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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 2017

FINANCIAL HIGHLIGHT

	For the year ended 31 December		
	2017	2016	change
Turnover from continuing operations (RMB'000)	**2,175,856**	2,147,592	1.3%
Gross profit from continuing operations (RMB'000)	**635,093**	357,876	77.5%
Gross profit margin from continuing operations	**29.2%**	16.7%	
Operating loss from continuing operations (RMB'000)	**(103,374)**	(464,985)	–77.8%
Loss attributable to equity shareholders of the Company (RMB'000)	**(1,239,368)**	(609,689)	103.3%
Loss per share			
— Basic (RMB cents)	**(26.5)**	(19.18)	38.2%
— Diluted (RMB cents)	**(26.5)**	(19.18)	38.2%

The Board does not recommend the payment of dividend for the year ended 31 December 2017.

ANNUAL RESULTS

The Board hereby announces the consolidated results of the Group for the year ended 31 December 2017, together with the comparative figures for the year ended 31 December 2016.

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 2017
(All amounts in RMB unless otherwise stated)

		Year ended 31 December	
		2017	2016
			Restated
	Note	***RMB'000***	*RMB'000*
Continuing operations			
Revenue		**2,175,856**	2,147,592
Cost of sales		**(1,540,763)**	(1,789,716)
Gross profit		**635,093**	357,876
Distribution expenses		**(232,616)**	(369,608)
Administrative expenses		**(555,184)**	(589,195)
Other (losses)/gains, net	*5*	**(43,319)**	9,210
Other income	*4*	**92,652**	126,732
Operating loss		**(103,374)**	(464,985)
Finance income	*8*	**25,370**	43,064
Finance expenses	*8*	**(239,573)**	(120,560)
Finance expenses — net	*8*	**(214,203)**	(77,496)
Share of post-tax (losses)/profits of associates		**(24,606)**	3,487
Share of post-tax losses of joint ventures		**(4,362)**	(3,905)
Loss before income tax		**(346,545)**	(542,899)
Income tax expense	*6*	**(48,651)**	25,428
Loss for the year from continuing operations		**(395,196)**	(517,471)
Discontinued operations			
Loss for the year from discontinued operations	*14*	**(834,386)**	(109,778)
Loss for the year		**(1,229,582)**	(627,249)

	Note	Year ended 31 December **2017** *RMB'000*	2016 Restated *RMB'000*
Loss attributable to:			
— Owners of the Company		**(1,239,368)**	(609,689)
— Non-controlling interests		**9,786**	(17,560)
		(1,229,582)	(627,249)
Loss attributable to owners of the Company arises from:			
— Continuing operations		**(401,584)**	(495,542)
— Discontinued operations		**(837,784)**	(114,147)
		(1,239,368)	(609,689)
Loss per share from continuing and discontinued operations attributable to owners of the Company *(expressed in RMB cents per share)*			
Basic loss per share			
From continuing operations	*7*	**(8.59)**	(15.59)
From discontinued operations	*7*	**(17.91)**	(3.59)
	7	**(26.50)**	(19.18)
Diluted loss per share			
From continuing operations	*7*	**(8.59)**	(15.59)
From discontinued operations	*7*	**(17.91)**	(3.59)
	7	**(26.50)**	(19.18)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017
(All amounts in RMB unless otherwise stated)

	Year ended 31 December	
	2017	2016 Restated
	RMB'000	*RMB'000*
Loss for the year	**(1,229,582)**	(627,249)
Other comprehensive income		
Items that may be reclassified to profit or loss		
Change in value of available-for-sale financial assets, net of tax	**1,423**	–
Currency translation differences	**(86,371)**	(49,412)
Other comprehensive income for the year, net of tax	**(84,948)**	(49,412)
Total comprehensive income for the year	**(1,314,530)**	(676,661)
Total comprehensive income attributable to:		
— Owners of the Company	**(1,329,508)**	(652,006)
— Non-controlling interests	**14,978**	(24,655)
	(1,314,530)	(676,661)
Total comprehensive income attributable to owners of the Company arises from:		
— Continuing operations	**(493,333)**	(536,652)
— Discontinued operations	**(836,175)**	(115,354)
	(1,329,508)	(652,006)

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2017
(All amounts in RMB unless otherwise stated)

		As at 31 December	
		2017	2016
	Note	***RMB'000***	*RMB'000*
ASSETS			
Non-current assets			
Lease prepayments		**218,742**	379,582
Property, plant and equipment		**1,516,225**	2,794,054
Payment for acquisition of leasehold prepayment		**37,510**	148,166
Intangible assets		**146,906**	230,913
Investments in associates		**37,169**	61,771
Investments in joint ventures		**40,389**	44,754
Deferred income tax assets		**232,057**	415,701
Available-for-sale financial assets		**90,192**	88,294
Trade and other receivables	*9*	**6,186**	252,652
Other non-current assets		**8,719**	–
Total non-current assets		**2,334,095**	4,415,887
Current assets			
Inventories	*11*	**1,816,083**	2,116,147
Trade and other receivables	*9*	**2,559,988**	3,431,335
Amount due from customers for contract work	*10*	**–**	181,503
Current tax recoverable		**6,595**	3,797
Available-for-sale financial assets		**–**	15,000
Pledged bank deposits		**191,140**	559,737
Cash and cash equivalents		**1,100,292**	544,360
		5,674,098	6,851,879
Assets of disposal group classified as held for sale	*14*	**2,058,351**	–
Total current assets		**7,732,449**	6,851,879
Total assets		**10,066,544**	11,267,766

	Note	As at 31 December 2017 RMB'000	2016 RMB'000
EQUITY			
Equity attributable to owners of the Company			
Share capital		**487,983**	300,983
Other reserves		**4,180,608**	3,007,063
(Accumulated losses)/Retained earnings		**(657,876)**	590,864
		4,010,715	3,898,910
Non-controlling interests		**166,935**	184,542
Total equity		**4,177,650**	4,083,452
LIABILITIES			
Non-current liabilities			
Deferred income		**68,624**	72,763
Borrowings		**1,881,691**	2,086,126
Trade and other payables	*12*	**–**	2,788
Total non-current liabilities		**1,950,315**	2,161,677
Current liabilities			
Deferred income		**41,268**	38,567
Trade and other payables	*12*	**1,760,966**	2,677,890
Current income tax liabilities		**67,175**	53,080
Borrowings		**1,434,325**	2,212,922
Provisions for other liabilities and charges		**115,671**	40,178
		3,419,405	5,022,637
Liabilities of disposal group classified as held for sale	*14*	**519,174**	–
Total current liabilities		**3,938,579**	5,022,637
Total liabilities		**5,888,894**	7,184,314
Total equity and liabilities		**10,066,544**	11,267,766

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 2018.

2 ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRS") and requirements of the Hong Kong Companies Ordinance. 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 Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2017:

- Recognition of Deferred Tax Assets for Unrealised Losses — Amendments to IAS 12, and
- Disclosure initiative — amendments to IAS 7.

The adoption of these amendments did not have any impact on the amounts recognised in prior periods. Most of the amendments will also not affect the current or future periods.

The amendments to IAS 7 require disclosure of changes in liabilities arising from financing activities.

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

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2017 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

IFRS 9 *Financial Instruments*

Nature of change

IFRS 9 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.

Impact

The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018:

The financial assets held by the Group include equity instruments that are currently classified as available-for-sale financial assets for which a fair value through other comprehensive income ("FVOCI") election is available and hence there will be no change to the accounting for these assets.

Accordingly, the Group does not expect the new guidance to affect the classification and measurement of these financial assets. However, gains or losses realised on the sale of financial assets at FVOCI will no longer be transferred to profit or loss on sale, but instead reclassified below the line from the FVOCI reserve to retained earnings.

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

The new impairment model requires the recognition of impairment provisions based on expected credit losses ("ECL") rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date, the Group does not expect significant increase or decrease in the loss allowance for trade debtors.

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.

Date of adoption by Group

Must be applied for financial years commencing on or after 1 January 2018. The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

IFRS 15 ***Revenue from Contracts with Customers***

Nature of change

The IFRIC 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 and the related literature.

