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 2016

FINANCIAL HIGHLIGHT

	For the year ended 31 December		
	2016	2015	% change
Turnover (RMB'000)	**2,343,614**	4,219,253	–44.5%
Gross profit (RMB'000)	**277,654**	946,537	–70.7%
Gross profit margin (%)	**11.8%**	22.4%	
Loss from operations (RMB'000)	**(609,532)**	(42,602)	1,330.8%
Loss attributable to equity shareholders of the Company (RMB'000)	**(609,689)**	(252,207)	141.7%
Loss per share			
— Basic (RMB cents)	**(19.18)**	(7.93)	141.9%
— Diluted (RMB cents)	**(19.18)**	(7.93)	141.9%

The Board does not recommend the payment of dividend for the year ended 31 December 2016.

ANNUAL RESULTS

The Board hereby announces the consolidated results of the Group for the year ended 31 December 2016, together with the comparative figures for the year ended 31 December 2015.

These annual results have also been reviewed by the Audit Committee, comprising solely the independent non-executive Directors, one of whom chairs the Audit Committee.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2016
(All amounts in RMB unless otherwise stated)

		Year ended 31 December	
		2016	2015
	Note	***RMB'000***	*RMB'000*
Revenue	*3*	**2,343,614**	4,219,253
Cost of sales		**(2,065,960)**	(3,272,716)
Gross profit		**277,654**	946,537
Distribution expenses		**(371,560)**	(472,764)
Administrative expenses		**(653,733)**	(584,016)
Other gains/(losses), net	*5*	**9,040**	(9,863)
Other income	*4*	**129,067**	77,504
Operating loss		**(609,532)**	(42,602)
Finance income	*8*	**43,310**	83,145
Finance expenses	*8*	**(129,521)**	(344,980)
Finance expenses — net		**(86,211)**	(261,835)
Share of profit of associates		**3,487**	925
Share of (loss)/profit of joint ventures		**(3,905)**	1,793
Loss before income tax		**(696,161)**	(301,719)
Income tax expense	*6*	**68,912**	35,853
Loss for the year		**(627,249)**	(265,866)
Loss attributable to:			
— Owners of the Company		**(609,689)**	(252,207)
— Non-controlling interests		**(17,560)**	(13,659)
		(627,249)	(265,866)
Loss per share for profit attributable to owners of the Company ***(expressed in RMB cents per share)***			
Basic loss per share	*7(a)*	**(19.18)**	(7.93)
Diluted loss per share	*7(b)*	**(19.18)**	(7.93)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016
(All amounts in RMB unless otherwise stated)

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Loss for the year	**(627,249)**	(265,866)
Other comprehensive income		
<u>*Items that may be reclassified to profit or loss*</u>		
Change in value of available-for-sale financial assets, net of tax	**–**	(827)
Currency translation differences	**(49,412)**	70,978
Other comprehensive income for the year, net of tax	**(49,412)**	70,151
Total comprehensive income for the year	**(676,661)**	(195,715)
Total comprehensive income attributable to:		
— Owners of the Company	**(652,006)**	(183,079)
— Non-controlling interests	**(24,655)**	(12,636)
	(676,661)	(195,715)

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2016

(All amounts in RMB unless otherwise stated)

		As at 31 December	
		2016	2015
	Note	***RMB'000***	*RMB'000*
ASSETS			
Non-current assets			
Lease prepayments		**379,582**	405,732
Property, plant and equipment		**2,794,054**	3,139,093
Payment for acquisition of leasehold prepayment		**148,166**	163,192
Intangible assets		**230,913**	234,261
Investments in associates		**61,771**	52,161
Investments in joint ventures		**44,754**	48,239
Deferred income tax assets		**415,701**	318,263
Available-for-sale financial assets		**88,294**	74,053
Trade and other receivables	*9*	**252,652**	356,985
Total non-current assets		**4,415,887**	4,791,979
Current assets			
Inventories	*11*	**2,116,147**	2,164,432
Trade and other receivables	*9*	**3,431,335**	4,537,569
Amount due from customers for contract work	*10*	**181,503**	20,778
Current tax recoverable		**3,797**	9,592
Available-for-sale financial assets		**15,000**	39,203
Held-to-maturity financial assets		**–**	46,734
Pledged bank deposits		**559,737**	368,884
Bank deposits maturing over three months		**–**	100,518
Cash and cash equivalents		**544,360**	1,102,651
Total current assets		**6,851,879**	8,390,361
Total assets		**11,267,766**	13,182,340

CONSOLIDATED BALANCE SHEET (CONTINUED)
AS AT 31 DECEMBER 2016
(All amounts in RMB unless otherwise stated)

		As at 31 December	
		2016	2015
	Note	***RMB'000***	*RMB'000*
EQUITY			
Equity attributable to owners of the Company			
Share capital		**300,983**	300,983
Other reserves		**3,007,063**	3,046,576
Retained earnings		**590,864**	1,204,470
		3,898,910	4,552,029
Non-controlling interests		**184,542**	222,157
Total equity		**4,083,452**	4,774,186
LIABILITIES			
Non-current liabilities			
Deferred income		**72,763**	51,376
Borrowings		**2,086,126**	2,331,886
Trade and other payables	*12*	**2,788**	23,255
Total non-current liabilities		**2,161,677**	2,406,517
Current liabilities			
Deferred income		**38,567**	4,923
Trade and other payables	*12*	**2,677,890**	3,556,059
Current income tax liabilities		**53,080**	54,130
Borrowings		**2,212,922**	2,332,545
Provisions for other liabilities and charges		**40,178**	53,980
Total current liabilities		**5,022,637**	6,001,637
Total liabilities		**7,184,314**	8,408,154
Total equity and liabilities		**11,267,766**	13,182,340

1 GENERAL INFORMATION

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

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

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

These financial statements are presented in Chinese Renminbi ("RMB"), unless otherwise stated, and was approved for issue by the Board of Directors of the Company on 29 March 2017.

2 ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements of Honghua Group Limited have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRS") and requirements of the Hong Kong Companies ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention, except that available-for-sale financial assets are carried at fair value, and certain financial assets and liabilities are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in the annual report.

Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2016:

- Accounting for acquisitions of interests in joint operations — Amendments to IFRS 11
- Clarification of acceptable methods of depreciation and amortisation — Amendments to IAS 16 and IAS 38
- Annual improvements to IFRSs 2012 — 2014 cycle, and
- Disclosure initiative — amendments to IAS 1.

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

(b) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016 and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

IFRS 9, 'Financial instruments'

The new standard addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

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, and

- equity investments currently measured at fair value through profit or loss (FVPL) which would likely continue to be measured on the same basis 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 hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. While the Group is yet to undertake a detailed assessment as the Group does not have any hedge relationships now. Accordingly, the Group does not expect a significant impact on the accounting for its hedging relationships.

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 an 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.

