宏华集团有限公司
HONGHUA GROUP LIMITED

(incorporated in the Cayman Islands with limited liability)

Stock Code: 196

頁岩氣開發整體解決方案

ANNUAL REPORT

2017

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Chen Yajun *(Chairman, appointed with effect from 29 March 2017)*
Zhang Mi *(Vice Chairman, re-designated with effect from 29 March 2017)*
Ren Jie
Liu Zhi *(Resigned with effect from 15 June 2017)*

NON-EXECUTIVE DIRECTORS

Siegfried Meissner *(Resigned with effect from 29 March 2017)*
Popin Su *(The alternate director to Siegfried Meissner. Resigned with effect from 29 March 2017)*
Han Guangrong *(Appointed with effect from 29 March 2017)*
Chen Wenle *(Appointed with effect from 29 March 2017)*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Liu Xiaofeng
Qi Daqing *(Resigned with effect from 1 January 2018)*
Chen Guoming
Shi Xingquan *(Resigned with effect from 29 March 2017)*
Guo Yanjun *(Resigned with effect from 29 March 2017)*
Su Mei *(Appointed with effect from 29 March 2017)*
Poon Chiu Kwok *(Appointed with effect from 15 June 2017)*
Chang Qing *(Appointed with effect from 15 June 2017)*
Wu Yuwu *(Appointed with effect from 1 January 2018)*

SECRETARY OF BOARD OF DIRECTORS

He Bin

BOARD COMMITTEES

AUDIT COMMITTEE

Wu Yuwu *(Committee Chairman, appointed with effect from 1 January 2018)*
Qi Daqing *(Committee Chairman, resigned with effect from 1 January 2018)*
Liu Xiaofeng
Chen Guoming
Shi Xingquan *(Resigned with effect from 29 March 2017)*
Guo Yanjun *(Resigned with effect from 29 March 2017)*
Su Mei *(Appointed with effect from 29 March 2017)*
Poon Chiu Kwok *(Appointed with effect from 15 June 2017)*
Chang Qing *(Appointed with effect from 15 June 2017)*

REMUNERATION COMMITTEE

Liu Xiaofeng *(Committee Chairman)*
Zhang Mi
Qi Daqing *(Resigned with effect from 1 January 2018)*
Chen Yajun *(Appointed with effect from 29 March 2017)*
Su Mei *(Appointed with effect from 29 March 2017)*
Wu Yuwu *(Appointed with effect from 1 January 2018)*

STRATEGIC INVESTMENT AND RISK CONTROL COMMITTEE

Chen Yajun *(Committee Chairman, appointed with effect from 29 March 2017)*
Zhang Mi *(Committee Member, re-designated with effect from 29 March 2017)*
Ren Jie
Liu Zhi *(Resigned with effect from 29 March 2017)*
Shi Xingquan *(Resigned with effect from 29 March 2017)*
Liu Xiaofeng
Poon Chiu Kwok *(Appointed with effect from 15 June 2017)*
Chang Qing *(Appointed with effect from 15 June 2017)*

JOINT COMPANY SECRETARIES

He Bin
Lee Mei Yi

LEGAL ADVISOR
AS TO HONG KONG LAW

MORRISON FOERSTER *(Appointed with effect from 1 July 2017)*

PRINCIPAL BANKERS

Bank of China Limited
Industrial and Commercial Bank of China Limited
Industrial Bank Co., Ltd.
China CITIC Bank Co., Ltd.
HengFeng Bank Co., Ltd.
Ping An Bank Co., Ltd.
China Merchants Bank Co., Ltd.
Bank of Communications Co., Ltd.
The Export-Import Bank of China
China Development Bank
Industrial and Commercial Bank of China (Asia) Limited
China CITIC Bank International
China Development Fund Co., Ltd.

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
22nd Floor, Prince's Building
Central
Hong Kong

REGISTERED OFFICE

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

HEAD OFFICE

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

PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Estera Trust (Cayman) Limited
Clifton House, 75 Fort Street
PO Box 1350
Grand Cayman, KY1-1108
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

STOCK CODE

The Stock Exchange of Hong Kong Limited: 0196

WEBSITE

http://www.hh-gltd.com

FINANCIAL HIGHLIGHTS

	2017 RMB'000	2016 RMB'000	Changes
Operating results			
Revenue from continuing operations	**2,175,856**	2,147,592	1.3%
Operating Loss from continuing operations	**(103,374)**	(464,985)	-77.8%
Loss before income tax from continuing operations	**(346,545)**	(542,899)	-36.2%
Loss attributable to owners of Company	**(1,239,368)**	(609,689)	103.3%
Figures per Share			
Basic loss per share (RMB cents)	**(26.5)**	(19.18)	38.2%
Diluted loss per share (RMB cents)	**(26.5)**	(19.18)	38.2%
Financial position			
Total non-current assets	**2,334,095**	4,415,887	-47.1%
Total current assets	**7,732,449**	6,851,879	12.9%
Total assets	**10,066,544**	11,267,766	-10.7%
Total current liabilities	**3,938,579**	5,022,637	-21.6%
Total non-current liabilities	**1,950,315**	2,161,677	-9.8%
Total liabilities	**5,888,894**	7,184,314	-18.0%
Total equity	**4,177,650**	4,083,452	2.3%
Key financial ratios*			
Gross Margin from continuing operations	**29.2%**	16.7%	74.9%
Net Margin from continuing operations	**-57.0%**	-28.4%	100.6%
Return on average assets	**-11.6%**	-5.0%	132.4%
Return on average equity	**-31.3%**	-14.4%	117.6%
Current ratio	**1.96**	1.36	43.9%
Quick ratio	**1.50**	0.94	59.3%
Total debt/Total assets	**32.9%**	38.2%	-13.7%
Total liabilities/Total assets	**58.5%**	63.8%	-8.3%

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

CHAIRMAN'S STATEMENT

CHAIRMAN'S STATEMENT

DEAR SHAREHOLDERS AND ALL PARTS OF THE SOCIETY:

First of all, on behalf of the Board of Directors of Honghua Group, I would like to express my sincere gratitude to all shareholders and friends for their attention and support.

In 2017, the international oil prices rallied up in turmoil, while the global political and economic situation continued to be complicated and volatile. China's economy remained stable and its natural gas demand kept growing. Honghua, as a world leading company in the global oil and gas equipment manufacturing industry continued to forge ahead in the volatile market. In 2017, the Company's primary task was to develop the market and obtain orders, along with all staff's hard work, the Company's continued operations gradually recovered, leasing the tough period behind and moving period.

In 2017, in response to changes in the international oil and gas industry, we adjusted the company's strategy and adjusted the intelligent application of energy development as the company's growth direction to leverage Honghua's own business features, in order to realize the objectives of transformation and upgrade in energy equipment manufacturing industry, thereby becoming a world-class enterprise in equipment and technology for oil and gas exploration and development. In addition, in 2017, Honghua also ushered in a major year of change: one of the world's Top 500 Enterprises and China's state-owned enterprise- China Aerospace Science and Industry Corporation ("CASIC") became the largest shareholder of the Group. The shareholding of China National Aerospace Corporation's aerospace industry has naturally brought both new standards and new development opportunities to Honghua. The positioning of becoming a "leading energy equipment manufacturing enterprise", "one of the core equipment manufacturers", "a key player in international operations" and an "overseas investment and financing platform", showcasing its confidence and hope in Honghua's future development.

Next, as the management of Honghua, we will spare no efforts on guiding Honghua to complement our strengths and make up for our weaknesses, further leveraging Honghua's established brand effect in the international market and, through technical innovation, becoming an international first-class oil and gas equipment and services company. Meanwhile, our major shareholder — CASIC, relying on its domestic and overseas market network as well as high-tech research and development capability, will inject new impetus into the future development of Honghua. In the domestic market, we will continue to promote our innovative achievement — "the Shale Gas Integrated Solution mainly employing the digital-control and variable-frequency fracturing system", which is a breakthrough in the domestic clean energy market. Also, we will deepen the natural gas hydrate solid fluidization mining technology and build technical reserves in the long-term development of Honghua. In the overseas market, we'll strive to promote the innovative business model featuring increasing sales through lease and driving large-amount oil and gas exploration and mining equipment sales and services through oil trade and focus on the business development in the markets along the "Belt and Road" region, to achieve rapid expansion of our business scale.

Looking ahead to 2018, the global economy is expected to recover continuously and China's natural gas consumption is expected to keep on growing. In the future, facing the new environment featuring complicated and volatile international situation, Honghua will refuel its "entrepreneurial" passion to face competition in the international oil and gas equipment manufacturing and services market. We will three major tasks, namely "quality enhancement, structural readjustment, and transformation of development mode" and improve the corporate governance to promote Honghua's comprehensive transformation and upgrade as a second time undertaking, which will continue to create new value for our shareholders.

At last, we sincerely express the thanks to our shareholders and friends from all walks of life for their long-term support. We are also grateful to the directors, the management team and all the staff of Honghua for their commitment. We will share the fruitful of the development of Honghua.

Chen Yajun
Chairman

March 29, 2018

MANAGEMENT DISCUSSION AND ANALYSIS

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 Limited ("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 in 2020. 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 lowered 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.

ENVIRONMENTAL POLICIES AND PERFORMANCES

For the year ended 31 December 2017, the Group's business operation made continuous effort on minimizing pollution to the environment and conserving natural resources through its policies and guidelines. No non-compliance in relation to environmental and social aspects was recorded. Engagement with stakeholders has resulted in raised concerns on key material issues, which include (i) employment, (ii) occupational health and safety, (iii) intellectual property, (iv) customer privacy and (v) anti-corruption. These aspects had already been managed by the Group and the Group will continue to keep close communication with its stakeholders for advancing its environmental, social and governance management. Details of the Group's environmental policies and performances are set out in the Environmental, Social and Governance Report of this annual report.

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 leverage 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

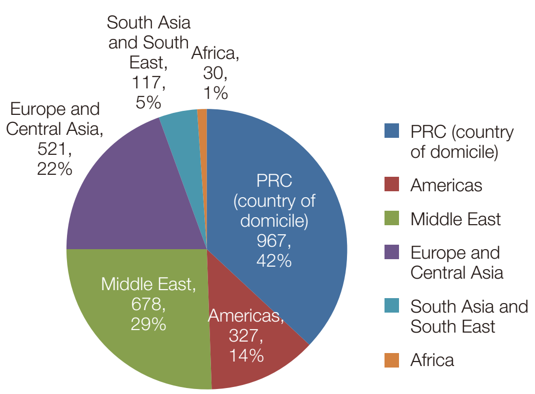
The Group's revenue including discontinued operations by geographical segment during the Year: (1) The Group's export revenue amounted to approximately RMB1,359 million, accounting for approximately 58.4% of total revenue, representing a decrease of RMB358 million as compared to Last Year; (2) Mainland 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

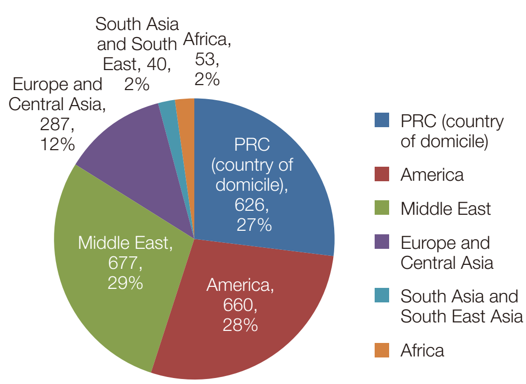
Year ended 31 December 2017

Expressed in RMB'million



Year ended 31 December 2016

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 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.

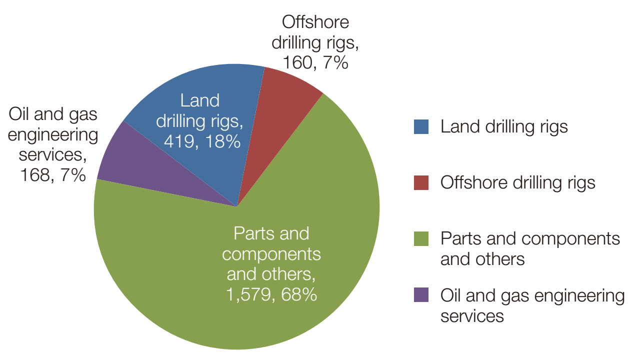
During the Year, external revenue from parts and components and others amounted to approximately RMB1,579 million, representing an increase of RMB421 million, or 36.3%, as compared to RMB1,158 million Last Year.

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

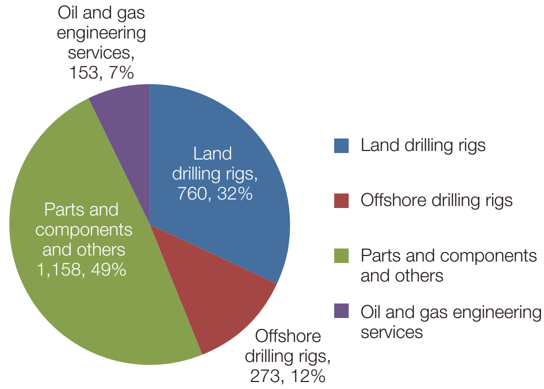
Year ended 31 December 2017

Expressed in RMB'million



Year ended 31 December 2016

Expressed in RMB'million



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 assets of discontinuing 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Chen Yajun (陳亞軍先生), aged 55, has been an Executive Director of the Company and Chairman of the Board since 29 March 2017. Mr. Chen joined in CASIC Group since 1988 and had leaderships in the second institute, the forth research institute of CASIC Group and China Aerospace Automotive Co., Ltd. respectively. Mr. Chen obtained Bachelor's degree and Master's degree from Beijing Institute of Technology in 1985 and 1988 respectively.

Positions held by Mr. Chen in the Company's subsidiaries are set forth in the table below.

Subsidiary	Position	Term of Office
Honghua Holdings Limited	Chairman	Since 19 August 2017
Honghua (China) Investment Co., Ltd.	Chairman	Since 21 July 2017

Mr. Zhang Mi (張弭先生), aged 61, has been an Executive Director since June 2007, the Chairman of the Company from June 2007 to March 2017 and the vice Chairman of the Company since March 2017. He is also President of the Company. Positions held by Mr. Zhang in the Company's subsidiaries are set forth in the table below.

Subsidiary	Position	Term of Office
Honghua Holdings Limited	Director	Since 18 August 2006
	Chairman	Since 8 September 2009 to 19 August 2017
	Chief Executive Officer	Since 8 September 2009
Sichuan Honghua Petroleum Equipment Co .,Ltd.	Director	Since 31 December 1997
Sichuan Honghua International Co., Ltd.	Director	Since 13 January 2004
Honghua Offshore Oil & Gas Equipment (Jiangsu) Co., Ltd .	Chairman	Since 8 June 2009
Shanghai Honghua Offshore Oil & Gas Equipment Co., Ltd.	Executive Director	Since 9 September 2009
Honghua (China) Investment Co, Ltd.	Chairman	Since 14 January 2010 to 21 July 2017
	General manager	Since 14 January 2010
Honghua Oil & Gas Engineering Services Co. Ltd.	Director	Since 14 April 2009
Honghua America, LLC.	Chairman	Since 11 October 2004
Egyptian Petroleum HH Rigs Manufacturing CO. S.A.E	Director	Since 26 April 2007
Gansu Hongteng Oil & Gas Equipment	Director	Since 28 December 2011

Mr. Zhang graduated from the Sichuan Petroleum Administration Vocational University in 1982, with a diploma in machinery manufacture, design and equipment. He graduated from the Party Institute of Sichuan Provincial Committee Correspondence College in 1998, with a degree in Economics and Management. In 2004 he then obtained a senior engineer qualification granted by the Committee for Evaluation of Senior Technical Positions of the China National Petroleum Corp. He has been receiving special subsidies granted by the State Council of the PRC government since February 2007, for his significant contribution to the development of machinery engineering in the PRC.

In 2005, Mr. Zhang was awarded the Sichuan Province Prize for Outstanding Talent in Innovation (四川省第三屆傑出創新人才獎), by the Sichuan Provincial Party Committee and the Sichuan Provincial People's Government. In 2007, he was granted the May 1 Labor Medal of Sichuan Province (四川省五一勞動獎章) by the Sichuan Provincial Federation of Trade Unions in 2007. Mr. Zhang was rewarded as Leading Entrepreneur of Foreign Trading and Export Enterprises in Sichuan for 2009. In 2015, he was rewarded as a national model worker.

Mr. Ren Jie (任杰先生), aged 51, has been an Executive Director of the Company since 18 January 2008. He has been the senior vice-president of the Company since 1 January 2016. In 1990, Mr. Ren earned a Bachelor's degree in mining machinery from Southwest Petroleum University, located in Sichuan Province, specializing in petroleum and natural gas. In 1995, Mr. Ren obtained an engineering qualification, granted by the China National Petroleum Corp., Sichuan Petroleum Administration. In November 2007, he also became a member of the 5th Edition Committee of the Oil Field Equipment Journal, and in 2012, he earned a Doctor's degree in Mechanical Design and Theory from Southwest Petroleum University. Mr. Ren is employed as an engineer by Sichuan Honghua Petroleum Equipment Co., Ltd.

Positions held by Mr. Ren in the Company's subsidiaries are set forth in the table below.

Subsidiary	Position	Term of Office
Honghua Holdings Limited	Director	Since 18 August 2006
Sichuan Honghua Petroleum Equipment Co., Ltd.	Director	Since 31 December 1997
	General Manager	Since 1 July 2013
	Chairman	Since 1 January 2018
Sichuan Honghua International Co., Ltd.	Director	Since 13 January 2004
Sichuan Honghua Electric Co.,Ltd..	Director	Since 1 August 2009
Honghua (China) Investment Co., Ltd.	Director	Since 14 January 2010
Newco (H.K.) Limited	Director	Since 22 June 2008
	Chairman, and General Manager	Since 22 September 2009
Honghua America, LLC.	Director	Since 10 October 2008
Sichuan Honghua International (H.K.) Limited	Director	Since 25 June 2010

Mr. Liu Zhi (劉智先生), aged 54, had been an Executive Director of the Company since 26 May 2008 and resigned with effect from 15 June 2017. He was also a Vice-president of the Company and resigned with effect from 15 June 2017. In 2008, Mr. Liu was in charge of quality department, technical centre of research of drilling equipment, material supply department and sale department of Sichuan Honghua Petroleum Equipment Co., Ltd.. Mr. Liu graduated from Southwest Petroleum University in 2003, with a Master degree in oil and gas storage and transportation. He was an engineer and a head of workshop of South-Sichuan Mining Area of Sichuan Petroleum Bureau since 1981 to 1994. Mr. Liu was the factory director of Guanghan Petroleum Machinery Main Factory of Sichuan Petroleum Administration from 1994 to 2000. Mr. Liu has contributed to the expansion of Honghua Group's markets inside and outside of China.

Positions held by Mr. Liu in the Company's subsidiaries are set forth in the table below.

Subsidiary	Position	Term of Office
Honghua Holdings Limited	Director	Since 26 May 2008 to 18 August 2017
Honghua Offshore oil & gas equipment (Jiangsu) Co., Ltd.	Director	Since 8 June 2009 to 11 October 2017
Honghua Oil & Gas Engineering Services Co., Ltd.	Director	Since 14 April 2009
Honghua (China) Investment Co., Ltd.	Director	Since 14 January 2010 to 21 July 2017
Honghua Oil & Gas Engineering and Technology Services (Sichuan) Co., Ltd.	Chairman	Since 30 December 2010

NON-EXECUTIVE DIRECTORS

Mr. Siegfried Meissner, aged 65, had been a Non-executive Director of the Company since 26 May 2008 and resigned with effect from 29 March 2017. Mr. Meissner graduated from the Technical University of Clausthal-Zellerfeld, Germany as Dipl. Berging., specialized in drilling, reservoir and production engineering in 1982. Since 1993, Mr. Meissner joined the Nabors Group as President of Nabors Drilling International Limited. Mr. Meissner has been a director of Nabors International Management Limited since 29 December 2004.

Mr. Popin Su, aged 53, had been the alternate director to Siegfried Meissner, a Non-executive director of the Company, since 27 December 2012 and resigned with effect from 29 March 2017. Mr. Su has been the vice president and corporate treasurer of Nabors Industries since 2008. Mr. Su acted as the vice president of Nabors Drilling International Ltd. from 1999 to 2007. Mr. Su holds a Bachelor of Science degree from National Taiwan University and a Master's degree in Business Administration from University of Texas at Austin.

Mr. Han Guangrong (韓廣榮先生), aged 56, has been a Non-executive Director of the Company since 29 March 2017. Mr. Han is currently the deputy director of the international-business department of CASIC and the vice chairman of Aerospace Hi-tech Holding Group Co., Ltd. Mr. Han joined in CASIC Group since 1984 and had leaderships in the third institute of CASIC Group and CASIC. Mr. Han obtained Bachelor of engineering degree from Harbin Institute of Technology and Master of engineering degree from Beihang University in 1984 and 1997 respectively.

Mr. Chen Wenle (陳文樂先生), aged 38, has been the Non-executive Director of the Company since 29 March 2017. Mr. Chen is currently the director of corporate plan and development department of Shenzhen Aerospace Industry Technology Research Institute Co., Ltd. and chairman of Zhuhai Aerospace Science and Technology Innovation Industrial Co., Ltd. Mr. Chen has worked in Shum Yip Group Limited and joined in CASIC Group in 2011. Mr. Chen obtained Bachelor of finance degree from Shandong University in 2003 and Master of economics degree from Shanghai University of Finance and Economics in 2006.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Liu Xiaofeng (劉曉峰先生), aged 55, has been an Independent Non-executive Director of the Company since 18 January 2008. He is currently an independent non-executive director of Kun Lun Energy Company Limited, Cinda International Holdings Limited, Hisense Kelon Electrical Holdings Company Limited and Sunfonda Group Holdings Limited. He was a managing director of China Resources Capital Holdings Company Limited. He has years of experience in corporate finance and has worked with various international financial institutions since 1993, including, NM Rothschild & Sons, JP Morgan and DBS. Mr. Liu obtained a Master's degree and a Ph.D. from the Faculty of Economics, University of Cambridge in 1988 and 1993 respectively, a Master of Science degree in Development Studies from the University of Bath, England, in 1987, and a Bachelor of Economics degree from Southwest University of Finance and Economics in 1983.

Mr. Qi Daqing (齊大慶先生), aged 54, had been an Independent Non-executive Director of the Company since 18 January 2008 and resigned with effect from 1 January 2018. Mr. Qi is also an independent non-executive director of Sohu.com Inc., Sino Media Holding Ltd., iKang Healthcare Group, Inc., MOMO INC., Jutal Offshore Oil Services Limited and Yunfeng Financial Group Limited. Mr. Qi is currently a professor of Cheung Kong Graduate School of Business and a member of the American Accounting Association. Mr. Qi had worked for The Chinese University of Hong Kong, the Eli Broad Graduate School of Management at Michigan State University in the United States, the East-West Center in the United States and the China Features in Xinhua News Agency in the PRC. Mr. Qi graduated from Fudan University with a bachelor's degree of science in Biophysics and a bachelor's degree of arts in International Journalism. He obtained a master's degree in Management from the University of Hawaii and a doctoral degree in Accounting from the Eli Broad College of Business, Michigan State University in the United States.

Mr. Chen Guoming (陳國明先生), aged 55, has been an Independent Non-executive Director of the Company since 18 January 2008. He is now a Professor, a Ph.D. candidate supervisor, a member of the Academic Committee, the Chief officer of Research Centre of Security technique of the Offshore Oil & Gas Equipment, the Chief officer of Professor Committee in the Department of Mechanical and Electrical Engineering of China University of Petroleum. Currently, Mr. Chen is the Chief officer of Shandong Key Laboratory of Petroleum Mechanical Engineering; a member of the Quality & Reliability Committee of China Petroleum Society, the Offshore Engineering Committee of China Naval Architects and Marine Engineers' Society and China Mechanical Engineering Society; and a member of the Editorial Committee of the Journal of Petroleum Science, the Journal of Oil Mining Field Machinery and the Journal of China University of Petroleum (Natural Science Edition). He has been receiving special subsidies granted by the State Council of the PRC government (政府特殊津貼) since August 2005, for his significant contribution to the development of higher education in China, and was awarded the National Labor Day Medal in 2007. In 1982, Mr. Chen graduated from the Mechanical Department of the East China Petroleum Institute with a Bachelor's Degree, and then worked as an assistant engineer in the Lanzhou

General Machinery Plant from 1982 to 1983. He earned his Master's degree in 1986, from the Beijing Graduate School of East China Petroleum Institute. He then worked as a teacher in this Institute and was promoted to Associate Professor and then Professor in 1992 and 1995, respectively. He was a visiting scholar at the University of California, Berkeley, from 1996 to 1997. He obtained his Ph.D. degree in 1999, and was promoted to Ph.D. candidate supervisor in 2000.

Mr. Shi Xingquan (史興全先生), aged 75, had been an Independent Non-executive Director of the Company since 14 April 2009 and resigned with effect from 29 March 2017. Mr. Shi is a senior engineer in professor level. Mr. Shi has been appointed as the vice president of PetroChina Company Limited from 1999 until 2003. Mr. Shi was awarded the National Technology Advancement Award (First Prize) by the National Science and Technology Council of the PRC in 1997. In 2003, Mr. Shi was awarded the National Scientific and Technological Progress Award (First Prize) by State Council of the PRC. Mr. Shi was also granted the Middle-aged and Young Experts of the State with Outstanding Contribution by Ministry of Personnel of the PRC. Mr. Shi graduated from the Northeastern Petroleum College in 1965 and is a well-known petroleum engineering expert.

Mr. Guo Yanjun (郭燕軍先生), aged 65, had been an Independent Non-executive Director of the Company since 20 June 2011 and resigned with effect from 29 March 2017. Mr. Guo is an independent non-executive director of Mei Ah Entertainment Group Limited (HKSE Stock Code: 00391), Strong Petrochemical Holdings Limited (HKSE Stock Code: 00852) and MIE Holdings Corporation (HKSE Stock Code: 01555). Mr. Guo has extensive entrepreneurship experiences and experience of corporate operation and management. Mr. Guo is currently the chairman of CNHK Tech Co., Ltd. and CNHK Media Limited. In 1982, Mr. Guo graduated with a Diploma in Law from China People's University in 1984.