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.

Impact

Management has assessed the effects of applying the new standard on the Group's financial statements and does not expect a significant impact on the recognition of revenue.

Date of adoption by Group

Mandatory for financial years commencing on or after 1 January 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

IFRS 16 ***Leases***

Nature of change

IFRS 16 was issued in January 2016. It 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.

Impact

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of approximately RMB158,946,000.

The Group has not yet assessed what other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward.

Date of adoption by Group

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. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

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.

According to the announcement dated 27 December 2017, the Group intends to dispose of its entire equity interest of the major entities of the offshore drilling rigs segment, and the results of those major entities included in this segment have been presented as discontinued operations (Note 14).

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 2017 and 2016 respectively. The segment information below includes the discontinued operations as disclosed in Note 14.

	Land drilling rigs Year ended 31 December		Parts and components and others Year ended 31 December		Oil and gas engineering services Year ended 31 December		Offshore drilling rigs Year ended 31 December		Total Year ended 31 December	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Revenue from external customers	**418,553**	760,037	**1,579,182**	1,158,288	**167,965**	152,929	**159,960**	272,360	**2,325,660**	2,343,614
Inter-segment revenue	**–**	–	**212,435**	194,389	**2,844**	57	**12,916**	1,197	**228,195**	195,643
Reportable segment revenue	**418,553**	760,037	**1,791,617**	1,352,677	**170,809**	152,986	**172,876**	273,557	**2,553,855**	2,539,257
Reportable segment profit/(loss)	**57,142**	(153,972)	**(37,698)**	(152,875)	**(61,466)**	(227,648)	**(609,048)**	(137,817)	**(651,070)**	(672,312)
Depreciation and amortisation for the year	**28,490**	57,207	**112,879**	74,816	**41,826**	78,340	**78,873**	85,032	**262,068**	295,395
Impairment on trade and other receivables	**19,993**	41,496	**89,124**	75,394	**615**	32,894	**62,547**	–	**172,279**	149,784
Write-down of inventories	**6,550**	6,009	**28,611**	32,998	**–**	10,085	**123,611**	–	**158,772**	49,092
Impairment provision of property, plant and equipment	**–**	–	**–**	–	**–**	36,598	**300,100**	–	**300,100**	36,598
Impairment provision of intangible assets	**–**	–	**–**	–	**–**	–	**9,062**	–	**9,062**	–

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 2017, 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	
	2017	2016
	RMB'000	*RMB'000*
Segment loss		
— for reportable segments	**(651,070)**	(672,312)
Elimination of inter-segment loss	**(46,290)**	(4,852)
Segment loss derived from Group's external customers	**(697,360)**	(677,164)
Share of loss of joint ventures	**(4,362)**	(3,905)
Share of (loss)/profit of associates	**(24,606)**	3,487
Other income and other (losses)/gains, net	**23,542**	138,107
Finance income	**25,486**	43,310
Finance expenses	**(262,715)**	(129,521)
Unallocated head office and corporate expenses	**(116,523)**	(70,475)
Loss before income tax	**(1,056,538)**	(696,161)

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

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
PRC (country of domicile)	**966,557**	626,293
Americas	**327,268**	659,806
Middle East	**363,834**	677,223
Europe and Central Asia	**521,340**	286,538
South Asia and South East	**116,544**	40,343
Africa	**30,117**	53,411
	2,325,660	2,343,614

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

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
PRC (country of domicile)	**2,935,946**	3,533,041
Americas	**43,165**	49,996
Middle East	**192,811**	192,981
Europe and Central Asia	**94,698**	92,792
South Asia and South East	**–**	–
Africa	**38,720**	43,082
	3,305,340	3,911,892

For the year ended 31 December 2017, revenues of approximately RMB255,744,000 was derived from one external customer. These revenues were attributed to the sales of parts and components in the PRC.

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 attributed to the sales of parts and components in Americas and the sales of land drilling rigs in Middle East, respectively.

4 OTHER INCOME

	Year ended 31 December	
	2017	2016
		Restated
	RMB'000	*RMB'000*
Government grants	**42,641**	98,449
Repair services income	**23,067**	14,505
Rental income	**20,448**	5,533
Sales of scrap materials	**3,035**	2,627
Others	**3,461**	5,618
	92,652	126,732

5 OTHER (LOSSES)/GAINS, NET

	Year ended 31 December	
	2017	2016
		Restated
	RMB'000	*RMB'000*
Legal claims of sales agency	**(48,725)**	–
Other legal claims	**(29,824)**	–
(Loss)/gain on disposals of property, plant and equipment	**(5,842)**	3,239
Donations	**(228)**	(1,200)
Net loss on disposal of subsidiary	**–**	(17,890)
Insurance compensation	**43,754**	22,210
Others	**(2,454)**	2,851
	(43,319)	9,210

6 INCOME TAX EXPENSE

Taxation in the consolidated statement of profit or loss represents:

	Year ended 31 December	
	2017	2016
		Restated
	RMB'000	*RMB'000*
Current income tax — Hong Kong Profits Tax *(i)*		
Provision for the year	**2,081**	1,480
Under provision in respect of prior years	**2,191**	–
	4,272	1,480
Current income tax — PRC *(ii)*		
Provision for the year	**10,131**	20,950
Under provision in respect of prior years	**571**	316
	10,702	21,266
Current income tax — Other jurisdictions *(iii)*		
Provision for the year	**6,700**	5,299
Under provision in respect of prior years	**–**	279
	6,700	5,578
Total current income tax	**21,674**	28,324
Deferred income tax	**26,977**	(53,752)
Income tax expense	**48,651**	(25,428)

(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 2017 and 2016.

(ii) PRC

Pursuant to the income tax rules and regulations of the PRC, the subsidiaries of the Group in the PRC are subject to PRC enterprise income tax at a rate of 25% for the years ended 31 December 2017 and 2016, except for the following companies:

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

Corporate income tax ("CIT") of Honghua Company is accrued at a tax rate of 15% applicable for Hi-tech enterprises pursuant to the relevant PRC tax rules and regulations for the years ended 31 December 2017 and 2016.

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

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

(iii) Others

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

(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 2017 and 2016. In order 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.

(v) 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	
	2017	2016
		Restated
	RMB'000	*RMB'000*
Loss before income tax	**(346,545)**	(542,899)
Tax calculated at statutory tax rates applicable to each group entities	**(15,425)**	(67,471)
Tax effect of non-deductible expenses	**9,713**	3,608
Tax effect of non-taxable income	**(4,454)**	(5,758)
Tax losses for which no deferred income tax asset was recognised	**14,669**	8,935
Deductible temporary differences for which no deferred income tax asset was recognised	**20,562**	6,085
Reversal of previously recognised deductible temporary differences	**20,726**	2,122
Write off of previously recognised tax losses	**292**	26,455
Under provision in respect of prior years	**2,762**	595
Use of tax losses which unrecognised in prior years	**(194)**	–
Income tax expense	**48,651**	(25,428)

(vi) Amounts recognised directly in other comprehensive income

Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but charged to other comprehensive income:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Deferred tax: Changes in fair value of available-for-sale financial assets	**475**	–

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	
	2017	2016
Loss attributable to owners of the Company (RMB'000)	**(1,239,368)**	(609,689)
From continuing operations	**(401,584)**	(495,542)
From discontinued operations	**(837,784)**	(114,147)
Weighted average number of ordinary shares in issue (thousands)	**4,739,009**	3,241,057
Effect of the share award scheme (thousands)	**(62,089)**	(62,089)
Effect of share options exercised (thousands)	**94**	–
Adjusted weighted average number of ordinary shares in issue (thousands)	**4,677,014**	3,178,968
Basic loss per share (RMB cents per share)	**(26.50)**	(19.18)
From continuing operations (RMB cents per share)	**(8.59)**	(15.59)
From discontinued operations (RMB cents per share)	**(17.91)**	(3.59)

