation to a legal claim.

(e) Key management compensation

	Six months ended 30 June	
	2016 RMB'000	2015 RMB'000
Basic salaries, allowances and other benefits in kind	3,327	3,207
Contributions to defined contribution retirement schemes	206	207
Share-based payments	521	1,454
	4,054	4,868

25 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).

26 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

Honghua Oil&Gas Engineering and Technology Service (Sichuan) Co., LTD. ("Sichuan Oil&Gas Engineering"), a wholly-owned subsidiary of the Group, and Mr. Li Ming entered into an equity transfer agreement on 28 July 2016. Pursuant to the agreement, Sichuan Oil&Gas Engineering agreed to sell all of its equity interest in Bazhou Honghua Petroleum Applied Chemistry Co., Ltd ("Bazhou Honghua") to Mr. Li Ming with the consideration of RMB50,000 and the regulatory registration of the transfer of the equity interest was completed on 19 August 2016. After the transaction, Bazhou Honghua is no longer a subsidiary of the Group.

"Articles of Association"	the Articles of Association of the Company, approved at extraordinary shareholders' meetings of the Company on 21January 2008, revised and approved at annual general meeting of the Company on 3 June 2009
"Board of Directors" or "Board"	the Board of Directors of the Company
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as the case may be
"Company" or "our Company"	Honghua Group Limited, (宏華集團有限公司) an exempted company incorporated in the Cayman Islands with limited liability on 15 June 2007
"Concert Group"	several shareholders of Honghua Company forming a concert group as set out in the "Company History and Reorganisation-Ownership Continuity and Control" section of the prospectus of the Company dated 25 February, 2008, namely, Zhang Mi (張弭), Ren Jie (任杰), Liu Zhi (劉智), Zheng Yong (鄭勇), Zuo Huixian (左輝先), Zhang Xu (張旭), Wang Jiangyang (王江陽), Chen Jun (陳俊), Fan Bing (范兵), Zhang Yanyong (張彥永), Ao Pei (敖沛), Tian Diyong (田弟勇), Shen Dingjian (沈定建), Liu Xuetian (劉學田) (deceased), Zhou Bing (周兵), Lv Lan (呂蘭), Tian Yu (田雨), Li Hanqiang (李漢強), Liu Yingguo (劉映國), Liu Lulu (劉露璐), He Guangfu (何光福), Zhang Zongyou (張宗友) and Chen Zongliang (陳宗良), out of which He Guangfu (何光福), Zhang Zongyou (張宗友) and Chen Zongliang (陳宗良) transferred an aggregate of approximately 9.1325% equity interests in Honghua Company to the other members of the Concert Group. The transfers were completed on 17 February, 2006
"Controlling Shareholder(s)"	has the meaning ascribed thereto under the Listing Rules, for the time being, Ally Giant Limited, Ample Chance International Limited, Ally Smooth Investments Limited, Charm Moral International Limited, Beauty Clear Holdings Limited, Believe Power International Limited, Benefit Way International Limited, Wealth Afflux Limited, Mowbray Worldwide Limited, Ecotech Enterprises Corporation, Vast & Fast Corporation, Cavendish Global Corporation, Brondesbury Enterprises Limited, Dobson Global Inc, Darius Enterprises Limited, Zhang Mi (張弭), Ren Jie (任杰), Liu Zhi (劉智), Zheng Yong (鄭勇), Zuo Huixian (左輝先), Zhang Xu (張旭), Wang Jiangyang (王江陽), Chen Jun (陳俊), Fan Bing (范兵), Zhang Yanyong (張彥永), Ao Pei (敖沛), Tian Diyong (田弟勇), Shen Dingjian (沈定建), Liu Xuetian (劉學田) (deceased), Zhou Bing (周兵), Lv Lan (呂蘭), Tian Yu (田雨), Li Hanqiang (李漢強), Liu Yingguo (劉映國) and Liu Lulu (劉露璐). Contracts executed by the Controlling Shareholders after Liu Xuetian's death were executed by his legal successors
"Director(s)"	member(s) of the Board of Directors of the Company
"During the Period"	for the six months ended 30 June 2016

DEFINITIONS

"Group" or "we" or "us"	the Company and its subsidiaries, and, for the period before the Company became the holding company for such subsidiaries, the entities which carried on the business of the Group
"HK$" or "HK dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
"PRC" or "China"	the People's Republic of China and, except where the context requires and only for the purpose of this Interim Report, references in this Interim Report to the PRC or China do not apply to Taiwan or Hong Kong and Macau Special Administrative Regions
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"Securities and Futures Commission" or "SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary shares issued by the Company, with a nominal value of HK$0.10 each
"Shareholder(s)"	holder(s) of our Share(s)
"Stock Exchange" or "HKSE"	The Stock Exchange of Hong Kong Limited
"Substantial Shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"United States", "USA" or "U.S."	the United States of America, including its territories and possessions
"US$" or "U.S. dollars" or "USD"	United States dollars, the lawful currency of the United States

宏华集团有限公司
HONGHUA GROUP LIMITED