Ms. Su Mei (蘇梅女士), aged 49, has been an Independent Non-executive Director of the Company since 29 March 2017. Ms. Su is currently the chief executive officer of Beijing YaMeiHeZhong Consulting Co., Ltd. Ms. Su once had leaderships in Discipline Inspection Commission of Sichuan Province and Sichuan Development and Reform Commission and State-owned Assets Supervision and Administration Commission of State Council, worked as the vice-president in Sichuan Provincial Investment Group, the chairman of Sichuan Chuantou Water Group and vice-president of Joneson Group. Ms. Su obtained Doctor's degree in finance and Master's degree in securities investment from Sichuan University in 2013 and 1999 respectively, and obtained Bachelor's degree of Chinese from Shandong University in 1991.

Mr. Poon Chiu Kwok (潘昭國先生), aged 56, has been an Independent Non-executive Director of the Company since 15 June 2017. Mr. Poon is currently an executive director, vice president and company secretary of Huabao International Holdings Limited. Mr. Poon has years of experience in finance, compliance and listed companies management. Mr. Poon is currently the independent non-executive director of Sany Heavy Equipment International Holdings Company Limited, Greentown Service Group Co., Ltd., Sunac China Holdings Limited, Tonly Electronics Holdings Limited, Yuanda China Holdings Limited, Changan Minsheng APLL Logistics Co., Jinchuan Group International Resources Co. Ltd., TUS International Limited, AUX International Holdings Limited and Yanzhou Coal Mining Company Limited and also as an non-executive director of Chong Kin Group Holdings Limited. Mr. Poon is a fellow member of CPA Australia, The Institute of Chartered Secretaries and Administrators, The Hong Kong Institute of Chartered Secretaries and a member of its Technical Consultation Panel, Mainland China Focus Group, Audit Committee and Professional Development Committee. He was granted postgraduate diploma in laws from the University of London. He holds a Master's degree in international accounting, Master's and Bachelor's degree in laws and a Bachelor's degree in business studies.

Mr. Chang Qing (常清先生), aged 61, has been an Independent Non-executive Director of the Company since 15 June 2017. Mr. Chang is currently the chairman of Jinpeng International Futures Co., Ltd., a professor of China Agricultural University and the chairman of the expert committee of China Futures Association. Mr. Chang is also currently a member of the Expert Committee of China Securities Journal. Mr. Chang is now acting as an independent non-executive director of Kangda International Environmental Company Limited and China Chengtong Development Group Limited. He previously served as independent non-executive directors of Tibet Summit Resources Co., Ltd., TBEA Co., Ltd., Shenwu Environmental Technology Co., Ltd. and Yuan Long Ping High-Tech Agriculture Co., Ltd. respectively. Mr. Chang graduated from the Chinese Academy of Social Sciences with a doctorate degree in agricultural economics and management in 2001, graduated from Jilin University with both a master's degree in national economics in 1985 and a bachelor's degree in economics in 1982.

Mr. Wu Yuwu (吳毓武先生), aged 57, has been an Independent Non-executive Director of the Company since 1 January 2018. Mr. Wu is currently a professor of accounting at the School of Accountancy of the Chinese University of Hong Kong. Mr. Wu has years of experience in accounting academics and research. Mr. Wu currently serves as an independent non-executive director of China Galaxy Securities Co., Ltd. He holds a Director's degree in accounting and a degree of Master of Business Administration.

SENIOR MANAGEMENT

Mr. Zhao Ping (趙平先生), aged 61, had been the Human Resources Director of the Company from 26 March 2015 to 7 December 2016 and had been a Vice-president of the Company since 27 April 2008 and resigned with effect from 31 December 2017. He has been a director of Honghua Company since 18 January 2010, and had been the chairman of Honghua Company from 1 January 2012 to 31 December 2017. He was the general manager of Honghua Company from 18 January 2010 to 31 December 2011. From 1972 to 1999, Mr. Zhao worked in South-Sichuan Mining Area of Sichuan Petroleum Bureau. He was the head of Quality Management Office since 1993, and the director of Workshop No. 1 from 1994 to 1996, and was the deputy factory director from 1997 to 1999. Mr. Zhao graduated from Machinery Department of Southwest Petroleum University, majoring in Petroleum & Minerals Machinery and is a qualified engineer.

Ms. Xu Chuan (徐川女士), aged 52, has been the Human Resources Director of the Company since 7 December 2016. Ms. Xu joined in the Company in 2001 and has been the vice general manager of Honghua Company, the vice general manager of Honghua International Co., Ltd. and the general manager of Egyptian Petroleum HH Rigs Manufacturing CO. S.A.E. Ms. Xu obtained the EMBA degree in Southwest Jiaotong University and bachelor's degree in Southwest Petroleum University in 2005 and 1987 respectively.

Mr. Zhang Cong (張聰先生), aged 62, has been a Vice-president of the Company from 27 April 2008 to 29 March 2017, and has been the chairman of Sichuan Honghua Electric Co., Ltd. since June 2001, and has been the general manager from June 2001 to 31 December 2016. He has been a director of Honghua International Co., Ltd. from 1 August 2009 to 10 December 2017, and has been the general manager of Honghua Offshore Oil & Gas Equipment (Jiangsu) Co., Ltd. since 26 September 2011. Mr. Zhang was one of the initial founders of Sichuan Honghua Electric Co., Ltd.. Mr. Zhang has helped Sichuan Honghua Electric Co., Ltd. to sell DBS digital VFD system to major oil fields in China and a large number of products to the overseas market. In December 2006, Mr. Zhang was awarded "The Fourth session Excellent Start in Undertaking Entrepreneur of Chengdu". Mr. Zhang was a cadre in South-Sichuan Mining Area of Sichuan Petroleum Bureau from September 1985 to September 1994 and was the manager and director of Luzhou Huayou Compressed Gas Co., Ltd. from September 1994 to June 2001. Mr. Zhang graduated from Sichuan Radio TV University, majoring in electronic technology and is a qualified engineer.

Mr. Dang Nan (黨楠先生), aged 53, has been the Vice-president of the Company since 29 March 2017. Mr. Dang is currently the vice-president, member of the party committee and the chief information officer of China Volant Industry Co. Ltd. (CPMIEC). Mr. Dang graduated from Beihang University and has a Master's degree of Technology.

Mr. Yuan Hai (袁海先生), aged 40, has been the Financial Controller of the Company since 26 March 2015. Mr. Yuan joined the Company in 2007. Mr. Yuan has over 14 years of experience in financial management and has been a member of Certified Management Accountant (CMA) of America since January 2016. Mr. Yuan was engaged in PricewaterhouseCoopers from 2000 to 2004, with the then last position as senior tax consultant. From 2004 to 2007, he worked in Bayer Animal Health China with the then last position as financial controller. Mr. Yuan obtained a Bachelor's degree majoring in international trade from Southwest University of Finance and Economics in 2000.

Ms. Xu Xiufang (許秀芳女士), aged 46, has been the Chief Financial Officer of the Company since 29 March 2017. Ms. Xu worked in CASIC Group since 1994 and was engaged in accounting and financing. Ms. Xu currently is the chief accountant of the First Research Institute of CASIC Group. Ms. Xu obtained the Master's degree of management in Huazhong University of Science and Technology in 2005 and Bachelor's degree of economics in Beijing Forestry University in 1994.

Mr. He Bin (何斌先生), aged 44, has been the secretary of Board and a Joint Company Secretary of the Company since 27 December 2013. Mr. He joined the Group in 2008 as the director of Strategic Investment Department and assistant president of the Company. Mr. He has more than 10 years of investment and management experience, once was engaged in venture capital, investment consulting and other related work in Samsung Company. He holds a Bachelor's degree from Renmin University of China and a Master's degree in Business Administration from University of Alberta in Canada.

Ms. Lee Mei Yi (李美儀女士), aged 50, has been a Joint Company Secretaries of the Company since 7 July 2015. Ms. Lee is a director of corporate services division of Tricor Services Limited and a fellow member of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators. Ms. Lee has over 25 years' experience in company secretarial area.

CORPORATE GOVERNANCE REPORT

The Board presents this Corporate Governance Report in the Group's annual report for the year ended 31 December 2017.

The Company's corporate governance policies and practices are applied and implemented in the manners as stated in the following Corporate Governance Report:

CORPORATE GOVERNANCE PRACTICES OF THE COMPANY

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

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

The Board believes that good corporate governance practices are increasingly important for maintaining and promoting Shareholder value and investor confidence.

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

The CG Code set out the principles of good corporate governance and two levels of corporate governance practices:

(a) code provisions, which listed issuers are expected to comply with or to give considered reasons for any deviation; and

(b) recommended best practices for guidance only, which listed issuers are encouraged to comply with or to give considered reasons for deviation.

The Company has devised its own code of corporate governance based on all the major principles and practices as set out in the CG Code.

The Company has complied with most of the code provisions as set out in the CG Code throughout the year ended 31 December 2017, save for certain deviations from the code provision in respect of separation of roles of Chairman and President (Chief Executive) 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 enhancing its corporate governance practices appropriate to the conduct and growth of its business and to reviewing its corporate governance practices from time to time to ensure that they comply with the statutory and professional standards and align with the latest developments.

MODEL CODE FOR SECURITIES TRANSACTIONS

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

Specific enquiry has been made of all the Directors and all Directors have confirmed that they have complied with the Company's Code and the Model Code throughout the year ended 31 December 2017.

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

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

THE BOARD OF DIRECTORS

The Board oversees the Group's businesses, strategic decisions and performance and should take decisions objectively in the best interests of the Company.

The Board should regularly review the contribution required from a Director to perform his responsibilities to the Company, and whether the Director is spending sufficient time performing them.

BOARD COMPOSITION

The Board currently comprises 11 Directors, consisting of 3 Executive Directors, namely Mr. Chen Yajun, Mr. Zhang Mi and Mr. Ren Jie, 2 Non-executive Directors, namely Mr. Han Guangrong and Mr. Chen Wenle and 6 Independent Non-executive Directors, namely Mr. Liu Xiaofeng, Mr. Chen Guoming, Ms. Su Mei, Mr. Poon Chiu Kwok, Mr. Chang Qing and Mr. Wu Yuwu. The biographical details of Directors are set out under "Biographical Details of Directors and Senior Management" on pages 24 to 30.

None of the members of the Board is related to one another.

CHAIRMAN AND PRESIDENT (CHIEF EXECUTIVE)

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual.

From 1 January 2017 to 29 March 2017, Mr. Zhang Mi was the Chairman 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 the 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 for 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 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

During the year ended 31 December 2017, the Board at all times met the requirements of the Listing Rules relating to the appointment of independent non-executive directors representing one-third of the Board.

During the period from 1 January 2017 to 29 March 2017, the Company had five Independent Non-executive Directors with two of whom possessing appropriate professional qualifications or accounting or related financial management expertise so that there is a strong independent element on the Board, which can effectively make independent judgment.

On 29 March 2017, Mr. Shi Xingquan and Mr. Guo Yanjun resigned as the Independent Non-executive Directors while Ms. Su Mei was appointed as the Independent Non-executive Director.

On 15 June 2017, Mr. Poon Chiu Kwok and Mr. Chang Qing were appointed as the Independent Non-executive Directors. Mr. Poon Chiu Kwok and Mr. Chang Qing will retire by rotation and being eligible, offer themselves for re-election at 2018 annual general meeting.

The Company has received written annual confirmation from each of the Independent Non-executive Directors in respect of his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company considers all Independent Non-executive Directors are independent.

On 1 January 2018, Mr. Qi Daqing resigned as the Independent Non-executive Director while Mr. Wu Yuwu was appointed as the Independent Non-executive Director. Mr. Wu Yuwu will retire by rotation and being eligible, offer himself for re-election at 2018 annual general meeting.

The Board currently comprises six Independent Non-executive Directors with three of whom possessing appropriate professional qualifications or accounting or related financial management expertise, which meets the requirements of the Listing Rules relating to the appointment of independent non-executive directors representing one-third of the Board.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Code provision A.4.1 of the CG Code stipulates that non-executive directors shall be appointed for a specific term, subject to re-election, whereas code provision A.4.2 states that all directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment and that every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

Each of the Directors of the Company is appointed for a specific term of not exceeding 3 years and is subject to retirement by rotation at least once every three years.

RESPONSIBILITIES, ACCOUNTABILITIES AND CONTRIBUTIONS OF THE DIRECTORS

The Board is responsible for leadership and control of the Company; is collectively responsible for directing and supervising the Company's affairs; and oversees the Group's businesses, strategic decisions and performance.

The senior management was delegated the authority and responsibility by the Board for the day-to-day management and operations of the Group. In addition, the Board directly, and indirectly through its committees, leads and provides direction to management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place. The Board has delegated to these Board committees various responsibilities as set out in their terms of reference.

All Directors have carried out duties in good faith, in compliance with the standards of applicable laws and regulations, and act in the interests of the Company and its Shareholders at all times.

All Directors, including Non-executive Directors and Independent Non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

The Independent Non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgement on corporate actions and operations.

All Directors have full and timely access to all the information of the Company as well as the services and advice from the company secretary and senior management. The Directors are always provided in a timely manner with comprehensive, accurate and detailed information on the Company's operation through monthly report, business operation report, important projects report and financial report so as to enable the Directors to make decisions and perform their duties and responsibilities. The Directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The Directors shall disclose to the Company details of other offices held by them.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management.

BOARD DIVERSITY

Code provision A.5.6 of the CG code stipulates that the Board shall have a policy concerning the diversity of board members, and should disclose the policy or a summary of the policy in the corporate governance report.

The Board has adopted board diversity policy for setting out the approach to achieve diversity on the Board and the board diversity policy has been made available on the Company's website.

In assessing the Board composition, the Board would take into account various aspects set out in the Board diversity policy, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry and regional experience. The Board would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary.

TRAINING INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

Directors shall keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that their contribution to the Board remains informed and relevant.

Every newly appointed director will receive formal, comprehensive and tailored made induction on the first occasion of his/her appointment, so as to ensure that he/she has adequate understanding of the business and operations and governance of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Internally-facilitated briefings for Directors would be arranged and reading material on relevant topics will be issued to Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses.

All the Directors have actively participated in the continuous professional development by way of attending seminar and/or conferences and/or forums and/or reading materials.

During the year ended 31 December 2017, the following Directors attended seminars/training sessions/in-house briefing/reading materials:

Directors	Attending seminar and/or conferences and/or forums	Reading journals, updates, articles and/or materials, etc.
Executive Directors		
Chen Yajun (appointed with effect from 29 March 2017)	✓	✓
Zhang Mi	✓	✓
Ren Jie	✓	✓
Liu Zhi (resigned with effect from 15 June 2017)	✓	✓
Non-Executive Directors		
Siegfried Meissner (resigned with effect from 29 March 2017)	✓	✓
Popin Su (alternate director to Siegfried Meissner) (resigned with effect from 29 March 2017)	✓	✓
Han Guangrong (appointed with effect from 29 March 2017)	✓	✓
Chen Wenle (appointed with effect from 29 March 2017)	✓	✓
Independent Non-Executive Directors		
Liu Xiaofeng	✓	✓
Qi Daqing (resigned with effect from 1 January 2018)	✓	✓
Chen Guoming	✓	✓
Shi Xingquan (resigned with effect from 29 March 2017)	✓	✓
Guo Yanjun (resigned with effect from 29 March 2017)	✓	✓
Su Mei (appointed with effect from 29 March 2017)	✓	✓
Poon Chiu Kwok (appointed with effect from 15 June 2017)	✓	✓
Chang Qing (appointed with effect from 15 June 2017)	✓	✓

BOARD COMMITTEES

The Board has established 3 committees, namely, the Audit Committee, Remuneration Committee and Strategic Investment and Risk Control Committee for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with specific written terms of reference which deal clearly with their authority and duties. The terms of reference of the Board committees are posted on the Company's website and the Stock Exchange's website and are available to Shareholders upon request.

The list of the chairman and members of each Board committee is set out under "Corporate Information" on page 2.

AUDIT COMMITTEE

During the period from 1 January 2017 to 29 March 2017, the Audit Committee comprised five Independent Non-executive Directors, namely Mr. Qi Daqing (Chairman), Mr. Liu Xiaofeng, Mr. Chen Guoming, Mr. Shi Xingquan and Mr. Guo Yanjun. Two of Independent Non-executive Directors possess the appropriate professional qualifications or accounting or related financial management expertise.

On 29 March 2017, Mr. Shi Xingquan and Mr. Guo Yanjun resigned as the members of the Audit Committee while Ms. Su Mei was appointed as the member of the Audit Committee.

On 15 June 2017, Mr. Poon Chiu Kwok and Mr. Chang Qing were appointed as the members of the Audit Committee.

On 1 January 2018, Mr. Qi Daqing resigned as the Chairman of the Audit Committee while Mr. Wu Yuwu was appointed as the Chairman of the Audit Committee.

The Audit Committee currently comprised 6 Independent Non-executive Directors, namely, Mr. Wu Yuwu (Chairman), Mr. Liu Xiaofeng, Mr. Chen Guoming, Ms. Su Mei, Mr. Poon Chiu Kwok and Mr. Chang Qing. Three of Independent Non-executive Directors possess the appropriate professional qualifications or accounting or related financial management expertise.

The main duties of the Audit Committee include the following:

- To review the financial statements and reports and consider any significant or unusual items raised by the staff responsible for the accounting and financial reporting function or external auditors before submission to the Board;
- To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendations to the Board on the appointment, re-appointment and removal of external auditors;
- To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures and internal audit function; and
- To review the compliance of the corporate governance issues, the corporate governance report and the corporate governance policy.

The Audit Committee provides supervision on the internal control system of the Group and reports to the Board on any material issues, and makes recommendations to the Board.

During the Year under review, the Audit Committee has reviewed the Group's annual results and annual report for the year ended 31 December 2017, the financial reporting and compliance procedures, the report from the management on the Company's internal control and risk management systems and processes, the issues on change of the external auditors, the compliance of the corporate governance issues, the corporate governance report and the corporate policy.

The Audit Committee held 2 meetings during the year ended 31 December 2017 and the attendance records are set out under "Directors' Attendance Records" on page 41.

REMUNERATION COMMITTEE

During the period from 1 January 2017 to 29 March 2017, the Remuneration Committee comprised 3 members, Mr. Liu Xiaofeng (Chairman), Mr. Zhang Mi and Mr. Qi Daqing.

On 29 March 2017, Mr. Chen Yajun and Ms. Su Mei were appointed as the members of the Remuneration Committee.

On 1 January 2018, Mr. Qi Daqing resigned as the member of the Remuneration Committee while Mr. Wu Yuwu was appointed as the member of the Remuneration Committee.

The Remuneration Committee currently comprises 5 members, Mr. Liu Xiaofeng (Chairman), Mr. Zhang Mi, Mr. Chen Yajun, Ms. Su Mei and Mr. Wu Yuwu, the majority of them are Independent Non-executive Directors.

The primary objectives of the Remuneration Committee include the following:

- To make recommendations to the Board on the remuneration policy and structure of the Directors and the senior management, the incentive mechanism, and the establishment of procedures for developing the remuneration policy and the incentive mechanism;

- To review and approve the remuneration packages of the Executive Directors and the senior management by reference to the performance of the individual and the Company as well as market practice and conditions; and

- To review and approve the compensation arrangements for the Executive Directors and the senior management in connection with (i) any loss or termination of their office or appointment and (ii) any dismissal or removal of directors for misconduct to ensure such arrangements are determined in accordance with contractual terms and that such compensation is reasonable and appropriate.

The Remuneration Committee normally meets at least once a year for reviewing the remuneration policy and structure and determining the annual remuneration packages of the Executive Directors and the senior management and other related matters.

The Remuneration Committee held 2 meetings during the year ended 31 December 2017 and the attendance records are set out under "Directors' Attendance Records" on page 41.

Details of the remuneration of the senior management by band are set out in note 40 in the notes to the Audited Financial Statements for the year ended 31 December 2017.

The remuneration policies of the Group focus on the efficiency of the employees and the position-value index, with reference to the individual ability and experience of an employee as well as the market value of the labour market, and emphasize on incentive-orientation and also the establishment of a fair and competitive remuneration system. For long-term incentive policies, the Company has adopted the Share Option Scheme and Restricted Share Award Scheme for eligible participants. Details are set out under the paragraphs headed "Share Option Scheme" and "Restricted Share Award Scheme" in the Report of the Directors.

The basis of determining the emolument of Directors is on various considerations, including Directors' capability, knowledge and experience, participation to the Board, job duties and responsibilities and is also made reference to the market practices and conditions. Except Mr. Chen Yajun, the Chairman of the Board, whose remuneration consists of annual basic remuneration and annual performance appraisal remuneration, the remuneration of the Executive Directors is based on their administrative management positions. Independent Non-executive Directors are entitled to a fixed emolument package. Non-executive Directors may be entitled to a fixed remuneration under the service contract.

STRATEGIC INVESTMENT AND RISK CONTROL COMMITTEE

During the period from 1 January 2017 to 29 March 2017, the Strategic Investment and Risk Control Committee comprised 5 members, Mr. Zhang Mi (Chairman), Mr. Ren Jie, Mr. Liu Zhi, Mr. Shi Xingquan and Mr. Liu Xiaofeng.

On 29 March 2017, Mr. Liu Zhi and Mr. Shi Xingquan resigned as the members of the Strategic Investment and Risk Control Committee and Mr. Zhang Mi was re-designated from the Chairman of the Strategic Investment and Risk Control Committee to the member of the Strategic Investment and Risk Control Committee while Mr. Chen Yajun was appointed as the Chairman of the Strategic Investment and Risk Control Committee.

On 15 June 2017, Mr. Poon Chiu Kwok and Mr. Chang Qing were appointed as the members of the Strategic Investment and Risk Control Committee.

The Strategic Investment and Risk Control Committee currently comprises 6 members, Mr. Chen Yajun (Chairman), Mr. Zhang Mi, Mr. Ren Jie, Mr. Liu Xiaofeng, Mr. Poon Chiu Kwok and Mr. Chang Qing.

The main duties of the Strategic Investment and Risk Control Committee include the following:

- To review the investment strategies of the Company;
- To review the risk control of the Company; and
- To recommend investment strategies and risk control policy and practices to the Board.

The Strategic Investment and Risk Control Committee normally meets at least once a year for reviewing the investment and risk control issues. The Strategic Investment and Risk Control Committee didn’t hold meeting during the year ended 31 December 2017.

DISMISSAL OF NOMINATION COMMITTEE

Code provision A.5.1 of the CG Code stipulates that issuers should establish a nomination committee which is chaired by the chairman of the board or an independent non-executive director and comprises a majority of independent non-executive directors.

The Nomination Committee was dismissed on 19 March 2013. The Board has taken over the duties of Nomination Committee in reviewing its own structure, size and composition regularly and taken into consideration of the board diversity policy to ensure that it has a balance of expertise, skills, experience and diversity board members appropriate for the requirements of the business of the Company.

ATTENDANCE RECORD OF DIRECTORS AND COMMITTEE MEMBERS

During the year ended 31 December 2017, 3 regular Board meetings out of 12 Board meetings were held for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

The attendance record of each Director at the meetings of the Board, the Audit Committee, the Remuneration Committee, and the Strategic Investment and Risk Control Committee during the year ended 31 December 2017 are set out below:

	Attendance/Number of Meetings				
Name of Director	Board	Audit Committee	Remuneration Committee	Strategic Investment and Risk Control Committee	Annual General Meeting
Chen Yajun[a]	08*/10	–	01/02	–	01/01
Zhang Mi	12/12	–	02/02	–	–
Ren Jie	12/12	–	–	–	–
Liu Zhi[d]	01/05	–	–	–	–
Siegfried Meissner[b]	00/02	–	–	–	–
Popin Su (the alternate director to Siegfried Meissner)[b]	01/02	–	–	–	–
Han Guangrong[a]	08*/10	–	–	–	–
Chen Wenle[a]	07*/10	–	–	–	–
Liu Xiaofeng	12/12	02/02	02/02	–	01/01
Qi Daqing[e]	12/12	02/02	02/02	–	–
Chen Guoming	12/12	02/02	–	–	–
Shi Xingquan[b]	02/02	01/02	–	–	–
Guo Yanjun[b]	02/02	01/02	–	–	–
Su Mei[a]	10/10	01/02	01/02	–	–
Poon Chiu Kwok[c]	07/07	01/02	–	–	–
Chang Qing[c]	07/07	01/02	–	–	–

a appointed with effect from 29 March 2017
b resigned with effect from 29 March 2017
c appointed with effect from 15 June 2017
d resigned with effect from 15 June 2017
e resigned with effect from 1 January 2018
* Absence due to conflict of interest

Apart from regular Board meetings, the Chairman also held meetings with the Non-executive Directors (including Independent Non-executive Directors) without the presence of Executive Directors during the year.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2017.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report on pages 78 to 85.

Where appropriate, a statement from the Audit Committee explaining its recommendation regarding the selection, appointment, resignation or dismissal of external auditors and the reasons why the Board has taken a different view from that of the Audit Committee.

AUDITORS' REMUNERATION

During the year ended 31 December 2017, the remuneration paid to the Company's external auditors, Messrs PricewaterhouseCoopers, is set out below:

Service Category	Fees (in Renminbi)
Audit Services	3,710,000
Non-audit Services	
— Reviewing interim financial statements	1,200,000
— Other	900,000
Total	5,810,000

The auditors' remuneration disclosed in note 8 to the consolidated financial statements included the remuneration paid to PricewaterhouseCoopers as detailed above.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems.