(b) New standards and interpretations not yet adopted (Continued)

IFRS 9 must be applied for financial years commencing on or after 1 January 2018. Based on the transitional provisions in the completed IFRS 9, early adoption in phases was only permitted for annual reporting periods beginning before 1 February 2015. After that date, the new rules must be adopted in their entirety. The Group does not intend to adopt IFRS 9 before its mandatory date.

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 contracts for goods and 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.

Management is currently assessing the effects of applying the new standard on the Group's financial statements and has identified the following areas that are likely to be affected:

- revenue from service — the application of IFRS 15 may result in the identification of separate performance obligations which could affect the timing of the recognition of revenue.
- accounting for certain costs incurred in fulfilling a contract — certain costs which are currently expensed may need to be recognised as an asset under IFRS 15, and
- rights of return IFRS 15 requires separate presentation on the balance sheet of the right to recover the goods from the customer and the refund obligation.

At this stage, the Group is not able to estimate the impact of the new rules on the Group's financial statements. The Group will make more detailed assessments of the impact over the next twelve months.

IFRS 15 is mandatory for financial years commencing on or after 1 January 2018. At this stage, the Group does not intend to adopt the standard before its effective date.

IFRS 16, 'Leases'

IFRS 16 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for Group's operating leases. As at the 31 December 2016, the Group has non-cancellable operating lease commitments of approximately RMB12,885,000. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

The new standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

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

3 SEGMENT INFORMATION

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

The Group manages its businesses by divisions, which are organised by business lines (land drilling rigs, offshore drilling rigs, parts and components and others, 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

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 profit or loss of joint ventures and associates, other gains/(losses), net and other income. 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 profit or loss.

The following table presents revenue and profit information regarding the Group's operating segments for the years ended 31 December 2016 and 2015 respectively.

	Land drilling rigs Year ended 31 December		Offshore drilling rigs Year ended 31 December		Parts and components and others Year ended 31 December		Oil and gas engineering services Year ended 31 December		Total Year ended 31 December	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Revenue from external customers	**760,037**	2,408,514	**272,360**	203,833	**1,158,288**	1,268,393	**152,929**	338,513	**2,343,614**	4,219,253
Inter-segment revenue	**–**	48,848	**1,197**	143,575	**194,389**	530,249	**57**	10,263	**195,643**	732,935
Reportable segment revenue	**760,037**	2,457,362	**273,557**	347,408	**1,352,677**	1,798,642	**152,986**	348,776	**2,539,257**	4,952,188
Reportable segment (loss)/profit	**(153,972)**	164,045	**(137,817)**	(136,956)	**(152,875)**	63,566	**(227,648)**	(163,738)	**(672,312)**	(73,083)
Depreciation and amortisation for the year	**57,207**	73,246	**85,032**	75,666	**74,816**	93,116	**78,340**	112,122	**295,395**	354,150
Impairment on trade and other receivables	**41,496**	19,629	**–**	–	**75,394**	9,606	**32,894**	419	**149,784**	29,654
Write-down of inventories	**6,009**	2,070	**–**	–	**32,998**	3,843	**10,085**	–	**49,092**	5,913
Impairment provision of fixed assets	**–**	–	**–**	–	**–**	–	**36,598**	–	**36,598**	–

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 year ended 31 December 2016, such information was not reviewed by the Group's chief operating decision maker. Accordingly, no segment assets and liabilities are presented.

A reconciliation of segment loss to loss before income tax is provided as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Segment loss		
— for reportable segments	**(672,312)**	(73,083)
Elimination of inter-segment (loss)/profit	**(4,852)**	397
Segment loss derived from Group's external customers	**(677,164)**	(72,686)
Share of (loss)/profit of joint ventures	**(3,905)**	1,793
Share of profit of associates	**3,487**	925
Other income and other gains, net	**138,107**	67,641
Finance income	**43,310**	83,145
Finance expenses	**(129,521)**	(344,980)
Unallocated head office and corporate expenses	**(70,475)**	(37,557)
Loss before income tax	**(696,161)**	(301,719)

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

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
PRC (country of domicile)	**626,293**	737,596
Americas	**659,806**	521,097
Middle East	**677,223**	1,411,344
Europe and Central Asia	**286,538**	1,067,011
South Asia and South East	**40,343**	58,420
Africa	**53,411**	423,785
	2,343,614	4,219,253

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

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
PRC (country of domicile)	**3,533,041**	3,955,942
Americas	**49,996**	54,203
Middle East	**192,981**	184,269
Europe and Central Asia	**92,792**	158,658
South Asia and South East	**–**	–
Africa	**43,082**	46,591
	3,911,892	4,399,663

For the year ended 31 December 2016, revenues of approximately RMB421,106,000 and RMB283,428,000 were derived from two external customers respectively. These revenues were attributable to the sales of parts and components in Americas and the sales of land drilling rigs in Middle East, respectively.

For the year ended 31 December 2015, revenues of approximately RMB765,979,000 and RMB447,632,000 were derived from two external customers respectively. These revenues were attributable to the sales of land drilling rigs in Europe and Central Asia, and the sales of land drilling rigs and related parts and components in Middle East, respectively.

4 OTHER INCOME

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Government grants	**101,848**	45,676
Sales of scrap materials	**1,401**	9,266
Rental income	**5,537**	9,528
Repair services income	**14,648**	12,593
Others	**5,633**	441
	129,067	77,504

5 OTHER GAINS/(LOSSES), NET

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Changes in fair value recognised in profit or loss	**–**	(344)
Gain on disposals of property, plant and equipment	**3,221**	1,992
Donations	**(1,200)**	(4,110)
Net loss on disposal of subsidiary	**(17,890)**	–
Insurance compensation	**22,210**	–
Others	**2,699**	(7,401)
	9,040	(9,863)

6 INCOME TAX EXPENSE

Taxation in the consolidated statement of profit or loss represents:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Current income tax — Hong Kong Profits Tax *(i)*		
Provision for the year	**1,480**	3,265
Current income tax — PRC *(ii)*		
Provision for the year	**20,950**	74,107
Under/(over) provision in respect of prior years	**316**	(3,030)
	21,266	71,077
Current income tax — Other jurisdictions *(iii)*		
Provision for the year	**5,299**	7,898
Under provision in respect of prior years	**279**	–
	5,578	7,898
Total current income tax	**28,324**	82,240
Deferred income tax	**(97,236)**	(118,093)
Income tax expense	**(68,912)**	(35,853)

(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 for the years ended 31 December 2016 and 2015.

(ii) PRC

Pursuant to the income tax rules and regulations of the PRC, the subsidiaries of the Group in the PRC are subject to PRC enterprise income tax at a rate of 25% for the years ended 31 December 2016 and 2015, 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 for the years ended 31 December 2016 and 2015.

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

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

(iii) Others

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

(iv) 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.

The Company's directors revisited the dividend policy of the Group in 2016 and 2015. To retain the fundings for operations and future development, it was resolved that the Group's PRC subsidiaries will not distribute dividend to the offshore holding companies in the foreseeable future. Any dividends to be declared by the Company will be distributed from the share premium account.

