宏华集团
HONGHUA GROUP

Honghua Group Limited
宏華集團有限公司

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

(Stock code: 0196)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2013

FINANCIAL HIGHLIGHT

	For the year ended 31 December		
	2013	2012	% change
Turnover (RMB'000)	**8,047,108**	5,068,447	58.8%
Gross profit (RMB'000)	**1,905,465**	1,747,007	9.1%
Gross margin (%)	**23.7%**	34.5%	
Profit from operations (RMB'000)	**848,366**	672,693	26.1%
Earnings attributable to equity shareholders of the Company (RMB'000)	**537,617**	529,458	1.5%
Earnings per Share			
— Basic (RMB cents)	**16.99**	16.58	2.5%
— Diluted (RMB cents)	**16.77**	16.54	1.4%

The Directors recommend the payment of the final dividend of HKD6 cents per Share for the year ended 31 December 2013.

ANNUAL RESULTS

The Board is pleased to announce the consolidated results of the Group for the year ended 31 December 2013, together with the comparative figures for the year ended 31 December 2012 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
for the year ended 31 December 2013
(Expressed in Renminbi)

	Note	2013 RMB'000	2012 RMB'000
Turnover	5	**8,047,108**	5,068,447
Cost of sales		**(6,141,643)**	(3,321,440)
Gross profit		**1,905,465**	1,747,007
Other revenue	6	**176,469**	63,333
Other net income		**7,435**	2,084
Selling expenses		**(524,053)**	(553,623)
General and administrative expenses		**(595,508)**	(526,562)
Other operating expenses		**(121,442)**	(59,546)
Profit from operations		**848,366**	672,693
Finance income		**66,688**	74,737
Finance expenses		**(206,106)**	(45,478)
Net finance (expenses)/income	7(a)	**(139,418)**	29,259
Share of loss from joint ventures		**(7,948)**	(156)
Share of profit from an associate		**–**	7,662
Profit before taxation	7	**701,000**	709,458
Income tax	8	**(125,750)**	(167,683)
Profit for the year		**575,250**	541,775
Attributable to:			
Equity shareholders of the Company		**537,617**	529,458
Non-controlling interests		**37,633**	12,317
Profit for the year		**575,250**	541,775
Earnings per Share (RMB cents)	10		
— Basic		**16.99**	16.58
— Diluted		**16.77**	16.54

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2013
(Expressed in Renminbi)

	2013	2012
	RMB'000	*RMB'000*
Profit for the year	**575,250**	541,775
Other comprehensive income for the year:		
Items that may be reclassified subsequently to profit or loss:		
Net movement in the fair value reserve of available-for sale securities	**602**	–
Exchange differences on translation of financial statements of operations outside the PRC, net of tax	**(53,539)**	(10,967)
Total comprehensive income for the year	**522,313**	530,808
Attributable to:		
Equity shareholders of the Company	**484,312**	518,452
Non-controlling interests	**38,001**	12,356
Total comprehensive income for the year	**522,313**	530,808

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
at 31 December 2013
(Expressed in Renminbi)

	Note	**2013** **RMB'000**	2012 RMB'000
Non-current assets			
Fixed assets			
— Property, plant and equipment		**2,148,103**	1,142,122
— Interests in leasehold land held for own use under operating leases		**361,890**	303,410
— Freehold land		**4,916**	5,068
		2,514,909	1,450,600
Deposits paid for acquisition of leasehold land		**147,320**	152,006
Construction in progress		**728,019**	827,290
Intangible assets		**213,637**	201,806
Goodwill		**13,484**	–
Interests in joint ventures		**47,924**	57,181
Interest in an associate		**9,000**	–
Other investment		**74,053**	72,609
Trade and other receivables	*12*	**676,050**	370,002
Deferred tax assets		**123,975**	96,407
Total non-current assets		**4,548,371**	3,227,901
Current assets			
Inventories	*11*	**2,801,307**	2,730,940
Trade and other receivables	*12*	**3,961,427**	2,105,804
Gross amount due from customers for contract work		**176,158**	–
Amounts due from related companies		**44,819**	55,970
Current tax recoverable		**16,406**	1,502
Other financial assets		**804,102**	315,036
Pledged bank deposits		**593,337**	424,592
Bank deposits maturing over three months		**8,619**	–
Cash and cash equivalents		**1,274,509**	984,131
Total current assets		**9,680,684**	6,617,975

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*
at 31 December 2013
(Expressed in Renminbi)

	Note	**2013** *RMB'000*	2012 *RMB'000*
Current liabilities			
Interest-bearing borrowings		**3,273,544**	1,245,505
Trade and other payables	*13*	**4,240,962**	3,112,337
Amounts due to related companies		**27,465**	5,593
Current tax payable		**51,453**	96,311
Provisions		**168,421**	57,732
Total current liabilities		**7,761,845**	4,517,478
Net current assets		**1,918,839**	2,100,497
Total assets less current liabilities		**6,467,210**	5,328,398
Non-current liabilities			
Interest-bearing borrowings		**1,457,953**	737,514
Deferred tax liabilities		**50,611**	2,157
Total non-current liabilities		**1,508,564**	739,671
NET ASSETS		**4,958,646**	4,588,727
CAPITAL AND RESERVES			
Share capital		**300,833**	300,192
Reserves		**4,462,518**	4,155,819
Total equity attributable to equity shareholders of the Company		**4,763,351**	4,456,011
Non-controlling interests		**195,295**	132,716
TOTAL EQUITY		**4,958,646**	4,588,727

1. **REVIEW OF ANNUAL RESULTS**

The annual results have been reviewed by the Audit Committee. The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2013 have been compared by the Company's auditors, KPMG, Certified Public Accountants, to the amounts set out in the Group's draft financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect was limited and did not constitute an audit, review or other assurance engagement and consequently no assurance has been expressed by the auditors on this announcement.

2. **STATEMENT OF COMPLIANCE**

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

3. **CHANGES IN ACCOUNTING POLICIES**

The IASB has issued a number of new IFRSs amendments to IFRSs that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

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

— IFRS 10, Consolidated financial statements

— IFRS 11, Joint arrangements

— IFRS 12, Disclosure of interests in other entities

— IFRS 13, Fair value measurement

— Amendments to IFRS 7 — Disclosures — Offsetting financial assets and financial liabilities

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

Impact of the changes in accounting policy is as follows:

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

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

In addition, the Group has chosen to use the new titles "statement of profit or loss" and "statement of profit or loss and other comprehensive income" as introduced by the amendments in these financial statements.

IFRS 10, ***Consolidated financial statements***

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

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

IFRS 11, ***Joint arrangements***

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

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

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

IFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by IFRS 12 are generally more extensive than those previously required by the respective standards.

IFRS 13, *Fair value measurement*

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

Amendments to IFRS 7 — Disclosures — Offsetting financial assets and financial liabilities

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

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

4. SEGMENT REPORTING

The Group manages its business by divisions, which are organized by business lines (land drilling rigs, offshore drilling rigs, parts and components and oil and gas engineering services). In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following four reportable segments. No operating segments have been aggregated to form the following reportable segments.

Land drilling rigs	—	This segment manufactures and sells land drilling rigs.
Offshore drilling rigs	—	This segment manufactures and sells offshore drilling rigs and related parts and components.
Parts, components and others	—	This segment manufactures, sells and trades parts and components of petroleum equipment.
Oil and gas engineering services	—	This segment provides oil and gas engineering services.

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible assets, goodwill, intangible assets and current assets with the exception of interests in an associate and joint ventures, other investment, deferred tax assets, current tax recoverable, other financial assets and other corporate assets. Segment liabilities include trade payables, accruals, provision for product warranties and bills payable attributable to the manufacturing and sales activities of the individual segments with the exception of current tax payable, deferred tax liabilities and other corporate liabilities.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit is "adjusted profit from operations". To arrive at adjusted profit from operations, the Group's profit from operations are further adjusted for items not specifically attributed to individual segments, such as directors' remuneration and other head office or corporate administration costs.

Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2013 and 2012 is set out below.