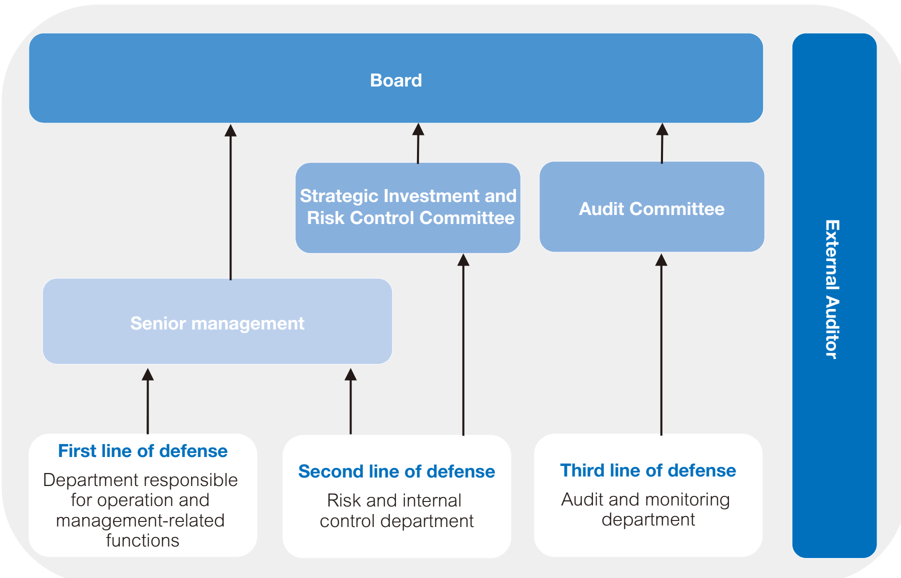
The Strategic Investment and Risk Control Committee and the Audit Committee assists the Board in leading the management and overseeing their design, implementation and monitoring of the risk management and internal control systems.

The Company has established and formulated appropriate policies and checks to ensure that there is no unauthorized use or disposal of asset. Reliable financial and accounting records are maintained in accordance with relevant rules and regulations, relevant accounting standards and regulatory reporting requirements. Material risks which may affect the performance of the Company are properly identified and managed. Such systems and internal controls can only provide reasonable and not absolute assurance against material misstatement or loss and are designed to manage rather than eliminate the risk of failure to achieve business objectives.

RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK

The Company has established a risk management organizational structure with clear responsibility rank and reporting program. The risk and internal control department and the audit and monitoring department assist the Board and the Strategic Investment and Risk Control Committee and the Audit Committee in the continuous review of effectiveness of the Company's risk management and internal control system. The Directors regularly receive information on material risks which may affect the performance of the Company from these committees.

The Company has adopted the following "three lines of defense" model as the guideline of risk management structure:



As the first line of defense, each department and subsidiary of the Company responsible for operation and management and internal control-related functions are the frontline of risk exposure and shall actively analyze the possibility and severity of potential/actual risks in the course of ordinary business activity. They also carry out preliminary risk information collection and identification, actively implement risk solution, participate in the development of risk management culture and receive guidance and supervision from the risk and internal control department. The executive management of the Company, as supported by the risk and internal control department and the audit and monitoring department, is responsible for the design, execution and monitoring of the risk management and internal control system and submits regular report on the effectiveness of such systems to the Board. The management has confirmed to the Board the effectiveness of the issuer's risk management and internal control system.

As the second line of defense, the risk and internal control department and the risk control panel of the Company are primarily responsible for the coordinated planning and development, maintenance and improvement of the risk management and internal control system. They evaluate and formulate ongoing enhancement on the compliance and reasonableness of the principal business procedures and the risk management mechanism and risk control capability of the Company and its subordinated entities. In accordance with the Company's strategic goal and business plan, they devise or arrange relevant department to devise risk management system, internal control system, risk management and internal control manual and management measures, including setting up evaluation mechanism of risk management, evaluation mechanism of effectiveness of internal control, recommendation of risk management strategy and internal control improvement, and report to the business council of the Board and the Strategic Investment and Risk Control Committee.

As the third line of defense, the Audit Committee and the audit and monitoring department of the Company are primarily responsible for the follow-up scrutiny, audit and monitoring of the tasks assigned to the first and second line of defense and reporting to the Board. The audit and monitoring department is responsible for performing independent review of the adequacy and effectiveness of the risk management and internal control systems, examining key issues in relation to the accounting practices and all material controls and providing its findings and recommendations for improvement to the Audit Committee.

The risk and internal control department and the audit and monitoring department have adopted an audit method based on risk and control. With their operation plan throughout the year, the audit and monitoring department and the risk and internal control department cover every major task and program of the operation and business of the Company and service units. They also conduct extraordinary review as requested by the management and the result of audit work are submitted to the Audit Committee, the Strategic Investment and Risk Control Committee and key members of the executive and senior management of the Company. The risk and internal control department and the audit and monitoring department conduct examination and follow-up on audit matters to strive for proper execution and regularly report the progress to the Audit Committee, the Strategic Investment and Risk Control Committee and the executive and senior management of the Company (as the case may be).

RISK MANAGEMENT AND INTERNAL CONTROL MEASURES

The Company has adopted several policies and programs to evaluate and prudently boost the effectiveness of the risk management and internal control system, including the requirement on the executive management of the Company to conduct evaluation and verify in person the proper and effective operation of such matters every year. The Company believes that such measure shall strengthen future corporate governance and business practice.

In 2017, the Company adopted the following key effective measures to strengthen our risk management system:

- The Company consolidated and optimized our entire governance policy in order to enhance the fundamentals of governance, including provisional procedures on the administration of internal audit, relevant financial management system, asset disposal, procedures on the management of investment projects, contract management system, procedures on the management of compliance and legal affairs;

- The Company's internal audit and internal control assessment incorporated risk management to the stage of audit planning, and prepared the sufficiency and effectiveness assessment report for the year based on the Company's comprehensive risk analysis;

- Furthermore, the Company devised and initiated a comprehensive planning of the risk management system with management requirement on risk management and internal control. It established a clear set of risk management method based on six steps including objective determination, risk identification, risk assessment, risk response, control measure and continuous monitoring. Further risk management and control work will focus on continuous implementation of the planning. Building on the standardization of risk management and control system, procedure and authority, we will optimize the inspection mechanism for internal control so as to achieve informatization of risk management and control indicators, enabling the Company's operation and management to better align with risk management and control. We also strived for sound and effective operation of the internal control system by establishing a mature risk management and control model to safeguard strategic development of the Company.

The risk and internal control department and the audit and monitoring department report their work in respect of the sufficiency and effectiveness of the risk management and internal control for the previous period to the Audit Committee and the Strategic Investment and Risk Control Committee at every regular meeting throughout the year, including but not limited to highlighting any failure in the implementation of these control procedures or any material deficiencies of the procedures.

The risk and internal control department takes the lead in the risk management process of the Company by identifying and assessing the material risks within the Group. The management will then discuss, agree and implement relevant risk management measures and corresponding responsive measures. Relevant risk assessment results are reported to the Board and the Audit Committee annually.

REVIEW OF RISK MANAGEMENT AND INTERNAL CONTROL EFFECTIVENESS

The Strategic Investment and Risk Control Committee and the Audit Committee and the Board were not aware of any key findings that would have any substantive impact on the business or financial condition of the Company, and of the opinion that the existing risk management and internal control system is appropriate and effective in terms of sufficiency of resources, qualification and experience of staff, training program and financial budget, internal audit and financial report.

The Management reported to the Board, the Strategic Investment and Risk Control Committee and the Audit Committee on the effectiveness of the risk management and internal control system of the year as at 31 December 2017.

The Board, as supported by the Audit Committee as well as the management report and the internal audit findings, reviewed the risk management and internal control systems, including the financial, operational and compliance controls, for the year ended 31 December 2017, and considered that such systems are effective and adequate. The annual review also covered the financial reporting and internal audit function and staff qualifications, experiences and relevant resources.

INTERNAL AUDIT

The Company has specially established an internal audit and supervision department responsible for the internal control of the Group.

The internal audit and supervision department conducts regular supervision and examination over the business of the Group and also carries out the special supervision and examination for significant projects to regulate the management of the Group.

The internal audit and supervision department reports its work to the Audit Committee on a periodical basis while the Audit Committee reviews and approves the internal audit reports and the annual plan for internal audit annually. The audit opinions will be reported to the Board through the Audit Committee.

The Company has set up an independent reporting channel through which the staff of the Company can report the corrupt conducts of other staffs of the Company directly to the internal audit and supervision department, so that the Company can be held harmless from frauds and other misconducts.

INFORMATION DISCLOSURE

The Company has formulated a set of continuing disclosure obligation procedures in response to the inside information provisions under the SFO and the Listing Rules.

The Company proactively publishes voluntary announcements for the matters of significance involving the current development status of the Company so that Shareholders and investors can be timely aware of the current status of the business development of the Company.

COMPANY SECRETARY

Lee Mei Yi of Tricor Services Limited, an external service provider, has been appointed by the Company as one of its Joint Company Secretaries since 7 July 2015. The primary contact person at the Company is He Bin, one of the Joint Company Secretaries of the Company.

All Directors have access to the advice and services of the Joint Company Secretaries on corporate governance and board practices and matters.

Lee Mei Yi and He Bin, the Joint Company Secretaries, have complied with Rule 3.29 of the Listing Rules by taking no less than 15 hours of the relevant professional training during the Year.

SHAREHOLDERS' RIGHTS

To safeguard Shareholder interests and rights, separate resolutions are proposed for each substantially separate issue at Shareholders' meetings, including the election of individual Directors.

All resolutions put forward at Shareholders' meetings will be taken by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after Shareholders' meeting.

CONVENING AN EXTRAORDINARY GENERAL MEETING BY SHAREHOLDERS

The Board may, whenever it thinks fit, convene an extraordinary general meeting. Extraordinary general meetings may be convened by the Board on requisition of one or more Shareholders' holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the Secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

PUTTING FORWARD PROPOSALS AT GENERAL MEETINGS

There is no provision allowing Shareholders to move new resolutions at general meetings under the Cayman Islands Companies Law or the Articles of Association of the Company. Shareholders who wish to move a resolution may request the Company to convene a general meeting following the procedures set out in the preceding paragraph.

As regards proposing a person for election as a director, please refer to the procedures available on the website of the Company.

PUTTING FORWARD ENQUIRIES TO THE BOARD

For putting forward any enquiries to the Board of the Company, Shareholders may send written enquiries to the Company.

Note: The Company will not normally deal with verbal or anonymous enquiries.

CONTACT DETAILS

Shareholders may send their enquiries or requests as mentioned above to the following:

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

Email: shareholder@hhcp.com.cn

For the avoidance of doubt, Shareholders must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address or 99 East Road, Information Park, Jinniu District, Chengdu, Shichuan, People's Republic of China and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The general meetings of the Company provide a forum for communication between the Board and the Shareholders. The Chairman of the Board as well as chairmen of the Audit Committee, Remuneration Committee and Strategic Investment and Risk Control Committee or, in their absence, other members of the respective committees normally attend the annual general meetings and other relevant Shareholders' meetings to answer questions of Shareholders. Notices to Shareholders for annual general meetings and all other general meetings will be sent to the Shareholders before such meetings pursuant to the requirement of the Listing Rules.

Information relating to the Company's financial results, corporate details, major projects and events are disseminated through publications of interim and annual reports, announcements, circulars and other corporate communications and publications available on the websites of the Stock Exchange and the Company.

During the Year under review, the Company has not made any changes to its Articles of Association. An up-to-date version of the Company's Articles of Association is also available on the websites of the Stock Exchange and the Company.

To promote effective communication, the Company maintains a website at http://www.hh-gltd.com, where up-todate information and updates on the Company's business operations and developments, financial information, corporate governance practices and other information are available for public access.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SCOPE AND REPORTING PERIOD

This is the second Environmental, Social and Governance ("ESG") report by the Honghua Group Limited ("the Group"), highlighting its ESG performance, with disclosure reference made to the ESG Reporting Guide as described in Appendix 27 of the Listing Rules and Guidance set out by The Stock Exchange of Hong Kong Limited.

The Group is a large-scale equipment manufacturer and drilling service provider, specializing in research, design, manufacture and set-assembly of drilling rigs, offshore engineering and oil & gas exploitation and production equipment.

This ESG report covers the Group's overall environmental and social performances of its major business operations which contribute to the Group's most significant environmental and social impacts. These include the business operations of its subsidiaries Honghua (China) Investment Co., Ltd. and Sichuan Honghua Petroleum Equipment Co., Ltd. in (i) the head office in Chengdu, (ii) the office and (iii) the manufacturing plant in Guanghan, Sichuan Province of the People's Republic of China ("PRC"), from 1 January 2017 to 31 December 2017, unless otherwise stated.

STAKEHOLDER ENGAGEMENT AND MATERIALITY

The Group values input and feedback of its stakeholders as they bring invaluable directions for continuous development to the Group. Internal and external stakeholders have been involved in regular engagement activities to share views regarding the Group's operation and performances. The Group has specifically engaged the board members, senior management, frontline staff, suppliers and clients to gain further insights on ESG material aspects and challenges in the reporting period. Through meetings and surveys, the Group and its stakeholders identified the following top five material aspects:

- Employment;
- Occupational health and safety;
- Intellectual property;
- Customer privacy; and
- Anti-corruption.

The above aspects were strictly managed through the Group's policies and guidelines. Management of the aspects have been described in separate sections below. The Group will continue to identify areas of improvement for the concerned aspects and keep close communication with its stakeholders to share and exchange ideas for advancing the Group's ESG management.

STAKEHOLDERS' FEEDBACK

The Group welcomes stakeholders' feedback on our environmental, social and governance approach and performance. Please give your suggestions or share your views with us via email at shareholder@hhcp.com.cn.

THE GROUP'S SUSTAINABILITY VISION AND COMMITMENT

As a largest exporter of drilling rigs in China and one of the largest land drilling rig manufacturers in the world, the Group is committed to leading the industry with the highest standards.

ESG management is of great importance in the Group's business operation. The Group incorporates ESG considerations into its operation and is devoted to:

— Ensuring occupational health and safety of employees;
— Creating a green work environment;
— Improving capabilities of employees; and
— Enriching corporate culture to strengthen bond among employees.

STANDARDS AND CERTIFICATIONS

As a licensed manufacturer under the American Petroleum Institute ("API") Monogram program, the Group conforms to the specifications set out by the API. The Group's quality management system complies with the ISO 9001: 2008/GB/T 19001-2008 standards and its design, manufacture and service of drilling rigs and associated components conform with the API Specification Q1.

A. ENVIRONMENTAL

The Group operates in accordance with its policies formulated for environmental and resources management, which are also in compliance with all applicable national laws and regulations including the Environmental Protection Law, the Atmospheric Pollution Prevention and Control Law, the Water Pollution Prevention and Control Law and the Law on Prevention and Control of Environmental Pollution by Solid Waste of the PRC. All emissions and discharges meet the national statutory standards. There were no non-compliances related to air emissions, water discharges and disposal of wastes.

The health, safety and environmental ("HSE") policies of the Group were formulated with the objectives of pursuing occupational health and production safety, minimizing environmental pollution, and sustaining continuous improvement. Emissions and discharges are closely monitored, analysed, and inspected regularly by qualified specialists. If any accidents causing disruption or damages to the surrounding communities or the environment occurred, responsible persons will be subject to disciplinary actions.

1. *Emissions*

(i) Air Pollutant Emissions

The Group consumed natural gas, petrol and diesel in the reporting period, which contributed to the emission of 1,515.85 kg of nitrogen oxides ("NOx"), 4.02 kg sulphur oxides ("SOx") and 113.70 kg respiratory suspended particles ("PM"). Emissions from the Group's operation were treated before releasing into the atmospheric air. Emission treatment facilities were maintained in good condition for effective treatment of emission gases.

(ii) Greenhouse Gas Emissions

Scope of Greenhouse Gas Emissions	Emission Sources	Emission (in tCO_{2e})	Total Emission (in percentage)
Scope 1 Direct Emission			
Combustion of fuel for stationary sources	Natural gas	2,554.51	30%
	Petrol	281.58	
	Diesel	811.45	
Combustion of fuel for mobile sources	Petrol	103.78	
	Diesel	427.70	
Scope 2 Indirect Emission			
Purchased electricity		8,584.85	67%
Purchased natural gas		699.96	
Scope 3 Other Indirect Emission			
Paper waste disposal		42.51	3%
Water consumption		48.22	
Business air travel		313.26	
Total		**13,867.82**	**100%**

Note 1: Emission factors were made reference to Appendix 27 of the Main Board Listing Rules and their referred documentation as set out by Hong Kong Exchanges and Clearing Limited, unless stated otherwise.

Note 2: Combined margin emission factor of 0.65 tCO_2/MWh was used for purchased electricity in Sichuan Province of the PRC.

Note 3: Electricity and water consumption of the head office in Chengdu of the PRC were estimated by the total consumption of the whole Chengdu base (including the head office and offices of other subsidiaries) *area ratio of the head office to the whole Chengdu base.

The Group's activities contributed to 13,867.82 tonnes (emission intensity: 0.05 tCO_2e/m^2) of carbon dioxide equivalent (including carbon dioxide, methane and nitrous oxides) emitted in the reporting period.

Paper

A total of 8.86 tonnes of paper was used for daily office operation, contributing to a total of 42.51 tonnes of equivalent carbon dioxide emission. The Group strives to reduce paper consumption by avoiding unnecessary consumption and adopting double-sided printing. Apart from saving paper, distribution of office resources (e.g. stationaries) is also strictly monitored through a registration system.

Wastewater Treatment

The Group keeps track of its discharges and holds valid discharge permit to discharge wastewater to the public sewerage system. It continuously improves its production process, upgrades equipment, adopts new technologies, reinforces existing on-site wastewater treatment facilities and reuses treated wastewater and stormwater for production. A total of 55,111.66 m^3 of wastewater was generated during the reporting period.

Business Air Travel

Employees travel by air for meetings with colleagues, suppliers and clients. The Group keeps track of their business air travels and avoids travelling by air whenever possible. In the reporting period, its business air travels contributed to a total of 313.26 tonnes of carbon dioxide equivalent emission.

(iii) Hazardous Waste

Hazardous wastes generated were stored in designated container and collected by qualified licensed collectors. A total of 34.64 kg of hazardous wastes was generated in the reporting period.

Hazardous Wastes	Wastes Generated (in %)
Mineral oil	66%
Containers with oil paint	25%
Activated carbon	4%
Oil-containing wraps	3%
Developing and fixing solution	2%

(iv) Non-hazardous Waste

The Group recycled wastes generated from its production to minimize pollution to the environment. When collecting, storing, transporting, using and treating solid wastes, the Group avoids air nuisance and leakage, and does not allow any unpermitted disposal of wastes. A total of 3,578.90 kg of non-hazardous wastes was generated by the Group during the reporting period. Non-hazardous wastes were collected by qualified collectors.

Non-hazardous Wastes	**Wastes Generated (in %)**
Steel	60%
Metal	39%
Wood	1%

2. Use of Resources

To encourage utilization of resources, the Group formulated the management policy regarding energy and resources use, which manages consumption of natural gas, electricity, water, raw materials, packaging materials, office paper and other office necessities.

(i) Energy Consumption

The energy use involved in the Group's operation includes the consumption of natural gas, petrol, diesel and electricity. The Group consumed a total of 31,447,924.11 kWh (energy intensity: 104.91 kWh/m^2) of direct and indirect energy in the reporting period.

Energy Consumption Sources	**Consumption Distribution (in %)**	**Consumption Intensity (in kWh/m^2)**
Natural Gas	37%	38.52
Petrol	5%	4.88
Diesel	16%	17.44
Electricity	42%	44.06

a. Natural Gas, Petrol and Diesel

Natural gas was consumed for heating in boilers, while petrol and diesel were used for drilling rig testing and Group-owned vehicles. To avoid leakage of natural gas, the Group regularly inspects and maintains transmission pipelines. Pipelines are repaired immediately after leakage is identified.

A total of 1,168,548 m^3 of natural gas, 122.38 tonnes of petrol and 441.31 tonnes of diesel were consumed in the reporting period.

b. Electricity

The Group keeps track of its monthly electricity consumption and controls consumption by:

— Developing electricity consumption systems to calculate, compare and analyse total electricity consumption;

— Adopting energy-saving lightings whenever possible;

— Controlling the temperature of air-conditioners at the range of 23-25°C;

— Educating employees to optimize productivity and reduce unnecessary electricity use; and

— Promoting electricity conservation behaviours among employees.

A total of 13,207,456 kWh of electricity supplied by the national electricity grid was consumed in the reporting period.

(ii) Water Consumption

The Group keeps track of its monthly water consumption and controls consumption by:

— Utilizing wastewater and reduce discharges;

— Maintaining taps, fire hydrants and pipe network to avoid wastage due to leakage; and

— Promoting water conservation behaviours among employees.

A total of 93,923.66 m^3 (0.31 m^3/m^2) of water was supplied by the municipal water suppliers during the reporting period.

(iii) Packaging Materials

At product design stage, the Group reduces the use of raw materials whenever possible. Raw materials in stock shall be used before using new materials. The Group consumed a total of 200.87 tonnes of packaging materials (mainly PVC fabrics and some plywoods) during the reporting period.

B. SOCIAL

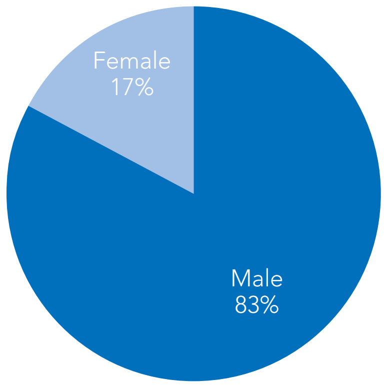
1. Employment and Labour Practices

(i) Employment

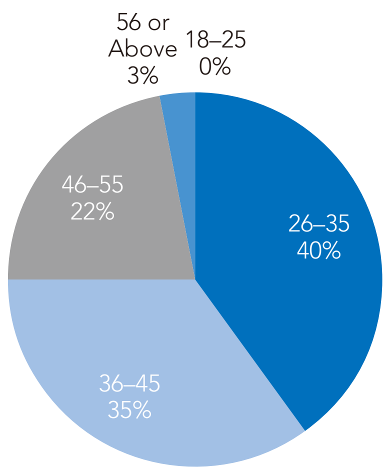
Total Employees and Turnover

There were 2,128 employees as of 31 December 2017, in which all of them were full-time employees from the PRC. A total of 261 employees left the Group during the reporting period (turnover rate: 12%).

Distribution of Employees by Gender



Distribution of Employees by Age Group



Employee Benefits and Welfare

The Group provided social insurances (including pension, medical, work-related injury, unemployment and maternity insurances), housing fund contributions and other welfare according to the statutory requirement. Major benefits provided by the Group cover all members of the Group and vary depending on job positions.

Remuneration and benefits package includes basic salary, overtime work compensation, allowances, awards and bonuses. Salary is reviewed every two years and adjusted in accordance with the overall cost of living, industrial salary trend, market trend, the Group's remuneration strategies and its performances.

— Insurance: mandatory social insurances, supplementary medical, employer's liability and accident insurance

— Allowances: service, night shift, health care, heatstroke prevention, food, consolation, lactation and training allowances

— Bonuses: performance and examination bonuses

No material non-compliance with employment laws and regulations was recorded during the reporting period.

Labour Standards and Equal Opportunity

In pursuance of the Labour Law and the Labour Contract Law of the PRC, there were no child labour nor forced labour in the Group. All employees have signed the employment contract and agreed on the stipulated employment terms and conditions. The rights and interests of women and teen workers are protected under the Group's policies and all the applicable national regulations. No material non-compliance with laws and regulations in relation to prevention of child and forced labour was recorded during the reporting period.

The Group treats employees equally regardless of their nationality, ethnicity, race, sex, religious belief and cultural background.

(ii) Employee Health and Safety

Occupational Health and Safety

Occupational health and safety issues are managed by the Group's HSE committee which met the OHSAS 18001:2007 standard. To pursue occupational health and production safety, the Group has separate policies on different aspects including safe production, occupational hazards, hazardous chemical, fire safety, accident prevention and emergency response plan. Employees' safety practices and performances are examined regularly to ensure competence for safe operation. No material non-compliance in relation to occupational health and safety laws and regulations was recorded during the reporting period.

Before entering the production site, employees are required to put on personal protective equipment ("PPE") provided by the Group properly. If not put on properly, employees can be subject to disciplinary actions. The Group also provided allowance for distribution of heatstroke prevention products at high temperature conditions.

The Group conducted a comprehensive safety assessment in December 2017 and identified potential hazards in its special equipment and electric safety management. Responsible departments have taken actions to rectify problems and improve their safety performances.

Occupational Health and Safety Data in 2017

Work related fatality	0
Work injury cases > 3 days	16
Work injury cases <= 3 days	0
Lost days due to work injury	1,314

Food Health and Safety

The Group has explicit contract terms with its contractors to ensure food safety. Food ingredients were tested before cooking. Samples of each dish are kept for record and testing if necessary. Food premises are sanitized regularly and inspected every day.

(iii) Development and Training

In the reporting period, employees have participated in various types of trainings including induction, operational, law, financial, IT & technological and language & presentation skills trainings. The Group also strengthens HSE awareness and knowledge among employees through trainings. Employees participated in a total of 3,100.50 hours of trainings and the average training hour completed per employee was 1.46 hour.

2. *Operating Practices*

(i) Supply Chain Management

According to the Group's scoring system, suppliers are assessed and scored with respect to their qualifications, productivity, technology, performances, quality management and control. The Group only selects qualified suppliers that have passed their supplier assessments. Selected suppliers are evaluated against different performance criteria monthly and annually. The Group also ensures that its supply chain complies with its HSE requirement through terms and conditions in the procurement agreement.

Major suppliers of the Group were from the PRC, Hong Kong, the United States, the United Arab Emirates, Britain, Germany, France, Sweden, Canada, Singapore and India.

(ii) Product Responsibility

In order to provide quality products and services to customers, the Group established quality management system in compliance with the ISO 9000 standards and complies strictly with the API specification Q1. The department of quality management establishes, implements and maintains the quality management system to promote continuous improvement. There was no complaint received during the reporting period.