(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	
	2017	2016
Loss attributable to owners of the Company (RMB'000)	**(1,239,368)**	(609,689)
From continuing operations	**(401,584)**	(495,542)
From discontinued operations	**(837,784)**	(114,147)
Weighted average number of ordinary shares in issue (thousands)	**4,677,014**	3,178,968
Effect of deemed issue of shares under the share option scheme (thousands)	**–**	–
Adjusted weighted average number of ordinary shares (diluted) in issue (thousands)	**4,677,014**	3,178,968
Diluted loss per share (RMB cents per share)	**(26.50)**	(19.18)
From continuing operations (RMB cents per share)	**(8.59)**	(15.59)
From discontinued operations (RMB cents per share)	**(17.91)**	(3.59)

8 FINANCE EXPENSES — NET

	Year ended 31 December	
	2017	2016
		Restated
	RMB'000	*RMB'000*
Finance expenses		
Interest on borrowings wholly repayable within five years	**230,133**	246,185
Net foreign exchange loss/(gain)	**10,841**	(139,728)
Others	**895**	17,078
Less: interest expense capitalised into assets under construction	**(2,296)**	(2,975)
	239,573	120,560
Finance income		
Interest income on bank deposits	**(20,682)**	(18,200)
Interest income from long-term receivables	**(3,119)**	(24,436)
Gain on settlement of available-for-sale financial assets	**(1,569)**	(428)
	(25,370)	(43,064)
	214,203	77,496

9 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Trade receivables *(a)*	**2,145,069**	2,515,227
Bills receivable	**32,187**	123,272
Less: provision for impairment of trade receivables	**(265,086)**	(297,241)
	1,912,170	2,341,258
Amount due from related parties		
— Trade	**74,072**	46,019
— Non-trade	**37,248**	27,882
Finance lease receivable	**157,113**	178,205
Less: provision for impairment of finance lease receivable	**(48,291)**	(30,932)
Value-added tax recoverable	**222,503**	209,208
Prepayments	**203,899**	379,851
Less: provision for impairment of prepayments	**(1,122)**	–
Other receivables *(b)*	**101,134**	649,677
Less: provision for impairment of other receivables	**(92,552)**	(117,181)
	2,566,174	3,683,987
Representing:		
Current portion *(c)*	**2,559,988**	3,431,335
Non-current portion *(d)*	**6,186**	252,652
Total	**2,566,174**	3,683,987

(a) As at 31 December 2017 and 31 December 2016, 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	
	2017	2016
	RMB'000	*RMB'000*
Within 3 months	**937,417**	584,291
3 to 12 months	**352,453**	467,157
Over 1 year	**696,372**	1,335,829
	1,986,242	2,387,277

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 2017, the Group's trade and bills receivable of approximately RMB653,013,000 (2016: RMB859,948,000) were individually determined to be impaired, and the ageing of these receivables is over 1 year (2016: 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 RMB265,086,000 (2016: RMB297,241,000) were recognised. The Group does not hold any collateral over these balances.

At 31 December 2017, trade receivables of approximately RMB598,964,000 (2016: RMB988,478,000) 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	
	2017	2016
	RMB'000	*RMB'000*
Within 1 month past due	**4,428**	77,360
1 to 3 months past due	**60,277**	92,919
Over 3 months but within 12 months past due	**226,256**	238,312
Over 1 year past due	**308,003**	579,887
	598,964	988,478

(b) Included in other receivables of the Group as at 31 December 2017 is an amount of approximately RMB32,317,000 (2016: 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 2017 included finance lease receivables of approximately RMB6,186,000 (2016: RMB21,307,000). Non-current trade and other receivables as at 31 December also included receivables of approximately RMB10,844,000 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 as at 31 December 2016, prepayment for acquisition of property, plant and equipment of approximately RMB178,422,000, and deposit placed as security for borrowings of approximately RMB42,079,000.

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

	Years ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
At 1 January	**445,354**	263,941
Provision for impairment of receivables	**196,716**	181,543
Receivables written off during the year as uncollectible	**(172,519)**	(130)
Transferred to disposal group classified as held for sale	**(62,500)**	–
At 31 December	**407,051**	445,354

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

(f) As at 31 December 2017 and 2016, 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 2017, Group's trade and bills receivables of approximately RMB10,000,000 (2016: RMB23,900,000) 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 2017, the Group had receivables under finance lease as follows:

	2017 ***RMB'000***	2016 *RMB'000*
Non-current receivables		
Finance leases — gross receivables	**6,337**	22,572
Unearned finance income	**(151)**	(1,265)
	6,186	21,307
Current receivables		
Finance leases — gross receivables	**152,044**	166,608
Unearned finance income	**(1,117)**	(9,710)
	150,927	156,898
Gross receivables from finance leases:		
— No later than 1 year	**152,044**	166,608
— Later than 1 year and no later than 5 years	**6,337**	22,572
	158,381	189,180
Unearned future finance income on finance leases	**(1,268)**	(10,975)
Net investment in finance leases	**157,113**	178,205
The net investment in finance leases is analysed as follows:		
No later than 1 year	**150,927**	156,898
Later than 1 year and no later than 5 years	**6,186**	21,307
Total	**157,113**	178,205

10 CONTRACT WORK-IN-PROGRESS

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Contract cost incurred plus recognised profit less recognised losses	**10,178**	425,452
Less: progress billings	**(10,178)**	(243,949)
Contract work-in-progress	**–**	181,503
Representing:		
Amount due from customers for contract work	**–**	181,503

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Contract revenue recognised as revenue	**10,178**	76,337

11 INVENTORIES

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Raw materials	**615,515**	674,418
Work in progress	**695,262**	948,293
Finished goods	**504,769**	491,244
Goods in transit	**537**	2,192
	1,816,083	2,116,147

For the year ended 31 December 2017, the cost of inventories recognised as the Group's expense and included in 'cost of sales' amounted to approximately RMB1,066,141,000 (2016: RMB1,277,422,000).

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

	Years ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
At 1 January	**103,011**	79,609
Provision	**221,876**	55,369
Write off	**(14,230)**	(15,605)
Reversal	**(63,104)**	(6,277)
Disposal of subsidiary	**–**	(10,085)
Transferred to disposal group classified as held for sale	**(156,065)**	–
At 31 December	**91,488**	103,011

12 TRADE AND OTHER PAYABLES

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Trade payables	**870,457**	1,335,588
Amounts due to related companies		
— Trade	**15,128**	17,290
— Non-trade	**258**	32
Bills payable	**269,165**	362,580
Receipts in advance	**218,821**	431,397
Other payables	**387,137**	533,791
	1,760,966	2,680,678
Representing:		
Current portion	**1,760,966**	2,677,890
Non-current portion	**–**	2,788
Total	**1,760,966**	2,680,678

At 31 December 2017 and 2016, 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	
	2017	2016
	RMB'000	*RMB'000*
Within 3 months	**458,110**	722,807
3 to 6 months	**123,525**	130,232
6 to 12 months	**119,192**	402,660
Over 1 year	**453,923**	459,759
	1,154,750	1,715,458

As at 31 December 2017 and 2016, 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 2017 and 2016 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	
	2017	2016
		Restated
	RMB'000	*RMB'000*
Amortisation and depreciation		
— Lease prepayment	**4,658**	4,675
— Property, plant and equipment	**136,038**	171,599
— Intangible assets	**43,182**	40,253
Employee benefit expenses	**463,766**	520,812
Changes in inventories of finished goods and work in progress	**99,061**	62,061
Raw materials and consumables used	**967,080**	1,215,361
Transportation	**51,844**	92,543
Commission	**46,406**	55,790
Service fee	**58,595**	39,128
Utilities	**49,004**	32,610
Travelling expenses	**31,687**	39,070
Business and other taxes	**19,275**	19,336
Repairs and maintenance expenditure on property, plant and equipment	**8,556**	7,993
Operating lease charges	**43,343**	52,563
Provision for inventory write-down	**35,332**	49,092
Impairment losses on trade and other receivables	**134,216**	181,543
Provision for warranty	**10,853**	9,387
Impairment provision of property, plant and equipment	**–**	36,598
Auditors' remuneration		
— Audit services	**4,910**	4,378
— Other services	**900**	–
Research and development costs (i)	**42,200**	37,939
Less: amount capitalised into intangible assets	**(26,382)**	(30,350)
Other expenses	**104,039**	106,138
Total cost of sales, distribution expenses and administrative expenses	**2,328,563**	2,748,519

(i) The amounts do not include staff costs of the research and development department of approximately RMB30,337,000 (2016: RMB35,652,000) and relevant amortisation and depreciation of approximately RMB26,255,000 (2016: RMB12,547,000).