	Land drilling rigs		Offshore drilling rigs		Parts, components and others		Oil and gas engineering services		Total	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Revenue from external customers	**5,664,602**	3,750,575	**196,609**	157,275	**1,777,194**	988,586	**408,703**	172,011	**8,047,108**	5,068,447
Inter-segment revenue	**–**	–	**24,741**	–	**1,552,075**	1,108,763	**–**	–	**1,576,816**	1,108,763
Reportable segment revenue	**5,664,602**	3,750,575	**221,350**	157,275	**3,329,269**	2,097,349	**408,703**	172,011	**9,623,924**	6,177,210
Reportable segment profit/(loss)	**787,370**	779,856	**(27,772)**	(35,439)	**109,797**	74,365	**32,864**	14,001	**902,259**	832,783
Depreciation and amortisation for the year	**43,837**	40,918	**65,026**	42,875	**39,257**	30,164	**92,470**	33,311	**240,590**	147,268
Impairment of trade and other receivables	**6,022**	15,810	**–**	–	**37,843**	16,846	**–**	4,766	**43,865**	37,422
Write-down of inventories	**35,101**	9,284	**–**	–	**14,456**	13,196	**–**	–	**49,557**	22,480
Reportable segment assets	**4,410,606**	3,288,992	**2,576,282**	1,605,724	**3,293,331**	2,263,578	**1,518,241**	628,033	**11,798,460**	7,786,327
Additions to non-current segment assets during the year	**195,416**	83,470	**384,314**	598,282	**41,992**	60,090	**630,554**	386,827	**1,252,276**	1,128,669
Reportable segment liabilities	**2,039,009**	1,988,432	**838,141**	520,246	**1,821,167**	650,598	**597,543**	91,564	**5,295,860**	3,250,840

(b) Reconciliation of reportable segment profit or loss, assets and liabilities

	2013	2012
	RMB'000	RMB'000
Profit		
Reportable segment profit	**902,259**	832,783
Elimination of inter-segment profits	**(21,852)**	(100,287)
Reportable segment profit derived from Group's external customers	**880,407**	732,496
Share of profit from an associate	**–**	7,662
Share of losses from joint ventures	**(7,948)**	(156)
Other revenue, other net income and other operating expenses	**62,462**	5,871
Net finance (expenses)/income	**(139,418)**	29,259
Unallocated head office and corporate expenses	**(94,503)**	(65,674)
Consolidated profit before taxation	**701,000**	709,458
Assets		
Reportable segment assets	**11,798,460**	7,786,327
Elimination of inter-segment receivables	**(917,027)**	(409,590)
	10,881,433	7,376,737
Interests in joint ventures	**47,924**	57,181
Interest in an associate	**9,000**	–
Current tax recoverable	**16,406**	1,502
Deferred tax assets	**123,975**	96,407
Other investment	**74,053**	72,609
Other financial assets	**804,102**	315,036
Unallocated head office and corporate assets	**2,272,162**	1,926,404
Consolidated total assets	**14,229,055**	9,845,876
Liabilities		
Reportable segment liabilities	**5,295,860**	3,250,840
Elimination of inter-segment payables	**(917,027)**	(409,590)
	4,378,833	2,841,250
Current tax payable	**51,453**	96,311
Deferred tax liabilities	**50,611**	2,157
Unallocated head office and corporate liabilities	**4,789,512**	2,317,431
Consolidated total liabilities	**9,270,409**	5,257,149

(c) Geographic information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's non-current trade and other receivables, fixed assets, construction in progress, intangible assets, goodwill, deposits paid for acquisition of leasehold land and interests in joint ventures and an associate ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or the goods are delivered. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of fixed assets, the location of the operation to which they are allocated, in the case of goodwill and intangible assets, and the location of operations, in the case of interests in joint ventures and an associate.

	Revenue from external customers		Specified non-current assets	
	2013	2012	**2013**	2012
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
PRC (country of domicile)	**1,825,912**	1,032,161	**3,553,366**	2,324,904
Americas	**1,190,687**	2,791,664	**122,336**	123,215
Middle East	**2,921,498**	46,917	**239,198**	169,076
Europe and Central Asia	**1,666,094**	763,895	**389,789**	387,274
South Asia and South East Asia	**354,485**	219,177	**–**	–
Others	**88,432**	214,633	**45,654**	54,416
	8,047,108	5,068,447	**4,350,343**	3,058,885

5. TURNOVER

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

6. OTHER REVENUE

	2013	2012
	RMB'000	*RMB'000*
Sales of scrap materials	**21,775**	289
Repair services income	**13,423**	16,507
Government grants *(note (i))*	**30,421**	32,166
Settlement income *(note (ii))*	**82,000**	–
Rental income	**14,874**	8,232
Others	**13,976**	6,139
	176,469	63,333

Notes:

(i) Government grants are subsidies received from government mainly for industry development encouragement.

(ii) Sichuan Honghua Petroleum Equipment Co., Ltd (四川宏華石油設備有限公司) ("Honghua Company") entered into several sales contracts with a customer during the year ended 31 December 2009 and received advance payment of RMB82,000,000 which were subsequently suspended by the customer. The sales contracts were terminated by the customer during the year ended 31 December 2013. Honghua Company recognised the receipts in advance of RMB82,000,000 as a settlement income pursuant to the terms of the sales contracts.

7. PROFIT BEFORE TAXATION

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

	2013	2012
	RMB'000	*RMB'000*
(a) Net finance expenses/(income)		
Foreign exchange loss/(gain), net	**26,549**	(20,434)
Interest income on bank deposits	**(22,441)**	(23,830)
Interest income from long-term receivables	**(37,902)**	(10,820)
Fair value change of other financial assets	**(6,345)**	(19,654)
Interest on interest-bearing borrowings wholly repayable within five years	**179,923**	62,858
Bank charges	**26,550**	13,847
Others	**4,567**	841
	170,901	2,808
Less: Interest expense capitalised into assets under construction*	**(31,483)**	(32,067)
	139,418	(29,259)

* The borrowing costs have been capitalised at a rate of per annum 1.17% to 7.80% (2012: 1.17% to 7.04%).

	2013	2012
	RMB'000	*RMB'000*
(b) Staff costs		
Contributions to defined contribution retirement schemes	**91,474**	57,996
Equity-settled share-based payment expenses	**75,896**	4,809
Salaries, wages and other benefits	**633,262**	515,198
	800,632	578,003
(c) Other items		
Operating lease charges:		
— properties	**11,196**	8,193
— plant and machinery	**8,897**	–
Provision for a legal claim*	**99,078**	32,317
Amortisation and depreciation		
— leasehold land held for own use under operating leases	**12,127**	6,560
— property, plant and equipment	**193,535**	106,796
— intangible assets	**35,731**	34,647
	241,393	148,003

	2013	2012
	RMB'000	*RMB'000*
Impairment losses on trade and other receivables	**43,865**	37,422
Write down on inventories	**49,557**	22,480
Auditors' remuneration		
— audit services	**3,402**	2,511
— tax services	**–**	40
— other services	**808**	700
	4,210	3,251
Research and development costs**	**90,565**	58,053
Less: Amount capitalised into intangible assets	**(31,697)**	(406)
	58,868	57,647

* A sales agency filed lawsuits against Honghua Company and Honghua America, LLC. ("Honghua America") on 22 September 2011. The court ordered the parties to arbitrate the dispute at the International Centre for Dispute Resolution of the American Arbitration Association ("ICDR").

On 27 November 2013, the Company received the final arbitration award from the ICDR. ICDR made an award against Honghua Company and Honghua America ordering Honghua Company and Honghua America to compensate the sales agency an aggregate sum of commissions, attorney's fees and other related fees in a sum of approximately USD16,000,000 (equivalent to RMB99,078,000). The arbitration award was confirmed by the US court on 7 March 2014 subsequent to the year end.

As a result of the judgement made by the ICDR and the subsequent confirmation of the US court, a provision for the above legal claim of RMB99,078,000 has been made during the year ended 31 December 2013.

** The amounts included staff costs of the Research and Development Department of RMB49,770,000 (2012: RMB45,193,000), which are included in the total staff costs as disclosed in note 7(b).

8. INCOME TAX

(a) Taxation in the consolidated income statement represents:

	2013	2012
	RMB'000	*RMB'000*
Current tax — Hong Kong Profits Tax		
Provision for the year	**17,064**	3,583
Current tax — PRC		
Provision for the year	**78,987**	190,176
Under-provision in respect of prior years	**5,370**	828
Sub-total	**84,357**	191,004
Current tax — other jurisdictions		
Provision for the year	**6,565**	1,774
Current tax — total	**107,986**	196,361
Deferred tax		
Origination and reversal of temporary differences	**17,764**	(28,678)
Income tax expenses	**125,750**	167,683

(i) Hong Kong

The provision for Hong Kong Profits Tax for 2013 is calculated at 16.5% (2012: 16.5%) of the estimated assessable profits of the subsidiaries incorporated in Hong Kong for the year.