The tax on the Group's loss before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to the consolidated entities as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Loss before income tax	**(696,161)**	(301,719)
Tax calculated at statutory tax rates applicable to each group entities	**(114,732)**	(57,843)
Tax effect of non-deductible expenses	**3,543**	20,958
Tax effect of non-taxable income	**(7,413)**	(9,812)
Tax losses for which no deferred income tax asset was recognised	**8,935**	7,253
Deductible temporary differences for which no deferred income tax asset was recognised	**6,085**	–
Reversal of previously recognised deductible temporary differences	**2,122**	–
Write off of previously recognised tax losses	**31,953**	6,621
Under/(over) provision in respect of prior years	**595**	(3,030)
Income tax expense	**(68,912)**	(35,853)

7 LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	Year ended 31 December	
	2016	2015
Loss attributable to owners of the Company (RMB'000)	**(609,689)**	(252,207)
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 (thousands)	**3,178,968**	3,178,968
Basic loss per share (RMB cents per share)	**(19.18)**	(7.93)

(b) Diluted loss per share

The calculation of diluted loss per share is based on adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares: share options. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	Year ended 31 December	
	2016	2015
Loss attributable to owners of the Company (RMB'000)	**(609,689)**	(252,207)
Weighted average number of ordinary shares (thousands)	**3,178,968**	3,178,968
Effect of deemed issue of shares under the share option scheme (thousands)	**–**	–
Weighted average number of ordinary shares (diluted) (thousands)	**3,178,968**	3,178,968
Diluted loss per share (RMB cents per share)	**(19.18)**	(7.93)

8 FINANCE EXPENSES — NET

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Finance expenses		
Interest on borrowings wholly repayable within five years	**259,453**	291,777
Net foreign exchange (gain)/loss	**(144,040)**	90,522
Others	**17,083**	1,735
Less: interest expense capitalised into assets under construction	**(2,975)**	(39,054)
	129,521	344,980
Finance income		
Interest income on bank deposits	**(18,423)**	(55,095)
Interest income from long-term receivables	**(24,436)**	(25,545)
Gain on settlement of available-for-sale financial assets	**(451)**	(2,505)
	(43,310)	(83,145)
	86,211	261,835

9 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Trade receivables *(a)*	**2,515,227**	3,618,306
Bills receivable	**123,272**	102,143
Less: provision for impairment of trade receivables	**(297,241)**	(247,151)
	2,341,258	3,473,298
Amount due from related parties		
— Trade	**46,019**	77,683
— Non-trade	**27,882**	54,796
Finance lease receivable	**178,205**	207,920
Less: provision for impairment of finance lease receivable	**(30,932)**	(7,734)
Value-added tax recoverable	**209,208**	273,163
Prepayments	**379,851**	442,666
Other receivables *(b)*	**649,677**	381,818
Less: provision for impairment of other receivables	**(117,181)**	(9,056)
	3,683,987	4,894,554
Representing:		
Current portion *(c)*	**3,431,335**	4,537,569
Non-current portion *(d)*	**252,652**	356,985
Total	**3,683,987**	4,894,554

(a) As at 31 December 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 is as follows:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Within 3 months	**584,291**	1,906,084
3 to 12 months	**467,157**	750,856
Over 1 year	**1,335,829**	894,041
	2,387,277	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.

At 31 December 2016, the Group's trade and bills receivable of approximately RMB859,948,000 (2015: RMB421,881,000) were individually determined to be impaired, and the ageing of these receivables is over 1 year (2015: over 1 year). 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 approximately RMB297,241,000 (2015: RMB247,151,000) were recognised. The Group does not hold any collateral over these balances.

At 31 December 2016, trade receivables of approximately RMB988,478,000 (2015: RMB1,261,670,000) were past due but not impaired. These 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. The ageing of these receivables is as follows:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Within 1 month past due	**77,360**	269,582
1 to 3 months past due	**92,919**	48,915
Over 3 months but within 12 months past due	**238,312**	756,372
Over 1 year past due	**579,887**	186,801
	988,478	1,261,670

(b) Included in other receivables of the Group as at 31 December 2016 is an amount of approximately RMB32,317,000 (2015: RMB32,317,000) to be indemnified by some beneficiary owners of the Company in relation to a legal claim.

(c) 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.

(d) Non-current trade and other receivables as at 31 December 2016 included receivables of approximately RMB10,844,000 (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 approximately RMB21,307,000 (2015: RMB37,192,000), prepayment for acquisition property, plant and equipment of approximately RMB178,422,000 (2015: RMB177,422,000) and deposit placed as security for borrowings of approximately RMB42,079,000 (2015: RMB42,079,000).

(e) Movement on the provision for impairment of trade and other receivables is as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
At 1 January	**263,941**	234,287
Provision for impairment of receivables	**181,543**	29,654
Receivables written off during the year as uncollectible	**(130)**	–
At 31 December	**445,354**	263,941

The other classes within trade and other receivables do not contain impaired assets.

(f) As at 31 December 2016 and 2015, the Group's maximum exposure to credit risk was the carrying value of each class of receivables mentioned above.

(g) The carrying amounts of the current portion of trade and other receivables approximate their fair value.

(h) As at 31 December 2016, Group's trade and bills receivables of approximately RMB23,900,000 (2015: RMB17,464,000) were secured for the Group's borrowings.

(i) The creation and release of provision for impaired receivables have been included in "administrative expenses" in profit or loss.

(j) As at 31 December 2016, the Group had receivables under finance lease as follows:

	2016	2015
	RMB'000	*RMB'000*
Non-current receivables		
Finance leases — gross receivables	**22,572**	40,406
Unearned finance income	**(1,265)**	(3,214)
	21,307	37,192
Current receivables		
Finance leases — gross receivables	**166,608**	190,467
Unearned finance income	**(9,710)**	(19,739)
	156,898	170,728
Gross receivables from finance leases:		
– No later than 1 year	**166,608**	190,467
– Later than 1 year and no later than 5 years	**22,572**	40,406
	189,180	230,873
Unearned future finance income on finance leases	**(10,975)**	(22,953)
Net investment in finance leases	**178,205**	207,920
The net investment in finance leases is analysed as follows:		
No later than 1 year	**156,898**	170,728
Later than 1 year and no later than 5 years	**21,307**	37,192
Total	**178,205**	207,920

10 CONTRACT WORK-IN-PROGRESS

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Contract cost incurred plus recognised profit less recognised losses	**425,452**	439,350
Less: progress billings	**(243,949)**	(418,572)
Contract work-in-progress	**181,503**	20,778
Representing:		
Amount due from customers for contract work	**181,503**	20,778

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Contract revenue recognised as revenue	**272,360**	332,667

11 INVENTORIES

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Raw materials	**674,418**	601,058
Work in progress	**948,293**	810,027
Finished goods	**491,244**	733,213
Goods in transit	**2,192**	20,134
	2,116,147	2,164,432

For the year ended 31 December 2016, the cost of inventories recognised as the Group's expense and included in 'cost of sales' amounted to approximately RMB1,484,118,000 (2015: RMB2,484,275,000).