Product Assurance and Recall

Product quality is assured through compliance with international standards and the stringent inspection processes. Apart from meeting the ISO 9000 standards, main components of drilling rigs obtained the CE markings, fulfilled the state standards ("GOST"), API standards and all product requirements of the export markets where products are sold.

The Group manages its manufacturing process and its outsourced contractors' performances effectively. Defective incoming materials, intermediate products and final products are eliminated from the production line immediately after noticed. Substandard products are analysed and handled with corrective or preventive measures according to the Group's policy. No product was recalled due to safety and health reasons and no material non-compliance with laws and regulations in relation to product health and safety was recorded during the reporting period.

Intellectual Property ("IP") Rights

The Group protects self-owned IP rights and make certain that its suppliers and other business partners respect IP rights of third parties. All drawings, ideas, manuals, designs, models, formulas provided by the Group to suppliers and other business partners shall not be copied or leaked to third parties without the Group's consent. The Group respects IP rights and prudently avoids infringement through research and analysis. Suppliers and other business partners shall not infringe copyrights, patent rights, trademarks and other IP rights in the process of research and development, design and manufacture. They can be held responsible for all costs if their infringement has caused loss to the Group.

Responsible team was set up for analysing Group-owned IP rights, identifying risks and dealing with infringement cases. After investigation and analysis by the responsible team and the legal department, the Group may take legal actions against infringers depending on the circumstances. No material non-compliance with laws and regulations in relation to IP rights was recorded during the reporting period.

Information Security Management

The Group has developed policies for information security management. To protect internal information and data, the Group adopted measures including:

— Control of authorities and accessibilities, USB ports and optical drive uses;

— Prohibition of the use of peer-to-peer file sharing services and installation of software at user level;

— Audit of internet access and activities; and

— Encryption of core data.

By signing the employment contract, employees also undertake not to disclose any confidential information (including customer information) and to protect IP rights. Customer information includes but is not limited to customers' ideas, inventions, data and models, content of documents and correspondences, financial information, marketing strategies and trade secrets. Employees in breach of the contract can be dismissed. No substantiated complaints concerning breaches of client privacy, identified leaks, thefts, or losses of customer information was received during the reporting period.

(iii) Anti-corruption

The Group's anti-corruption policy promotes integrity and standardizes discipline of employees to protect legitimate rights of shareholders and investors. Any bribery, theft, fraud and misappropriation are prohibited. Improper benefits including banquets, entertainment, cash, stocks, equities, securities, valuables and properties, etc. shall not be accepted.

Top management of the Group has assessed corruption risks and established respective monitoring procedures and system. Employees' awareness is raised through anti-corruption related talks, educational videos and promotion materials displayed in prominent areas. When there are alleged cases in violation of laws, regulations or the Group's policy, the Group will investigate and impose disciplinary actions (including warning, record of demerit, demotion and dismissal) upon offenders after verification. Whistle-blowers can report suspected cases to the auditing department through email (hhgp.jubao@hhcp.com.cn) or hotline (028-68176829).

The Group was in compliance with all applicable laws on prohibiting corruption and bribery of the PRC. There was no concluded legal case regarding corrupt practices brought against the Group or its employees during the reporting period.

3. Community Investment

The Group had not involved in any community investment in the reporting period.

REPORT OF THE DIRECTORS

The Board presents this annual report, together with the audited consolidated financial statements of the Group for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The Group principally engages in research, design, manufacture, setting and sale of land rigs and related parts and components, design and manufacture the offshore drilling module. Meanwhile it also provides clients with technical support services and drilling engineering services. During the Year, the nature of principal activities of the Group has no substantial change.

RESULTS AND DISTRIBUTION

The results of the Group for the year ended 31 December 2017 are set out in the consolidated financial statements on pages 86 to 217 of this annual report.

The Board did not recommend a final dividend for the year ended 31 December 2017.

CLOSURE OF REGISTER OF THE 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.

SHARE CAPITAL

Changes in the share capital of the Company during the Year are set out in note 23 to the consolidated financial statements.

PRE-EMPTIVE RIGHT

There is no provision of pre-emptive right under the Articles of Association and the laws of the Cayman Islands stipulating that the Company shall offer new Shares to existing Shareholders in proportion.

PURCHASE, SALE OR REPURCHASE OF THE LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year ended 31 December 2017.

RESERVES

As of 31 December 2017, the Group has a total of approximately RMB3,523 million worth of reserve. Details of movements in the reserves of the Group during the Year are set out in the consolidated statement of changes in equity in the consolidated financial statements.

SUBSIDIARIES

Details of the Company's principal subsidiaries as of 31 December 2017 are set out in note 11 to the consolidated financial statements.

SIGNIFICANT CONTRACT

No contract of significance was entered into between the Company or any of its subsidiaries and the Controlling Shareholders.

DIRECTORS

The existing Directors of the Company during the Year and as of the date of this annual report are set out on page 2 the section "Corporate Information" of this annual report.

The status of all the Directors of the Company holding their offices during the year is set out in the section "Corporate Information".

In accordance with the Articles of Association, one third of the Director (or closest to but not less than one third if the number is not three or a multiple of three) shall retire from office by rotation at each annual general meeting and each Director is required to retire at least once every three years and any Director appointed by the board shall hold office only until the next general meeting and shall then be eligible for re-election at the meeting. Mr. Zhang Mi, Mr. Ren Jie, Mr. Liu Xiaofeng, Mr. Chen Guoming, Mr. Poon Chiu Kwok, Mr. Chang Qing and Mr. Wu Yuwu will retire from office by rotation at the forthcoming annual general meeting and will be eligible for re-election.

According to the independent guidelines under the Listing Rules, the Company has received the annual confirmation of their independence from each Independent Non-executive Director, and the Company still considers such Independent Non-executive Directors as independent.

DIRECTORS' SERVICE CONTRACTS

Each of the Director of the Company is engaged on a service contract for a term of 3 years. The appointment may be terminated by not less than 3 months' written notice. The Directors shall retire by rotation and be eligible for re-election subject to the Articles of Association.

None of the Directors has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

PERMITTED INDEMNITY

Pursuant to the Company's Articles of Association, subject to the Companies Law, every Director shall be indemnified out of the assets of the Company against all costs, charges, expenses, losses and liabilities which he/she may sustain or incur in the execution of his/her office or otherwise in relation thereto. The Company has taken out insurance against the liability and costs associated with defending any proceedings which may be brought against directors of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed under the following "Continuing connected transactions", none of the Directors directly or indirectly had any material interest in the contracts of significance in relation to the Group's business to which the Company or its holding company or any of its subsidiaries was a party at the end of the Year or at any time during the Year.

REMUNERATION FOR DIRECTORS AND SENIOR MANAGEMENT

For the year ended 31 December 2017, details of remuneration for the Directors and Senior Management of the Company are set out in notes 35(f) and 40 to the consolidated financial statements.

The emoluments of the Executive Director and Senior Management by bands are as follows:

	2017 Number of individuals
RMB0 to RMB1,000,000	7
RMB1,000,001 to RMB2,000,000	4
RMB2,000,001 to RMB3,000,000	0
RMB3,000,001 to RMB4,000,000	0
RMB4,000,001 to RMB5,000,000	0
RMB5,000,001 to RMB6,000,000	0

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

At 31 December 2017, the interests and short positions of each Director and Chief Executive in the Shares , underlying Shares and debentures of the Company and its associated corporations (within the meaning of the SFO), as recorded in the register required to be kept by the Company under Section 352 of Part XV of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code contained in Appendix 10 to the Listing Rules were as follows:

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

	Long/Short position	Nature of interest	Number of shares held	% of the issued share capital of the Company
Mr. Zhang Mi	Long	Personal interest, corporate interest and settlor of a discretionary trust	1,350,733,837(1)	25.22%
Mr. Ren Jie	Long	Personal interest, corporate interest and settlor of a discretionary trust	33,776,200(2)	0.63%
Miss. Su Mei (Appointed with effect from 29 March 2017)	Long	Personal interest	150,000(3)	0.002%

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

(2) Ren Jie individually owns 1,549,000 Shares. He is the settlor of a discretionary trust, The RJDJ Victory Trust. The Trustee of The RJDJ Victory Trust owns 32,227,200 Shares.

(3) Su Mei individually owns 150,000 Shares.

(B) SHARE OPTIONS OF THE COMPANY

	Long/Short Position	Number of options held — Personal interest
Mr. Zhang Mi	Long	15,027,000
Mr. Ren Jie	Long	8,572,000
Mr. Qi Daqing (Resigned with effect from 1 January 2018)	Long	3,450,000
Mr. Liu Xiaofeng	Long	3,450,000
Mr. Chen Guoming	Long	2,550,000

Saved as disclosed above, at 31 December 2017, none of the Directors and Chief Executives (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for Shares (or warrants or debentures, if applicable) of the Company and its associated corporations required to be disclosed pursuant to the SFO.

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

The register of substantial shareholders required to be kept under section 336 of Part XV of the SFO shows that, at 31 December 2017, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors and Chief Executives of the Company.

		Number of shares held					
		Personal interest					
Name	Long/ Short Position	Share Option	Shares Interest	Corporate Interest	Corporate Interest and Settlor of a discretionary Trust	Total	% of the Issued Share Capital of the Company
Ally Giant Limited	Long	–	1,187,727,837	–	–	1,187,727,837(1)	22.17%
Ample Chance International Limited	Long	–	–	1,187,727,837	–	1,187,727,837(2)	22.17%
Ally Smooth Investments Limited	Long	–	–	1,187,727,837	–	1,187,727,837(3)	22.17%
Wealth Afflux Limited	Long	–	157,800,000	1,187,727,837	–	1,345,527,837(3)	25.12%
Equity Trustee Limited	Long	–	–	–	1,504,485,237	1,504,485,237(4)	28.09%
Yi Langlin	Long	–	2,156,000 1,363,604,837 (family interest)	–	–	1,365,760,837(5)	25.50%
Kehua Technology Co., Limited	Long	–	1,606,000,000	–	–	1,606,000,000(6)	29.98%
Shenzhen Aerospace Industry Technology Research Institute	Long	–	–	1,606,000,000	–	1,606,000,000(6)	29.98%
China Aerospace Science and Industry Corporation	Long	–	–	1,606,000,000	–	1,606,000,000(6)	29.98%

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

(2) Ample Chance International Limited is owned approximately 36% by Ally Smooth Investments Limited, approximately 19.09%, 18.51%, 12.71%, 10.50% and 3.19% by the five other companies.

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

(4) Equity Trustee Limited as the trustee of The ZYL Family Trust and the 9 other Trust, holds 1,504,485,237 Shares.

(5) Yi Langlin, spouse of Zhang Mi, is deemed to be interested in 1,365,760,837 Shares.

(6) Kehua Technology Co., Limited is owned 40% by Shenzhen Aerospace Industry Technology Research Institute and 60% by China Aerospace Science and Industry Corporation and holds 1,606,000,000 Shares.

Save as disclosed above, to the best of the Directors and the Chief Executives of the Company's knowledge, as at 31 December 2017, none of the persons, other than the Directors or the Chief Executives of the Company, had interests or short positions in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or recorded in the register as required under Section 336 of the SFO.

SHARE OPTION SCHEME

(A) PRE-IPO SHARE OPTION SCHEME

The principal terms of Pre-IPO share option scheme have been approved by resolutions in writing by all the Shareholders on 21 January 2008. As at the date of this report, a total of 270 eligible participants have been conditionally granted share options to subscribe for an aggregate of 60,000,000 Shares at an exercise price of offer price of HK$3.83 per Share. As at 31 December 2017, none of the grantees has exercised the share options granted to him under the Pre-IPO share option scheme and 7,944,000 shares options have been lapsed.

Each share option granted under the Pre-IPO share option scheme is exercisable within a period of five years commencing from 7 March 2008 (the "Listing Date") and the vesting period is ten years from the date of grant. As at 31 December 2017, the total number of the share options granted (if not cancelled) can be exercised under the Pre-IPO share option scheme.

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

(B) SHARE OPTION SCHEME AFTER LISTING

Upon conditional approval by resolution in writing by all shareholders of the Company on 21 January 2008, the Company adopted a share option scheme (the "Share Option Scheme"). Details of the Share Option Scheme are as follows:

Purpose

The Company operates the Share Option Scheme for the purpose of providing incentive and rewards to participants who contribute to the success of the Group's operation and/or for the purpose that the Group may recruit or retain high calibre employees and attract people for the Group. The Share Option Scheme may provide the participants with opportunity of holding the Shares of the Company individually, and (a) facilitate the participants to use their best effort to improve their performance and effectiveness; and (b) attract and retain participants who are significant to long term development and profitability of the Group.

Participants

(a) any Executive Director, employee or proposed employee (whether full time or part time) of any member of the Group; (b) any Non-executive Director (including Independent Non-executive Director) of any member of the Group; (c) any supplier of goods or services to any member of the Group; (d) any customer of any member of the Group; (e) any advisor, consultant, any person or entity with professional or other services who provides research, development or other technical support to any member of the Group; (f) any shareholder of any member of the Group or any holder of any securities issued by any member of the Group; (g) any joint venture, business or strategic alliance partner of any member of the Group; (h) discretionary trust whose discretionary objects are as follows: any Executive Director, employee or prospective employee (whether full time or part time) and any Non-executive Director (including Independent Non-executive Director) of any member of the Group, any supplier of goods or services to any member of the Group, any customer of any member of the Group, any advisor, consultant, any person or entity with professional or other services who provides research, development or other technical support to any member of the Group, any shareholder of any member of the Group or any holder of any securities issued by any member of the Group and any joint venture, business or strategic alliance partner of any member of the Group.

Total number of Shares available for issue under the Share Option Scheme and % of issued share capital as at the date of this annual report

The total number of Shares available for issue under the Share Option Scheme upon exercise of all outstanding share options granted and yet to be exercised (excluding share options lapsed in accordance with the terms of the Share Option Scheme) was 115,362,756 Shares, representing approximately 2.15% of the issued share capital of the Company as at the date of this annual report.

Maximum entitlement of each participant

The maximum number of Shares issued and to be issued upon exercise of the share options (including those already exercised and outstanding share options) granted to each eligible participant under the Share Option Scheme in any 12-month period (until date of grant of share options) is limited to 1% of the Shares of the Company in issue. Any further grant of share options in excess of this limit is subject to Shareholders' approval in a general meeting but the participant and its associates must abstain from voting at the meeting. In this case,the Company must dispatch a circular to Shareholders, containing identity of the participant, number of share options to be granted to the participant (and share options previously granted to this participant) and related terms and all other data as required by the Listing Rules. The number and terms of the share options to be granted to this participant (including exercise price) must be determined before approval by the Shareholders. In calculating the subscription price, the date on which Board meeting is held for proposed further grant of share options is deemed as date of grant.

The period in which Shares must be taken up for under the Share Option Scheme

Share option may be exercised at any time during the period expiring tenth anniversary from the date of grant of share option as determined by the Board of Directors, but subject to early termination provisions of the terms of Share Option Scheme.

The minimum period, if any, for which a share option must be held before it can be exercised

Unless otherwise determined by the Board and stated in the offer of grant of share options to the grantee, there is no minimum period for which a share option must be held before it can be exercised.

Amounts to be paid on acceptance of share options

Grantee of share option must pay HK$1.00 to the Company upon acceptance of share option offer.

Basis of determining the exercise price

The subscription price of the share option granted under the Share Option Scheme is solely determined and notified to the participants by the Board of Directors, but not less than the highest of (i) the closing price of the Company's Shares as stated in the daily quotations sheet of the Stock Exchange on the date of the grant; (ii) the average closing price of the Company's Shares as stated in the Stock Exchange's daily quotations sheet for the five trading days immediately preceding the date of the grant; and (iii) the nominal value of the Company's Shares as at date of grant.

Condition and Termination of the share options

The Share Option Scheme is conditional on the Listing Committee of the Stock Exchange granting approval of the listing of, and permission to deal in, the Shares which may fall to be issued pursuant to the exercise of share options granted under the Share Option Scheme. The Company (by virtue of resolutions of general meeting) or the Board may at any time terminate the operation of the Share Option Scheme, under which circumstance, there will be no new share options to be granted, but the share options granted before the termination will continue to be valid and exercisable under the provisions of the Share Option Scheme.

The remaining life of the Share Option Scheme

Subject to early termination of the Share Option Scheme pursuant to the terms thereof, the Share Option Scheme shall remain valid and effective for 10 years commencing on the date of its adoption on 21 January 2008.

Details of the grant under the Share Option Scheme ended 31 December 2017 were as follows:

Date of grant	Number of grant (shares)	Exercise price per Share (HK$)	Exercise period of share options	Valid period of the share options
15 April 2009	60,000,000	1.27	up to 30% of the share options granted to each grantee from 1 December 2009 to 14 April 2010; up to 60% of the share options granted to each grantee on or before 14 April 2011; all the remaining share options granted to each grantee on or after 15 April 2011	up to 14 April 2019
11 October 2010	2,200,000	1.05	up to 40% of the share options granted to each grantee from 25 October 2010 to 10 October 2011; up to 70% of the share options granted to each grantee on or before 10 October 2012; all the remaining share options granted to each grantee on or after 11 October 2012	up to 10 October 2020
20 June 2011	7,600,000	0.83	up to 30% of the share options granted to each grantee from 19 July 2011 to 19 June 2012; up to 60% of the share options granted to each grantee on or before 19 June 2013; all the remaining share options granted to each grantee on or after 20 June 2013	up to 19 June 2021

Date of grant	Number of grant (shares)	Exercise price per Share (HK$)	Exercise period of share options	Valid period of the share options
5 April 2012	15,400,000	1.19	up to 30% of the share options granted to each grantee from 5 April 2013 to 4 April 2014; up to 60% of the share options granted to each grantee on or before 4 April 2015; all the remaining share options granted to each grantee on or after 5 April 2015	up to 4 April 2022
24 March 2014	3,200,000	2.024	up to 30% of the share options granted to each grantee from 24 April 2014 to 23 April 2015; up to 60% of the share options granted to each grantee on or before 23 April 2016; all the remaining share options granted to each grantee on or after 24 April 2016	up to 23 March 2024
2 July 2014	40,575,000	1.96	vesting of the share options is conditional upon the achievement of corporate goals of the Company and the individual performance of the respective Grantees. The share options or any portion thereof shall lapse if the relevant corporate goals cannot be achieved. Up to 30% of the share options granted to each grantee after April 2015; up to 60% of the share options granted to each grantee after April 2016; all the remaining share options granted to each grantee after April 2017	up to1 July 2024
21 September 2016	41,350,000	0.44	up to 30% of the Share Options granted to each Grantee from 21 September 2017 to 20 September 2018; up to 60% of the Share Options granted to each Grantee on or before 20 September 2019; all the remaining Share Options granted to each Grantee on or after 21 September 2019	up to 20 September 2026

Particulars and movements of share options under the Share Option Scheme during the year ended 31 December 2017 were as follows:

	Number of share options									
Name or category of participant	Outstanding as at 01/01/2017	Granted during the Year	Exercised during the Year	Lapsed during the Year	Cancelled during the Year	Outstanding as at 31/12/2017	Date of grant (DD/MM/YY)	Exercise period (DD/MM/YY)	Exercise price per Share HK$	Price immediately preceding the grant date of share options HK$
Directors										
Mr. Zhang Mi	3,937,000	–	–	–	–	3,937,000	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
	2,380,000	–	–	1,190,000	–	1,190,000	02/07/2014	02/07/2014–01/07/2024	1.96	1.92
Mr. Ren Jie	2,587,000	–	–	–	–	2,587,000	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
	1,770,000	–	–	885,000	–	885,000	02/07/2014	02/07/2014–01/07/2024	1.96	1.92
	2,000,000	–	–	–	–	2,000,000	21/09/2016	21/09/2017–20/09/2026	0.44	0.435
Mr. Chen Guoming	750,000	–	–	–	–	750,000	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
	750,000	–	–	–	–	750,000	20/06/2011	19/07/2011–19/06/2021	0.83	0.79
	550,000	–	–	–	–	550,000	24/03/2014	24/04/2014–23/03/2024	2.024	2.02
	500,000	–	–	–	–	500,000	21/09/2016	21/09/2017–20/09/2026	0.44	0.435
Mr. Liu Xiaofeng	1,000,000	–	–	–	–	1,000,000	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
	1,000,000	–	–	–	–	1,000,000	20/06/2011	19/07/2011–19/06/2021	0.83	0.79
	750,000	–	–	–	–	750,000	24/03/2014	24/04/2014–23/03/2024	2.024	2.02
	700,000	–	–	–	–	700,000	21/09/2016	21/09/2017–20/09/2026	0.44	0.435
Mr. Qi Daqing	1,000,000	–	–	–	–	1,000,000	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
(Resigned with effect from	1,000,000	–	–	–	–	1,000,000	20/06/2011	19/07/2011–19/06/2021	0.83	0.79
1 January 2018)	750,000	–	–	–	–	750,000	24/03/2014	24/04/2014–23/03/2024	2.024	2.02
	700,000	–	–	–	–	700,000	21/09/2016	21/09/2017–20/09/2026	0.44	0.435
Sub-total	22,124,000	–	–	2,075,000	–	20,049,000				
Other										
Employee	29,995,500	–	–	1,056,000	–	28,939,500	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
Employee	4,543,000	–	–	–	–	4,543,000	20/06/2011	19/07/2011–19/06/2021	0.83	0.79
Employee	14,166,000	–	–	3,110,000	–	11,056,000	05/04/2012	05/04/2013–04/04/2022	1.19	1.20
Employee	1,150,000	–	–	–	–	1,150,000	24/03/2014	24/04/2014–23/03/2024	2.024	2.02
Employee	32,169,060	–	–	17,470,468	–	14,698,592	02/07/2014	02/07/2014–01/07/2024	1.96	1.92
Employee	37,100,000	–	464,000	1,085,000	–	35,551,000	21/09/2016	21/09/2017–20/09/2026	0.44	0.435
Sub-total	119,123,560	–	464,000	22,721,468	–	95,938,092				
Total	141,247,560	–	464,000	24,796,468	–	115,987,092				

RESTRICTED SHARE AWARD SCHEME

On 30 December 2011, the Board approved and adopted a restricted share award scheme in which Selected Participant(s) including any Employee or Director (including, without limitation, any Executive Directors, Non-executive Directors or Independent Non-executive Directors), any consultant or adviser (whether on any employment or contractual or honorary basis and whether paid or unpaid) of the Company or any member of the Group, who in the absolute opinion of the Board, have contributed to the Company or the Group. Pursuant to the Scheme Rules, existing Shares will be purchased by the Trustee from the market out of cash contributed by the Company and be held in trust for the relevant Selected Participant until such Shares are vested with the relevant Selected Participants in accordance with the Scheme Rules. The Scheme shall be effective for a term of 10 years commencing on the Adoption Date subject to any early termination as may be determined by the Board. The Board will implement the Scheme in accordance with the Scheme Rules including providing necessary funds to the Trustee to purchase for Shares up to 5% of the issued share capital of the Company from time to time. The Selected Participant is not entitled to receive any income or distribution, such as dividend derived from the Restricted Shares allocated to him, prior to the vesting of the Restricted Shares in the Selected Participants. As at 31 December 2017, the Trustee has purchased 97,817,000 of the Company's Shares, accounting for 1.83% of the issued share capital of the Company and total of 36,917,700 shares were granted to the Selected Participants and out of which 190,000 Shares were subsequently cancelled.

Particulars and movements of the Restricted Share Award Scheme during the year ended 31 December 2017 were as follows:

	Number of Shares					
	Outstanding during 01/01/2017	Purchased during the Year	Granted during the Year	Vested during the Year	Cancelled during the Year	Outstanding as at 31/12/2017
Total	61,089,300	–	–	–	–	61,089,300

CONTINUING CONNECTED TRANSACTIONS

During the Year, the Group has the following continuing connected transactions which are required to be disclosed in this report in accordance with Chapter 14A of the Listing Rules. Certain related parties transactions disclosed in note 35 to the consolidated financial statements were not disclosed below as they fulfilled the exemption requirements in Chapter 14A of the Listing Rules.

PURCHASE FRAMEWORK AGREEMENT ENTERED INTO WITH HONTAI COMPANY

Hongtai Company is owned as to 73.125% by the spouses of the Concert Group, therefore Hongtai Company is a connected person of the Company according to Rules 14A.07 and 14A.12 of the Listing Rules.

Honghua Company and Hongtai Company ented into the New Purchase Framework Agreement on 30 December 2015 for a term of three years commencing from 1 January 2016 and ending on 31 December 2018. Pursuant to the New Purchase Framework Agreement, Honghua Company shall purchase from Hongtai Company low value consumables, auxiliary accessories, tools, welding materials and work-protation items. It is expected the annual caps payable from Honghua Company to Hongtai Company under the New Purchase Framework Agreement shall not exceed RMB26 million for each of the three years ending on 31 December 2018.

During the Year, the total purchases made by the Group from Hongtai Company amounted to approximately RMB9.72 million.

SALE AND LEASE OF EQUIPMENT BETWEEN ASIFL, SHENZHEN HONGHUA AND SICHUAN HONGHUA

On 26 June 2017, Sichuan Honghua Petroleum Equipment Co., Ltd (四川宏華石油設備有限公司) (a wholly-owned subsidiary of the Company, "Sichuan Honghua") entered into a sale and purchase agreement ("Sale and Purchase Agreement") with Aerospace Science & Industry Financial Leasing Co., Ltd. (航天科工金融租賃有限公司) ("ASIFL") and Honghua Financial Leasing (Shenzhen) Co., Ltd (宏華融資租賃(深圳)有限公司) (a 51%-owned associate of the Company, "Shenzhen Honghua"), whereby ASIFL agrees to purchase six sets of top drive drilling systems (the "Equipment") from Sichuan Honghua. On the same day, Shenzhen Honghua entered into a finance lease agreement (the "Finance Lease Agreement") with ASIFL pursuant to which ASIFL will lease the Equipment to Shenzhen Honghua.

The sale of the Equipment will generate immediate sales income for the Group in the current financial period. The Finance Lease Agreement will allow the Group to introduce capital from ASIFL through the platform of Shenzhen Honghua. These transactions also represent an effort of the Group to establish a new financing channel with ASIFL and raise capital at relatively low cost.