(ii) PRC

Pursuant to the income tax rules and regulations of the PRC, the subsidiaries in the PRC are liable to PRC enterprise income tax at a rate of 25% (2012: 25%) during the year ended 31 December 2013, except for the following companies:

(a) Honghua Company

Income tax for Honghua Company is provided at a tax rate of 15% (2012: 15%) applicable for Hi-Tech Enterprises pursuant to the relevant PRC tax rules and regulations during the year ended 31 December 2013.

(b) Sichuan Honghua Electric Co., Ltd. (四川宏華電氣有限公司) (formerly known as Chengdu Hongtian Electric Drive Engineering Co., Ltd.(成都宏天電傳有限公司) ("Honghua Electric")

On 27 July 2011, the Ministry of Finance, the General Administration of Customs and the State Administration of Taxation jointly issued CaiShui [2011] No.58 which states that enterprises within encouraged industries and located in the Western Region are entitled to a preferential tax rate of 15% for the period from 1 January 2011 to 31 December 2020 ("Tax Concession"). The Tax Concession needs to be applied annually. Honghua Electric applied for and successfully obtained the Tax Concession with 15% preferential income tax rate for the 12 months ended 31 December 2012. The directors of the Company assess that it is highly probable that the subsidiary will continue to be granted with the Tax Concession upon their application for renewal, and accordingly provision for PRC enterprise income tax for the subsidiary was made at the preferential rate of 15% in these financial statements.

(iii) Others

Taxation for other entities is charged at the appropriate current rates of taxation ruling in the relevant jurisdictions.

(b) Withholding tax

Under the PRC tax law and its Implementation Rules, dividends receivable by non-PRC resident enterprises from PRC enterprises are subject to withholding tax at a rate of 10%, unless reduced by tax treaties or arrangements, for profits earned since 1 January 2008. Pursuant to a tax arrangement between the PRC and Hong Kong, a qualified Hong Kong tax resident will be liable for withholding tax at a reduced rate of 5% for dividend income derived from the PRC. During the year ended 31 December 2013, the Company's PRC subsidiaries obtained approval from the respective tax authority for paying withholding tax of dividend income at the reduced rate of 5%. Accordingly, a reversal of withholding tax was recognised during 2013 to reflect the reduction of withholding tax rate from 10% to 5% and the provision for withholding tax at the end of the reporting period was made at 5%. Deferred tax liabilities have been recognised for undistributed retained profits of the Group's subsidiaries established in the PRC earned since 1 January 2008 to the extent that profits are likely to be distributed in the foreseeable future.

(c) Reconciliation between tax expenses and accounting profit at applicable tax rates:

	2013	2012
	RMB'000	*RMB'000*
Profit before taxation	**701,000**	709,458
Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned	**120,861**	115,715
Tax effect of non-deductible expenses	**3,779**	9,440
Tax effect of non-taxable income	**(2,453)**	(669)
Unrecognised tax losses	**13,749**	3,585
Withholding tax on expected profits distribution from PRC subsidiaries	**(15,556)**	38,784
Under-provision in respect of prior years	**5,370**	828
Actual tax expenses	**125,750**	167,683

9. DIVIDENDS

(a) Dividends payable to equity shareholders of the Company attributable to the year:

	2013	2012
	RMB'000	*RMB'000*
Final dividend proposed after the end of the reporting period of HKD6 cents (2012: HKD6 cents) per ordinary share	**151,983**	150,102

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year:

	2013	2012
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of HKD6 cents (2012:HKD4 cents) per ordinary share	**150,102**	104,700

10. EARNINGS PER SHARE

(a) Basic earnings per Share

The calculation of basic earnings per Share is based on the profit attributable to ordinary equity shareholders of the Company of RMB537,617,000 (2012: RMB529,458,000) and the weighted average number of 3,165,015,000 (2012: 3,193,876,000) ordinary shares in issue during the year.

(b) Diluted earnings per Share

The calculation of diluted earnings per Share is based on the profit attributable to ordinary equity shareholders of the Company of RMB537,617,000 (2012: RMB529,458,000) and the weighted average number of 3,206,578,000 (2012: 3,201,348,000) ordinary shares.

11. INVENTORIES

(a) Inventories in the statement of financial position comprise:

	2013	2012
	RMB'000	*RMB'000*
Raw materials	**728,381**	884,862
Work in progress	**971,630**	1,070,858
Finished goods	**811,381**	420,135
Goods in transit	**289,915**	355,085
	2,801,307	2,730,940

(b) **An analysis of the amount of inventories recognised as an expense is as follows:**

	2013	2012
	RMB'000	*RMB'000*
Carrying amount of inventories sold	**5,652,588**	3,267,497
Write-down of inventories	**49,557**	22,480
	5,702,145	3,289,977

12. TRADE AND OTHER RECEIVABLES

	2013	2012
	RMB'000	*RMB'000*
Trade receivables	**3,287,696**	1,627,568
Bills receivable	**35,328**	80,769
Less: Allowance for doubtful debts	**(206,250)**	(167,151)
Sub-total	**3,116,774**	1,541,186
Value-added tax recoverable	**275,664**	245,567
Prepayments	**899,616**	520,365
Other receivables *(note (i))*	**345,423**	168,688
	4,637,477	2,475,806
Representing:		
Current portion	**3,961,427**	2,105,804
Non-current portion *(note (ii))*	**676,050**	370,002
	4,637,477	2,475,806

Notes:

(i) Included in other receivables of the Group as at 31 December 2013 is an amount of RMB32,317,000 (2012: RMB32,317,000), being the amount indemnified by certain shareholders in relation to a legal claim.

(ii) Non-current trade and other receivables represent trade receivables and bills receivable of RMB441,908,000 (2012: RMB306,126,000) from instalment sales receivable after 1 year from the end of the reporting period at market interest rate, prepayments for acquisition of fixed assets of RMB191,673,000 (2012: RMB63,876,000) and deposits placed for loans borrowed of RMB42,469,000 (2012: RMB Nil).

The current trade and other receivables are expected to be recovered or recognised as expense within one year.

(a) Ageing analysis

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

	2013	2012
	RMB'000	*RMB'000*
Within 1 month	**1,570,944**	1,246,810
1 to 2 months	**299,679**	24,433
2 to 3 months	**181,472**	25,139
3 to 12 months	**719,894**	110,244
Over 1 year	**344,785**	134,560
	3,116,774	1,541,186

Trade receivables and bill receivable are due within 90 days from the date of billing.

(b) Allowance for doubtful debts

Impairment losses in respect of trade receivables and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables and bills receivable directly.

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	2013	2012
	RMB'000	*RMB'000*
At 1 January	**167,151**	140,099
Provision for impairment losses	**43,865**	37,422
Uncollectible amounts written off	**(4,766)**	(10,370)
At 31 December	**206,250**	167,151

At 31 December 2013, the Group's trade receivables and bills receivable of RMB261,841,000 (2012: RMB259,698,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of RMB206,250,000 (2012: RMB167,151,000) were recognised. The Group does not hold any collateral over these balances.

(c) Trade receivables that are not impaired

The ageing analysis of trade debtors and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

	2013	2012
	RMB'000	*RMB'000*
Neither past due nor impaired	**2,539,623**	1,246,810
Less than 1 month past due	**167,104**	24,433
1 to 3 months past due	**56,211**	25,139
More than 3 months but less than 12 months past due	**216,522**	110,244
More than 1 year past due	**81,723**	42,013
	521,560	201,829

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has been no significant change in credit quality and the balances are still considered recoverable. The Group does not hold any collateral over these balances.

13. TRADE AND OTHER PAYABLES

	2013	2012
	RMB'000	*RMB'000*
Trade payables	**1,823,918**	779,873
Bills payable	**937,008**	504,291
Receipts in advance	**1,005,880**	1,332,245
Other payables	**474,156**	495,928
	4,240,962	3,112,337

Bills payable as at 31 December 2013 and 2012 were secured by certain pledged bank deposits. All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

At the end of the reporting period, the ageing analysis of the trade and bills payable (which are included in trade and other payables) based on the invoice date is as follows:

	2013	2012
	RMB'000	*RMB'000*
Within 3 months	**1,793,608**	880,065
3 months to 6 months	**642,406**	242,885
6 months to 1 year	**168,282**	69,397
Over 1 year	**156,630**	91,817
	2,760,926	1,284,164

MANAGEMENT DISCUSSION AND ANALYSIS

Honghua's Long-term Strategy

For initial period of fifteen years, Honghua has grown out of nothing and developed from a single business to a diversified business under the guidance of "Innovation, Creation, Harmony and Aggressiveness". In the next ten years, Honghua will aim to achieve synergized and mutually complementary development of its onshore and offshore sectors, with equipment, services and unconventional oil and gas resources as three core pillars. Through continuously improving its production techniques and manufacturing technology in line with the principle of "Creative Manufacturing", the Group strives to be the global leading "Chinese creative manufacturer" in the industry.