(a) Movement on the provision for inventory is as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
At 1 January	**79,609**	106,340
Provision	**55,369**	14,001
Write off	**(15,605)**	(32,644)
Reversal	**(6,277)**	(8,088)
Disposal of subsidiary	**(10,085)**	–
At 31 December	**103,011**	79,609

12 TRADE AND OTHER PAYABLES

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Trade payables	**1,335,588**	1,386,017
Amounts due to related companies		
— Trade	**17,290**	16,451
— Non-trade	**32**	65
Bills payable	**362,580**	857,472
Receipts in advance	**431,397**	780,861
Other payables	**533,791**	538,448
	2,680,678	3,579,314
Representing:		
Current portion	**2,677,890**	3,556,059
Non-current portion	**2,788**	23,255
Total	**2,680,678**	3,579,314

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

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Within 3 months	**722,807**	1,004,615
3 to 6 months	**130,232**	371,021
6 to 12 months	**402,660**	260,563
Over 1 year	**459,759**	623,741
	1,715,458	2,259,940

As at 31 December 2016 and 2015, all the trade payables, bills payable and the current portion of other payables of the Group were non-interest bearing and their fair value approximated their carrying amounts due to their short maturities.

Bills payable as at 31 December 2016 and 2015 were secured by certain pledged bank deposits. Non-current trade and other payables represent receipts in advances from customers and are expected to be settled after one year. All of the current trade and other payables are expected to be settled within one year or are repayable on demand.

13 EXPENSES BY NATURE

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Amortisation and depreciation		
— Lease prepayment	**8,059**	8,668
— Property, plant and equipment	**247,083**	292,889
— Intangible assets	**40,253**	52,593
Employee benefit expenses	**556,129**	735,954
Changes in inventories of finished goods and work in progress	**100,769**	739,231
Raw materials and consumables used	**1,383,349**	1,745,044
Transportation	**93,043**	220,243
Commission	**55,942**	75,516
Service fee	**44,777**	76,632
Utilities	**38,608**	47,316
Travelling expenses	**40,070**	45,301
Business and other taxes	**19,681**	47,057
Repairs and maintenance expenditure on property, plant and equipment	**8,028**	13,513
Operating lease charges	**52,913**	40,111
Provision for inventory write-down	**49,092**	5,913
Impairment losses on trade and other receivables	**181,543**	29,654
Provision for warranty	**9,664**	3,666
Impairment provision of property, plant and equipment	**36,598**	–
Auditors' remuneration		
— Audit services	**4,378**	3,810
Research and development costs (i)	**64,363**	58,072
Less: amount capitalised into intangible assets	**(56,391)**	(52,845)
Other expenses	**113,302**	141,158
Total cost of sales, distribution expenses and administrative expenses	**3,091,253**	4,329,496

(i) The amounts do not include staff costs of the research and development department of approximately RMB40,601,000 (2015: RMB42,665,000) and relevant amortisation and depreciation of approximately RMB12,734,000 (2015: RMB14,431,000), which are included in the total staff costs and total amortisation and depreciation.

MANAGEMENT DISCUSSION AND ANALYSIS

In 2016, the Group's revenue amounted to approximately RMB2.344 billion, representing a decrease of 44.5% from RMB4.219 billion in the Last Year. Gross profit was approximately RMB0.278 billion, representing a decrease of 70.7% from RMB0.947 billion for the same period Last Year. The loss attributable to equity shareholders was approximately RMB0.610 billion.

Market Review

In 2016, international oil prices gradually rose after hitting the bottom in the first quarter. During the Year, concerns about the slowdown in demand for crude oil from China, combined with the devaluation of the China Yuan (CNY), the referendum in Britain and the Doha meeting of oil-producing countries that failed to reach an agreement to freeze production as well as other important events, have become the catalyst for the decline in the oil price. Until the end of the Year, the Organization of Petroleum Exporting Countries (OPEC) has, for the first time in eight years, reached an agreement to cut the oil supply, solving the oversupply of global crude oil from the supply side and stimulate the oil price to rise to its highest level in the Year. The continued situation of low oil price gradually urged to narrow the supply and demand gap of global oil, but the overall oversupply situation has not yet been fully reversed.

The global energy industry has been experiencing instability following the collapse of oil prices. The low oil price has urged oil companies continue to cut oil and gas exploration capital spending in 2016, leading to low demand of oilfield service equipment, engineering and technical services. As the world's major oil and gas production regions, the crude oil production of Middle East and Russia is relatively flexible. According to the information from the Russian Ministry of Energy, oil production amount increased by 2.5%, or approximately 550 million tons in Russian in 2016. According to the US "Oil and Gas Journal", the annual crude oil production fell 7% and 6.9% respectively in the US and PRC markets. As upstream oil companies continuing to transfer cost pressures, it is a common task for downstream oil and gas equipment manufacturers as well as oil and gas field service enterprises to maintain its liquidity and adjust the focus of its business and market layout. At the same time, the global oil and gas companies have become more focus on the adjustment of the global energy structure and the demand for clean energy market, especially the great opportunities arising from the energy adjustment and industrialization of natural gas in the Asia-Pacific region.

In the context of continued turbulence in the international energy industry, there are increasing mergers and acquisitions taking place in global energy industry, of which the merge of Baker Hughes and the US General Electric's oil and gas business sector has become a major event. In December 2016, the Group introduced China Aerospace Science and Industry Corporation ("CASIC") as our strategic investors as well as Jianhong Capital Fund I ("Jianhong") and Beijing Jianhong Capital Management Co., Ltd. ("Beijing Jianhong") as our financial investors, respectively to enhance our core competitiveness and create synergistic effect through integration of business and advantage technical resources. We believe that the introduction of CASIC will protect the Group's best interests and maximum value to shareholders while creating the important synergistic effect on the operations of the Group. Leveraged on CASIC's SOE background, it will further help the Group consolidate its position and expand its market share outside the PRC, make a breakthrough in EPC business, and further open the domestic shale gas oilfield services market. Besides, the injection of CASIC's technology will greatly enhance the computerization and artificial intelligence level of the Group's land equipment sector, which enables the Group to successfully transform from an equipment manufacturer to a provider of integrated (encompassing both equipment and services) solutions. After the industry "winter", the Group will capture new opportunities from market and the recovery of the industry and bring long-term investment value to all shareholders.

Business Review

I. Land Drilling Rig and Related Products Business

In 2016, although international oil prices began to pick up at the end of the year, the active level of global oil and gas exploration was still low. According to Baker Hughes, as of December 2016, the global active rig counts were 1,772 sets (excluding Chinese land drilling rigs and Russian drilling rigs), representing a further decrease from 2015. The global market demand for new rigs and related products has not yet been restored, affecting Honghua's business development of land drilling equipment and related products. Facing the hard time, Honghua continued to focus on advanced drilling rigs selling opportunities in the Middle East, Russia, South America and other key markets, while exploring the rig upgrade, equipment leasing and other inch market segments, along with the worldwide promotion of Honghua's new products and other diversified product series.