14 NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

According to the announcement dated 27 December 2017, the Group intends to dispose of (the "Potential Disposal"), through public tender to be conducted on the Shanghai United Assets and Equity Exchange, (a) its 100% indirect equity interest in Honghua Offshore Oil and Gas Equipment (Jiangsu) Co., Ltd., a wholly-owned subsidiary of the Group, (b) its 100% indirect equity interest in Shanghai Honghua Offshore Oil & Gas Equipment Co., Ltd., a wholly-owned subsidiary of the Group, (c) its entire 70% indirect equity interest in Hong Kong Tank Tek Limited, and the Group's indirect creditor's rights against them. The assets and liabilities related to those entities have been presented as disposal group classified as held for sale, so the consolidated statement of profit or loss and the consolidated statement of comprehensive income for the year ended 31 December 2016 were restated accordingly. Management intended to complete such transaction within 12 months of the end of the reporting period. According to the announcement dated 28 March 2018, the Group noted there is one interested potential buyer which meets the tender eligibility requirements during the tender period, and the Group will proceed to conduct further discussion and negotiation with the potential buyer on the transaction terms of the Potential Disposal.

(a) Assets of disposal group classified as held for sale:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
ASSETS		
Non-current assets		
Lease prepayments	**152,842**	–
Property, plant and equipment	**808,141**	–
Payment for acquisition of leasehold prepayment	**110,656**	–
Intangible assets	**90,807**	–
Deferred income tax assets	**35,979**	–
Trade and other receivables	**130,830**	–
Other non-current assets	**218**	–
Total non-current assets	**1,329,473**	–
Current assets		
Inventories	**76,819**	–
Trade and other receivables	**303,469**	–
Amount due from customers for contract work	**324,076**	–
Cash and cash equivalents	**24,514**	–
Total current assets	**728,878**	–
Total assets	**2,058,351**	–

(b) Liabilities of disposal group classified as held for sale:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
LIABILITIES		
Current liabilities		
Trade and other payables	**479,378**	–
Borrowings	**9,500**	–
Provisions for other liabilities and charges	**30,296**	–
Total current liabilities	**519,174**	–
Total liabilities	**519,174**	–

(c) Cumulative income or expense recognised in other comprehensive income relating to disposal group classified as held for sale:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Foreign exchange translation adjustments	**1,609**	(1,207)

(d) Analysis of the result of the discontinued operations is as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Revenue	**149,804**	196,022
Cost of sales	**(746,405)**	(276,244)
Gross profit	**(596,601)**	(80,222)
Distribution expenses	**(1,998)**	(1,952)
Administrative expenses	**(62,577)**	(64,538)
Other losses	**(29,001)**	(170)
Other income	**3,210**	2,335
Operating loss	**(686,967)**	(144,547)
Finance income	**116**	246
Finance expenses	**(23,142)**	(8,961)
Finance expenses — net	**(23,026)**	(8,715)
Loss before income tax	**(709,993)**	(153,262)
Income tax expense	**(124,393)**	43,484
Loss for the year from discontinuing operations	**(834,386)**	(109,778)
Loss for the year from discontinuing operations attributable to:		
— Owners of the Company	**(837,784)**	(114,147)
— Non-controlling interests	**3,398**	4,369
	(834,386)	(109,778)

(e) Analysis of cash flows of discontinued operations is as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Operating cash outflows	**(170,737)**	(103,393)
Investing cash (outflows)/inflows	**(27,378)**	8,901
Financing cash outflows	**(500)**	(304,231)

MANAGEMENT DISCUSSION AND ANALYSIS

In 2017, the Group announced its intention to dispose of its offshore drilling rigs and related product segment, and the other segments are presented as continuing operations. During the period, the Group's revenue from continuing operations amounted to approximately RMB2,176 million, representing an increase of 1.3% from RMB2,148 million in the last Year. Gross profit from continuing operations was approximately RMB635 million, representing an increase of 77.5% from RMB358 million last Year. The loss attributable to equity shareholders was approximately RMB1,239 million.

Market review

In 2017, though the international oil & gas market started to recover after hitting the bottom, there still remained much uncertainties. The Organization of Petroleum Exporting Countries (OPEC) reached an agreement to cut the oil supply with the Organization of Non-Petroleum Exporting Countries for the first time in 15 years, and extended the agreement to the end of 2018, which contributed to the rebound of international oil prices. In 2017, the growth of international economies provided driving force for improvement in developed countries, and the economic initiatives of emerging countries remained stable, all these factors laid a beneficial foundation for the recovery in demand for global oil. However, it is expected that the Shale Oil companies in U.S. will keep increasing productions under the market estimation that the international oil prices will remain stable according to the macro view of 2018's economic environment. Its growth may not be lower to 2017, and it might help U.S. to replace Russia and become the world's largest oil producer, which will bring uncertainty to the rebound of the international oil price.

In the domestic market, the clean energy market, especially natural gas, gained tremendous opportunities for development. In early 2017, the National Development and Reform Commission ("NDRC") formulated the "13th Five-Year Plan for Petroleum Development" and "Natural Gas Development" in accordance with the "13th Five-Year Plan for Energy Development" ("Plan"). The Plan proposes that in the "13th Five-Year Plan" period, shale gas and coal-bed methane would be the key focus that could make great breakthroughs in the unconventional natural gas sector, while the oil and gas system reforms and oil enterprise reforms will be deepened. The national target is to increase the share of natural gas in the one-time energy consumption structure to 10% by 2020 (currently only about 6%). Thus, we believe in the field of natural gas exploitation, especially of the unconventional natural gas, there will be tremendous opportunities. Beneficial from this, the oil drilling & transportation equipment industry and those enterprises with leading technologies and production capability is likely to achieve good development. Sichuan Province is China's largest province of clean energy resources and the largest clean energy base. Sichuan Government has actively promoted the construction of natural gas and shale gas production bases in recent years, with the plans to complete the construction of the basic geographical coverage structure for the country's major natural gas production base in Northeast Sichuan, Central Sichuan, and Western Sichuan by 2020. The Sichuan local government's support and promotion for shale gas development will also likely bring strong growth momentum to the oil and gas equipment companies with the leading R & D capability in the region.

Facing with the complex and volatile situation in international and domestic environment, we successfully gained the opportunity to cooperate with the state-owned high-tech central enterprise — China Aerospace Science and Industry Corporation ("CASIC"), and CASIC has become the largest shareholder of Honghua. This cooperation signified that we have achieved a reform of mixed state-owned enterprises, injected new momentum into Honghua's future development. CASIC is an ultra-large-scale central enterprise focused on the development of the country's high-tech core industry. Currently, it controls 7 listed A-share companies, is one of the Fortune 500 companies, and ranks among the top-ranked A-level companies in Chinese state-owned companies for 9 consecutive years. CASIC is mainly engaged in the "one main and two wings" business, which is the research and development and manufacturing of high-tech products centering on aerospace defense, information technology and equipment manufacturing, and implementing the "military-civilian integration" development strategy. In May 2017, after the completion of the delivery, the aerospace science and technology industry combined its strategic development and strategic deployment in the field of energy equipment to position Honghua as one of the "Energy Equipment Manufacturing Leading Enterprises", "Equipment Manufacturing Core Units", one of the "Core Battle Positions in International operations" and "Overseas Investment and Financing Platform." Focusing on these four core strategic positioning, Honghua will strive to become a world-class oil and gas exploration and development equipment and technology enterprise during the "13th Five-Year Plan" period.