Equipment Business

As for the land equipment business, the Group will continue to satisfy the needs of customers and diversify its product range in order to secure its domestic and international markets and win more high-end customers and expand its global market share. Through creative manufacturing, the Group will make continuous effort in advancing technological innovation and industrial upgrade of land drilling rigs and the components and parts, and striving the development of land equipment towards more intelligent, lightweight, portable and environment-friendly. Meanwhile, the Group also actively explores various business models and innovative business ideas to seek development opportunities for the land equipment business. As for offshore equipment business, the Group will keep track of market trends and provide a variety of high-quality offshore oil and gas equipment to domestic and overseas customers based on the innovative concept of "onshore manufacturing of offshore platform", within shorter construction period and lower cost.

Oil and Gas Engineering Services Business

As for oil and gas engineering services business, the Group will rely on its self-innovated equipment in its drilling and fluids services, and expand to other services areas such as well cementation and well completion business to provide integrated service solutions for customers. In addition, through having an interactive development of land equipment business and oil and gas engineering services business, the Group continues to strengthen its leading position in research and development of equipment and expand its competitive edge in oil and gas engineering services business.

Unconventional Oil and Gas Resources Business

As for unconventional oil and gas resources business, the Group will continue to popularize a complete set of solutions guided by "Prioritizing distribution network, exploiting gas by using gas while simultaneously producing gas and electricity in an industrialized, assembly line operation format", and seize development opportunities for unconventional oil and gas from the three core pillars of equipment, services and resources.

2013 Business Review

Onshore Equipment Business

In 2013, the Group strengthened the publicity and promotion of Honghua new products, initiatives, concepts and branding in line with the principle of "Creative Manufacturing". In regard of the overseas market, the Group continued to adopt its localization strategy and rely on overseas subsidiaries to explore new markets and clients while securing the customers in the existing markets and achieved outstanding results. As for the domestic market, the Group adopted "Forward-sales" strategy, actively collected market information, visited clients and achieved satisfactory sales.

In terms of land drilling rigs sales business, in the European and Asian markets, the Group successfully entered into a renewed sales agreement of 14 sets of drilling rig which worths US$218 million with Eurasia Drilling Company, and a sales agreement of 4 sets of drilling rig which worths US$20 million with Weatherford. In the Middle East, the Group entered into a sales agreement of 2 sets of 9000-meter cluster land drilling rigs which worths US$135 million with NDC and a sales agreement of three drilling rigs which worths US$40 million with Kuwait Drilling Company. The Group also successfully penetrated into the Oman market and entered into a sales agreement of 6 drilling rigs which worths US$90 million with NDSC and ABRAJ drilling company as well as another sales agreement of 1 1000HP land drilling rig with ABRAJ drilling company in early 2014. In the American market, the Group entered into a renewed sales agreement of 3 training drilling rigs and a sales agreement of 4 150HP tractor hoists with PDVSA Servicios Petroleros S.A., and besides that, the Group also penetrated the Colombian market by entering into a sales agreement of 1 350HP training drilling rigs with Ecopetrol, equipped with a self-developed top-drive. In the African market, the Group established robust sales channels through three-year sales distributions and finally squeezed into the Kenyan market by signing a sales agreement of 3 drilling rigs which worths US$64 million with Geothermal Development Company. In the domestic market, the Group focused on the needs of private enterprises and also made effort to expand its business into national oil and gas market, for example, by obtaining a sales agreement of 7 drilling rigs which worths US$60 million from CCDC. By the end of December 2013, the Group had obtained new sales agreements of 75 sets, amounting to approximately US$890 million throughout the year.

In terms of parts and components sales, the Group recorded individual sales of 109 sets of mud pump throughout the year of 2013. In addition, the Group's self-innovated new energy-saving quintuple mud pump also successfully achieved sales and obtained a sales agreement of 3 sets from Trinidad Company. The Group also recorded sales of mud pump in the Mexican market. As for trading business of parts and components, from 2013 onwards the Group actively made full use of its global procurement network and customer resources to provide integrated procurement services for its clients. In 2013, the Group entered into directional drilling equipment trading sales agreement which worths US$187 million with PDVSA Servicios Petroleros, S.A and a renewed sales agreement of maintenance machinery for directional drilling equipment which worths US$12 million in December. In early 2014, the Group signed a renewed sales agreement of 64 sets of transportation and hoisting equipment which worths US$17 million with PDVSA Servicios Petroleros, S.A. As at 31 December 2013, the Group's accumulated new trading orders of the parts and components valued approximately US$425 million throughout the year.

The year of 2013 was a tough year for Honghua despite of a good sales performance. In the beginning of 2013, the Group had plenty of orders, including projects from National Drilling Company that utilised a lot of production capacity. In order to deliver the products on time with quality and quantity guaranteed, our staff worked on two or three shifts and worked overtime to complete the production tasks. The Group's subsidiaries including Honghua Offshore Oil & Gas Equipment (Jiangsu) Co., Ltd. and Gansu Hongteng Oil & Gas Equipment Manufacturing Co., Ltd. also allocated some of their capacities from offshore drilling rigs to assist in manufacturing certain components and parts of land drilling rigs. Besides that, the Group started to streamline its production and further improve its production processes such as procurement, manufacturing, assembling, testing and logistic processes. The Group also invested RMB128 million in the expansion of production capacity.

Offshore Equipment Business

2013 was a year with tough tasks for Honghua offshore equipment business. In terms of offshore base construction, the 150-meter-long and 110-meter-wide dock basin project was inspected and accepted by the Port Engineering Quality Supervision Station, Water Affairs Department and Fire Department of Nantong City on 10 January 2014. Meanwhile, the foundation of 400 tons gantry crane rail, the delivery and assembly site with an area of around 40,000 square meters, the revetment and flood protection system engineering as well as pipe trench, dynamic electricity and water supply and drainage system in the related areas were all completed. The construction process of Honghai Crane, the core equipment enshrining the innovative concept of "onshore manufacturing of offshore equipment", is progressing as planned, with main girder of the first crane closed. It is expected that the overall lifting of the equipment will be completed in May 2014. The installation work of 1,200 tons cantilever crane was 80% completed. The cantilever crane is expected to be welded with the main girder in the beginning of April 2014. The installation of the second crane will be commenced after the completion of the first crane, with an expectation that the overall lifting will be completed by the end of 2014 and the equipment will be delivered in early 2015.

In terms of production, the Tiger project of offshore drilling package was processed as scheduled. The main parts of the first set were delivered to Shanghai shipyard; the installation was commenced and completed about 80%. The production of second crane and the member axles were completed and most axles were installed for delivery. As for the project of PSV vessel, the production of coating and inner member axles was almost completed. The hoisting and installation of warehouse segment of PSV vessel was completed, the pipe system and electric outfitting operation was in progress. The main hull of vessel was formed and expected to be launched in May 2014 and delivered in September 2014.

As for marketing development, the Group actively promoted the innovative construction model of "onshore manufacturing of offshore platform" via attending international exhibitions such as the Offshore Technology Conference ("OTC"). Meanwhile, the Group proactively participated in a variety of tenders for offshore platform and accessory equipment projects in the domestic and overseas markets. During the Year, the Group communicated with prospective customers for a long time, while the first order agreement of offshore drilling platform was still not reached due to many factors. Nevertheless, the Group has gained customers' confidence in its creative manufacturing model and product quality.

Oil and Gas Engineering Services Business

In 2013, Honghua's oil & gas engineering service business achieved rapid growth. In terms of service teams building, the Group expanded the scale of drilling service teams, established directional service teams and developed business lines in accordance with the domestic and overseas market trends and specific project status. In the first half of 2013, the Group successfully introduced drilling and fluids services into Honghua's domestic oil services projects in all regions to achieve the business collaboration through acquisition of Bazhou Honghua Petroleum Applied Chemistry Co., Ltd. As at the end of December 2013, the Group had 23 drilling service teams, 30 drilling fluid service teams and 10 directional services teams. The staff of Honghua's oil & gas engineering services reached around 1,300.