In terms of land drilling rigs, we achieved sales of a total of 14 sets of land drilling rigs worth approximately RMB760 million and newly signed contract for 3 sets of land drilling rigs worth approximately US$43 million during the Year. In the business of parts and components, the total sales amount reached RMB1,158 million, including 12 sets of top drivers, 42 sets of mud pumps. During the Year, we achieved trade and sales of parts and components contracts worth US$51.15 million. We also developed our agent business, laying solid foundation to further expand the trade and sales of parts and components.

In the Middle East market, we maintained close cooperation with our old client Kuwait Drilling Company K.S.C. ("KDC"), and signed sales contracts for one set of 3000HP ultra-deep well drilling rig and one set of 2000HP cluster wells drilling rig respectively, breaking the monopoly of Middle East high-end drilling rigs market by western drilling rigs manufacturer. In the Russian market, our self-developed "Aurora" polar rig was successfully operated in Arctic Circle in February 2016, marked that Honghua has become the world's second enterprise that had polar low-temperature drilling technology. Till now, the number of Honghua's drilling rigs exported to Russian market ranked the No.1 of total drilling rigs imported by Russia. Our new product rack and pinion rig has also achieved sales in 2016. At the beginning of 2017, we entered into 4 drilling rig sales agreement with our existing customers in the Middle Asia/Russian Area, including offshore drilling rig and 9,000 meters DBS drilling rig (90 DBS drilling rig). After years of operation, Honghua has established long-term and friendly relationship with high-end drilling companies in major oil-producing regions such as Russia and the Middle East. We will continue to deepen our cooperation with the customers to continue to obtain new drilling equipment orders.

In terms of parts and components, our transferring system, electric pump sets and other self-developed parts and components have recorded sales for the first time in the North American market. In the Russian market, we launched the first top driver leasing business, while the drilling pipe trading project with Rosneft Oil successfully placed an order, laying the foundation for other equipment's entrance to Rosneft. In addition, we have also developed Brunei and Mongolia as two new markets during the Year. Relying on our brand awareness in the existing market, we have made great breakthrough in new market through the introduction of old clients.

In 2016, we continued the in-depth integration of our land equipment sector. Relying on our original drilling rig after-sales services, we established Sichuan Honghua Skill Engineering Technology Services Limited Company and made successful attempts and exploration in new areas such as steel engineering, downhole tools, research and development ("R&D") projects of universities/research institutes, while strengthening our operation in well completion, well washing, environmental protection operations and other engineering services. We also successfully participated in the Shell's project in Sichuan to carry out 8 engineering projects in abandoned wells treatment area. During the Year, our after-sales service team installed a total of 20 sets of rigs, commissioned and adjusted components for 22 times, provided 17 sets of equipment leasing services and emergency services for 166 times.

In 2016, we actively participated in international large-scale exhibitions to carry out customer development and brand marketing. At the NEFTEGAZ, the OTC, we presented our new products such as the RuiLing (睿靈) drilling rig, polar drilling rig, iDrill Simulator drilling simulation training solutions and the LNG FSP tank model, fully representing Honghua's R&D strengths and high quality products in the fields of land, sea and unconventional oil area. Our new products, the RuiLing drilling rig with a new integrated vertical derrick base structure, an automated pipe treatment system and a full set of electric equipment, greatly improves drilling efficiency and makes it more adaptable to the complex and changeable geologies domestically, which can be widely used in shale gas exploitation. Our self-developed environmentally friendly and efficient 6,000HP fracturing pump has completed its industrial test and is undergoing marketing promotion. The launch of these key equipment for integrated production of shale gas means that our land equipment sector is well prepared for the expansion in the high-end oil and gas equipment market through our leading technology and innovative products.

2. *Oil and Gas Engineering Service Business*

In the global oil market downturn, our oil and gas engineering services business is under capacity. As of the end of December 2016, our six teams operated in the Yan'an, North-eastern China, Sichuan, Middle East and etc., and the footage drilled amounted to 27,663 meters during the Year. Under the strategic guidance focusing on overseas market, the directional wells project began operation in the Middle East at the end of Last Year, making a key step for Honghua oil & gas service to enter the high-end market of comprehensive technical services.

Facing the industry adversity, we adjusted our market strategy focus, taking the initiative to shrink the domestic market, and to expand the Middle East, Russia and other advantageous regions. In terms of management, we reduced the size of our service team, streamlined the management, and optimized our personnel allocation according to the actual workload, with a total of 397 employees at the end of 2016, representing a decrease of 63% from 2015. While reducing the overall labor costs and management costs, we have seen significant improvement in per capita output and the capability of individual employee. We timely disposed Bazhou Honghua, a drilling fluid supplier that suffered continuous losses, ensured the survival of the core oil drilling business. In the future, the Company will continue to focus on high-end markets such as the Middle East, Russia and North Africa, aiming at maximizing the availability of existing idle equipment as the main purpose.

3. *Offshore Engineering Equipment and Related Products Business*

In 2016, Honghua Offshore fully restructured its business strategy, focusing on the national energy restructuring policy and the global clean energy trends, firmly laying out the LNG industry chain. During the Year, except the delivery of the self-developed Tiger Series drilling rig, we continued to implement the FSP LNG Trial Tank Project and LNG Power Vessel Project. In October 2016, we successfully announced the "Sino-US Integrated Solutions to LNG Industry " and entered into the first offshore LNG platform ("PLNG") construction Heads of Agreement with a total amount of approximately US$1.8 billion, which attracted unprecedented attention of the industry and laid a solid foundation for the Group to implement the layout of the LNG industrial chain.

In the PLNG project, we together with Sino-US top partners initially introduced fixed platform technology into natural gas liquefaction factory design and fully consolidated the advantages of US LNG liquefaction equipment and Honghua's EPC construction. The first set of PLNG will be delivered to clients after modular manufacture, installation and debugging under EPC model in the factory of Honghua Offshore through Honghua's self-developed mobile lifting equipment "Hong Hai" with the world's largest lifting capability.

The FSP LNG tank project started construction from 2016, and completed the major body construction of the 100 cubic meters aluminum alloy tank and water vapor experiments in March 2017. The following work will be conducted in Honghua Qidong base, including tank insulation installation, assembling and required certification tests of the maintenance system. FSP is the world's most advanced LNG storage tank technology, with advantages of light weight and high volume. In 2017, we will continue to expand the design and development of larger capacity FSP tanks and seek the wider application of FSP tanks in the LNG industry.

Regarding the Honghua Offshore's contracts for the "Construction of Ships" with UDIN signed on August 14, 2014 and the construction contract of one set of semi-submersible drilling rig (Cobra) with Jas Marine's subsidiary signed on 31st October 2014, we have decided to terminate the above two projects due to the failure to reach the conditions mentioned in the aforesaid contracts. Since only a small amount of design resources have been invested into the Cobra construction project in the early stages, we believe that the termination of the above two projects will not have a significant impact on the Company's operations.