Business Review

1. *Land drilling rigs and related product business segment*

   In response to the gradual revival of oil and gas industry in 2017 and as a result of market exploring after CASIC became a shareholder, we actively strengthened existing market while developing new businesses, looking for opportunities further down the product chain and searching for new strategic collaborations.

   In terms of the sales of land drilling rigs, we signed 11 new orders for land drilling rigs in 2017, with approximately 97.27 million USD in total value, a significant growth comparing to last year. During 2017, we also focused on developing new customers and for the first time in history, made breakthroughs in the Ukrainian and Saudi Arabic markets, which was the first time for Saudi Arabic market to purchase drilling rigs manufactured outside Europe or America. Ukraine is rich in oil and gas resources. In order to achieve its energy independence, the Ukrainian government has set a target of 30% increase in its natural gas production. This is a very promising market. Saudi Arabic is the largest crude oil producer of the world with constantly high demand for drilling equipment. Its recognition of Honghua drilling rigs will help us further expand in the high-end drilling rig market. After successfully landed into these key markets, we also secured drilling orders of UGV in Ukraine and ADC in Saudi Arabic with over 100 million USD in total value. These orders granted us a strong pipeline of production for 2018. In addition, by successfully signing 2 rack-and-pinion drilling rigs orders, we earned market recognition for our new products.

In terms of parts and components sales, we signed 33 new orders of mud pumps, 39 new orders of top drives, 6 new orders of direct drive pumps and 8 new orders of flexible water tanks, with approximately 140 million USD for all new parts and components orders in 2017. For the promotion of new products, we made great breakthrough in the shale gas equipment, as represented by electric fracturing pumps and new drilling rig model. Selling 4 electric fracturing pumps brought us approximately RMB500 million in revenue, significantly higher than the previous year. While holding on to our key product line, we also generated revenue from other products, including oil products, fracturing and cementing equipment. We took the demand of customers as our direction and provided high value-added services to them with strong teamwork, project management and optimized resource allocation. During the period, we also expanded our agency business to further improve the business scale of parts and components and we have newly signed approximately 53.56 million USD trading orders.

During the Period, with the financial help of CASIC, we also started innovative financing and rental services in order to quickly win business from middle to small size oil companies at the industrial revival period. Working with CASIC Financing and Rental Company, we started our first financing and rental collaborative project in China in June 2017, and achieved RMB300 million worth of financing and rental contracts in the year. Through cooperation with companies like CASIC Financing and Rental, we have successfully built the innovative channel of "Rental Assists Retail" and made great commercial breakthrough. During the year, we also signed strategic cooperation agreement with Huateng under CASIC. In the future, we will active by promote the business model of oversea trades to boost the exploration and exploitation equipment as well as oilfield services of oil and gas projects with Huateng, and strengthen the coordination with enterprises under the central government and promote business innovation.

2. *Oil and gas engineering service business segment*

During the year, as oil companies expanded production, our oil and gas engineering service business gradually picked up its performance. In 2017, Honghua Oilfield Services achieved approximately 30,638m in footage and the plan completion rate was 136.2%, which is 96.7% higher than 2016. During the period, Honghua Oilfield Services made steady progress in Shale Gas Integrated Solutions and made major breakthrough in fracturing services. It also signed its first long term high value order with a new customer, solidifying the basement for stepping out of the trough business.

Back in 2012, Honghua raised "Shale Gas Integrated Solutions" with the core concept of "Electricity network based drilling & fracturing system, with a factory operation". This solution uses the associated gas from conventional or non-conventional natural gas or oilfield to generate power and make the on-site integration of drilling, exploring and exploitation both efficient and environmental friendly. With the innovative digital oil and gas drilling equipment developed by Honghua, the investment in fixed assets can be lowered for more than 30%, the land area occupied by drilling site can be reduced by more than 50%, the cost for fuel can be cut by more than 40%, fracturing cost can be lowed for 30% and greenhouse gas emission can be reduced by 95%. This one-stop solution is both environmental friendly and highly efficient. It will greatly help the development of shale gas exploitation in China and the world.

During the period, in the promotion of our "Shale Gas Integrated Solutions", we first signed a strategic cooperation agreement with East China Oil and Gas Company (ECOG) under Sinopec. With the application of the world-largest 6000 horsepower electric fracturing pump made by Honghua, the two companies aimed to build a win-win, sustainable and long-term strategic collaborative relation in the shale gas exploration and exploitation field. We have been working with ECOG in Pengshui Region in China for shale gas fracturing. From the initial combination of electric fracturing system and conventional fracturing equipment, to later full electric fracturing engineering project, we have proved that Honghua's Shale Gas Integrated Solutions can save fuel cost and comprehensive fracturing cost. In the future, Honghua Oilfield Service will continue to promote the application of electric fracturing system in the product line-up. With our advantage in equipment and technical advantage in fracturing engineering, we are dedicated to help our customers increase production and lower cost.

In addition, we also signed non-binding memorandum of understanding with Halliburton China and built a cooperative partnership for the drilling and completion EPC contract and shale gas project where we give each other priority. The strategic cooperation with Halliburton China will greatly reinforce Honghua Oilfield Services' integrated management experience. It will help Honghua Oilfield Services utilize its advantages in drilling and fracturing services, seize the enormous opportunity of Sichuan Province as the major province of clean energy and the largest clean energy production base and expand its non-conventional oil and gas (shale gas) well drilling EPC contract service in domestic market.

In September 2017, Honghua Oilfield Services signed drilling well engineering service contracts with two customers with total consideration of approximately RMB350 million. It was our first EPC contract for drilling well that included well cementation, showing that our integrated service capability had improved significantly. According to the contract, Honghua Oilfield Services will deploy 3 land drilling rigs and working teams to provide drilling engineering, mud service, cementing service and other associated oil services to our customer in Xinjiang until 2020. This service is a breakthrough from the single drilling service model in the past. It will help Honghua Oilfield Services team accumulate more working experience.

International oilfield service market will be the key expanding area for Honghua Oilfield Services in the future. During the Period, Honghua Oil Services continued its drilling and directional well services in Mid-East area. At the same time, in order to create synergy with future development strategy, Honghua Oilfield Services has obtained the membership of International Association of Drilling Contractors. It helps to promote the business in international markets, and prepare for the further revival of the market.

3. *Offshore drilling rigs and related product business segment*

During the period, as new situation emerged for oil and gas industry, we continued the strategic transformation of our business. Since LNG industry is expected to grow significantly, we are shifting the focus of our offshore business to the related equipment and facility construction of offshore LNG industry. Giving that the development for Honghua Offshore requires large amount of further investment and other related resources, we decided to dispose of our offshore business. The whole business segment was listed for public tender on 28 December 2017 in Shanghai United Assets and Equity Exchange. The pubic tender concluded on 27 March 2018, and there is one interested potential buyer which meet the tender eligibility requirement.

During the period, Honghua Offshore continued to focus on completing the offshore LNG liquefaction factory platform (PLNG) project, accelerating the commercialization of FSP container and disposal of the offshore business. The Pre-FEED of the first PLNG project has been reviewed by American Bureau of Shipping (ABS) and received approval in principle. In May, our 100% owned associated company, Shanghai Honghua Offshore Oil and Gas Equipment LLC, renewed the framework agreement with LNG 21 Partners, LLC and increased the total construction value of the first PLNG to 2.2 billion USD. After optimization, the PLNG is expected to lower the capital expenditure of per unit LNG liquefaction to 500 USD per ton and may become the first LNG project in USA with capital expenditure lower than 600 USD per ton, making PLNG more competitive. We will keep promoting the FEED processing of PLNG and the contracting and purchasing agreement of natural gas projects, in order to accelerate the implementation of PLNG project and the disposal of Honghua Offshore.

Quality Management and Research & Development

During the period, we strengthened our quality management and in turn acquired ISO-14001-2015 new-standard certificate and safe production standard level 2 certificate. Meanwhile, we continued to invest in research & development to maintain our company's comprehensive competitiveness.