In terms of market expansion, after entering into Xinjiang, the northeastern China and Iraq in 2012, the Group successfully developed domestic markets in Yumen and Yan'an as well as West Qurna market in Iraq. In terms of business expansion, the Group started the first expansion step from conventional service to unconventional service. In 2013, Honghua's oil & gas engineering services finished the drilling services and drilling fluids services for the first unconventional gas wells in Sichuan province in the PRC. Before drilling, the Group studied geological structure carefully and developed strategies by segments. For possibly inclining top layer, motor and measurement-while-drilling systems were utilized to better control the well deviation. For the problem of carbonate formation leakage in the upper layer of the Permian system and frequent leakage in many locations, the Group adopted the method of "controlling leakage while drilling" and saved a lot of time on stopping the leakage. The Group overcame obstacles including hydration, peeling off and collapse problems of long displacement through applying oil-based drilling fluids system and introducing rotary steerable drilling technology which not only helped solving the problems arising from the big drag pressure of conventional motor drilling but also performed good well trajectory. After 90 days of hard work, the Group finally completed the well drilling. Upon completion, the well was drilled to a depth of 4,115 meters. The horizontal shift at the bottom is 1,728 meters and the length of horizontal segment is 1,350 meters. The success of this project laid a sound foundation for Honghua to further tap into the shale gas services market.

As for operation efficiency, with the accumulation of experience and ongoing technology innovation, the operation efficiency for oil and gas engineering were steadily improved continuously. For example, No. 1 drilling service team in Turpantte area completed 21 wells and reached a depth of 32,000 meters. It is the third drilling service team that drilled the depth of more than 30,000 meters followed the Western drilling team and the Bohai drilling team in Yudong area; it is also the only private drilling service team that achieved the depth of more than 30,000 meters in Turpan oilfield. Another example is the No. 15 drilling service team in Yumen area. Despite of the complex topography of contracted Ya well K1-29 (possible inclining, grinding, breaking, bouncing and changes), No. 15 drilling service team completed the entire drilling tasks within 45.5 days, achieving an advanced level of quick drilling in Ya Area K and setting a new record of quick drilling in this area. As at the end of December 2013, the Group completed a total of 69 wells, including 2 horizontal wells and 22 directional wells, and achieved 213,000 meters of footage drilled.

Unconventional Oil and Gas Resources Business

In 2013, on the basis of the successful completion of the first shale gas drilling service project, the Group also achieved sales of 25 sets of self-innovated flexible water tanks. In addition, the Group's 6000HP fracturing pump completed the single-machine commissioning test witnessed by Baker Hughes' experts; it is currently in the process of planning for an on-site industrial test at a shale gas fracturing site in America. The completion of the test laid a solid foundation for product sales both in the domestic and overseas markets. Meanwhile, the Group completed the trail production of prototype and started on-site test for the self-innovated electric fracturing blender trucks during the Year.

Quality Development and Research & Development

In 2013, the Group enhanced the building of quality management system and strengthened application for various types of qualifications. As for the land business sector, Sichuan Honghua Petroleum Equipment Co., Ltd, the Group's main production base, successfully passed the triennial recertification review of the American Petroleum Institute (API). In addition, Honghua Golden Coast Equipment FZE, the Group's overseas subsidiary, also obtained in its own API certificate and other certificates such as ISO 9001:2008, ISO/TS 29001, etc., which laid an important foundation for sales to the high-end customers in the Middle East. Gansu Hongteng Oil & Gas Equipment Manufacturing Co., Ltd. received certificates of API and prepared for developing the product series of fracturing truck into international markets. As for the oil and gas engineering services, during the Year, the Group obtained many qualifications such as the certificate from Sinopec Northeast Petroleum Administration Bureau and access certificate for western drilling market. As for the offshore engineering equipment services, the Group successfully obtained certificates of OHSAS18001:2007, ISO9001:2008 and ISO14001:2004 issued by ABS QE and built a scientific and perfect QHSE Management System.

As for the product research & development, the Group continuously optimized and improved the series of top drive, quintuple mud pump and other products during the Year. Meanwhile, with the highly mechanized and automated "next-generation drilling rigs" as the mainstay, the Group continued to integrate new technology on new equipment (e.g. drilling rig of "Honghua America I" and gear and rack drilling rigs) and drove the R&D of automatic machines. In 2013, the Group invested RMB91 million in R&D and achieved remarkable result. As at 31 December 2013, the Group has applied for 350 patents, of which 175 were approved.

Human Resources Management

According to Honghua's long-term development plan, Honghua's human resources function has always been considering how to raise and realize the professional value of human resources and provide effective supports to the strategic development of all its subsidiaries. During the Year, the Group's strategy of driving human resources ahead moderately reserved various types of talents of different levels. The Group recruited 3,251 staff and 345 of them are fresh graduates from renowned universities. Apart from new staff recruitment, the Group puts focus on the trainings for current employees. In 2013, the Group arranged 942 training programs including trainings for specialized competence of each system module, with an aim to enhance employees' specialized knowledge and technical skills as well as to improve efficiency. As at end of 2013, the Group had 7,724 employees, among which 609 are research personnel.

Outlook for 2014

According to the forecast of the securities firms, in the coming years, the oil price will remain at a high level at US$90 per barrel. The high oil price will cause the capital expenditure on exploration of the major oil and gas companies to grow continuously, increasing the demand for oil and gas drilling equipment and services.

Land Equipment Business

According to latest report of Spears & Associates, in the coming years, the global annual demand for complete set of land drilling rigs will remain in the range of 500-600 units. The demand will mainly come from the new additions of drilling wells, the replacement of old drilling rigs, and the upgrade of drilling rig technology. Meanwhile, the service life of the parts and components of land drilling rigs is much shorter than that of the drilling rig main engines, and the subsequent demand for replacement is increasingly strong. In addition, due to the increasing depth and difficulty of the drilling wells, a growing number of drilling rigs require higher-end parts and components, such as more advanced top drives. Therefore, the overall demand for parts and components is also showing a steady upward trend.

In 2014, the Group will continue to implement its "Localization" and "Forward sales" strategies, and procure sustained and steady business growth by targeting the needs of customers from different markets and adopting different sales tactics. Meanwhile, the Group will further enhance the global sales network by establishing sales offices and after-sale service centres in territories such as Mexico, Argentina and Poland. In regard to the sales of land drilling rigs, the Group will, with its innovative, efficient and quality products, secure the markets in territories such as America, Russia, the Middle East, Eurasia and China, and at the same time further explore the demand in some emerging markets such as Africa. Regarding the sales of parts and components, the Group will continue to pay attention to the demand for replacement of parts and components, further strengthen the promotion of new higher-end products such as top drive and new quintuple mud pump, and at the same time expand the parts and components trading business with the potential customers by utilizing the global procurement network. Meanwhile, the Group will continue to be in line with the principle of "Creative Manufacturing", and strive to attain objectives of "new technology", "new equipment" and "new manufacturing process", continue to advance the innovation and research and development of "new-generation smart" drilling rigs, and parts and components, and hence reflecting the Group's endeavor to relentlessly sharpen its competitive edge for continuous development in the next decade of growth. As of the end of February 2014, the Group's on-hand sales orders of complete set of land drilling rigs reached approximately 63 sets, worthing approximately RMB4,957 million, and the land drilling rigs are expected to be delivered in separate phases between 2014 and 2015.

Offshore Equipment Business

The demand in the offshore equipment market is relatively steady in the recent two years. According to the forecast of Spears & Associates, the annual demand for jack-up platforms will remain in the range of 30-40 units in the next three years, which mainly comes from the replacement of the existing old platforms. According to the statistics of the securities firms, in 2012 nearly 70% of the jack-up platforms in the world will be aged 30 years or above. The gradual withdrawal of old vessels from the market is the future trend. With the rise of Chinese offshore equipment manufacturing enterprises, a growing number of sales orders of jack-up platforms was obtained by the Chinese enterprises. In 2012, the market share of jack-up platforms of Chinese offshore engineering enterprises reached 42%, which was basically catch up with that of Singaporean enterprises.