China Aerospace Science and Industry Corporation* (中國航天科工集團公司) ("CASIC") indirectly holds 29.99% of the shares in the Company and therefore is a substantial shareholder and connected person of the Company. CASIC and its subsidiaries together hold a 46.5% equity interest in ASIFL, thus ASIFL is an associate of CASIC and in turn a connected person of the Company. Therefore, these transactions constitute connected transactions.

FRAMEWORK AGREEMENT FOR STRATEGIC COOPERATION BETWEEN ASIFL AND THE GROUP

On 30 September 2017, Honghua Investment, Honghua Shenzhen, Honghua Shanghai and ASIFL entered into framework agreement for strategic cooperation ("Framework Agreement"), pursuant to which ASIFL agreed to purchase from Honghua Investment and its subsidiaries certain equipment and products ("Sales Transactions"). ASIFL plans to lease such equipment and products to Honghua Shenzhen or Honghua Shanghai, which will in turn enter into sub-leasing arrangements with third parties in relation to such equipment and products ("Leasing Transactions").

On 7 November 2017, Honghua Investment, Honghua Shenzhen, Honghua Shanghai and ASIFL entered into a supplement agreement to the Framework Agreement (the "Amendment") to revise certain terms of the Framework Agreement (the "Framework Agreement" and the "Amendment" are collectively referred to as the "Revised Framework Agreement"). The term of the Revised Framework Agreement is three years starting from the date of the Amendment, i.e. 7 November 2017.

The maximum leasing consideration for 2017 was RMB300 million according to the Revised Framework Agreement, and the actual leasing amount was RMB266 million during the year. The maximum outstanding leasing amount was RMB300 million for 2017 according to the Revised Framework Agreement, and the actual largest outstanding amount was RMB239 million. The maximum handling fee for 2017 was RMB8.1 million according to the Revised Framework Agreement, and the actual handling fee was RMB6.6 million during the year. The maximum outstanding interest for 2017 was RMB3.8 million according to the Revised Framework Agreement, and the actual outstanding interest was RMB2.97 million during the year.

CASIC indirectly holds 29.99% of the shares in the Company and therefore is a substantial shareholder and connected person of the Company. CASIC and its subsidiaries together hold a 46.5% equity interest in ASIFL, thus ASIFL is an associate of CASIC and in turn a connected person of the Company. Therefore, these transactions constitute connected transactions.

All the Independent Non-executive Directors have reviewed the above continuing connected transactions and confirmed that these transactions have been entered into are:

(1) in the ordinary and usual course of the business of the Group;

(2) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and

(3) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interest of the Shareholders as a whole.

In accordance with Rule 14A.56 of the Listing Rules, the Company is required to obtain a letter from its auditor to confirm that nothing has come to their attention that causes them to believe that these continuing connected transactions:

(1) have not been approved by the board of directors of the company;

(2) were not made in accordance with the pricing policy of the Company;

(3) were not conducted, in all material respects, in accordance with the relevant agreement governing those transactions;

(4) have exceeded the cap disclosed in previous announcements.

The Company's auditors were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have issued to the Board an unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed by the Group in pages 200 to 205 of this annual report in accordance with Rule 14A.56 of Listing Rules. A copy of the auditor's letter has also been provided to the Stock Exchange.

BANK LOANS

Details of our bank loans and other borrowings are set out in note 27 to the consolidated financial statements.

FINANCIAL SUMMARY

Our financial summary for the past five years are set out in the section headed "Five-Year Financial Highlights" of this annual report.

STAFF RETIREMENT AND BENEFIT SCHEME

Details of the staff retirement and benefit scheme are set out in notes 9 and 35(f) to the consolidated financial statements.

FIXED ASSETS

Details of the changes of the fixed assets of the Group are set out in note 16 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

1. During the Year, the Group's five largest suppliers in total accounted for approximately 30.71% of total purchase, and the largest supplier accounted for approximately 8.88% of total purchase.

2. During the Year, the Group's five largest customers accounted for approximately 17.40% of total sales and the largest customer accounted for approximately 5.37% of revenue.

3. None of the Directors of the Company, their associates or any Shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the above suppliers or customers.

ENTRUST DEPOSITS AND ENTRUST LOANS

As at 31 December 2017, the Company has no entrust deposits or entrust loans being placed with commercial banks or non-commercial banks and other finance institutions.

TAXATION POLICY

The details of the Group's applicable income taxation policy and income tax rate are set out in note 13 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained sufficient public float since its Listing Date.

MANAGEMENT CONTRACTS

There was no contract concerning the management or administration of the whole or any substantial part of the business of the Company which was entered into or existed during the Year.

AUDITOR

The financial statements of the Group for the year ended 31 December 2017 have been audited by PwC who will retire at the forthcoming annual general meeting and being eligible, offer themselves for re-appointment. A resolution to renew the appointment of PwC as auditor of the Company will be proposed at the forthcoming annual general meeting of the Company.

By the order of the Board
Honghua Group Limited
Chen Yajun
Chairman

Hong Kong, 29 March 2018

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

To the Shareholders of Honghua Group Limited
(Incorporated in the Cayman Island with limited liability)

OPINION

WHAT WE HAVE AUDITED

The consolidated financial statements of Honghua Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 86 to 217, which comprise:

- the consolidated balance sheet as at 31 December 2017;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

OUR OPINION

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENCE

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Impairment of property, plant and equipment
- Valuation of inventory
- Valuation of trade receivables

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment of property, plant and equipment Refer to note 16 and note 37 to the consolidated financial statements. As at 31 December 2017, the total balance of property, plant and equipment ("PP&E") is RMB2,324,366,000, including RMB1,582,938,000 relating to loss making subsidiaries of the Oil and gas engineering services and Offshore drilling rigs segments. PP&E is carried at the lower of historical cost less accumulated depreciation and value in use based on discounted future cash flows of cash generating units ("CGU"). Significant judgements are required for determination of key assumptions, including discount rates, revenue growth rates and gross margins. As a result of management assessment, a provision for impairment of RMB300,100,000 was made in relation to the PP&E under the Offshore drilling rigs segment for the year ended 31 December 2017. We focused on this area because of the significance of PP&E and management judgements involved.	We evaluated the appropriateness of the discounted cash flow model adopted by management. We challenged the management's key assumptions by: • comparing the revenue growth rates with historical data, assessing future customer demand with reference to our knowledge of economic and industry trend; • comparing the gross margin with the historical data and considering the future product mix and production volume; • comparing the discount rate with the cost of capital for the CGUs. We tested the mathematical accuracy of the calculations of the discounted cash flows. We independently performed sensitivity analysis about the key drivers of growth, including revenue growth and expected changes in gross margins. We found that management's judgements in determining the value in use of PP&E are supported by the evidence we gathered.

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of inventory Refer to note 21 and note 37 to the consolidated financial statements. As at 31 December 2017, the Group had gross inventory balance of RMB2,140,455,000, against which a provision for inventory write-down of RMB247,553,000 was made. Inventories are carried at the lower of cost and net realisable value ("NRV"). NRV is determined based on the estimated selling price less the estimated costs to completion, if relevant, other costs necessary to make the sale and related taxes. We focused on this area because of the significance of inventory balance and management judgements involved in identifying inventories subject to write-down and determining the NRV.	We evaluated and tested management's controls over identifying inventories subject to write-down and determination of the estimated selling price. We evaluated and challenged the methodology adopted by management for identifying inventories subject to write-down based on our independent assessment of write-down indicators. We compared the estimated selling prices with the selling prices of the recent orders from customers. We challenged management's future sales projections for the prices and quantities by checking historical sales information and considering market trend. We independently evaluated the future market trend factors management considered in determining the estimated selling prices, including possible changes of customer demands and technology development, by corroborating with research information, checking subsequent outcomes of these factors and making reference to our industry knowledge. We assessed the reasonableness of the estimated costs to completion by comparing with the historical costs to completion of the similar inventories. We found that management's judgements in determining the NRV of inventory are supported by the evidence we gathered.

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of trade receivables Refer to note 19 to the consolidated financial statements. The balance of trade receivables as at 31 December 2017 is RMB2,145,069,000, against which a provision for impairment of RMB265,086,000 was made. For individual provision, judgement is required for identifying trade receivable balances impaired and determining the future cash flows. For collective provision, judgement is required for determining the provision needed for trade receivable balances with similar credit risk characteristics, taking into consideration the historical experience, ageing analysis and credit conditions. We focused on this area because of the significance of trade receivables balance and management judgements involved in determining the collectability and impairment.	We evaluated and tested the controls over the collectability of the trade receivables, including the monthly review of ageing analysis, repayment and impairment assessment of trade receivables performed by management. We sent confirmations to customers on a sample basis, focusing on material balances. For individual provision, we challenged management's process for identifying trade receivables impaired and checked the documents and information relating to the estimated future cash flows on a sample basis. For collective provision, we tested the accuracy of ageing analysis. We assessed the appropriateness of the method management adopted to determine the provision by comparing with the historical bad debts incurred. We found that management's judgements relating to the recoverability of trade receivable are supported by the evidence we gathered.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor’s report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group’s financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Lee Chung Bor.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 29 March 2018

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	5	**2,175,856**	2,147,592
Cost of sales	8	**(1,540,763)**	(1,789,716)
Gross profit		**635,093**	357,876
Distribution expenses	8	**(232,616)**	(369,608)
Administrative expenses	8	**(555,184)**	(589,195)
Other (losses)/gains, net	7	**(43,319)**	9,210
Other income	6	**92,652**	126,732
Operating loss		**(103,374)**	(464,985)
Finance income	10	**25,370**	43,064
Finance expenses	10	**(239,573)**	(120,560)
Finance expenses, net		**(214,203)**	(77,496)
Share of post-tax (losses)/profits of associates	12	**(24,606)**	3,487
Share of post-tax losses of joint ventures	12	**(4,362)**	(3,905)
Loss before income tax		**(346,545)**	(542,899)
Income tax expense	13	**(48,651)**	25,428
Loss for the year from continuing operations		**(395,196)**	(517,471)
Discontinued operations			
Loss for the year from discontinued operations	37(d)	**(834,386)**	(109,778)
Loss for the year		**(1,229,582)**	(627,249)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2017
(All amounts in RMB unless otherwise stated)

	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	14	**(8.59)**	(15.59)
From discontinued operations	14	**(17.91)**	(3.59)
	14	**(26.50)**	(19.18)
Diluted loss per share			
From continuing operations	14	**(8.59)**	(15.59)
From discontinued operations	14	**(17.91)**	(3.59)
	14	**(26.50)**	(19.18)

The notes on pages 96 to 217 form an integral part of these consolidated financial statements.

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)

The notes on pages 96 to 217 form an integral part of these consolidated financial statements.

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	15	**218,742**	379,582
Property, plant and equipment	16	**1,516,225**	2,794,054
Payment for acquisition of leasehold prepayment		**37,510**	148,166
Intangible assets	17	**146,906**	230,913
Investments in associates	12	**37,169**	61,771
Investments in joint ventures	12	**40,389**	44,754
Deferred income tax assets	28	**232,057**	415,701
Available-for-sale financial assets	18	**90,192**	88,294
Trade and other receivables	19	**6,186**	252,652
Other non-current assets		**8,719**	–
Total non-current assets		**2,334,095**	4,415,887
Current assets			
Inventories	21	**1,816,083**	2,116,147
Trade and other receivables	19	**2,559,988**	3,431,335
Amount due from customers for contract work	20	**–**	181,503
Current tax recoverable		**6,595**	3,797
Available-for-sale financial assets	18	**–**	15,000
Pledged bank deposits	22	**191,140**	559,737
Cash and cash equivalents	22	**1,100,292**	544,360
		5,674,098	6,851,879
Assets of disposal group classified as held for sale	37(a)	**2,058,351**	–
Total current assets		**7,732,449**	6,851,879
Total assets		**10,066,544**	11,267,766

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
EQUITY			
Equity attributable to owners of the Company			
Share capital	23	**487,983**	300,983
Other reserves	25	**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	30	**68,624**	72,763
Borrowings	27	**1,881,691**	2,086,126
Trade and other payables	26	**–**	2,788
Total non-current liabilities		**1,950,315**	2,161,677

	Note	As at 31 December 2017 RMB'000	2016 RMB'000
Current liabilities			
Deferred income	30	**41,268**	38,567
Trade and other payables	26	**1,760,966**	2,677,890
Current income tax liabilities		**67,175**	53,080
Borrowings	27	**1,434,325**	2,212,922
Provisions for other liabilities and charges	29	**115,671**	40,178
		3,419,405	5,022,637
Liabilities of disposal group classified as held for sale	37(a)	**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

The notes on pages 96 to 217 form an integral part of these consolidated financial statements.

The financial statements on pages 86 to 95 were approved by the Board of Directors on 29 March 2018 and were signed on its behalf.

Director *Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017
(All amounts in RMB unless otherwise stated)

	Attributable to owners of the Company										
	Share capital RMB'000	Share premium RMB'000 (note 25)	Other reserve RMB'000 (note 25)	Capital reserve RMB'000 (note 25)	Surplus reserve RMB'000 (note 25)	Exchange reserve RMB'000 (note 25)	Shares held for share award scheme RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total Equity RMB'000
Balance at 1 January 2016	300,983	2,349,292	51,210	531,049	413,360	(173,717)	(124,618)	1,204,470	4,552,029	222,157	4,774,186
Loss for the year	–	–	–	–	–	–	–	(609,689)	(609,689)	(17,560)	(627,249)
Other comprehensive income	–	–	–	–	–	(42,317)	–	–	(42,317)	(7,095)	(49,412)
Total comprehensive income	–	–	–	–	–	(42,317)	–	(609,689)	(652,006)	(24,655)	(676,661)
Transactions with owners											
Equity-settled share-based transactions	–	–	–	3,022	–	–	–	–	3,022	–	3,022
Options lapsed under share option schemes	–	–	–	(1,004)	–	–	–	1,004	–	–	–
Acquisition of non-controlling interests	–	–	(4,135)	–	–	–	–	–	(4,135)	(9,313)	(13,448)
Disposal of subsidiary	–	–	–	–	–	–	–	–	–	(3,647)	(3,647)
Appropriation to surplus reserve	–	–	–	–	4,921	–	–	(4,921)	–	–	–
Total transactions with owners, recognised directly in equity	–	–	(4,135)	2,018	4,921	–	–	(3,917)	(1,113)	(12,960)	(14,073)
Balance at 31 December 2016	300,983	2,349,292	47,075	533,067	418,281	(216,034)	(124,618)	590,864	3,898,910	184,542	4,083,452

FOR THE YEAR ENDED 31 DECEMBER 2017
(All amounts in RMB unless otherwise stated)

		Attributable to owners of the Company											
	Note	Share capital RMB'000	Share premium RMB'000 (note 25)	Other reserve RMB'000 (note 25)	Capital reserve RMB'000 (note 25)	Surplus reserve RMB'000 (note 25)	Exchange reserve RMB'000 (note 25)	Fair value reserve RMB'000 (note 25)	Shares held for share award scheme RMB'000	(Accumulated losses)/ Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total Equity RMB'000
Balance at 1 January 2017		300,983	2,349,292	47,075	533,067	418,281	(216,034)	–	(124,618)	590,864	3,898,910	184,542	4,083,452
Loss for the year		–	–	–	–	–	–	–	–	(1,239,368)	(1,239,368)	9,786	(1,229,582)
Other comprehensive income		–	–	–	–	–	(91,563)	1,423	–	–	(90,140)	5,192	(84,948)
Total comprehensive income		–	–	–	–	–	(91,563)	1,423	–	(1,239,368)	(1,329,508)	14,978	(1,314,530)
Transactions with owners													
Issue of new ordinary shares	23	186,961	1,247,436	–	–	–	–	–	–	–	1,434,397	–	1,434,397
Equity-settled share-based transactions		–	–	–	3,293	–	–	–	–	–	3,293	–	3,293
Shares issued under share option scheme		39	199	–	(65)	–	–	–	–	–	173	–	173
Options lapsed under share option schemes		–	–	–	(2,044)	–	–	–	–	2,044	–	–	–
Acquisition of non-controlling interests		–	–	3,450	–	–	–	–	–	–	3,450	(32,585)	(29,135)
Appropriation to surplus reserve		–	–	–	–	11,416	–	–	–	(11,416)	–	–	–
Total transactions with owners, recognised directly in equity		187,000	1,247,635	3,450	1,184	11,416	–	–	–	(9,372)	1,441,313	(32,585)	1,408,728
Balance at 31 December 2017		487,983	3,596,927	50,525	534,251	429,697	(307,597)	1,423	(124,618)	(657,876)	4,010,715	166,935	4,177,650

The notes on pages 96 to 217 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017
(All amounts in RMB unless otherwise stated)

	Note	Year ended 31 December 2017 RMB'000	2016 RMB'000
Cash flows from operating activities			
Cash generated from operations	32	**437,388**	84,368
Income tax paid		**(10,191)**	(23,579)
Net cash generated from operating activities		**427,197**	60,789
Cash flows from investing activities			
Payment for additions of property, plant and equipment and construction in progress		**(93,214)**	(135,266)
Disposal of lease prepayment		**–**	8,900
Decrease in payment for acquisition of leasehold prepayment		**–**	15,026
Proceeds on disposal of property, plant and equipment	32	**6,345**	32,636
Purchase of available-for-sale financial assets		**(1,451,191)**	(524,800)
Proceeds from disposal of available-for-sale financial assets		**1,467,760**	549,454
Net loans granted to related companies		**(17,516)**	(839)
Proceeds from government grants related to assets		**14,475**	38,906
Net cash outflow on disposal of subsidiary	36	**–**	(67)
Interest received		**10,458**	14,440
Expenditure on development project and other intangible assets		**(55,327)**	(56,391)
Decrease in bank deposits maturing over three months		**–**	100,518
Net cash (used in)/generated from investing activities		**(118,210)**	42,517

FOR THE YEAR ENDED 31 DECEMBER 2017
(All amounts in RMB unless otherwise stated)

	Note	Year ended 31 December 2017 RMB'000	2016 RMB'000
Cash flows from financing activities			
Issue of ordinary shares		**1,434,397**	–
Proceeds from borrowings		**1,656,936**	2,448,636
Repayments of borrowings		**(3,024,410)**	(2,895,234)
Interest and bank charges paid		**(219,439)**	(234,513)
Net loans from related companies		**480,000**	11,050
Payment for acquisition of non-controlling interests	34	**(29,135)**	(13,448)
Proceeds from share issued under share option scheme		**173**	–
Net cash generated from/(used in) financing activities		**298,522**	(683,509)
Net increase/(decrease) in cash and cash equivalents		**607,509**	(580,203)
Cash and cash equivalents at the beginning of year		**544,360**	1,102,651
Exchange (losses)/gains on cash and cash equivalents		**(27,063)**	21,912
Cash and cash equivalents at end of the year		**1,124,806**	544,360

The notes on pages 96 to 217 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017
(All amounts in RMB unless otherwise stated)

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 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 note 4.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 BASIS OF PREPARATION (continued)

2.1.1 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, see note 32(c).

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 BASIS OF PREPARATION (continued)

2.1.1 Changes in accounting policy and disclosures (continued)

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

IFRS 9 Financial Instruments (continued)

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 ("AFS") 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 BASIS OF PREPARATION (continued)

2.1.1 Changes in accounting policy and disclosures (continued)

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

IFRS 9 Financial Instruments (continued)

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 BASIS OF PREPARATION (continued)

2.1.1 Changes in accounting policy and disclosures (continued)

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

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 (note 33).

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 SUBSIDIARIES

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by IFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 SUBSIDIARIES (continued)

2.2.1 Consolidation (continued)

(a) *Business combinations* (continued)

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(b) *Changes in ownership interests in subsidiaries without change of control*

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions — that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) *Disposal of subsidiaries*

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. It means the amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 SUBSIDIARIES (continued)

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 ASSOCIATES

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in associates include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profits of associates' in profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 ASSOCIATES (continued)

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gains or losses on dilution of equity interest in associates are recognised in profit or loss.

2.4 JOINT ARRANGEMENTS

The Group has applied IFRS 11 to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. The Group's investments in joint ventures include goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.5 SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the senior executive management that makes strategic decisions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 FOREIGN CURRENCY TRANSLATION

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Renminbi ("RMB"), which is the Group's and Company's presentation currency. The Company's functional currency is Hong Kong Dollar ("HKD").

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in profit or loss within 'finance income or expenses'. All other foreign exchange gains and losses are presented in statement of profit or loss within 'other (losses)/gains, net'.

Changes in the fair value of debt securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 FOREIGN CURRENCY TRANSLATION (continued)

(c) Group companies

The results and financial position of the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting currency translation differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

(d) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated currency translation differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or joint ventures that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of profit or loss during the financial period in which they are incurred.

For the drilling rigs used for oil and gas engineering services included in Plant and machinery, the depreciation is calculated using units-of-production method. For each day a rig is operating, it is depreciated over an approximate of 5,000~6,000-day period, after provision for residual values.

Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

— Freehold land	Not depreciated
— Buildings held for own use	20–35 years
— Plant and machinery	5–10 years
— Fixtures, fittings and equipment	5–10 years
— Motor vehicles	5–6 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2.10).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other (losses)/gains, net' in profit or loss.

Construction-in-progress ("CIP") represents buildings under construction and plant and equipment pending for installation, and are stated at cost. Costs include construction and acquisition costs. No provision for depreciation is made on CIP until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 LEASE PREPAYMENTS

Lease prepayments represent upfront prepayments made for the land use rights. Lease prepayments are stated at costs and are amortised on a straight-line basis over the remaining period of the land use rights, net of any impairment losses.

2.9 INTANGIBLE ASSETS

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) Technical know-how

Separately acquired technical know-how is shown at historical cost. Technical know-how acquired in a business combination is recognised at fair value at the acquisition date. Technical know-how has a finite useful life and is carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of technical know-how over its estimated useful life of 10 years.

(c) Capitalised development costs

Capitalised development costs that are directly attributable to the design and testing of new or improved products when meet relevant criteria (notes 2.32). Amortisation is calculated using the straight-line method over its estimated useful life of 10 years.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 IMPAIRMENT OF NON-FINANCIAL ASSETS

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.11 FINANCIAL ASSETS

2.11.1Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, available-for-sale financial assets and held-to-maturity financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables" and 'cash and cash equivalents' in the balance sheet (notes 2.16 and 2.17).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 FINANCIAL ASSETS (continued)

2.11.1Classification (continued)

(c) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

(d) *Held-to-maturity financial assets*

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available for sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the end of the reporting period, which are classified as current assets.

2.11.2Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in profit or loss within 'other (losses)/gains, net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in profit or loss as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 FINANCIAL ASSETS (continued)

2.11.2 Recognition and measurement (continued)

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in profit or loss as "gains and losses from investment securities".

Interest on available-for-sale securities calculated using the effective interest method is recognised in profit or loss as part of other income. Dividends on available-for-sale equity instruments are recognised in profit or loss as part of other income when the Group's right to receive payments is established.

2.12 OFFSETTING FINANCIAL INSTRUMENTS

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2.13 IMPAIRMENT OF FINANCIAL ASSETS

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 IMPAIRMENT OF FINANCIAL ASSETS (continued)

(a) *Assets carried at amortised cost* (continued)

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

(b) *Assets classified as available for sale*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, if any such evidence exists the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — is reclassified from equity and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated statement of profit or loss.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — is reclassified from equity and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through the consolidated statement of profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group does not have any derivative instruments that qualifying for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in profit or loss.

2.15 INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.16 TRADE AND OTHER RECEIVABLES

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. See note 2.11.2 for further information about the Group's accounting for trade receivables and note 2.13 for a description of the Group's impairment policies.

2.17 CASH AND CASH EQUIVALENTS

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 SHARE CAPITAL

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.19 TRADE PAYABLES

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.20 BORROWINGS

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 BORROWINGS (continued)

An initial recognition the derivative component of senior notes under borrowings is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs that relate to issue of the senior note are allocated to the liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to derivative component is recognised immediately in profit or loss.

The derivative component is subsequently remeasured in accordance with note 2.14. The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method.

2.21 BORROWING COSTS

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Borrowing costs include interest expense, finance charges in respect of finance lease and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. The exchange gains and losses that are an adjustment to interest costs include the interest rate differential between borrowing costs that would be incurred if the entity had borrowed funds in its functional currency, and the borrowing costs actually incurred on foreign currency borrowings. Such amounts are estimated based on interest rates on similar borrowings in the entity’s functional currency.

When the construction of the qualifying assets takes more than one accounting period, the amount of foreign exchange differences eligible for capitalisation is determined for each annual period and are limited to the difference between the hypothetical interest amount for the functional currency borrowings and the actual interest incurred for foreign currency borrowings. Foreign exchange differences that did not meet the criteria for capitalisation in previous years should not be capitalised in subsequent years.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22 CURRENT AND DEFERRED INCOME TAX

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22 CURRENT AND DEFERRED INCOME TAX (continued)

(b) *Deferred income tax* (continued)

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) *Offsetting*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 EMPLOYEE BENEFITS

(a) Pension obligations

Pursuant to the relevant labour rules and regulations in the People's Republic of China (the "PRC"), the PRC subsidiaries of the Group participates in defined contribution retirement benefit schemes (the "Schemes") organised by the PRC municipal government authorities whereby the Group is required to make contributions to the Schemes at the rate of 20% to 22% (2016: 20% to 22%) of the standard wages determined by the relevant authorities in the PRC for the year ended 31 December 2017. The local government authority is responsible for the entire pension obligations payable to retired employees. The contributions to the schemes are charged to profit or loss as and when incurred.

(b) Housing fund and other benefits

All full-time employees of the Group's subsidiaries in the PRC are entitled to participate in various government-sponsored housing and other benefits funds. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees. The Group's liability in respect of these funds is limited to the contributions payable in each period.

2.24 SHARE-BASED PAYMENTS

(a) Equity-settled share-based payment transactions

The Group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specified period of time).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.24 SHARE-BASED PAYMENTS (continued)

(a) *Equity-settled share-based payment transactions* (continued)

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (and share premium).