Quality Management and Research and Development

Facing the industry downturn, we, as always in the past, strictly adheres to our general direction of the "zero defects" and "Overall quality management", as well as improving our R&D capabilities, reserving our technology capability in preparation for the recovery of the industry. At the beginning of 2016, Honghua has been selected as the first batch of iconic industrial enterprise of intelligence property application, announced by Ministry of Industry and Information. During the Year, we obtained 64 licensing patents and 29 authorized inventions. As of December 31, 2016, the Group has applied for a total of 554 patents, including 426 authorized patents.

We have always responded to the "High-end equipment intelligent manufacturing" policy, and constantly deepens intelligent R&D of our drilling rig. During the Year, we have made a number of breakthroughs in intelligent manufacturing, including the completion and sale of the automation equipment for land rigs, the achievements of the "Anti-stick sliding vibration control system (anti-stick slip)" project successfully applied on Honghua service team's top drivers. The R&D results of the "New Generation DBS Control System Design" and "iDrillOS Rig Integrated Operating System" project have also been successfully applied on shale gas rigs.

Leading by the spirit of "Innovation and entrepreneurship", we have continued to actively explore and incubate innovative services business. Since 2015, the first batch of innovation projects we have set up, including Han Zheng Detection Technology Co., Ltd. ("Hanzheng"), Sichuan Honghua Skill Engineering Technology Services Limited ("Skill") and Sichuan XReal Technology Co., Ltd. ("XReal"), have achieved rapid growth. In 2016, Han Zheng Detection has signed more than 60 contracts and provided service to 73 customers, while expanding the business cooperation with DTC, 241,174 and other major testing service market; it is successfully shifting its business from the traditional oil equipment, metal materials industry to high-speed rail, aviation, special equipment testing and other relevant areas. Skill has established its service stations in Xinjiang, Shenzhen and Dubai, and the establishment of Egypt service station is currently in progress; and established a good relationship with new custom, such as EOG, Shell, and etc. Focused on the oil and gas industry and closely following VR technology and equipment development trends, XReal has become Honghua's pioneer in "Internet + Industry", and create a new name card for Honghua in the intelligent oil and gas industry.

In the future, we plan to continue devote the R&D efforts in automated and intelligent drilling rig, and continue optimize our existing service network and service capabilities, expanding and enriching our cross-industry service products based on our innovative services companies established on our internal innovation platform. At the same time, in order to capture the opportunities in oil and gas production and transportation and clean energy market, we continued to develop new innovative products as well as integrated solutions in the LNG and unconventional oil and gas equipment and exploitation. During the Year, we continued to carry out the R&D and manufacture of FSP LNG trial tanks and PLNG. We also did market research and prepared technical solutions for LNG power ships and LNG secondary distribution centers.

Human Resource Management

In 2016, we continued to adjust our human resources structure, improved the human resources management environment to ensure timely response to the operational requirements of the business system. As of December 31, 2016, the total number of the Group's employees was 3,891, including 466 R&D staffs or 12.0% of the total staff. We are more concerned about the performance and work efficiency of employees, and have established staff communication mechanism and enhanced the construction of training system, as well as the core staff incentives and stability, in hopes of creating a professional environment to meet the needs of high-performance staff. Meanwhile, we have incorporated the talent development system into the operation process. During the Year, the Group organized a total of approximately 518 training programs focusing on skills upgrading and qualification training etc., covering 17,669 participants and more than 78,000 training hours. The training programs placed focuses on broadening staff's thought and vision, improving their skills and ability and enhancing the perception on the Company's cultural identity and developing a sense of belonging.

With the gradual recovery of the industry, we will take an appropriate talent allocation of the key technology personnel, management talents, high-skilled staff and marketing talents in advance, and well planned for talents acquisition and internal training and cultivation. In view of the Group's strategic needs and the development of new projects, we will make more efforts in optimization of human resources management systems and processes, to enhance the per capita performance. We will also adjust the staff salary incentive policy, staff job competency standards, staff growth plan project, key job competition, project rotation, combined with the performance evaluation indicators of different business units, with an aim to provide clear staff personal performance KPI and achieve the HR strategy .

Future Outlook

The oil and gas industry was hardly going forward in 2016. After experiencing the bottom at the beginning of 2016, international oil prices rebounded with vibration. OPEC and non-OPEC countries' implementation of the supply-cut agreement will provide the basis for the rise in oil prices in 2017, while the overall situation of oil and gas industry is expected to further improve. The consolidated market forecasts on the international oil prices shows the oil prices will fluctuate around $50-60 dollars per barrel. On the other hand, the pace of domestic oil and gas system reform is accelerating. In 2016, the National Energy Administration formulated the "2016 Energy Work Guidance Opinion", proposing to deepen the reform of the oil and gas system and to promote the separation of oil and gas pipelines and network, the opening of oil and gas pipeline network facilities, the improvement of oil and gas price mechanism as well as the price marketization of natural gas. In 2017, "Opinions on the deepening of oil and gas system reform" is expected to be launched to provide guidance for oil and gas industry development and reform.

In 2017, the major strategic task of the Group should be "Introducing ASIC as the largest shareholder, business integration & realizing synergies, transformation to an integrated solutions service provider combining light equipment manufacturing and services". After the introduction of CASIC as strategic shareholder, it will rely on Honghua leading position to build up its energy equipment manufacturing and service sector, to develop a sound overall strategic planning based on oil and gas industrial chain, and to establish an integrated business model promoting synergetic development of regional resources(overseas) exploitation, integrated service solutions, oil and gas energy trading, equipment service and engineering, and the downstream market. We expect that the subscriptions will strengthen the Group's cash position, improve liquidity and greatly promote the existing business development of each section, we will also achieve synergy with CASIC in market and technology research and development, via our respective channels and business resources. The two parties will form a joint player in the global regional market to secure more major new orders. Simultaneously, regarding the major oil and gas equipment and technology R&D topics, such as the underground tool products involved in rotation steerable technology, we will make every efforts to develop key technology and launch new products, in order to the capture the opportunity raising from the recovery of the oil and gas industry and to bring the greatest return for shareholders.

For land equipment sector, the Group targets to focus on the Middle East, Russia as well as the North and South American market in 2017, with land drilling rigs and parts and components as a strategic basis to speed up the reasonable layout of the diversified business. We also plan to achieve several major changes namely shifting from large land drilling equipment to the precisely controlled underground equipment market; from an equipment manufacturer to an engineering project contractor to provide facilities for oil and gas field development and downstream applications and from an equipment provider to an equipment-based integrated services provider. Honghua will improve customer satisfaction and brand influence through provision of quality service and enhancing customer value through systematic and intelligent services and driving secondary sales. We hope to join hands with customers to welcome the recovery of the industry.

For oilfield engineering services sector, we will adjust the overseas market development strategy with the core focus on the well-established Middle East and Russia as well as actively expanding into new markets. We will continue to strengthen market development and investment. With the help of the Group's new development opportunities and strategic shareholders of CASIC, we will break through the two bottlenecks of "qualification" and "funding", striving to obtain the turnkey project contract and seeking to increase the quantity of work. Despite of all challenges laid ahead, Honghua oil and gas engineering service will ensure the safe and efficient high-quality execution of orders, and make full use of the energy cooperation opportunities brought by the "Belt and the Road" policy to promote the mode of EPC's turnkey projects and trade businesses.