In 2014, apart from continuing to finish the construction of Honghai Crane, the Group will also complete the Tiger and PSV Vessel projects on time with the quality and quantity guaranteed. Furthermore, while further expanding the offshore equipment market and making much effort to take the sales orders of drilling modules and PSV vessels, the Group will also strive to take the first order of offshore drilling platform in 2014. The Group believes that with Honghua's offshore construction capacity being gradually proved, advantages of the innovative construction mode "onshore manufacturing of offshore platform" such as design, cost, manufacturing cycle will gradually become prominent, and Honghua's offshore equipment manufacturing business will develop in a good direction. As at the end of February 2014, the Group's on-hand sales orders of offshore parts and components value approximately RMB168 million.

Oil and Gas Engineering Services Business

As for the oil and gas engineering services in China, according to the forecast of Spears & Associates, the capital expenditure on well completion business in China will remain at a compound growth rate of 6.7%. The rise of capital expenditure will lead to the increase in new drilling wells. Furthermore, due to the increasing depth and difficulty of exploring old oil fields, the demand for well completion service shows a steadily upward trend in the entire Chinese market. In addition, in early 2014, Sinopec proposed the downstream mixed ownership reform which will sell up to 30% of its equity to the social and private capitals. This is an indicator that the domestic oil and gas industry will hopefully be further opened in the future. The constantly deepening marketization in various major oil and gas production zones is also conducive to the flourishing development of domestic oil and gas engineering services.

In 2014, the Group will continue to rely on self-production of equipment, adhere to the drilling well and drilling fluids services as the core business, emphasize directional and horizontal services, treat fracturing services as an opportunity, in order to provide customers with integrated drilling well services and gradually expand the business from conventional area to unconventional oil and gas services and from the domestic market to foreign markets. Regarding team building, the Group will maintain the existing scale of the directional drilling service team and drilling fluids service teams, and timely input equipment and expand the scale of the drilling well team based on the specific condition of potential projects. The Group will swift its focus from the rapid expansion of teams and business to efficiency enhancement, thereby raising the overall profit margin of oil and gas engineering services projects. As of the end of February 2014, the Group's on-hand sales orders of oil and gas engineering services worth approximately RMB444 million.

Unconventional Oil and Gas Resources Business

In early 2014, Sinopec released a new shale gas exploration scheme, and it is expected to drill 50-70 shale gas wells during the Year. Meanwhile, PetroChina Southwest Oil & Gas Field Co. also announced that it will deploy more than 20 work platforms and drill more than 110 new wells. According to the latest plans of Sinopec and PetroChina, in 2014 shale gas exploration is expected to enter into large-scale development phase in China, with its work reaching about three to four times of that in 2013. Based on the situation, the shale gas exploration of Sinopec and PetroChina is expected to reach 10 billion m^3 in 2015, which exceeds the originally planned national output of 6.5 billion m^3. Furthermore, with the inclusion of shale gas production by CNOOC, Shaanxi Yanchang Petroleum Group, China Huadian Group, China United Coalbed Ltd. Co and some private enterprises, the national shale gas production in 2015 is expected to reach 12 billion m^3 to 13 billion m^3. With the large-scale exploration of shale gas, huge demand for exploration-related equipment such as drilling rigs, fracturing tracks and also oil and gas engineering services will be resulted.

In terms of special equipment, in 2014 the Group will continue to improve design of the flexible water tanks series and work on market promotion, in order to secure more sales orders. Meanwhile, the Group will focus on completing the on-site tests of 6000HP fracturing pump both in China and abroad, in order to realize sales in 2014. With regard to the oil and gas engineering services, the Group will, with the foundation laid in 2013, continue to look for more opportunities for unconventional oil and gas projects such as shale gas and tight gas. Concerning resources, the Group will also persistently focus on the domestic policies on shale gas and the trend in the industry, in order to seek opportunities and participate as a minority stakeholder in upstream resources exploration.

The year of 2014 is a crucial year for Honghua, as each strategic segment has basically formed and is ready for implementation. While maintaining the steady and sustainable development of the land drilling business, the Group will strive to grasp development opportunities from segments of offshore engineering, oil and gas engineering services as well as unconventional oil and gas resources in order to lay a solid foundation of Honghua's transitional development in the next decade, and create higher returns for the Shareholders.

FINANCIAL REVIEW

During the Year, the Group's gross profit and profit attributable to shareholders of the Company amounted to RMB1,905 million and RMB538 million respectively, gross margin and net margin amounted to approximately 23.7% and 6.7% respectively. While gross profit and profit attributable to shareholders of the Company in the Last Year amounted to approximately RMB1,747 million and RMB529 million respectively, gross margin and net margin in the Last Year amounted to approximately 34.5% and 10.4% respectively. During the Year, the increase in the Group's gross profit and profit attributable to shareholders of the Company was mainly attributable to the rapid increase in sales revenue due to the Group's effort in proactive market development.

Turnover

During the Year, the Group's turnover amounted to approximately RMB8,047 million, while it was approximately RMB5,068 million during the Last Year, representing an increase of 58.8%. The increase was mainly attributable to the global growth in demand of oil drilling equipment, the Group's effort in proactive market development, growth of the oil and gas engineering services and offshore drilling rig parts and components. During the Year, as there was growth in demand of the Group's higher end product, the average selling price increased by 13.8%. The number of drilling rig sold during the Year increased to 74 units from 56 units of the Last Year.

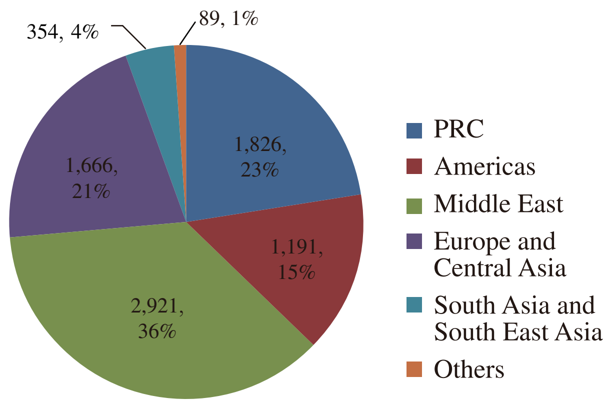
(1) Revenue by Geographical Areas

The Group's revenue by geographical segment areas during the Year was as follows: (1) the revenue from export amounted to approximately RMB6,221 million, accounting for approximately 77.3% of the total revenue, representing an increase of approximately RMB2,185 million or 54.1% as compared to those of the Last Year. Among which, the revenue from Middle East amounted to approximately RMB2,921 million, representing an increase of RMB2,874 million or 6,114.9%. The revenue from Europe and Central Asia amounted to approximately RMB1,666 million, representing an increase of approximately RMB902 million or 118.1%. The revenue from South Asia and Southeast Asia market amounted to approximately RMB354 million, representing an increase of RMB135 million or 61.6%. The revenue from American market amounted to approximately RMB1,191 million, representing a decrease of approximately RMB1,601 million or 57.3%; (2) the revenue from the PRC market amounted to approximately RMB1,826 million, accounting for approximately 22.7% of the total revenue, representing an increase of RMB794 million or 76.9% as compared to those in the Last Year.

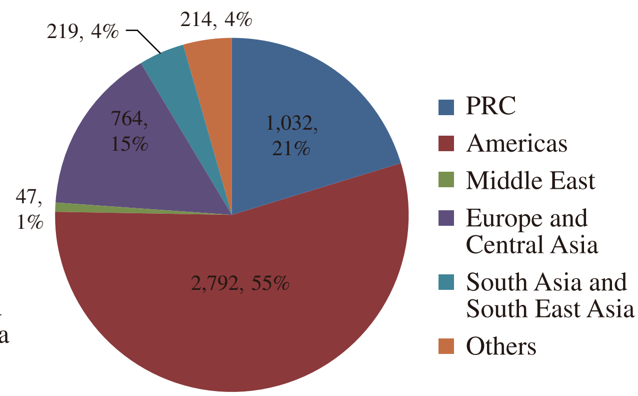
The Group's sales revenues from different regions are affected by the local oil and gas exploration activities. The Group actively explores markets in different regions to develop new customers, to get new orders, in order to ensure sustained growth in sales revenue.

Revenue by geographical areas in 2013 and 2012 were as follows (in RMB million).