(b) *Share-based payment transactions among group entities*

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

2.25 CONSTRUCTION CONTRACTS

A construction contract is defined by IAS 11, ‘Construction contracts’, as a contract specifically negotiated for the construction of an asset.

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract by reference to the stage of completion. Contract costs are recognised as expenses by reference to the stage of completion of the contract activity at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.25 CONSTRUCTION CONTRACTS (continued)

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

Variations in contract work, claims and incentive payments are included in contract revenue to the extent that may have been agreed with the customer and are capable of being reliably measured.

The Group uses the 'percentage-of-completion' method to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion.

On the balance sheet, the Group reports the net contract position for each contract as either an asset or a liability. A contract represents an asset where costs incurred plus recognised profits (less recognised losses) exceed progress billings; a contract represents a liability where the opposite is the case.

2.26 PROVISIONS

Provisions for warranty costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.27 REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and related tax. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

(a) Sales of goods

Revenue from the sales of goods is recognised when significant risks and rewards of ownership of the goods are transferred to the ultimate customers or dealers, as appropriate (normally in the form of delivery of goods to ultimate customers, dealers or parties designated by the dealers), and the ultimate customers, dealers or parties designated by the dealers have accepted the products and collectability of the related receivables is reasonably assured.

Instalment sales, under which the consideration is receivable in instalments. Revenue attributable to the sales price, exclusive of interest, is recognised at the date of sale. The sales price is the present value of the consideration, determined by discounting the instalments receivable at the imputed rate of interest. The interest element is recognised as revenue as it is earned, using the effective interest method.

(b) Sales of services

For sales of services, revenue is recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction and assessed on the basis of actual services provided as a proportion of the total service to be provided.

(c) Revenue from construction contracts

Revenue from construction contracts is recognised in accordance with the accounting policy set out in note 2.25.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.27 REVENUE RECOGNITION (continued)

(d) Interest income

Except interest income from financial lease service is recorded as revenue; all other kinds of interest income are recorded as finance income. At the financial leasing commencement date, the minimum lease payments from the lessee is recognized as finance lease receivable and unguaranteed residual value is recognised at the same time. The difference between the sum of minimum lease payments and unguaranteed residual value and its present value is accounted for as unearned finance income charge.

The unearned finance income is amortized using the effective interest method over the period of the lease.

2.28 INTEREST INCOME

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognised using the original effective interest rate.

2.29 DIVIDEND INCOME

Dividend income is recognised when the right to receive payment is established.

2.30 LEASES

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of profit or loss on a straight-line basis over the period of the lease.

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.30 LEASES (continued)

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the statement of profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income.

The method for allocating gross earnings to accounting periods is referred to a as the "actuarial method". The actuarial method allocates rentals between finance income and repayment of capital in each accounting period in such a way that finance income will emerge as a constant rate of return on the lessor's net investment in the lease.

When assets are leased out under an operating lease, the asset is included in the balance sheet based on the nature of the asset.

Lease income on operating leases is recognised over the term of the lease on a straight-line basis.

2.31 DIVIDEND DISTRIBUTION

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.32 RESEARCH AND DEVELOPMENT

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

(a) it is technically feasible to complete the intangible asset so that it will be available for use or sale;

(b) management intends to complete the intangible asset and use or sell it;

(c) there is an ability to use or sell the intangible asset;

(d) it can be demonstrated how the intangible asset will generate probable future economic benefits;

(e) adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and

(f) the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life.

2.33 GOVERNMENT GRANTS

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to assets are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.34 NON-CURRENT ASSETS (OR DISPOSAL GROUPS) HELD-FOR-SALE AND DISCONTINUED OPERATIONS

Non-current assets (or disposal groups) are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. The non-current assets (except for certain assets as explained below), (or disposal groups), are stated at the lower of carrying amount and fair value less costs to sell. Deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries and associates) and investment properties, which are classified as held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 2.

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographic area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the statement of profit or loss.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

3 FINANCIAL RISK MANAGEMENT

3.1 FINANCIAL RISK FACTORS

The Group's activities expose to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by the senior executive management of the Group. The senior executive management of the Group identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The board provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

(a) Market risk

(i) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar ("USD") Euros ("EUR") and RMB. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency. Management has set up a policy to require the Group companies to manage their foreign exchange risk against their functional currency.

RMB is not freely convertible into foreign currencies. All foreign exchange transactions involving RMB must take place through the People's Bank of China or other institutions authorised to buy and sell foreign currencies. The exchange rate adopted for the foreign exchange transactions are the rates of exchange quoted by the commercial banks that are based on the middle price quoted by People's Bank of China and determined largely by supply and demand.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 FINANCIAL RISK FACTORS (continued)

(a) *Market risk* (continued)

(i) *Foreign exchange risk* (continued)

The following table details the Group's exposure at 31 December 2017 to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate at 31 December 2017.

	Exposure to foreign currency		
	USD items (RMB'000)	EUR items (RMB'000)	RMB items (RMB'000)
At 31 December 2017			
Cash and cash equivalents	159,093	240	387
Trade and other receivables	1,006,595	536	–
Borrowings	(42,702)	–	–
Trade and other payables	(203,378)	–	(1,969)
Overall net exposure	919,608	776	(1,582)

	Exposure to foreign currency		
	USD items (RMB'000)	EUR items (RMB'000)	RMB items (RMB'000)
At 31 December 2016			
Cash and cash equivalents	331,752	22	322
Trade and other receivables	3,539,237	15,071	–
Borrowings	(201,679)	–	–
Trade and other payables	(1,977,727)	–	(50)
Overall net exposure	1,691,583	15,093	272

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 FINANCIAL RISK FACTORS (continued)

(a) *Market risk* (continued)

(i) Foreign exchange risk (continued)

As at 31 December 2017 and 2016, the Group did not have any forward exchange contracts to hedge its exposure to foreign exchange risk.

As at 31 December 2017, if RMB had weakened/strengthened by 5% (2016: 5%) against the USD with all other variables held constant, the Group's post-tax profit for the year then ended would have been approximately RMB39,183,000 (2016: RMB68,415,000 higher/lower) higher/lower, mainly as a result of foreign exchange gains/losses on translation of USD-denominated cash and cash equivalents, trade and other receivables, borrowings and trade and other payables.

The sensitivity analysis above represents an aggregation of the instantaneous effects on each of the Group entities' profit or loss after tax measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of the reporting period for presentation purposes.

(ii) Cash flow and fair value interest rate risk

The Group's interest rate risk arises primarily from borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. All borrowings including senior notes obtained at fixed rates expose the Group to fair value interest rate risk. The Group's policy is to manage its interest rate risk to ensure there are no undue exposures to significant interest rate movements. The Group does not use derivative financial instruments to hedge its fixed and variable rate debt obligations.

As at 31 December 2017, it is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax by approximately RMB4,352,000 (2016: RMB4,592,000).

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax that would arise assuming that the change in interest rates had occurred as at 31 December 2017 and 2016, the impact on the Group's profit after tax is estimated as annualised impact on interest expense of such a change in interest rates. The analysis is performed on the same basis for 2016.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 FINANCIAL RISK FACTORS (continued)

(b) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables, cash and cash equivalents and deposits with banks. Management has a credit policy in place and the exposures to these credit risks are monitored on an on-going basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group maintains different billing policies for different customers based on the negotiated terms with each of the customers. The Group will issue 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. Except for finance lease receivables and long term trade receivable arising from instalment sales, trade receivables are due within 90 days from the date of billing. The Group negotiates with those debtors with overdue balances to agree a repayment schedule by both parties and regularly evaluates the credit quality of its debtors to assess the necessity to revise the credit term.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer and the industry in which the customers operate. Significant concentration of credit risk primarily arises when the Group has significant exposure to individual customers. As at 31 December 2017, 7% (2016: 10%) and 24% (2016: 35%) of the total trade was due from the Group's largest customer and the five largest customers respectively. The Group also has significant concentration of credit risk on customers in the oil drilling industry and the volatility in global oil prices may affect the financial results and ability of customers to make payments.

The Group does not provide any other guarantees which would expose the Group or the Company to credit risk.

The credit risk on cash at bank and pledged bank deposits is limited as the counterparties are banks with sound credit standing. Majority of the Group's cash at bank and pledged bank deposits were deposited at the state-owned commercial banks in the PRC.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 19.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 FINANCIAL RISK FACTORS (continued)

(c) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's management when the borrowings exceed certain predetermined levels of authority.

The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutes to meet its liquidity requirements in the short and long term.

The Group has significant concentration of credit risk on customers in the oil and gas industry. The volatility in global oil prices may affect the ability of customers to make payments and demand of the Group's goods and services and hence may affect the liquidity of the Group.

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total contractual cash flows RMB'000
At 31 December 2017					
Trade and other payables (i)	1,542,145	–	–	–	1,542,145
Senior notes	97,360	1,404,200	–	–	1,501,560
Borrowings (excluding senior notes)	1,494,096	56,659	579,540	–	2,130,295
Total financial liabilities	3,133,601	1,460,859	579,540	–	5,174,000
At 31 December 2016					
Trade and other payables (i)	2,246,493	2,788	–	–	2,249,281
Senior notes	103,361	103,361	1,490,761	–	1,697,483
Borrowings (excluding senior notes)	2,688,679	506,342	243,983	584	3,439,588
Total financial liabilities	5,038,533	612,491	1,734,744	584	7,386,352

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.2 CAPITAL MANAGEMENT

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as ageing concern, so that it can continue to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group's capital structure is regularly reviewed and managed in accordance with the capital management practices of the Group and in light of changes in economic conditions affecting the Group, to the extent that these do not conflict with the directors' fiduciary duties towards the Group.

Consistent with others in the industry, the Group monitors capital risk on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including "current and non-current borrowings" as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as "equity" as shown in the consolidated balance sheet plus net debt. The Group aims to maintain the gearing ratio at a reasonable level.

For the year ended 31 December 2017, the Group's strategy, which was unchanged from 2016, was to maintain sufficient capital to cover any net debt position by adjusting the amount of dividends paid to shareholders or issue new shares. The gearing ratios as at 31 December 2017 and 2016 were as follows:

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Total borrowings (note 27)	**3,316,016**	4,299,048
Less: cash and cash equivalents (note 22)	**(1,100,292)**	(544,360)
Net debt	**2,215,724**	3,754,688
Total equity	**4,177,650**	4,083,452
Total capital	**6,393,374**	7,838,140
Gearing ratio	**35%**	48%

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 FAIR VALUE ESTIMATION

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2017 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

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

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

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 FAIR VALUE ESTIMATION (continued)

The following table presents the Group's financial assets that are measured at fair value at 31 December 2017.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Available-for-sale financial assets				
— equity investment	–	–	90,192	90,192
Total assets	–	–	90,192	90,192

The following table presents the Group's financial assets that are measured at fair value at 31 December 2016.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Available-for-sale financial assets				
— equity investment	–	–	88,294	88,294
— wealth management products	–	–	15,000	15,000
Total assets	–	–	103,294	103,294

There were no transfers among levels 1, 2 and 3 during 2017 and 2016. There were no other changes in valuation techniques during 2017 and 2016.

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 FAIR VALUE ESTIMATION (continued)

(a) *Financial instruments in level 1*

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily equity investments classified as trading securities or available-for-sale.

(b) *Financial instruments in level 2*

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 FAIR VALUE ESTIMATION (continued)

(c) Financial instruments in level 3

The following table presents the changes in level 3 instruments for the year ended 31 December 2016 and 2017.

	Year ended 31 December	
Available-for-sale financial assets — equity investment	**2017 RMB'000**	2016 RMB'000
Opening balance at 1 January	**88,294**	74,053
Additions	**–**	14,241
Changes in fair value	**1,898**	–
Closing balance at 31 December	**90,192**	88,294

	Year ended 31 December	
Available-for-sale financial assets — wealth management products	**2017 RMB'000**	2016 RMB'000
Opening balance at 1 January	**15,000**	39,203
Additions	**1,451,191**	524,800
Disposals	**(1,466,191)**	(549,003)
Closing balance at 31 December	**–**	15,000

The unrealised gains arising from the remeasurement of the derivative financial instruments are presented in "Finance expenses, net" in profit or loss.

The carrying amounts of the Group's financial assets and liabilities including cash and cash equivalents, pledged bank deposits, trade and other receivables, trade and other payables and current borrowings, approximate their fair values due to their short maturities. The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments. The fair value of the non-current borrowings is disclosed in note 27.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

4.1 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Impairments

(i) Impairment of trade and other receivables

Trade and other receivables are reviewed periodically to assess whether impairment losses exist and if they exist, the amounts of the impairment losses are estimated based on historical loss experience for trade and other receivables with similar credit risk. The methodology and assumptions used in estimating future cash flows are reviewed regularly to reduce any difference between the loss estimates and actual amounts.

(ii) Impairment of non-financial assets

If circumstances indicate that the carrying value of non-financial assets may not be recoverable, these assets may be considered impaired, and an impairment loss may be recognised in accordance with IAS 36, Impairment of assets. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the fair value less costs to sell and the value in use. In determining that value in use, expected cash flows generated by the assets are discounted to their present value, which requires significant judgement relating to revenue, gross margin and pre-tax discount rate. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and amount of operating costs.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

4.1 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

(b) Write down of inventories

The Group estimates the write down for obsolescence of inventories with reference to aged inventories analyses, projections of expected future saleability of goods and management experience and judgement. Based on this review, write down of inventories will be made when the carrying amounts of inventories decline below their estimated net realisable value. Due to changes in market conditions, actual saleability of goods may be different from estimation and profit or loss could be affected by differences in this estimation.

(c) Income taxes

The Group is subject to various taxes in the places which the Group has operations. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and income tax expense in the period in which such estimate is changed.

Deferred tax liabilities are generally recognised for all taxable temporary differences, except that the temporary differences arise from the initial recognition of goodwill, or arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss.

5 SEGMENT INFORMATION

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

The Group manages its businesses by divisions, which are organised by business lines (land drilling rigs, 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 37).

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.

5 SEGMENT INFORMATION (continued)

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 37.

	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 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 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.

5 SEGMENT INFORMATION (continued)

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

5 SEGMENT INFORMATION (continued)

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.

6 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

7 OTHER (LOSSES)/GAINS, NET

	Year ended 31 December	
	2017	2016
		Restated
	RMB'000	RMB'000
Legal claims of sales agency (note 29)	**(48,725)**	–
Other legal claims (note 29)	**(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 (note 36)	**–**	(17,890)
Insurance compensation	**43,754**	22,210
Others	**(2,454)**	2,851
	(43,319)	9,210

8 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), which are included in the total staff costs as disclosed in note 9 and total amortisation and depreciation in note 16 and note 17 respectively.

9 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2017	2016
		Restated
	RMB'000	RMB'000
Contributions to defined contribution retirement schemes	**34,031**	43,156
Equity-settled share-based payment expenses (note 24)	**3,293**	3,022
Salaries, wages and other benefits	**426,442**	474,634
	463,766	520,812

(a) FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose emoluments were highest in the Group for the year ended 31 December 2017 included one (2016: two) directors. Their emoluments are reflected in the analysis disclosed as note 40. The emoluments payable to the remaining four (2016: three) individuals for the years ended 31 December 2017 and 2016 are as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Basic salaries, allowances and other benefits in kind	**2,981**	1,056
Discretionary bonuses	**1,655**	2,282
Contributions to defined contribution retirement schemes	**225**	150
Share-based payments	**138**	89
	4,999	3,577

9 EMPLOYEE BENEFIT EXPENSES (continued)

(a) FIVE HIGHEST PAID INDIVIDUALS (continued)

The emoluments of the above individual fell within the following bands:

	Number of individuals Year ended 31 December	
	2017	2016
HKD1,000,001 to HKD1,500,000	**4**	3

10 FINANCE EXPENSES, NET

	Year ended 31 December	
	2017 **RMB'000**	2016 Restated 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 (note 16)	**(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

11 SUBSIDIARIES

The following is a list of the principal subsidiaries as at 31 December 2017:

Name of company	Place of incorporation	Particulars of issued and paid-up capital	Attributable equity interest Direct	Attributable equity interest Indirect	Principal activities
Honghua Holdings Limited ("Honghua Holdings")	Hong Kong	1 ordinary share	100%	–	Investment holding
Sichuan Honghua Petroleum Equipment Co., Ltd. ("Honghua Company") ((i) and (iii))	The PRC	Registered capital RMB1,600,000,000	–	100%	Manufacturing of petroleum equipment
Sichuan Honghua Electric Co., Ltd. ("Honghua Electric") ((i) and (iii))	The PRC	Registered capital RMB100,000,000	–	84%	Manufacturing of panel of drilling rigs
Honghua International Co., Ltd. ("Honghua International") ((i) and (iii))	The PRC	Registered capital RMB51,200,000	–	90%	Trading of drilling rigs and related parts
Honghua (China) Investment Co., Ltd. ((i), (ii) and (iii))	The PRC	Registered capital USD320,000,000	–	100%	Investment holding
Honghua Offshore Oil and Gas Equipment (Jiangsu) Co., Ltd. ((i) and (iii))	The PRC	Registered capital RMB874,992,609	–	100%	Manufacturing of offshore drilling platform and related products
Newco (H.K.) Limited	Hong Kong	1,000 ordinary shares	–	100%	Trading of drilling rigs and related parts
Russia Honghua Co., Ltd.	Russia Federation	Registered capital Russian Ruble ("RUB") 10,000	–	100%	Trading of drilling rigs and related parts
Honghua America, LLC	United States of America	Registered capital USD3,414,407	–	100%	Trading of drilling rigs and related parts
Gansu Hongteng Oil & Gas Equipment Co., Ltd. ("Gansu Hongteng") ((i) and (iii))	The PRC	Registered capital RMB120,000,000	–	70%	Manufacturing of related parts of drilling rigs
Russia Touhey Motor Drilling Service Limited ("TNG")	Russia Federation	Registered capital RUB489,297,344	–	51%	Oil and gas drilling service

(i) These entities are domestic limited liability companies established in the PRC.

(ii) These entities are wholly-owned foreign invested enterprises established in the PRC.

(iii) The official names of these companies are in Chinese. The English translation of the company name is for reference only.

11 SUBSIDIARIES (continued)

MATERIAL NON-CONTROLLING INTERESTS

The total non-controlling interests as at 31 December 2017 was approximately RMB166,935,000 (2016: RMB184,542,000), of which approximately RMB115,780,000 (2016: RMB117,573,000) is attributed to Honghua Electric, approximately RMB29,285,000 (2016: RMB41,189,000) is attributed to Honghua International, approximately RMB9,927,000 (2016: RMB9,668,000) is attributed to Gansu Hongteng, and approximately RMB11,943,000 (2016: RMB14,825,000) is attributed to TNG. The non-controlling interests in respect of other subsidiaries are not material.

SUMMARISED FINANCIAL INFORMATION ON SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

Set out below are the summarised financial information for each subsidiary that has non-controlling interests that are material to the Group.

Summarised balance sheet

	Honghua Electric As at 31 December		Honghua International As at 31 December		Gansu Hongteng As at 31 December		TNG As at 31 December	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
Current								
Assets	1,307,694	1,301,642	1,535,913	1,853,841	104,683	101,253	138,689	136,548
Liabilities	(711,799)	(855,763)	(1,205,182)	(1,392,886)	(144,559)	(148,963)	(100,264)	(99,973)
Total current net assets/(liabilities)	595,895	445,879	330,731	460,955	(39,876)	(47,710)	38,425	36,575
Non-current								
Assets	266,692	304,281	13,057	124,058	75,313	82,284	78,434	86,607
Liabilities	(22,098)	(25,781)	–	(274,980)	–	–	(88,248)	(81,706)
Total non-current net assets/(liabilities)	244,594	278,500	13,057	(150,922)	75,313	82,284	(9,814)	4,901
Net assets	840,489	724,379	343,788	310,033	35,437	34,574	28,611	41,476

11 SUBSIDIARIES (continued)

SUMMARISED FINANCIAL INFORMATION ON SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS (continued)

Summarised statement of profit or loss and other comprehensive income

	Honghua Electric Year ended 31 December		Honghua International Year ended 31 December		Gansu Hongteng Year ended 31 December		TNG Year ended 31 December	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
Revenue	453,234	174,075	424,552	357,999	36,851	47,942	10,831	1,483
Profit/(loss) before income tax	134,129	220	49,332	(67,296)	1,083	(36,726)	(13,015)	1,572
Income tax expense	(18,019)	1,226	(15,577)	15,421	(220)	5,822	150	(820)
Profit/(loss) for the year	116,110	1,446	33,755	(51,875)	863	(30,904)	(12,865)	752
Other comprehensive income for the year	–	–	–	–	–	–	–	–
Total comprehensive income	116,110	1,446	33,755	(51,875)	863	(30,904)	(12,865)	752
Total comprehensive income allocated to non-controlling interests	18,879	272	3,217	(7,781)	259	(9,271)	(6,304)	369
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–

11 SUBSIDIARIES (continued)

SUMMARISED FINANCIAL INFORMATION ON SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS (continued)

Summarised cash flows

	Honghua Electric Year ended 31 December		Honghua International Year ended 31 December		Gansu Hongteng Year ended 31 December		TNG Year ended 31 December	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
Cash flows from operating activities								
Cash (used in)/generated from operations	(93,003)	684,584	342,812	(213,903)	(112,309)	23,388	2,865	(18,637)
Interest paid	(4,543)	(11,740)	(16,520)	(15,058)	(2,711)	(4,028)	–	–
Income tax paid	(10)	(5)	(1,288)	(12,396)	(9)	(14)	(5,057)	(3,320)
Net cash (used in)/generated from operating activities	(97,556)	672,839	327,004	(241,357)	(115,029)	19,346	(2,192)	(21,957)
Net cash generated from/(used in) from investing activities	152,294	(738,903)	20,249	152,073	115,529	(24,664)	2,478	20,964
Net cash (used in)/generated from financing activities	(50,000)	(45,000)	(348,880)	57,880	–	3,000	–	–
Net increase/(decrease) in cash and cash equivalents	5,368	(111,064)	(1,627)	(31,404)	500	(2,318)	286	(993)
Cash and cash equivalents at beginning of year	32,679	143,743	216,042	247,446	1,396	3,714	55	1,048
Cash and cash equivalents at end of year	38,047	32,679	214,415	216,042	1,896	1,396	341	55

The information above is the amount before inter-company eliminations.

12 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The amounts recognised in the consolidated balance sheet are as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Associates	**37,169**	61,771
Joint ventures	**40,389**	44,754
	77,558	106,525

The amounts recognised in profit or loss are as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Associates	**(24,606)**	3,487
Joint ventures	**(4,362)**	(3,905)
	(28,968)	(418)

	Associates	**Joint ventures**
	RMB'000	**RMB'000**
At 1 January 2017	**61,771**	**44,754**
Share of loss	**(24,606)**	**(4,362)**
Currency translation differences	**4**	**(3)**
At 31 December 2017	**37,169**	**40,389**

12 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (continued)

INVESTMENT IN ASSOCIATES

Set out below are the associates of the Group as at 31 December 2017, which are held directly by the Group.

Nature of investment in associates as at 31 December 2017 and 2016

Name of company	Place of establishment	% of ownership interest	Nature of the relationship	Measurement method
Hongdaojianyuan Marine Science and Technology Co., (Sansha) Ltd. ("Sansha Hongdao")	The PRC	30%	(i)	Equity
Honghua Financial Leasing (Shenzhen) Co., Ltd. ("Honghua (Shenzhen)")	The PRC	51%	(ii)	Equity
Prime FSP, LLC ("Prime FSP", formerly known as Tank Tek, LLC)	United States of America	30%	(iii)	Equity

(i) Sansha Hongdao was incorporated in 2013 and mainly engages in the designing and manufacturing of offshore equipment.

(ii) Honghua (Shenzhen) was incorporated in 2014 and mainly engages in providing leasing services. As at 1 April 2016, the Group increased its equity share in Honghua (Shenzhen) from 44.44% to 51.11%, with a purchase consideration of RMB6,000,000. As the Group's voting rights in the board of directors of Honghua (Shenzhen) remains as 40%, the company is still accounted as an associate.

(iii) Prime FSP (formerly known as Tank Tek, LLC) was incorporated in 2015 and mainly engages in the designing and manufacturing of offshore equipment.

The associates are unlisted companies and there is no quoted market price available for its equity.

There are no contingent liabilities relating to the Group's interest in the associates.

Honghua (Shenzhen) is an associate of the Group as at 31 December 2017, which, in the opinion of the directors, is material to the Group.

12 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (continued)

INVESTMENT IN ASSOCIATES (continued)

Summarised financial information for the associates

Set out below are the summarised financial information for Honghua (Shenzhen) which is accounted for using the equity method. The information disclosed reflects the amounts presented in the financial statements of the associate and not the Group's share of those amounts. They have been amended to reflect adjustments made by the entity when using the equity method, including fair value adjustments and modifications for differences in accounting policy.

Summarised balance sheet

	As at 31 December	
	2017	2016
	RMB '000	RMB '000
Current assets		
Cash and cash equivalents	**11,609**	7,441
Other current assets	**127,195**	64,950
Total current assets	**138,804**	72,391
Non-current assets	**205,599**	88,383
Current liabilities		
Financial liabilities (excluding trade payables)	**–**	–
Other current liabilities	**(76,827)**	(45,603)
Total current liabilities	**(76,827)**	(45,603)
Non-current liabilities		
Financial liabilities (excluding trade payables)	**–**	–
Other current liabilities	**(212,462)**	(12,266)
Total non-current liabilities	**(212,462)**	(12,266)
Net assets	**55,114**	102,905

12 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (continued)

INVESTMENT IN ASSOCIATES (continued)

Summarised financial information for the associates (continued)

Summarised statement of comprehensive income

	Year ended 31 December	
	2017	2016
	RMB '000	RMB '000
Revenue	**5,645**	12,557
Interest income	**24**	16
Depreciation and amortisation	**(5,972)**	(2)
Interest expense	**(1,343)**	(1,216)
Income tax expense	**(1,297)**	(2,023)
(Loss)/profit from continuing operations	**(47,791)**	6,022
(Loss)/profit for the period	**(47,791)**	6,022
Other comprehensive income	**–**	–
Total comprehensive income	**(47,791)**	6,022

12 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (continued)

INVESTMENT IN ASSOCIATES (continued)

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of its interest in the associate.