For offshore sector, based on the prospects for the development of natural gas industry and the core advantages of the ocean, we will continue to adhere to the concept of "creative manufacturing" with the overall layout of the "LNG industry chain in the mid-and-down-streams" as the focus of the super marine industry. In the golden development period of the LNG industry, Honghua will grasp more opportunities for LNG high-end equipment manufacturing, and continue to integrate the global advantages of technology, engineering, capital and downstream application market resources with PLNG projects, continuing to explore the Group's diversified development including PLNG, LNG storage tanks, inland river vessels as well as power generation barges.

As of March 28, 2017, we have had land drilling equipment backlogs worth approximately RMB4.080 billion, which includes 14 sets of land drilling rig backlogs, with an aggregate amount of approximately RMB909 million.

As of March 28, 2017, we have had offshore engineering equipment backlogs worthing approximately RMB1.155 billion.

As of March 28, 2017, we have had oil and gas engineering service contracts worthing approximately RMB113 million.

FINANCIAL REVIEW

During the Year, the Group's gross profit and loss attributable to shareholders of the Company amounted to approximately RMB278 million and RMB610 million respectively, and gross margin and net margin amounted to approximately 11.8% and -26.0% respectively. Last Year, gross profit and loss attributable to shareholders of the Company amounted to approximately RMB947 million and RMB252 million respectively, gross margin and net margin amounted to approximately 22.4% and -6.0% respectively. During the Year, loss attributable to shareholders of the Company increased 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 Year, the Group's turnover amounted to approximately RMB2,344 million, representing a decrease of RMB1,875 million or 44.5% as compared to RMB4,219 million 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 an increase to the sales volume, it still had little impact to the Group's turnover according to its limited market scale.

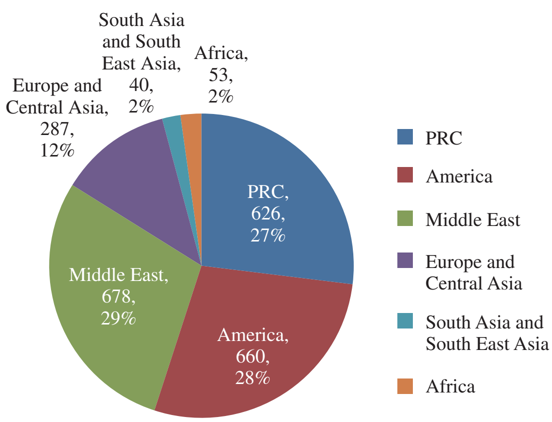
(a) Revenue by Geographical Areas

The Group's revenue by geographical segment during the Year: (1) The Group's export revenue amounted to approximately RMB1,718 million, accounting for approximately 73.3% of total revenue, representing a decrease of RMB1,763 million as compared to Last Year; (2) Mainland China's revenue amounted to approximately RMB626 million, accounting for approximately 26.7% of total revenue, representing a decrease of RMB112 million as compared to Last year.

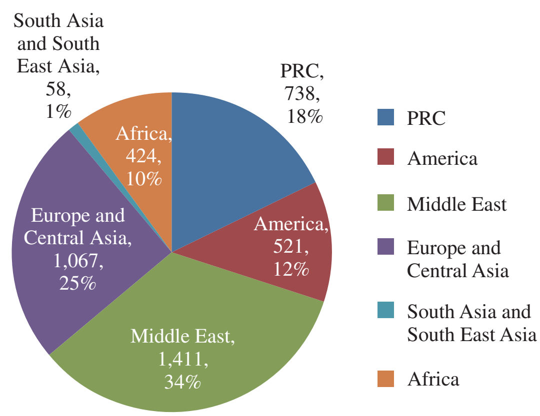
The revenues from different regions are affected by oil and gas exploration activities in various areas of the world. The Group actively explores the international business, constantly insists on improving the quality of products and services, coping the severe operating conditions under the low oil price.

Revenue by Geographical Areas

Year ended 31 Dec 2016
Expressed in RMB'million



Year ended 31 Dec 2015
Expressed in RMB'million



(b) Revenue by product categories

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

During the Year, external revenue from land drilling rigs amounted to approximately RMB760 million, representing a decrease of RMB1,648 million or 68.4% as compared to RMB2,408 million Last Year.

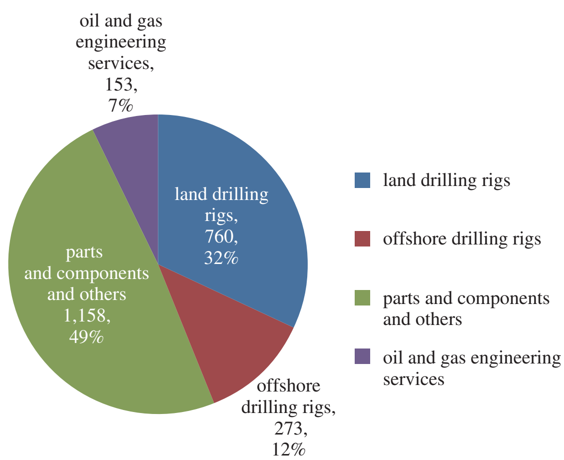
During the Year, external revenue from offshore drilling rigs amounted to approximately RMB273 million, representing an increase of RMB69 million or 33.8% as compared to RMB204 million Last Year.

During the Year, external revenue from parts and components and others amounted to approximately RMB1, 158 million, representing a decrease of RMB110 million or 8.7% as compared to RMB1, 268 million Last Year.

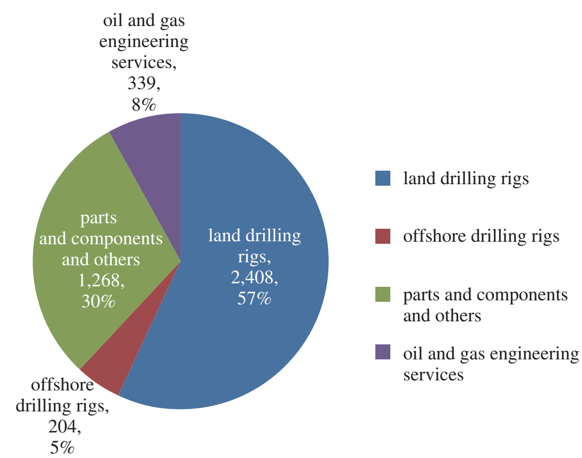
During the Year, revenue from oil and gas engineering services amounted to approximately RMB153 million, representing a decrease of RMB186 million or 54.9% as compared to RMB339 million Last Year.