2013 revenue by Geographical Areas



2012 revenue by Geographical Area



(2) *Revenue by Business Categories*

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

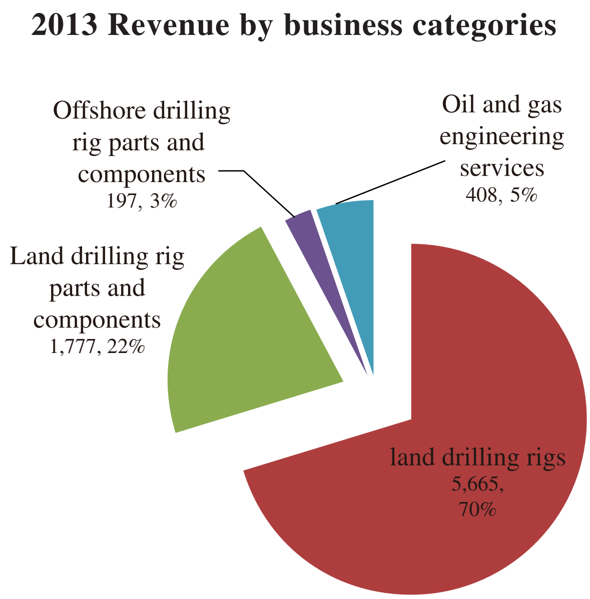
During the Year, revenue from land drilling rigs were amounted to approximately RMB5,665 million while it was approximately RMB3,751 million during the Last Year, representing an increase of RMB1,914 million or 51.0% as compared to the Last Year. The growth in land drilling rig sales revenue was mainly attributable to the increase in the number of sales volume from 56 units to 74 units, as well as due to the added value of the drilling rigs sold and the selling price increased during the Year.

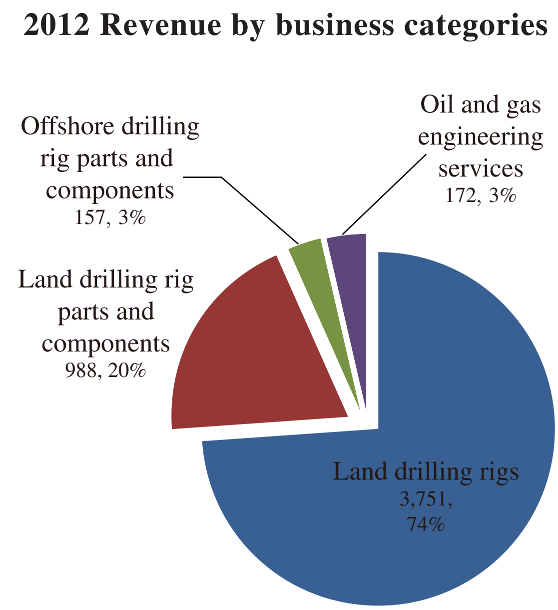
During the Year, sales revenue from the land drilling rig parts and components amounted to approximately RMB1,777 million, while it was approximately RMB989 million during the Last Year, representing an increase of RMB788 million or 79.7% as compared to the Last Year. The revenue growth is mainly attributable to the Group's effort in proactive market development and breakthrough in sales of new products. Drilling rig transformation and parts processing generating revenue amounted to approximately RMB33 million; 109 mud pumps were sold, generating revenue amounted to approximately RMB124 million; 4 electric drive systems were sold, generating revenue amounted to approximately RMB18 million; 6 fracturing trucks were sold, generating revenues amounted approximately RMB28 million.

During the Year, revenue from offshore drilling rig parts and components amounted to approximately RMB197 million, while it was approximately RMB157 million in the Last Year.

During the Year, revenue from oil and gas engineering services amounted to approximately RMB408 million, mainly attributable to the Group's proactive development of oil and gas drilling service market, providing oil and gas engineering services to 23 well fields mainly located in Xinjiang and northeast China and Iraq.

Revenue by business categories was as follows:





Cost of Sales

During the Year, the Group's cost of sales amounted to approximately RMB6,142 million, while it was approximately RMB3,321 million in the Last Year, representing an increase of approximately 84.9% as compared to the Last Year, mainly due to substantial growth in sales revenue.

Gross Profit and Gross Margin

During the Year, the Group's gross profit amounted to approximately RMB1,905 million, representing an increase of RMB158 million or 9.1% as compared to that of Last Year.

During the Year, the Group's overall gross profit margin was 23.7%, representing a decrease of 10.8 percentage points as compared to that of Last Year. This was mainly due to the Group's in proactive market development and taking the initiative to benefit customers in some markets.

Expenses in the Year

During the Year, the Group's selling expenses amounted to approximately RMB524 million, representing a decrease of RMB30 million or 5.4% as compared to RMB554 million in the Last Year. This was mainly attributable to the decrease of sale service expenses during the Year.

During the Year, the Group's general & administration expense amounted to approximately RMB596 million, representing an increase of RMB69 million or 13.1% as compared to RMB527 million in the Last Year. Mainly due to the growth of the business and expanding of the Group, resulting in increase in labor costs, depreciation and amortization and other administration expenses.

During the Year, the Group's net finance expenses amounted to approximately RMB139 million, representing an increase of RMB168 million as compared to net financing income of RMB29 million in the Last Year. The increase in net finance expense was mainly attributable to that the Group recorded an increase of interest expenses of RMB117 million during the Year and there was a net exchange loss of RMB27 million during the Year and there was a net exchange gain of RMB20 million in the Last Year.

Profit before Taxation

During the Year, profit before taxation of the Group amounted to approximately RMB701 million, representing a decrease of RMB8 million or 1.1% as compared to RMB709 million in the Last Year, mainly attributable to the decrease in gross margin and increase in finance expense.

Income Tax Expenses

During the Year, the Group's income tax expense amounted to approximately RMB126 million as compared to RMB168 million in the Last Year. The decrease was mainly attributable to the tax incentives of withholding tax of the undistribution profits of the Company's subsidiaries in the PRC, the rate of witholding tax decrease from 10% to 5%.

Profit for the Year

During the Year, the Group's profit amounted to approximately RMB575 million, representing an increase of RMB33 million or 6.1% as compared to RMB542 million in the Last Year. Among which, profit attributable to equity shareholders of the Company amounted to approximately RMB538 million, representing an increase of RMB8 million or 1.5% as compared to that in the Last Year, while earnings attributable to non-controlling interests was approximately RMB37 million. During the Year, net margin was 6.7%, representing a decrease of 3.7 percentage points as compared to 10.4% in the Last Year, which was mainly attributable to the decrease in gross profit margin.

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

During the Year, EBITDA amounted to RMB1,082 million, as compared to approximately RMB828 million in the Last Year, which was mainly attributable to the marked increase in operating profit brought by the significant increase in revenue. The EBITDA margin was 13.4%, representing a decrease of 2.9 percentage points as compared to 16.3% in the Last Year, which was mainly attributable to the decrease of gross margin.

Dividend

For the year ended at 31 December 2013, the Directors recommend a final dividend of HK6 cents per Share, which is subject to the approval of the shareholders of the Company at the forthcoming Annual General Meeting. The final dividend will be payable on or around 18 June 2014 to the shareholders of the Company whose names appear in the register of members of the Company as on 4 June 2014.

Source of Capital and Borrowings

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

As at 31 December 2013, the Group's bank borrowings amounted to approximately RMB4,731 million, representing an increase of approximately RMB2,748 million as compared to that at 31 December 2012. Among which, borrowings repayable within one year amounted to approximately RMB3,274 million, representing an increase of RMB2,028 million as compared to 31 December 2012. The increase in banking borrowings was mainly attributable to the rapid growth of the Group's operating scale, leading to increased demand for capital investment and operating cash.

Deposit and Cash Flow

As at 31 December 2013, the Group's cash and cash equivalents amounted to approximately RMB1,275 million, representing an increase of approximately RMB290 million as compared to that at 31 December 2012. During the Year, net operating cash outflow amounted to approximately RMB324 million, mainly because the Group had increased the procurement of raw materials to ensure timely delivery of orders in 2013; net cash outflow from investing activities amounted to approximately RMB1,690 million, which was mainly due to investment of fixed assets and construction in progress for offshore manufacturing base project and oil and gas engineering services, the cash flow of investment to other finance asset amounted to approximately RMB484 million; net cash inflow from financing activities amounted to approximately RMB2,313 million, which was due to increase of bank borrowings.