	Year ended 31 December	
	2017	2016
	RMB '000	RMB '000
Opening net assets 1 January	**102,905**	96,883
(Loss)/profit for the year	**(47,791)**	6,022
Closing net assets	**55,114**	102,905
Interest in associate (51.11%)	**28,169**	52,595
Carrying value	**28,169**	52,595

Individually immaterial associates

In addition to the interests in the associate disclosed above, the Group also has interests in two individually immaterial associates that are accounted for using the equity method.

	Year ended 31 December	
	2017	2016
	RMB '000	RMB '000
Aggregate carrying amount of individually immaterial associates	**9,000**	9,176
Aggregate amounts of the Group's share of:		
Profit from continuing operations	**–**	–
Post-tax profit or loss from discontinued operations	**–**	–
Other comprehensive income	**–**	–
Total comprehensive income	**–**	–

12 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (continued)

INVESTMENT IN JOINT VENTURES

	Year ended 31 December	
	2017	2016
	RMB '000	RMB '000
At 1 January	**44,754**	48,239
Share of loss	**(4,362)**	(3,905)
Currency translation differences	**(3)**	420
At 31 December	**40,389**	44,754

Nature of investment in joint ventures as at 31 December 2017 and 2016

Name of company	Place of establishment	% of ownership interest	Nature of the relationship	Measurement method
Egyptian Petroleum HH Rigs Manufacturing Co. S.A.E. ("HH Egyptian Company")	Egypt	50%	(i)	Equity
Honghua Oil Equipment Trading Co., Ltd ("Honghua Oil Equipment")	Hong Kong	50%	(ii)	Equity

(i) HH Egyptian Company mainly engages in the manufacturing and sale of drilling rigs, parts and components.

(ii) Honghua Oil Equipment mainly engages trading drilling rigs, parts and components.

The joint ventures are unlisted companies and there is no quoted market price available for its equity.

There are no contingent liabilities relating to the Group's interest in the joint ventures.

HH Egyptian Company is a joint venture of the Group as at 31 December 2017, which, in the opinion of the directors, is material to the Group.

12 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (continued)

INVESTMENT IN JOINT VENTURES (continued)

Summarised financial information for the joint ventures

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

Summarised balance sheet

	As at 31 December	
	2017 RMB '000	2016 RMB '000
Current assets		
Cash and cash equivalent	**2.036**	4,588
Other current assets	**40,999**	49,322
Total current assets	**43,035**	53,910
Non-current assets	**93,975**	87,279
Current liabilities		
Financial liabilities (excluding trade payables)	**–**	–
Other current liabilities	**(60,781)**	(62,472)
Total current liabilities	**(60,781)**	(62,472)
Non-current liabilities		
Financial liabilities (excluding trade payables)	**–**	–
Other non-current liabilities	**–**	–
Total non-current liabilities	**–**	–
Net assets	**76,229**	78,717

12 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (continued)

INVESTMENT IN JOINT VENTURES (continued)

Summarised financial information for the joint ventures (continued)

Summarised statement of comprehensive income

	Year ended 31 December	
	2017	2016
	RMB '000	RMB '000
Revenue	**6,402**	5,588
Interest income	**–**	1,748
Depreciation and amortisation	**–**	–
Interest expense	**(20)**	–
Income tax expense	**–**	–
Loss from continuing operations	**(8,723)**	(7,006)
Loss for the period	**(8,723)**	(7,006)
Other comprehensive loss	**–**	–
Total comprehensive loss	**(8,723)**	(7,006)

The information above reflects the amounts presented in the financial statements of the joint venture, adjusted for differences in accounting policies between the Group and the joint venture, and not the Group's share of those amounts.

12 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (continued)

INVESTMENT IN JOINT VENTURES (continued)

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of its interest in the joint venture.

	Year ended 31 December	
	2017	2016
	RMB '000	RMB '000
Opening net assets 1 January	**78,717**	93,183
Post-tax loss for the year	**(8,723)**	(7,006)
Currency translation differences	**6,235**	(7,460)
Closing net assets	**76,229**	78,717
Interest in joint venture (50%)	**38,115**	39,359
Carrying value	**38,115**	39,359

In addition to the interests in the joint venture disclosed above, the Group also has interests in an immaterial joint venture that is accounted for using the equity method.

	Year ended 31 December	
	2017	2016
	RMB '000	RMB '000
Aggregate carrying amount of individually immaterial joint venture	**2,274**	5,395
Aggregate amounts of the Group's share of:		
Profit from continuing operations	**–**	–
Post-tax profit or loss from discontinued operations	**–**	–
Other comprehensive income	**–**	–
Total comprehensive income	**–**	–

13 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 (note 28)	**26,977**	(53,752)
Income tax expense	**48,651**	(25,428)

13 INCOME TAX EXPENSE (continued)

(i) Hong Kong

The provision for Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits of the subsidiaries of the Group incorporated in Hong Kong 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) 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) 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.

13 INCOME TAX EXPENSE (continued)

(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**	–

14 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)

14 LOSS PER SHARE (continued)

(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)

15 LEASE PREPAYMENTS

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

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
At 1 January	**379,582**	405,732
Additions	**45**	–
Disposals	**–**	(8,900)
Disposal of subsidiary (note 36)	**–**	(9,191)
Transferred to disposal group classified as held for sale (note 37)	**(152,842)**	–
Amortisation	**(8,043)**	(8,059)
At 31 December	**218,742**	379,582

(a) All the amortisation of the Group's land use rights was charged to administrative expenses. The amount related to disposal group classified as held for sale were transferred to "Loss for the year from discontinued operation".

(b) Bank borrowings are secured on land use rights for the carrying amount of approximately RMB26,043,000 (2016: RMB27,052,000) (note 27).

16 PROPERTY, PLANT AND EQUIPMENT

	Freehold land RMB'000	Buildings held for own use RMB'000	Plant and machinery RMB'000	Furniture, fittings and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2016							
Cost	5,995	1,246,875	1,697,143	387,022	79,997	800,192	4,217,224
Accumulated depreciation and impairment	–	(224,017)	(560,724)	(239,722)	(53,668)	–	(1,078,131)
Net book amount	5,995	1,022,858	1,136,419	147,300	26,329	800,192	3,139,093
Year ended 31 December 2016							
Opening net book amount	5,995	1,022,858	1,136,419	147,300	26,329	800,192	3,139,093
Additions	–	11,092	25,276	29,003	2,329	50,962	118,662
Transfer from construction in progress	–	454,609	3,447	3,231	265	(461,552)	–
Transfer from inventories	–	–	–	2,199	–	–	2,199
Transfer to inventories	–	–	(95,099)	–	–	–	(95,099)
Disposals (note 32)	(507)	(3,959)	(11,342)	(12,710)	(897)	–	(29,415)
Disposal of subsidiary (note 36)	–	(27,550)	(3,376)	(654)	(40)	(41,911)	(73,531)
Depreciation charge	–	(74,916)	(124,318)	(41,381)	(6,468)	–	(247,083)
Currency translation difference	409	3,616	10,761	663	377	–	15,826
Impairment provision of fixed assets	–	–	(36,598)	–	–	–	(36,598)
Closing net amount	5,897	1,385,750	905,170	127,651	21,895	347,691	2,794,054
At 31 December 2016							
Cost	5,897	1,684,683	1,590,212	408,754	82,031	347,691	4,119,268
Accumulated depreciation and impairment	–	(298,933)	(685,042)	(281,103)	(60,136)	–	(1,325,214)
Net book amount	5,897	1,385,750	905,170	127,651	21,895	347,691	2,794,054
Year ended 31 December 2017							
Opening net book amount	5,897	1,385,750	905,170	127,651	21,895	347,691	2,794,054
Additions	–	6,554	55,838	35,295	618	32,375	130,680
Transfer from construction in progress	–	80,156	2,293	4,204	–	(86,653)	–
Transfer from inventories	–	–	41,048	–	–	–	41,048
Transfer to inventories	–	–	(103,716)	–	–	–	(103,716)
Disposals (note 32)	–	(4,196)	(1,536)	(6,146)	(225)	–	(12,103)
Transferred to disposal group classified as held for sale (note 37)	–	(656,639)	(76,857)	(643)	(399)	(73,603)	(808,141)
Depreciation charge	–	(79,208)	(90,522)	(37,115)	(3,933)	–	(210,778)
Currency translation difference	(342)	(3,126)	(9,056)	(2,085)	(110)	–	(14,719)
Impairment provision of property, plant and equipment	–	(243,517)	(26,550)	(3,792)	(173)	(26,068)	(300,100)
Closing net amount	5,555	485,774	696,112	117,369	17,673	193,742	1,516,225
At 31 December 2017							
Cost	5,555	1,764,071	1,575,083	440,022	82,314	293,413	4,160,458
Transferred to disposal group classified as held for sale	–	(656,639)	(76,857)	(643)	(399)	(73,603)	(808,141)
Accumulated depreciation and impairment	–	(621,658)	(802,114)	(322,010)	(64,242)	(26,068)	(1,836,092)
Net book amount	5,555	485,774	696,112	117,369	17,673	193,742	1,516,225

16 PROPERTY, PLANT AND EQUIPMENT (continued)

(a) Depreciation expense of approximately RMB170,228,000 (2016: RMB203,731,000) has been charged in cost of sales, RMB4,133,000 (2016: RMB5,457,000) in distribution expenses and RMB36,417,000 (2016: RMB37,895,000) in administrative expenses. The amount related to disposal group classified as held for sale was transferred to "Loss for the year from discontinued operations".

(b) As at 31 December 2017, the construction in progress mainly comprises the Honghai gantry crane being constructed in the PRC.

(c) As at 31 December 2017, the Group was in the process of obtaining the legal title of buildings with carrying amount of approximately RMB165,264,000 (2016: RMB140,662,000).

(d) Bank borrowings were secured by certain buildings and machinery of the Group with a net book value of approximately RMB12,630,000 as at 31 December 2017 (2016: RMB122,064,000) (note 27).

(e) The Group has capitalised borrowing costs amounting to approximately RMB2,296,000 (2016: RMB2,975,000) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings at 4.27% (2016: 3.13%).

(f) Net rental income amounting to approximately RMB21,611,000 (2016: RMB5,537,000) relating to the lease of plant and machinery are included in profit or loss (note 6). The amount related to disposal group classified as held for sale was transferred to "Loss for the year from discontinued operations".

(g) The impairment charge of approximately RMB300,100,000 for the year ended 31 December 2017 relates to the impairment of the offshore drilling rigs cash generating unit, which operates in the offshore drilling rigs segment. This impairment was recognised in profit or loss within "Loss for the year from discontinued operations".

The recoverable amount is determined based on value-in-use calculations for the year ended 31 December 2017. These calculations use cash flow projections based on financial budgets approved by management covering a seventeen-year period, cash flows beyond the five-year period are calculated based on a forecasted growth rate according to historical industry cycle. The discount rate applied to the cash flow projections primarily ranging from 11.0% to 11.9% (2016: 11.0% to 11.9%), which represents the weighted-average cost of capital for the industry. The impairment charge has been recognised against property, plant and equipment of RMB300,100,000.

The impairment charge of RMB36,598,000 for the year ended 31 December 2016 relates to the impairment of the oil and gas engineering services cash generating unit, which operates in the oil and gas engineering services segment.

The recoverable amount is determined based on value-in-use calculations for the year ended 31 December 2016. These calculations use cash flow projections based on financial budgets approved by management covering a ten-year period, cash flows beyond the five-year period are calculated based on a forecasted growth rate according to historical industry cycle. The discount rate applied to the cash flow projections primarily ranging from 12.2%–13.3% (2015: 8.9%–9.8%), which represents the weighted-average cost of capital for the industry. The impairment charge has been recognised against property, plant and equipment of RMB36,598,000.

16 PROPERTY, PLANT AND EQUIPMENT (continued)

(h) For the years ended 31 December 2016 and 2017, inventories were transferred to fixed assets for the research purposes of landing drilling products, and fixed assets were transferred out to inventories for rebuild and future sale.

(i) The category of plant and machinery leased by the Group to third parties under operating leases with the following carrying amounts:

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Cost	**53,236**	53,236
Accumulated depreciation at 1 January	**(25,985)**	(23,858)
Additions	**48,814**	4,714
Deduction	**(14,921)**	(14,206)
Depreciation charge for the year	**(5,781)**	(2,127)
Net book amount	**55,363**	17,759

17 INTANGIBLE ASSETS

	Goodwill RMB'000	Technical know-how RMB'000	Development Cost and others RMB'000	Total RMB'000
At 1 January 2016				
Cost	13,484	357,929	132,786	504,199
Accumulated amortisation and impairment	–	(253,358)	(16,580)	(269,938)
Net book amount	13,484	104,571	116,206	234,261
Year ended 31 December 2016				
Opening net book amount	13,484	104,571	116,206	234,261
Additions	–	–	56,391	56,391
Amortisation charge	–	(35,764)	(4,489)	(40,253)
Disposal of subsidiary (note 36)	(13,484)	(11,219)	(987)	(25,690)
Currency translation difference	–	4,705	1,499	6,204
Closing net amount	–	62,293	168,620	230,913
At 31 December 2016				
Cost	13,484	362,634	190,676	566,794
Accumulated amortisation and impairment	–	(289,122)	(21,069)	(310,191)
Disposal of subsidiary (note 36)	(13,484)	(11,219)	(987)	(25,690)
Net book amount	–	62,293	168,620	230,913
Year ended 31 December 2017				
Opening net book amount	–	62,293	168,620	230,913
Additions	–	–	64,389	64,389
Amortisation charge (note 8)	–	(36,198)	(7,049)	(43,247)
Transferred to disposal group classified as held for sale (note 37)	–	–	(90,807)	(90,807)
Impairment provision of development cost (i)	–	–	(9,062)	(9,062)
Currency translation difference	–	(2,811)	(2,469)	(5,280)
Closing net amount	–	23,284	123,622	146,906
At 31 December 2017				
Cost	–	348,604	251,609	600,213
Transferred to disposal group classified as held for sale	–	–	(90,807)	(90,807)
Accumulated amortisation and impairment	–	(325,320)	(37,180)	(362,500)
Net book amount	–	23,284	123,622	146,906

(i) The carrying amount of the intangible assets has been reduced to its recoverable amount through recognition of an impairment loss against development cost included in the offshore drilling rigs segment. This loss was recognized in profit or loss within "Loss for the year from discontinued operations".

All the amortisation of the Group's intangible assets was charged to administrative expenses. The amount related to disposal group classified as held for sale were transferred to "Loss for the year from discontinued operations".

18 AVAILABLE-FOR-SALE FINANCIAL ASSETS

(a) Movements of the Group's available-for-sale financial assets are set out as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
At 1 January	**103,294**	113,256
Change in fair value	**1,898**	–
Additions	**1,451,191**	539,041
Disposals	**(1,466,191)**	(549,003)
At 31 December	**90,192**	103,294
Less: non-current portion	**(90,192)**	(88,294)
Current portion	**–**	15,000

(b) Available-for-sale financial assets include the following:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Investment in unlisted companies	**90,192**	88,294
Structured deposit (i)	**–**	15,000
	90,192	103,294

(i) As at 31 December 2016, structured deposit consisted of principal-protected structure deposit placed in several commercial banks in the PRC.

The fair values of the investment in unlisted companies and structured deposits are measured by the discounted cash flow model with key assumptions including counter-parties' credit risk and market interest rate, and are within level 3 of the fair value hierarchy.

The maximum exposure of the structured deposits to credit risk at the reporting date is the carrying value of the structured deposits classified as available-for-sale.

None of these financial assets is either past due or impaired.

19 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

19 TRADE AND OTHER RECEIVABLES (continued)

(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.

19 TRADE AND OTHER RECEIVABLES (continued)

(a) (continued)

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 (note 29).

(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 2016 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.

19 TRADE AND OTHER RECEIVABLES (continued)

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

	Year 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 (note 37)	**(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 (note 27).

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

19 TRADE AND OTHER RECEIVABLES (continued)

(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

20 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

21 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:

	Year 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 (note 36)	**–**	(10,085)
Transferred to disposal group classified as held for sale (note 37)	**(156,065)**	–
At 31 December	**91,488**	103,011

22 CASH AND CASH EQUIVALENTS

(a) CASH AND CASH EQUIVALENTS

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Cash on hand	**1,350**	1,655
Cash at bank	**1,098,942**	542,705
Cash and cash equivalents	**1,100,292**	544,360

(b) RECONCILIATION TO CASH FLOW STATEMENT

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Cash and cash equivalents from continuing operations	**1,100,292**	544,360
Cash and cash equivalents from discontinuing operations	**24,514**	–
Balances per statement of cash flows	**1,124,806**	544,360

(c) PLEDGED BANK DEPOSITS

The deposits are pledged to banks as security against borrowings (note 27) and bills payable (note 26).

23 SHARE CAPITAL

Ordinary shares, issued and fully paid:

	Number of shares (thousands)	Amount RMB'000
At 1 January 2016	3,241,057	300,983
Proceeds from shares issued	–	–
Shares issued under share option scheme	–	–
At 31 December 2016	3,241,057	300,983
At 1 January 2017	**3,241,057**	**300,983**
Proceeds from shares issued (i)	**2,114,000**	**186,961**
Shares issued under share option scheme (note 24(b)(ii))	**464**	**39**
At 31 December 2017	**5,355,521**	**487,983**

(i) According to the subscription agreement dated 19 December 2016 entered into between the Company as the issuer and China Aerospace Science and Industry Corporation ("CASIC") as the subscriber, the Company conditionally agreed to allot and issue an aggregate of 1,606,000,000 new shares of the Company to CASIC at a subscription price of HKD0.77 per share.

On 11 April 2017, the Company entered into a placing agreement which the Company agreed to allot and issue an aggregate of 508,000,000 new shares of the Company to investors at a subscription price of HKD0.77 per share.

Both the CASIC subscription agreement and the placing agreement were fully completed in May 2017. After the transactions, CASIC holds approximately 29.99% of the total number of issued shares as enlarged.

The total authorised number of ordinary shares is 10,000,000,000 shares (2016: 10,000,000,000 shares) with a par value of HKD0.1 share (2016: HKD0.1 per share).

24 SHARE-BASED PAYMENTS

(a) PRE-IPO SHARE OPTION SCHEME

(i) The Company adopted a pre-IPO share option scheme ("the Pre-IPO Option Scheme") on 21 January 2008 whereby employees of the Group were given the options to subscribe for shares of the Company. 60,000,000 options were granted on 21 January 2008.

(ii) Each 20% of options granted under the Pre-IPO Option Scheme will vest each year commencing from the listing date and the options are exercisable for a period of ten years. The Group has no legal or constructive obligation to repurchase or settle the options in cash. Any vested option will be lapsed if not exercised by the employees in one month after they left the Group.

(iii) The number and weighted average exercise prices of share options granted under the Pre-IPO Option Scheme are as follows:

	Year ended 31 December			
	2017		2016	
	Average exercise price in HKD per share option	Number of share options (thousands)	Average exercise price in HKD per share option	Number of share options (thousands)
At 1 January	**HKD3.83**	**53,356**	HKD3.83	54,066
Granted	**–**	**–**	–	–
Exercised	**–**	**–**	–	–
Forfeited	**–**	**–**	–	–
Lapsed	**HKD3.83**	**(1,300)**	HKD3.83	(710)
At 31 December	**HKD3.83**	**52,056**	HKD3.83	53,356

The options outstanding at 31 December 2017 had a weighted average remaining contractual life of 0.08 years (2016: 1.08 years).

24 SHARE-BASED PAYMENTS (continued)

(b) SHARE OPTION SCHEME

(i) The Company also adopted a share option scheme ("the Share Option Scheme") on 21 January 2008 for any eligible employees of the entities within the Group. The terms and conditions of the grants that existed during the year are as follows, whereby all options are settled by physical delivery of shares:

	Number of share options (thousands)	Vesting conditions	Contractual life of options
Options granted:			
— on 15 April 2009	60,000	(i) 30% on 1 December 2009 (ii) 30% on 14 April 2010 (iii) 40% on 15 April 2011	10 years
— on 11 October 2010	2,200	(i) 40% on 25 October 2010 (ii) 30% on 11 October 2011 (iii) 30% on 11 October 2012	10 years
— on 20 June 2011	7,600 (a)	(i) 30% on 19 July 2011 (ii) 30% on 19 June 2012 (iii) 40% on 20 June 2013	10 years
— on 5 April 2012	15,400	(i) 30% on 5 April 2013 (ii) 30% on 5 April 2014 (iii) 40% on 5 April 2015	10 years
— on 24 March 2014	3,200 (b)	(i) 30% on 24 April 2014 (ii) 30% on 24 April 2015 (iii) 40% on 24 April 2016	10 years
— on 2 July 2014	40,575 (c)	Vesting of the share options is conditional upon the achievement of corporate goals of the company and the individual performance of the respective grantees. The share options of any portion thereof shall lapse if the relevant corporate goals cannot be achieved. Up to 30% of the share options granted to each grantee after April 2015; up to 60% of the share options granted to each grantee after April 2016; all the remaining share options granted to each grantee after April 2017	10 years
— on 21 September 2016	41,350 (d)	(i) 30% on 21 September 2017 (ii) 30% on 21 September 2018 (iii) 40% on 21 September 2019	10 years
Total share options	170,325		

(a) 5,200,000 shares are granted to the directors of the Group.

(b) 3,200,000 shares are granted to the directors of the Group.

(c) 4,577,000 shares are granted to the directors of the Group.

(d) 8,450,000 shares are granted to the directors of the Group.

24 SHARE-BASED PAYMENTS (continued)

(b) SHARE OPTION SCHEME (continued)

(ii) The number and weighted average exercise prices of share options are as follows:

	Year ended 31 December			
	2017		2016	
	Weighted average exercise price	Number of share options (thousands)	Weighted average exercise price	Number of share options (thousands)
At 1 January	HKD1.62	141,248	HKD1.51	103,145
Granted	–	–	HKD0.44	41,350
Exercised	HKD0.44	(464)	–	–
Forfeited	HKD0.96	(1,651)	HKD1.64	(1,664)
Lapsed	HKD1.28	(4,355)	HKD1.48	(1,583)
At 31 December	HKD1.15	134,778	HKD1.62	141,248

The options outstanding at 31 December 2017 had an exercise price in the range of HKD0.44 to HKD2.02 (2016: HKD0.44 to HKD2.02) and a weighted average remaining contractual life of 6.17 years (2016: 5.76 years).

For the years ended 31 December 2017, there were 464,000 share options exercised (2016: no share option exercised).

The fair value of options granted to the directors and selected employees is determined by using the binomial valuation model. The fair value of options granted on 21 September 2016 was HKD0.22 and HKD0.18 per option for the directors and selected employees respectively. The significant inputs into the model were spot share price of HKD0.44 at the grant date, exercise price shown above, volatilities of 55.65%, dividend yield of 1.75%, exercise multiples of 2.47 and 1.6 for directors and selected employees respectively, forfeiture rate of 0.00% for directors and selected employees, and an annual risk-free interest rates of 1.06%. The volatilities were based on the daily historical volatility of the Company. See note 9 for the total expense recognised in profit or loss for share options granted to directors and employees.

24 SHARE-BASED PAYMENTS (continued)

(c) SHARE AWARD SCHEME

On 30 December 2011, the board of directors approved to adopt a Restricted Share Award Scheme (the“Scheme”). Under the Scheme, the Company may grant shares of the Company to certain selected participants at specified consideration.

Pursuant to the Scheme rules, existing issued shares will be purchased by the trustee of the Scheme (the“Trustee”) from the market out of funds provided by the Company in accordance with the Scheme rules.

During the year ended 31 December 2012, 47,817,000 shares were acquired by the Trustee through purchases from the open market, at a total cost of approximately RMB49,973,000 (equivalent to HKD61,518,000).

During the year ended 31 December 2013, the Trustee acquired 50,000,000 shares of the Company through purchase from the open market according to the instructions of the board of directors, at a total cost of approximately RMB146,233,000.

During the year ended 31 December 2013, the Company granted restricted shares in respect of a total of 35,917,700 ordinary shares of the Company to selected participants at a price of HKD1.27 each, of which 190,000 restricted shares granted were subsequently cancelled. 17,428,850 of the restricted shares were vested on 20 May 2013 and 18,298,850 of the restricted shares were vested on 20 December 2013.

No shares were acquired by the Trustee under the Scheme for the years ended 31 December 2017 and 2016. As at 31 December 2017, 62,089,300 shares were held by the Trustee under the Scheme (2016: 62,089,300 shares).

The fair value of restricted shares granted to employees is measured with reference to the closing price of the ordinary share of the Company at the grant date and recognised as staff costs with a corresponding increase in the capital reserve within equity.

25 OTHER RESERVES

(a) SHARE PREMIUM

The application of the share premium account is governed by the Companies Law (Revised) of the Cayman Islands. The balance in the share premium account of the Company is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(b) OTHER RESERVE

The other reserve represents the difference between the nominal value of share of the subsidiaries acquired over the nominal value of the shares issued by the Company in exchange; the difference between acquisitions of non-controlling interests and entities under common control over the consideration given; and the contribution of technology licenses by a shareholder.

(c) CAPITAL RESERVE

Capital reserve represents the value of employee services in respect of the equity-settled share-based payment as set out in note 24, waiver of debts by the immediate holding company and capital contribution arising on shareholders' indemnity.

(d) SURPLUS RESERVE

Pursuant to the applicable PRC regulations, PRC entity is required to appropriate 10% of its profit-after-tax (after offsetting prior year losses) to the reserve until such reserve reaches 50% of the registered capital. The transfer to the reserve must be made before distribution of dividends to shareholders. The surplus reserve can be utilised, upon approval by the relevant authorities, to offset accumulated losses or to increase registered capital of the PRC subsidiaries, provided that the balance after such issue is not less than 50% of its registered capital.