During the period, we focused our product and technology R&D projects in relation to equipment such as automated drilling rig systems, shale gas electric fracturing systems, direct-drive system products (top drive, drilling well pump and winch), downhole tools and rotational directional systems, full-set automated drilling (Beyond Series), fracturing and cementing products, new drilling well pumps and high-pressure components, natural gas hydrate exploring equipment systems and deep-sea mining devices. Among them, shale gas electric fracturing systems, second-generation direct-drive top drive, automated rigs and other new products achieved sales or rental contracts in batches.

In particular, we initiated the concept and overall design of the next generation offshore drilling system. We also introduced new technical solutions and drilling and exploiting process, to make Honghua's product approaching to the highest product quality level in the world in terms of lightweight, modularization and intelligentization. During the year, we also completed delivery of related products of deep-sea exploiting system contract items as well as installation and set-up of shipyard, improving the process and device R&D of deep sea exploiting. We also seized the enormous opportunity in relation to natural gas hydrate (also known as combustible ice), to improve the solid state exploiting process and the related devices R&D of natural gas hydrate. We plan to complete the design and construction of the prototype of the underwater drilling machine in the near future.

During the period, we were granted 36 patents which include 17 invention patents and 19 new practical patents. As of 31 December 2017, we accumulated 433 patents which included 131 invention patents, 300 new practical patents, and 2 American patents.

Human Resource Management

During the period, we improved human resource structure, recruited high-tech talents and achieved the strategic deployment of human resource optimization and increase in efficiency. As of 31 December 2017, we had 3,701 employees in total, 478 of them are R&D staff. The total number of employees was 4.88% lower compared with 31 December 2016 while the number of R&D staff is 2.58% higher. During the period, we conducted 812 training sessions. 1,010 people received managerial trainings, 2,044 received technical trainings and 5,440 received skill trainings. The completion rate of all training plans was 98.5%.

For skill trainings, we have set up skill master studio and high-tech staff training base to enhance the performance, innovation and inheritance of employees in operational posts as well as to build an incubator for craftsmanship. For managerial trainings, we have conducted various trainings based on smart manufacturing, Made in China 2025 and the strategic developing direction of building an intelligent enterprise, so the members of the management can have a great view. For professional and technical training, we let employees take part in discussion panels, forums, skill competitions and introduce outside helps.

Future Outlook

Looking forward in 2018, the rebalance of global oil market has made significant progress: the support from the market fundamentals pushed up crude oil price to 70 dollar per ton at the beginning of the year, reaching its peak of recent years. Although fluctuation is still possible in the future, a general trend of recovery is expected. The economic revival of USA, China and new markets and the continuous reduction on production have provided steady support for international crude oil price. This is expected to boost the capital investment by large international oil companies in this and next year and drive the steady revival of oil and gas equipment as well as services. According to the 2018 Oil and Gas Exploring and Exploiting Expenditures Survey conducted by Barclay, the capital expenditure by oil companies is

expected to grow by 8% this year. In addition, thanks to the growing natural gas market, China is likely to embrace the concept of "the age of natural gas" as the natural gas market carries huge opportunities. As technology keeps advancing and looking back on the fluctuations of the market in the past, more oil and gas companies will focus on reducing cost and enhancing efficiency in the future, setting new challenges for the new technologies and new businesses after the revival of the industry.

Under the new oil and gas industry situation, we plan to embrace the business opportunities, and keep improving our core business. We will take unconventional oil and gas resources exploitation and application as new business growth drivers, and adhere to technological innovation, to achieve comprehensive development and healthy growth, and to resume a growth trend during this year. Against this backdrop, we will lay the foundation for Honghua's future development goal of becoming a world-class oil & gas exploration equipment-manufacturing and technology-providing company and an integrated supplier of energy comprehensive services and solutions.

First of all, we will reverage our largest shareholder CASIC's supporting to integrate the resources from both companies, maximize the synergies and promote our business's value. Also, we will work closely with CASIC and its subsidiaries, taking advantage of Leasing Assists Retail model, boosting the sale of a large-sum oil and gas exploration and production equipment and services through increased oil trade. Our business values can also be enhanced through improving the quality of the goods and services to our customers domestically and abroad, meeting the overall demand of the customers and the implementation of orders and getting more business opportunities through the 'One Belt, One Road' market.

Secondly, we will capitalize the emerging trend of domestic natural gas market, implement our strategy through shale gas special equipment sales and provide shale gas integrated solutions, in order to increase its marker shares in domestic market. In the land drilling rigs and related product business segment, we will accelerate the sales of new products, prioritize in promoting electric fracture pumps and new drilling rigs specialized for large scale shale gas exploitation, in order to realize business scale expansion and increase profit. In the oil and gas engineering service business segment, we will rely on our equipment manufacturing advantages, and the implementation of our first Shale Gas integrated Solutions project, to enhance our EPC capability, as well as scaling up the domestic unconventional oil and gas (shale gas) market.

Thirdly, new products and new technologies have always been the driving force of Honghua's long-term development, which is Honghua's core competitiveness as a leading manufacturing company in the oil & gas industry in China. We will accelerate the development and commercial redevelopment of new downhole tools products and deepen the research on new technologies for solid fluidization of combustible ice. The Group will align with the national "13th Five-year Plan for Energy Development" plan, to research and develop green and economical oil and gas exploitation methods with intelligence and high efficiency. Through accumulating new technologies and methods, we will fully prepare and adapt to the trend in the industry, especially on the future development of smart technology and environmental friendly methods.

Finally, in view of investment and financial management, we will strictly control our capital expenditures, rationally allocate unutilized resources, strengthen inventory and accounts receivables management, reduce liquidity pressure, reduce financial risks and optimize the structure of assets. At the same time, we will expand low-cost financing channel, and use this as a competitive advantage, to seize the market share on both the domestic and foreign oil and gas equipment and oil services markets.

As of 15 March 2018, we had land drilling rigs and related product backlogs of approximately RMB6,020 million, which included land drilling rigs backlogs of approximately RMB3,290 million.

As of 15 March 2018, we had oil and gas engineering service backlogs of approximately RMB687 million.

FINANCIAL REVIEW

According to the announcement dated 27 December 2017, the Company intends to dispose of its entire equity interest on the major entities of the offshore drilling rigs segment, and the results of those entities have been presented as discontinued operations and operation activities of the Group's other entities are still presented as continuing operations.

During the Year, the Group's gross profit and loss attributable to shareholders of the Company amounted to approximately RMB635 million and RMB1,239 million respectively, and gross margin and net margin amounted to approximately 29.2% and -57.0% respectively. Last Year, gross profit and loss attributable to shareholders of the Company amounted to approximately RMB358 million and RMB610 million respectively, gross margin and net margin amounted to approximately 16.7% and -28.4% respectively. The amount of losses attributable to shareholders in the current year was relatively high, mainly due to the continuous losses on the discontinued operations of the offshore drilling rigs segment. Besides, for the consideration of accounting prudence, the Group made substantial impairment provision for assets exposed to significant impairment risk for the offshore drilling rigs segment. At the same time, as the oil and gas industry is still in the early stages of recovery, the Group's sale volume didn't improve significantly during the year. The Group made impairment provision on certain assets as well as related lawsuits. As a result, the Group's losses were relatively high.