Assets Structure and Changes Thereof

As at 31 December 2013, the Group's total assets amounted to approximately RMB14,229 million, representing an increase of approximately RMB4,383 million or 44.5% as compared to 31 December 2012. Among which, current assets amounted to approximately RMB9,681 million, accounting for approximately 68.0% of the total assets, representing an increase of approximately RMB3,063 million as compared to that at 31 December 2012, mainly due to an increase of cash and cash equivalents, trade receivables and other financial assets; non-current assets amounted to approximately RMB4,548 million, accounting for approximately 32.0% of the total assets, representing an increase of approximately RMB1,320 million as compared to that at 31 December 2012, which were mainly due to an increase of fixed assets and long-term receivables.

Liabilities

As at 31 December 2013, the Group's total liabilities amounted to approximately RMB9,270 million, representing an increase of approximately RMB4,013 million as compared to that at 31 December 2012. Among which, current liabilities amounted to approximately RMB7,762 million, accounting for approximately 83.7% of the total liabilities, representing an increase of approximately RMB3,244 million as compared to that at 31 December 2012; non-current liabilities amounted to approximately RMB1,508 million, accounting for approximately 16.3% of the total liabilities, representing an increase of approximately RMB769 million as compared to that at 31 December 2012. As at 31 December 2013, the Group's gearing ratio was approximately 65.2%.

Equity

As at 31 December 2013, total equity amounted to RMB4,959 million, representing an increase of RMB370 million as compared to that at 31 December 2012. Total equity attributable to equity shareholders of the Company amounted to approximately RMB4,763 million, representing an increase of RMB307 million as compared to 31 December 2012. Non-controlling interests totaled to approximately RMB195 million, representing an increase of RMB63 million as compared to that at 31 December 2012. Net asset value reached approximately RMB1.47 per Share. During the Year, the Group's basic earnings per Share was approximately RMB16.99 cents, and diluted earnings per Share was approximately RMB16.77 cents.

Contingent Liabilities and Pledge

(a) Contingent liabilities

Contingent liabilities in respect of legal claim

Lawsuits with a sales agency

A sales agency filed lawsuit against a subsidiary of the Company, alleged that it were owed commissions in excess of USD18,000,000 in relation to its services to the Group.

On 24 April 2013, the United Arab Emirates ("UAE") Federal Court of First Instance ordered the termination of agency agreement and dismissed all claims from the sales agency. The sales agency filed an appeal to the UAE Federal Court of Appeal on the court's decision and hearing is yet to be made as at 31 December 2013. Having consulted the Group's legal advisors, management considered that the Group had legal and factual merit to defend in the lawsuits. Accordingly, management determined that it was not probable that the outcome of the lawsuits will be unfavourable to the Group. No provision was made for the potential claims under these lawsuits.

(b) pledge

As at 31 December 2013, the Group has pledged bank deposits, land use rights, fixed assets and trade and other receivables of approximately RMB1,468 million, representing an increase of approximately RMB556 million as compared to that at 31 December 2012.

Capital Expenditure, Major Investment and Capital Commitments

During the Year, capital expenditure of the Group on infrastructure and technical improvements amounted to approximately RMB1,267 million. This was mainly attributable to the input in the infrastructure construction of offshore projects and expansion of production capacity of land drilling rigs.

As at 31 December 2013, the Group had capital commitments of approximately RMB1,378 million, which will be used for the construction of Jiangsu Qidong offshore manufacturing base and expansion of the Group's business as well as the production capacity.

Foreign Currency Risk

The Group has certain foreign currency deposits. As at 31 December 2013, the Group's foreign currency deposits were equivalent to approximately RMB258 million, trade and other receivables denominated in foreign currency were equivalent to approximately RMB2,144 million. Exports and foreign currencies settled business exposed the Group to exchange risk. The Group has managed to mitigate the exchange risk through entering into forward foreign exchange contracts and price adjustment during contract negotiation in consideration of future exchange rate circumstances. Also, the Group mitigates the exchange risk by having foreign currency bank loans and trade payables.

Employee Remuneration and Benefits

During the Period, the average employee number of the Group was 6,693. The total amount of remuneration and benefit was about RMB801 million, increased by RMB223 million or 35.6% as compared to that of last year.

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

To improve the competitive advantage of human resource, the Group will enhance the passion, potential and spirit of employees by perfecting the system and procedure, emphasizing the employee relationship management and developing personalized training plan for the years to come.

PURCHASE, SALE OR REDEMPTION OF COMPANY'S LISTED SECURITIES

During the Year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's Shares apart from restricted share award scheme trustee.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed during the following periods:

(i) from Thursday, 15 May 2014 to Wednesday, 21 May 2014, both days inclusive, for the purpose of ascertaining shareholders' entitlement to attend and vote at the Annual General Meeting. In order to be eligible to attend and vote at the Annual General Meeting, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Hong Kong branch share registrar and transfer office of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 14 May 2014; and

(ii) from Thursday, 29 May 2014 to Wednesday, 4 June 2014, both days inclusive, for the purpose of ascertaining shareholder's entitlement to the proposed final dividend. The record date for shareholder's entitlement to the proposed final dividend is Wednesday, 4 June 2014. In order to establish entitlements to the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Hong Kong branch share registrar and transfer office of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 28 May 2014.

AUDIT COMMITTEE

The Audit Committee comprises all the Independent Non-executive Directors with written terms of reference in compliance with the Listing Rules. The Audit Committee is responsible for reviewing and supervising financial reporting process and internal control systems and providing advices and recommendations to the Board. The Audit Committee shall hold at least two meetings a year and review opinions of internal auditors, matters in respects of internal control, risk management and financial reporting. The Audit Committee has reviewed the financial results of the Group for the year ended 31 December 2013 and the accounting principles and practices adopted by the Group during the Year.

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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has complied with most of the code provisions as set out in the Corporate Governance Code in Appendix 14 to the Listing Rules ("CG Code") throughout the year ended 31 December 2013, saving for certain deviations from the code provision in respect of separation of roles of Chairman and President (Chief Executive Officer) and the dismissal of the nomination committee of the Company, details of which will be explained below.

The Company reviews its corporate governance practices regularly to ensure compliance with the CG Code.

The Company is committed to enhance its corporate governance practices appropriate to the conduct and growth of its business and to review its corporate governance practices from time to time to ensure that they comply with the statutory and professional standards and the requirements under the Listing Rules and align with their latest developments.

Based on the Code Provision A.2.1 of CG Code, the roles of Chairman and President (Chief Executive Officer) should be separated and should not be performed by the same individual. Mr. Zhang Mi is the Chairman of the Board and President (Chief Executive Officer) of the Company. Mr. Zhang Mi is the main founder of the Group and has extensive experience in the industry and related industries. In the opinion of the Board, the vesting of duties of Chairman of the Board and President (Chief Executive Officer) of the Company to Mr. Zhang Mi would provide a strong and consistent leadership and allow effective planning and execution of business decisions and strategies, as well as ensure the interests of the shareholders of the Company as a whole. On the other hand, the balance between powers and duties could be ensured through the operation of the Board and the committees under it.

The Company will continue to review the effectiveness of the corporate governance framework of the Group, and consider whether to make any changes, including the separation of the roles of the Chairman and President (Chief Executive).

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted its own code of conduct regarding Directors' dealings in the Company's securities (the "Company 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 the Directors and all the Directors have confirmed that they have complied with the Company Code and the Model Code throughout the year ended 31 December 2013.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT FOR 2013

This announcement is published on both the websites of the Company (www.hh-gltd.com) and of the Stock Exchange (www.hkexnews.hk). The annual report of the Company for the year ended 31 December 2013 will be dispatched to shareholders of the Company and published on the aforesaid websites in due course.

DEFINITION

"Annual General Meeting"	:	the annual general meeting of the Company which will be held on Wednesday, 21 May 2014
"Audit Committee"	:	the audit committee of the Company
"Board"	:	the Board of Directors of the Company
"Company"	:	Honghua Group Limited
"Directors"	:	directors of the Company
"During the Year"	:	for the year ended 31 December 2013
"Group" or "Honghua"	:	the Company and its subsidiaries, its associate and its jointly controlled entities
"HK$" or "HK dollars"	:	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	:	the Hong Kong Special Administrative Region of the PRC
"Last Year"	:	for the year ended 31 December 2012
"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, unless the context requires otherwise, reference in this announcement of the PRC or China excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"RMB"	:	Renminbi, the lawful currency of the PRC
"Share(s)"	:	ordinary shares issued by the Company, with a nominal value of HK$0.10 each
"Stock Exchange"	:	The Stock Exchange of Hong Kong Limited
"US"	:	the United States of America, including its territories and possessions

"US$"	:	United States dollars, the lawful currency of the US

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

Hong Kong, 19 March 2014

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