Revenue by business categories

Year ended 31 Dec 2016
Expressed in RMB'million



Year ended 31 Dec 2015
Expressed in RMB'million



Cost of Sales

During the Year, the Group's cost of sales amounted to approximately RMB2,066 million, representing a decrease of approximately 36.9% or RMB1,207 million as compared to RMB3,273 million Last Year, mainly due to the decline in sales volume and the Group's relentless focus on reducing costs and improving efficiency ,such as the decrease of material consumption and employee benefit expense, etc. The decline of the sales cost was lower than the decline of the sales revenue which was mainly affected by the substantial impairment provision of the inventory and fixed assets, amounting to approximately RMB86 million, the idle time cost of the Group's offshore drilling rigs, and oil and gas engineering services part amounting to approximately RMB 130 million.

Gross Profit and Gross Margin

During the Year, the Group's gross profit amounted to approximately RMB278 million, representing a decrease of RMB669 million or 70.7% as compared to RMB947 million Last Year.

During the Year, the Group's overall gross margin was 11.8%, representing a decrease of 10.6 percentage points as compared to 22.4% Last Year. This was mainly affected by the decline of the gross profit per unit and the impairment of the Group's inventories and fixed asset. The reason of the decline of gross profit was that the fixed cost decreased at a lower percentage than the revenue's decreasing, especially affected by the Group's offshore drilling rigs, and oil and gas engineering services part.

Expenses in the Year

During the Year, the Group's distribution expenses amounted to approximately RMB372 million, representing a decrease of RMB101 million or 21.4% as compared to RMB473 million Last Year. The decreasing rate was higher compared to Last Year, amounting to 34.7%, if the rig insurance premium, enjoying government subsidy, amounting to approximately RMB64 million, was deducted. 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 Year, the Group's administrative expenses amounted to approximately RMB654 million, representing an increase of RMB70 million or 12.0% as compared to RMB584 million Last Year. The decreasing rate was 14.0% compared to Last Year, if the increased impairment losses on trade and other receivables, amounting to approximately RMB152 million, was deducted. This was mainly attributable to the strict cost control such as employee benefit.

During the Year, the Group's net finance expenses amounted to approximately RMB86 million, representing a decrease of RMB176 million, or 67.2% as compared to net finance expense of RMB262 million Last Year. This was mainly attributable to the net foreign exchange gain, amounting to 144 million. During the Year, compared to the net foreign exchange loss, amounting to 91 million Last Year due to the impact of the devaluation of the RMB. The Group also optimized debt scale according to the Group's sales volume and the increasing net foreign exchange profit during the Year.

Loss Before Income Tax

During the Year, loss before income tax of the Group amounted to approximately RMB696 million, representing an increase of RMB394 million or 130.7% compared to loss before income tax of RMB302 million Last Year.

Income Tax Expense

During the Year, the Group's income tax expense amounted to approximately RMB-69 million as compared to the income tax expense of approximately RMB-36 million Last Year.

Loss for the Year

During the Year, the Group's loss amounted to approximately RMB627 million, as compared to a loss of approximately RMB266 million Last Year. Among which, loss attributable to equity shareholders of the Company was approximately RMB610 million, while loss attributable to non-controlling interests was approximately RMB17 million. During the Year, net margin was -26.0%, as compared to a net margin of -6.0% Last Year.

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

During the Year, EBITDA amounted to RMB-315 million, as compared to approximately RMB314 million 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 -13.4%, as compared to 7.4% Last Year.

Dividends

As at 31 December 2016, the Board does not recommend 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 31 December 2016, the Group's bank borrowings and senior notes amounted to approximately RMB4, 299 million, representing a decrease of approximately RMB365 million as compared to 31 December 2015. Among which, borrowings repayable within one year amounted to approximately RMB2,213 million, representing a decrease of RMB120 million or 5.1%, as compared to 31 December 2015.

Deposits and Cash Flow

As at 31 December 2016, the Group's cash and cash equivalents amounted approximately RMB544 million, representing a decrease of approximately RMB558 million as compared to 31 December 2015.

During the Year, the Group's net operating cash inflow from operations amounted to approximately RMB61 million, net cash inflow from investing assets, during the Year amounted to approximately RMB43 million; net cash outflow from financing activities amounted to approximately RMB684 million.

Assets Structure and Changes Thereof

As at 31 December 2016, the Group's total assets amounted to approximately RMB11,268 million, representing a decrease of approximately RMB1,915 million or 14.5% as compared to 31 December 2015. Among which, current assets amounted to approximately RMB6,852 million, accounting for approximately 60.8% of total assets, representing a decrease of RMB1,538 million as compared to 31 December 2015, which were mainly decrease of receivables, cash and cash equivalent. Non-current assets amounted to approximately RMB4,416 million, accounting for approximately 39.2% of total assets, representing a decrease of approximately RMB377 million as compared to 31 December 2015, and were mainly attributable to the decrease in long term trade receivables.

Liabilities

As at 31 December 2016, the Group's total liabilities amounted to approximately RMB7,184 million, representing a decrease of approximately RMB1,224 million as compared to 31 December 2015. Among which, current liabilities amounted to approximately RMB5,023 million, accounting for approximately 69.9% of total liabilities, representing a decrease of approximately RMB979 million as compared to 31 December 2015. Non-current liabilities amounted to approximately RMB2,161 million, accounting for approximately 30.1% of total liabilities, representing a decrease of approximately RMB245 million as compared to 31 December 2015. As at 31 December 2016, the Group's total liabilities/total assets ratio was approximately 63.8%, the same as 31 December 2015.

Equity

As at 31 December 2016, total equity amounted to RMB4,083 million, representing a decrease of RMB691 million as compared to 31 December 2015. Total equity attributable to equity shareholders of the Company amounted to approximately RMB3,899 million, representing a decrease of RMB653 million as compared to 31 December 2015. Non-controlling interests totaled to approximately RMB184 million, representing a decrease of RMB39 million as compared to 31 December 2015. During the Year, the Group's basic loss per share were RMB19.18 cents, and diluted loss per share were RMB19.18 cents.

Contingent Liabilities

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

On 24 April 2013, the United Arab Emirates ("UAE") Federal Court of First Instance ordered the termination of the agency agreement and dismissed all claims from the sales agency. On 21 October 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 31 December 2016.

Having consulted the Group's legal advisors, management considered that the Group had legal and factual merit to defend in the 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 Year, capital expenditure of the Group on infrastructure and technical improvements amounted to approximately RMB176 million, representing a decrease of approximately RMB60 million as compared to Last Year.

As at 31 December 2016, the Group had capital commitments of approximately RMB280 million, which will be used for the construction of Jiangsu Qidong offshore manufacturing base and expansion of the Group's business as well as its production capacity.

PURCHASE, SALE OR 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.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 8 June 2017 to Wednesday, 14 June 2017, 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, 7 June 2017.

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 the adequacy and effectiveness of the Group's financial reporting system, internal control systems and risk managements system and associated procedures 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 consolidated financial statements of the Group for the year ended 31 December 2016 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 (the "CG Code") throughout the year ended 31 December 2016, 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 Officer).

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 2016.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT FOR 2016

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 2016 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, 14 June 2017
"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 2016
"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 2015
"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, 29 March 2017

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.