Turnover

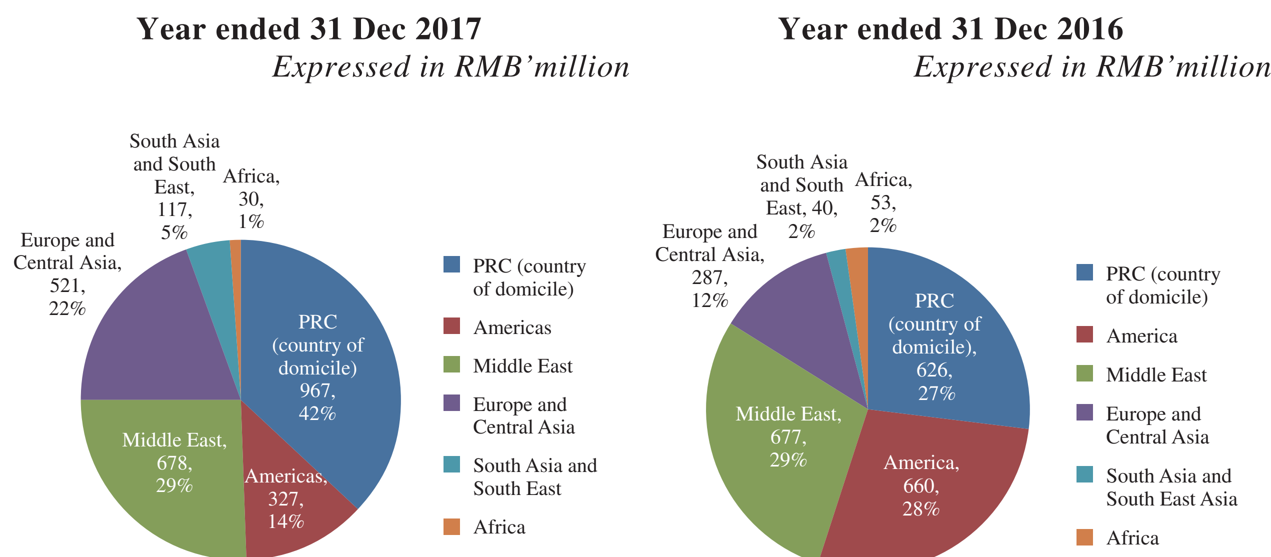
During the Year, the Group's turnover from continuing operations amounted to approximately RMB2,176 million, representing an increase of RMB28 million or 1.3% as compared to RMB2,148 million Last Year. For the discontinued operations, its turnover was approximately RMB150 million, representing a decrease of RMB46 million or 23.5% from RMB196 million last year. Thanks to positive factors such as the recovery of the global oil and gas industry, the Group's sales of components and other parts recorded a relatively high year-on-year increase; the revenue of oil service also witnessed slight year-on-year increase; and sales of land drilling rigs and offshore drilling rigs recognized a narrowing year-on-year decrease.

(a) Revenue by Geographical Areas

The Group's revenue including discontinued operations by geographical segment during the Year: (1) The Group's export revenue amounted to approximately RMB1,359 million, accounting for approximately 58.4% of total revenue, representing a decrease of RMB358 million as compared to Last Year; (2) Mainland China's revenue amounted to approximately RMB967 million, accounting for approximately 41.6% of total revenue, representing an increase of RMB340 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 markets, constantly improving the quality of products and services, coping with the severe operating conditions under the low oil price.

Revenue by Geographical Areas



(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.

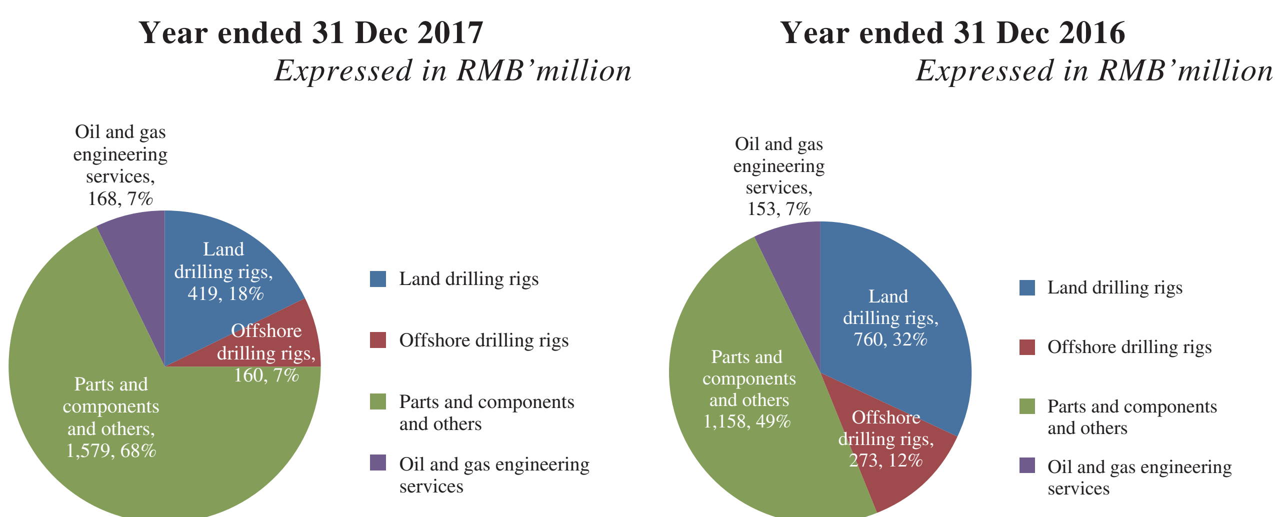
During the Year, external revenue from land drilling rigs amounted to approximately RMB419 million, representing a decrease of RMB341 million or, 44.8%, as compared to RMB760 million Last Year.

During the Year, external revenue from offshore drilling rigs amounted to approximately RMB160 million, representing a decrease of RMB113 million or, 41.1%, as compared to RMB273 million Last Year.

During the Year, external revenue from parts and components and others amounted to approximately RMB1,579 million, representing an increase of RMB421 million, or 36.3%, as compared to RMB1,158 million Last Year.

During the Year, revenue from oil and gas engineering services amounted to approximately RMB168 million, representing an increase of RMB15 million, or 9.8%, as compared to RMB153 million Last Year.

Revenue by business categories



Cost of Sales

During the Year, the Group's cost of sales from continuing operations amounted to approximately RMB1,541 million, representing a decrease of approximately 13.9%, or RMB249 million, as compared to RMB1,790 million Last Year. For the discontinued operations, its cost of sales was approximately RMB746 million, representing an increase of RMB470 million, or 170.3%, from RMB276 million last year. The increase was mainly attributable to substantial impairment provision on inventories, fixed assets and construction in progress relating to discontinued operations of the offshore drilling rigs segment, totaling approximately RMB468 million; at the same time, the sales volume of the Group's oil and gas engineering services and offshore drilling rigs was still insufficient, with a relatively substantial waiting expenses of approximately RMB110 million.

Gross Profit and Gross Margin

During the Year, the Group's gross profit from continuing operations amounted to approximately RMB635 million, representing an increase of RMB277 million, or 77.4%, as compared to RMB358 million Last Year.

For the discontinued operations, its gross profit was approximately RMB-597 million, representing a decrease of RMB517 million or 646.3% from RMB-80 million last year.

During the year, gross margin of the Group's continuing operations was 29.2%, an increase of 12.5% from 16.7% for the same period of last year; and the gross margin of discontinued operations was -398.3%, a decrease of 357.3% from -40.9% for the same period of last year. On one hand, due to recovery of the industry, gross margin of land drilling rigs, components and other parts rebounded compare with last year. On the other hand, since the Group's sale volume is unsaturated, and there was no year-on-year decline on fixed costs of the Group's each parts (especially offshore drilling rigs and oil service parts), taking into account the decreasing gross profit per unit and prudence consideration, the Group made substantial impairment provision for inventories, fixed assets and construction in progress relating to discontinued operations of the offshore drilling rigs segment, and reduced its gross profit per unit.

Expenses of the Year

During the Year, the Group's distribution expenses from continuing operations amounted to approximately RMB233 million, representing a decrease of RMB137 million or 37.0% as compared to RMB370 million Last Year. Distribution expenses for discontinued operations were approximately RMB2 million, which was basically the same as RMB2 million for the same period of last year. Decrease in distribution expenses was mainly due to the decline in sale volume of the Group's exports, and the related reductions in expenses such as commissions, transportation fees and property insurance fees. At the same time, the Group steadily promoted institution reforms, optimized institutional functions, strengthened performance reforms, significantly reduced labor costs, and strictly controlled office expenses, entertainment expenses as well as other expenses.

During the year, the Group's administrative expenses from continuing operations amounted to approximately RMB555 million, a decrease of RMB34 million or approximately 5.8% from RMB589 million for the same period of last year; administrative expenses for discontinued operations were approximately RMB63 million, which were basically the same as RMB65 million for the same period of last year. The main reason for the decrease of administrative expenses is due to the optimization of organization structure and layers of management, and there were significant decrease on the items of labor cost and expense for administration.

During the Year, the Group's net finance expenses from continuing operations amounted to approximately RMB214 million, representing an increase of RMB137 million, or 177.9% as compared to net finance expense of RMB77 million Last Year. The net financial expense from discontinued operations was approximately RMB23 million, while the net financial expense for the same period last year was approximately RMB9 million, an increase of RMB14 million, or an increase of 155.56%, which was mainly due to the impact of RMB appreciation. During the year, the Group's foreign exchange losses amounted to approximately RMB27 million, which were approximately RMB144 million exchange gains for the same period last year. During the year, with the support of China Aerospace Science & Industry Finance, debt structure of the Group was further optimised and the debt scale was reduced, resulting in a year-on-year decrease of 11.25% in interest expenses.

Loss Before Income Tax

During the Year, loss before income tax from continuing operations of the Group amounted to approximately RMB347 million, representing a decrease of RMB196 million or 36.1% compared to loss before income tax of RMB543 million Last Year. For the discontinued operations, its loss before income tax was approximately RMB710 million, representing an increase of RMB557 million or 364.1% increase from RMB153 million last year.

Income Tax Expense

During the Year, the Group's income tax expense from continuing operations amounted to approximately RMB49 million as compared to the income tax expense of approximately RMB-25 million Last Year. Income tax expense from discontinued operations was approximately RMB124 million, which was approximately RMB-43 million for the same period last year. This is mainly due to the reversal of deferred income tax assests of discountinuing operations that deduction cannot be realised, which amount to approximately RMB127 million. Besides, the income tax expenses are accrued based on the profit of other subsidiaries, which, compared with prior years, increases.

Loss for the Year

During the Year, the Group's loss for the year from continuing operations amounted to approximately RMB1,230 million, as compared to a loss of approximately RMB627 million Last Year. Among which, loss attributable to equity shareholders of the Company was approximately RMB1,239 million, while loss attributable to non-controlling interests was approximately RMB-9 million. During the Year, net margin was -57.0%, as compared to a net margin of -28.4% Last Year.

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

During the Year, EBITDA amounted to RMB-557 million, as compared to approximately RMB-315 million Last Year. The EBITDA margin was -24.0%, as compared to —13.4% Last Year. The main reason for the large decreasing is the impairment provision generated by the discontinuing operations of the offshore drilling rigs segment.

Also, the continuing operations part of the Group made impairment provision on certain assets as well as related lawsuits.

Dividends

As at 31 December 2017, the Board did 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 2017, the Group's bank borrowings and senior notes amounted to approximately RMB3,316 million, representing a decrease of approximately RMB983 million as compared to 31 December 2016. Among which, borrowings repayable within one year amounted to approximately RMB1,434 million, representing a decrease of RMB779 million or 35.2%, as compared to 31 December 2016, including borrowings of RMB9 million in the disposal group classified as held for sale.

Deposits and Cash Flow

As at 31 December 2017, the Group's cash and cash equivalents amounted approximately RMB1,100 million, representing an increase of approximately RMB556 million as compared to 31 December 2016. As at 31 December 2017, the Group's cash and cash equivalents in the disposal group classified as held for sale amounted approximately RMB2 million, representing an increase of approximately RMB1 million as compared to 31 December 2016.

During the Year, the Group's net operating cash inflow from operations amounted to approximately RMB427 million, net cash outflow from investing assets, during the Year amounted to approximately RMB118 million; net cash inflow from financing activities amounted to approximately RMB299 million.

Assets Structure and Changes Thereof

As at 31 December 2017, the Group's total assets amounted to approximately RMB10,067 million, representing a decrease of approximately RMB1,201 million or 10.7% as compared to 31 December 2016, including assets of disposal groups classified as held for sale amounted to approximately RMB2,058 million. Among which, current assets amounted to approximately RMB7,732 million, accounting for approximately 76.8% of total assets, representing a decrease of RMB881 million as compared to 31 December 2016, which were mainly decrease of receivables, cash and cash equivalent; and the reclassification of assets of disposal group classified as held for sale. Non-current assets amounted to approximately RMB2,334 million, accounting for approximately 23.2% of total assets, representing a decrease of approximately RMB2,082 million as compared to 31 December 2016, and were mainly attributable to the decrease in long term trade receivables; and the reclassification of assets of disposal group classified as held for sale.

Liabilities

As at 31 December 2017, Total liabilities of the Group amounted to approximately RMB5.889 billion, including RMB519 million as liabilities of disposal group classified as held for sale, representing a decrease of approximately RMB1,295 million as compared to 31 December 2016. Among which, current liabilities amounted to approximately RMB3,939 million, accounting for approximately 66.9% of total liabilities, representing a decrease of approximately RMB1,084 million as compared to 31 December 2016. Non-current liabilities amounted to approximately RMB1,950 million, accounting for approximately 33.1% of total liabilities, representing a decrease of approximately RMB211 million as compared to 31 December 2016. As at 31 December 2017, the Group's total liabilities/total assets ratio was approximately 58.5%, representing a decrease of 5.3% approximately.

Equity

As at 31 December 2017, total equity amounted to RMB4,178 million, representing an increase of RMB94 million as compared to 31 December 2016. Total equity attributable to equity shareholders of the Company amounted to approximately RMB4,011 million, representing an increase of RMB112 million as compared to 31 December 2016. Non-controlling interests totaled to approximately RMB167 million, representing a decrease of RMB18 million as compared to 31 December 2016. During the Year, the Group's basic loss per share were RMB26.50 cents, and diluted loss per share were RMB26.50 cents.

Capital Expenditure, Major Investment and Capital Commitments

During the Year, capital expenditure of the Group on infrastructure and technical improvements amounted to approximately RMB195 million, representing an increase of approximately RMB19 million as compared to Last Year.

As at 31 December 2017, the Group had capital commitments including discontinued operations of approximately RMB249 million, which will be used for the optimization of 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, 14 June 2018 to Thursday, 21 June 2018, 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, 13 June 2018.

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 management 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 2017 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

Except for the deviations as mentioned below, 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 2017.

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.

Code Provision A.2.1 of the CG Code stipulates that the roles of Chairman and Chief Executive should be separate and should not be performed by the same individual. From 1 January 2017 to 29 March 2017, Mr. Zhang Mi was the Chairman of the Board and President (Chief Executive) of the Company. Mr. Zhang Mi was the main founder of the Group and has extensive experiences in the industry and related industries. In the opinion of the Board, the vesting of duties of Chairman of the Board and President (Chief Executive) of the Company to Mr. Zhang Mi provided the Company a strong and consistent leadership and allowed effective planning and execution of business decisions and strategies, as well as ensured 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.

On 29 March 2017, Mr. Zhang Mi stepped down from the position as Chairman of the Board and was re-designated as the Vice-Chairman of the Board. Mr. Chen Yajun has been appointed as Chairman of the Board. The positions of Chairman and President of the Company are held by Mr. Chen Yajun and Mr. Zhang Mi respectively with effect from 29 March 2017.

The Company has complied the code provision A.2.1 of the CG Code on the roles of chairman and chief executive that should be separate and should not be performed by the same individual with effect from 29 March 2017.

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 2017.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT FOR 2017

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 2017 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 Thursday, 21 June 2018
"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 2017
"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 2016
"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
Chen Yajun

Hong Kong, 29 March 2018

As at the date of this announcement, the executive directors of the Company are Mr. Chen Yajun (Chairman), Mr. Zhang Mi and Mr. Ren Jie, the non-executive directors of the Company are Mr. Han Guangrong and Mr. Chen Wenle, and the independent non-executive directors of the Company are Mr. Liu Xiaofeng, Mr. Chen Guoming, Ms. Su Mei, Mr. Poon Chiu Kwok, Mr. Chang Qing and Mr. Wu Yuwu.