(e) EXCHANGE RESERVE

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside the PRC which are dealt with in accordance with the accounting policies as set out in note 2.6.

(f) FAIR VALUE RESERVE

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets held at the end of the reporting period and is dealt with in accordance with the accounting policies in note 2.11.

26 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

26 TRADE AND OTHER PAYABLES (continued)

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 as disclosed in note 22. 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.

27 BORROWINGS

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
(a) Bank loans		
Secured (i)		
— Current portion	**18,500**	648,751
— Non-current portion	**–**	368,907
	18,500	1,017,658
Unsecured		
— Current portion	**1,411,245**	1,560,286
— Non-current portion	**105,000**	342,000
	1,516,245	1,902,286
(b) Unsecured loan from related party		
— Current portion	**–**	–
— Non-current portion (note 35)	**480,000**	–
	480,000	–
(c) Other loans		
Secured loan from related party (i) (note 35)		
— Current portion	**4,580**	3,885
— Non-current portion	**2,001**	5,874
	6,581	9,759
Senior notes (ii)		
— Non-current portion	**1,294,690**	1,369,345
	1,294,690	1,369,345
Current borrowings	**1,434,325**	2,212,922
Non-current borrowings	**1,881,691**	2,086,126
Total borrowings	**3,316,016**	4,299,048

27 BORROWINGS (continued)

(i) As at 31 December 2017, the bank loans and the secured loan from related party were secured by interest in land use rights of approximately RMB26,043,000, property, plant and equipment of approximately RMB12,630,000, trade and other receivables of approximately RMB10,000,000 and 20% equity interest of Honghua Company, a subsidiary of the Group.

As at 31 December 2016, the bank loans and the secured loan from related party were secured by interest in land use rights of approximately RMB27,052,000, property, plant and equipment of approximately RMB122,064,000, bank deposits of approximately RMB311,745,000, trade and other receivables of approximately RMB23,900,000 and 20% equity interest of Honghua Company.

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

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

The borrowings at 31 December 2017 bear annual interest ranging from 1.20%–7.45% annually (2016: 1.20%–7.45% annually).

The maturities of the Group's borrowings at respective end of the year are set out as follows:

	As at 31 December	
	2017 **RMB'000**	2016 RMB'000
Within 1 year	**1,434,325**	2,212,922
Between 1 and 2 years	**1,326,691**	489,649
Between 2 and 5 years	**555,000**	1,595,920
Over 5 years	**–**	557
	3,316,016	4,299,048

27 BORROWINGS (continued)

The carrying amount and fair value of the borrowings are as follows:

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Carrying amount		
Bank borrowings	1,534,745	2,919,944
Unsecured loan from related party	480,000	–
Secured loan from related party	6,581	9,759
Senior notes	1,294,690	1,369,345
Fair value		
Bank borrowings	1,557,168	3,273,102
Unsecured loan from related party	479,450	–
Secured loan from related party	7,552	11,403
Senior notes	1,270,048	1,316,283

The fair value of non-current borrowings are estimated based on discounted cash flow approach using the prevailing market rates of interest available to the Group for financial instruments with substantially the same terms and characteristics, which were 4.35%–10.7% as at 31 December 2017 (2016: 4.35%–10.7%) and is within level 2 of the fair value hierarchy.

The carrying amount of current borrowings approximated their fair value, as the impact of discounting was not significant.

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	As at 31 December	
	2017 RMB'000	2016 RMB'000
RMB	3,211,761	2,458,209
USD	104,255	1,840,839
	3,316,016	4,299,048

27 BORROWINGS (continued)

At each balance sheet date, the Group had the following undrawn borrowing facilities:

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Fixed rate		
Expiring within 1 year (bank loans and bill facilities)	**5,381,290**	3,211,111
Expiring beyond 1 year (bank loans)	**–**	252,000
	5,381,290	3,463,111

These facilities have been arranged to help finance ongoing cash for daily operations.

28 DEFERRED INCOME TAX

(a) The analysis of deferred tax assets/(liabilities) is as follows:

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Deferred tax assets		
Deferred tax assets to be recovered within 12 months	**82,506**	52,022
Deferred tax assets to be recovered more than 12 months	**160,688**	375,873
	243,194	427,895
Deferred tax liabilities		
Deferred tax liabilities to be settled within 12 months	**–**	(1,531)
Deferred tax liabilities to be settled more than 12 months	**(11,137)**	(10,663)
	(11,137)	(12,194)
Deferred tax assets (net)	**232,057**	415,701

28 DEFERRED INCOME TAX (continued)

(b) The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax assets	Write down of inventories RMB'000	Provision for product warranties RMB'000	Unrealised profit on inventories RMB'000	Provision for impairment of receivables RMB'000	Accruals RMB'000	Government grants RMB'000	Tax losses RMB'000	Depreciation difference RMB'000	Impairment provision of property, plant and equipment RMB'000	Total RMB'000
At 1 January 2016	12,780	3,249	7,646	45,139	36,353	3,287	220,072	2,492	–	331,018
Recognised in profit or loss	2,877	(2,040)	(1,032)	22,731	(19,319)	13,169	75,440	(1,955)	6,804	96,675
Currency translation differences	40	–	–	175	–	–	(12)	(1)	–	202
At 31 December 2016	15,697	1,209	6,614	68,045	17,034	16,456	295,500	536	6,804	427,895
Recognised in profit or loss	3,570	419	1,816	(22,928)	5,122	(50)	(141,724)	874	–	(152,901)
Currency translation differences	–	–	–	(164)	–	–	4,343	–	–	4,179
Transferred to disposal group classified as held for sale (note 37)	–	–	–	–	(2,258)	–	(33,721)	–	–	(35,979)
At 31 December 2017	19,267	1,628	8,430	44,953	19,898	16,406	124,398	1,410	6,804	243,194

Deferred tax liabilities	Borrowing costs RMB'000	Intangible assets RMB'000	Interest capitalisation RMB'000	Changes in fair value of available for sales financial assets RMB'000	Total RMB'000
At 1 January 2016	–	(2,092)	(10,663)	–	(12,755)
Credited to profit or loss	(1,531)	2,092	–	–	561
At 31 December 2016	(1,531)	–	(10,663)	–	(12,194)
Credited to profit or loss	1,531	–	–	–	1,531
Recognised in other comprehensive income	–	–	–	(474)	(474)
At 31 December 2017	–	–	(10,663)	(474)	(11,137)

28 DEFERRED INCOME TAX (continued)

(b) (continued)

The Group has not recognised deferred income tax assets in respect of tax losses of approximately RMB111,767,000 as at 31 December 2017 (2016: RMB300,918,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdictions and entities. The tax losses of approximately RMB111,767,000 (2016: RMB300,918,000) would be expired in 5 to 20 years.

As at 31 December 2017, deferred income tax liabilities of approximately RMB84,561,000 (2016: RMB110,975,000) had not been recognised for the withholding tax that would be payable on the unremitted earnings of certain subsidiaries. Unremitted earnings totalled approximately RMB1,691,239,000 as at 31 December 2017 (2016: RMB2,219,508,000). The Group does not intend to remit these unremitted earnings from the relevant subsidiaries in the foreseeable future.

29 PROVISIONS FOR OTHER LIABILITIES AND CHARGES

	Legal claims with former shareholders (i) RMB'000	Legal claims of sales agency (ii) RMB'000	Other legal claims (iii) RMB'000	Product warranties RMB'000	Total RMB'000
At 1 January 2016	32,317	–	–	21,663	53,980
Provisions during the year	–	–	–	9,664	9,664
Utilised during the year	–	–	–	(23,466)	(23,466)
At 31 December 2016	32,317	–	–	7,861	40,178
At 1 January 2017	32,317	–	–	7,861	40,178
Provisions during the year	–	48,725	59,208	11,765	119,698
Utilised during the year	–	–	–	(13,909)	(13,909)
Transferred to disposal group classified as held for sale (note 37)	–	–	(29,384)	(912)	(30,296)
At 31 December 2017	32,317	48,725	29,824	4,805	115,671

29 PROVISIONS FOR OTHER LIABILITIES AND CHARGES (continued)

(i) As of 31 December 2005, 728 employees of Oil Drilling Plant (the "original investors"), through 11 representatives who were registered shareholders of Honghua Company, held collectively, 33.63% of Honghua Company's share capital. On 7 January 2006, Honghua Company proceed a shareholder resolution to reduce its registered capital and buy-out the equity interests from these 11 registered shareholders.

Honghua Company entered into a share purchase agreement with the 11 registered shareholders on 12 January 2006, under which, with the written consent of the 11 registered shareholders, it agreed to pay the share purchase price directly to the 728 original investors. The capital reduction process with the competent PRC government authority was completed on 26 April 2006. 64 of the 728 original investors, who collectively invested RMB651,385, refused to accept the payment from Honghua Company and claimed that they were still shareholders.

On 11 December 2007, 57 out of the 64 original investors initiated legal proceedings at the Intermediate Peoples' Court of Chengdu City, Sichuan Province ("Chengdu Intermediate Court"). A deed of indemnity in respect of the dispute and risk dated 15 February 2008 was entered into between some beneficiary owners of the Company (herein as defined "Indemnifiers") in favour of the Group pursuant to which each of the Indemnifiers jointly and severally provide an indemnity to any members of the Group for potential damages that the Company may suffer as result of the legal proceedings initiated by the 57 plaintiffs or the dispute with the 64 individuals.

On 18 April 2012, Honghua Company received the first instance judgment ((2008) Cheng Min Chu Zi no. 53) from Chengdu Intermediate Court as follows: (1) Honghua Company shall pay to the plaintiffs' the economic loss of RMB20,728,750 and dividend of RMB296,125 together with their respective interests thereon (for the period from 26 April 2006 to the date when the payment is fully paid, based on the current interest rate of one year term loan of the People's Bank of China); (2) Honghua Company shall pay to the plaintiffs' other economic loss of RMB100,000; (3) the plaintiffs' other claims were dismissed. For the proceedings acceptance fee of RMB1,751,549, RMB200,000 shall be borne by the plaintiffs, and RMB1,551,549 shall be borne by Honghua Company.

The management take the view that Honghua Company's repurchase of the equity interest and capital reduction were conducted under the PRC law. Honghua Company therefore filed an appeal to the Sichuan Higher People's Court on 3 May 2012. As a result of the unfavourable judgement made by the court, a provision for the above legal claim of RMB32,317,000 has been made during 2012. Pursuant to the deed of indemnity, the Group has the right to claim from the Indemnifiers the same amount of loss suffered from the legal claim. Accordingly, receivables from the Indemnifiers of the same amount and the corresponding credit to capital reserve (net of tax) have been recognised in the financial statements. There is no impact on both the net assets and cash flow of the Group.

29 PROVISIONS FOR OTHER LIABILITIES AND CHARGES (continued)

(i) (continued)

During the year ended 31 December 2014, Sichuan Higher People's Court issued an order (the "Order") ((2012) Chua Ming Zhong Zi No. 442) that the judgement made by Chengdu Intermediate Court of ((2008) Cheng Min Chu Zi No. 53) is set aside and retrial is ordered. The retrial by the court was held in February 2015. On 24 December 2015, Honghua Company received the judgment ((2014) Cheng Min Chu Zi No. 1058 from Chengdu Intermediate Court as follows: (1) within 30 days from the effective date of the judgment, Honghua Company shall pay to the plaintiffs' the economic loss of RMB22,410,740 and dividend of RMB296,125 together with their respective interests thereon; (2) within 30 days from the effective date of the judgment, Honghua Company shall pay to the plaintiffs' other economic loss of RMB130,000; and (3) the plaintiffs' other claims were dismissed. For the court proceeding fee of RMB1,790,273, RMB300,000 of which shall be borne by the plaintiffs, and RMB1,490,273 of which shall be borne by Honghua Company.

The management take the view that Honghua Company's repurchase of the equity interest and capital reduction were conducted in accordance with the applicable PRC law. Therefore, Honghua Company filed an appeal to Sichuan Higher People's Court in April 2016 again. The retrial by the court was held in October 2016 and the judgement has not yet to be made as at 31 December 2017.

(ii) The legal claims provision of approximately RMB48,725,000 relates to certain legal claims brought against a subsidiary of the Group by a sales agency. The sales agency alleged that it was owed commission in excess of USD18,000,000 in relation to their services to the Group. On 11 April 2017, new judgement was issued by Abu Dhabi Federal Court of Appeals that the Group shall pay approximately USD7,457,000 to such sales agency. The provision was recognised in profit or loss within other losses.

In June 2017, the Group filed an appeal pursuant to the Union Supreme Court of the United Arab Emirates. In the directors' opinion, after taking appropriate legal advice, the outcome of the legal claims will not give rise to any significant loss beyond the amounts provided for at 31 December 2017.

(iii) In 2017, the Group was involved in several legal claims amounted to RMB59,208,000. The provision was recognised in profit or loss within other losses and the amount related to disposal group classified as held for sale was transferred to "Loss for the year from discontinued operations".

30 DEFERRED INCOME

Movement on the deferred income is as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
At 1 January	**111,330**	56,299
Government grants related to assets received during the year	**14,475**	38,906
Government grants related to costs received during the year	**112,620**	31,995
Credited to profit or loss	**(128,533)**	(15,870)
At 31 December	**109,892**	111,330
Less: non-current portion	**(68,624)**	(72,763)
Current portion	**41,268**	38,567

31 DIVIDENDS

No dividend was approved or paid in respect of the previous financial year for the year ended 31 December 2017 and 2016.

No dividend was proposed for the year ended 31 December 2017.

32 CASH GENERATED FROM OPERATIONS

(a) RECONCILIATION OF LOSS BEFORE INCOME TAX TO CASH GENERATED FROM OPERATIONS

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Loss before income tax included discontinued operations	**(1,056,538)**	(696,161)
Adjustments for:		
— Depreciation of property, plant and equipment	**210,778**	247,083
— Amortisation of intangible assets and lease prepayments	**51,290**	48,312
— Gain on available-for-sale financial assets	**(1,569)**	(451)
— Interest income	**(10,552)**	(42,859)
— Interest expense and bank charges	**227,971**	256,478
— Share of loss from joint ventures	**4,362**	3,905
— Share of loss/(profit) from associates	**24,606**	(3,487)
— Loss/(gain) on disposal of property, plant and equipment	**5,758**	(3,221)
— Loss on disposal of subsidiary	**–**	17,890
— Foreign exchange gain	**24,016**	(122,544)
— Equity-settled share-based payment expenses arising from share option schemes and share award scheme	**3,293**	3,022
— Provision for impairment of property, plant and equipment	**300,100**	36,598
	(216,485)	(255,435)
Changes in working capital:		
— Decrease in inventories	**286,875**	113,826
— Increase in amount due from customers for contract work	**(142,573)**	(160,725)
— Decrease in trade and other receivables	**635,277**	1,311,768
— Decrease/(increase) in pledged bank deposits	**368,597**	(190,853)
— Decrease in trade and other payables	**(564,991)**	(720,411)
— Increase/(decrease) in provisions for other liabilities and charges	**70,668**	(13,802)
Cash generated from operations	**437,388**	84,368

32 CASH GENERATED FROM OPERATIONS (continued)

(b) PROCEEDS FROM DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT

In the consolidated statements of cash flows, proceeds from disposal of property, plant and equipment comprise:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Net book amount (note 16)	**12,103**	29,415
(Losses)/gains on disposal of property, plant and equipment	**(5,758)**	3,221
Proceeds from disposal of property, plant and equipment	**6,345**	32,636

(c) NET DEBT RECONCILIATION INCLUDING DISCONTINUED OPERATIONS

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

Net debt	**2017**	2016
	RMB'000	RMB'000
Cash and cash equivalents	**1,124,806**	544,360
Borrowings — repayable within one year	**(1,443,825)**	(2,212,922)
Borrowings — repayable after one year	**(1,881,691)**	(2,086,126)
Net debt	**(2,200,710)**	(3,754,688)
Cash and cash equivalents	**1,124,806**	544,360
Gross debt — fixed interest rates	**(2,268,526)**	(3,697,165)
Gross debt — variable interest rates	**(1,056,990)**	(601,883)
Net debt	**(2,200,710)**	(3,754,688)

32 CASH GENERATED FROM OPERATIONS (continued)

(c) NET DEBT RECONCILIATION INCLUDING DISCONTINUED OPERATIONS (continued)

	Assets	Liabilities from financing activities		
	Cash	Borrowings due within 1 year	Borrowings due after 1 year	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Net debt as at 1 January 2016	1,102,651	(2,332,545)	(2,331,886)	(3,561,780)
Cash flows	(580,203)	617,003	(170,405)	(133,605)
Foreign exchange adjustments	21,912	(497,380)	416,165	(59,303)
Net debt as at 31 December 2016	544,360	(2,212,922)	(2,086,126)	(3,754,688)
Cash flows	607,509	757,694	129,780	1,494,983
Foreign exchange adjustments	(27,063)	11,403	74,655	58,995
Net debt as at 31 December 2017	1,124,806	(1,443,825)	(1,881,691)	(2,200,710)

33 COMMITMENTS

(a) CAPITAL COMMITMENTS

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

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Contracted for	**42,479**	250,852
Authorised but not contracted for	**3,700**	29,193
	46,179	280,045

33 COMMITMENTS (continued)

(b) OPERATING LEASE COMMITMENTS

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

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Within 1 year	**39,610**	7,860
After 1 year but within 5 years	**119,337**	5,025
	158,946	12,885

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

34 TRANSACTIONS WITH NON-CONTROLLING INTERESTS

ACQUISITION OF ADDITIONAL INTEREST IN SUBSIDIARIES

In January and August 2017, the Group acquired additional 2.54% of the interest of Honghua Electric for a total purchase consideration of approximately RMB14,655,000. The total carrying amount of the non-controlling interests in Honghua Electric on the dates of acquisition was approximately RMB129,298,000. The Group recognised a decrease in non-controlling interests of approximately RMB16,420,000 and an increase in equity attributable to owners of the Group of approximately RMB1,765,000.

In June 2017, the Group acquired an additional 5.47% of the interest of Honghua International Co., Ltd. for a purchase consideration of approximately RMB14,480,000. The carrying amount of the non-controlling interests in Honghua International Co., Ltd. on the date of acquisition was approximately RMB44,327,000. The Group recognised a decrease in non-controlling interests of approximately RMB16,165,000 and an increase in equity attributable to owners of the Group of approximately RMB1,685,000.

34 TRANSACTIONS WITH NON-CONTROLLING INTERESTS (continued)

ACQUISITION OF ADDITIONAL INTEREST IN SUBSIDIARIES (continued)

In December 2016, the Group acquired an additional 1.2% of the interest of Honghua Electric for a purchase consideration of approximately RMB6,924,000. The carrying amount of the non-controlling interests in Honghua Electric on the date of acquisition was approximately RMB129,298,000. The Group recognised a decrease in non-controlling interests of approximately RMB7,757,000 and an increase in equity attributable to owners of the Group of approximately RMB833,000.

In December 2016, the Group acquired an additional 15% of the interest of Honghua America, LLC for a purchase consideration of approximately RMB6,524,000. The carrying amount of the non-controlling interests in Honghua America, LLC on the date of acquisition was approximately RMB1,556,000. The Group recognised a decrease in non-controlling interests of approximately RMB1,556,000 and a decrease in equity attributable to owners of the Group of approximately RMB4,968,000.

The total effect of changes in the ownership interest of the Group during the year is summarised as follows:

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Carrying amount of non-controlling interests acquired	**32,585**	9,313
Consideration paid to non-controlling interests	**(29,135)**	(13,448)
Excess of consideration paid recognised within equity	**3,450**	(4,135)

35 RELATED-PARTY TRANSACTIONS

Related parties are those parties that have the ability to control the other party or exercise significant influence in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the years ended 31 December 2017 and 2016, and balances arising from related party transactions as at 31 December 2017 and 2016.

Name of party	Relationship
Guanghan Hongtai Business Trading Co., Ltd. (廣漢市宏泰商貿有限公司) ("Hongtai")	Hongtai is a party of which spouses of certain directors and management have equity interests
Luzhou City Jianming Decorating Design Company (瀘州市劍鳴裝飾設計公司) ("Luzhou Jianming")	Luzhou Jianming is a party of which the brother of the spouse of a subsidiary's director is its legal representative
Chengdu Juzhong Technology Co., Ltd. (成都巨中科技有限公司) ("Chengdu Juzhong")	Chengdu Juzhong is a party of which the sister and the sister's husband of a subsidiary's director have equity interests
Sichuan Deep & Fast Oil Drilling Tools Co., Ltd. (四川深遠石油鑽井工具有限公司) ("Sichuan Shenyuan")	Sichuan Shenyuan is a party of which the spouse of a director has equity interests
Aerospace Science & Industry Financial Leasing Co,. Ltd. (航天科工金融租賃有限公司) ("ASFIL")	ASFIL is the joint venture of CASIC
Aerospace Science & Industry Finance CORP (航天科工財務有限責任公司) ("ASFIC")	ASFIC is the subsidiary of CASIC
HH Egyptian Company	Joint venture
Honghua Oil Equipment	Joint venture
Honghua (Shenzhen)	Associate
Prime FSP	Associate

35 RELATED-PARTY TRANSACTIONS (continued)

(a) SIGNIFICANT RELATED PARTY TRANSACTIONS

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Purchases of parts and components		
— Hongtai	**9,719**	8,270
— Other related companies	**–**	112
	9,719	8,382
Sales of drilling rigs, parts and components		
— HH Egyptian Company	**574**	5,168
— Sichuan Shenyuan	**–**	23
	574	5,191

(i) Besides the related party sales transactions as disclosed above, according to the tripartite agreements signed by the Group, Honghua (Shenzhen) and ASIFL, for the year ended 31 December 2017, the Group sold products amounted to approximately RMB255,744,000 to ASIFL, meanwhile, ASIFL has provided finance lease to Honghua (Shenzhen), and the risk and rewards of those products have been transferred to Honghua (Shenzhen).

According to the tripartite agreements signed by the Group, Honghua (Shenzhen) and third party leasing companies, for the year ended 31 December 2017, the Group sold products amounted to approximately RMB267,094,000 to those third party leasing companies, meanwhile, those third party leasing companies have provided finance lease to Honghua (Shenzhen), and the risk and rewards of those products have been transferred to Honghua (Shenzhen).

After the completion of the above transactions, Honghua (Shenzhen) and the subsidiaries of the Group have entered into operating lease agreements which leased the above mentioned products to the subsidiaries of the Group, the leasing period is one year, and then the subsidiaries of the Group have leased those products to third party companies. For the year ended 31 December 2017, the total amount of operating lease fees which Honghua (Shenzhen) charged to the subsidiaries of the Group was approximately RMB3,903,000.

35 RELATED-PARTY TRANSACTIONS (continued)

(a) SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Consulting service provided		
— Honghua (Shenzhen)	**6,851**	2,688
Loans to		
— Honghua (Shenzhen)	**–**	2,500
— HH Egyptian Company	**61**	–
	61	2,500

The loans to related parties have no fixed repayment terms and did not subject to interest in 2017 (2016: 7.5% annually). No provision was made against the loans to related companies at 31 December 2017 and 2016.

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Loans from		
— Honghua (Shenzhen)	**–**	11,050
— ASFIC	**480,000**	–
	480,000	11,050

The loans from Honghua (Shenzhen) bear fixed interest rate of 1.75% and are due for repayment in August 2019. The loans from ASFIC bears fixed interest rate of 4.8% and are due for repayment in November 2020.

35 RELATED-PARTY TRANSACTIONS (continued)

(b) AMOUNTS DUE FROM RELATED COMPANIES

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Trade		
— Joint ventures	**48,560**	46,009
— Other related companies	**25,512**	10
	74,072	46,019
Non-trade		
— Joint ventures	**323**	1,467
— Other related companies	**36,925**	26,415
	37,248	27,882

The amounts due from related companies are unsecured, interest-free and repayable on demand. No provision was made against the amounts due from related companies at 31 December 2017 and 2016.

35 RELATED-PARTY TRANSACTIONS (continued)

(c) AMOUNTS DUE TO RELATED COMPANIES

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Trade		
— Joint ventures	**308**	103
— Other related companies	**14,820**	17,187
	15,128	17,290
Non-trade		
— Joint ventures	**258**	–
— Other related companies	**–**	32
	258	32

The amounts due to related companies are unsecured, interest-free and have no fixed repayment terms.

(d) BORROWINGS

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
— ASFIC	**480,000**	–
— Honghua (Shenzhen) (i)	**6,581**	9,759
	486,581	9,759

(i) As at 31 December 2017, the loans were secured by property, plant and equipment of approximately RMB8,923,000 (2016: RMB11,006,000).

35 RELATED-PARTY TRANSACTIONS (continued)

(e) AMOUNTS DUE FROM CERTAIN SHAREHOLDERS

The amounts due from certain shareholders as at 31 December 2017 is an amount of approximately RMB32,317,000 (2016: RMB32,317,000), being the amount indemnified by certain shareholders in relation to a legal claim.

(f) KEY MANAGEMENT COMPENSATION

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Basic salaries, allowances and other benefits in kind	**6,750**	6,149
Contributions to defined contribution retirement schemes	**458**	358
Discretionary bonus	**3,084**	3,911
Share-based payments	**661**	875
	10,953	11,293

36 DISPOSAL OF SUBSIDIARY

For the year ended 31 December 2016, details of net assets disposed and the loss on disposal are as follows:

	As at 19 August 2016 RMB'000
Disposal proceeds:	
Cash received	50
Less: Net assets disposed	(4,456)
Goodwill	(13,484)
Net loss on disposal of subsidiary (note 7)	(17,890)

36 DISPOSAL OF SUBSIDIARY (continued)

The assets and liabilities derecognised as a result of the disposal are as follows:

	As at 19 August 2016 RMB'000
Property, plant and equipment	73,531
Cash and cash equivalents	117
Intangible assets	12,206
Lease prepayments	9,191
Trade and other receivables	37,065
Inventory	18,604
Other assets	3,303
Trade and other payables	(143,785)
Other liabilities	(2,129)
Net assets	8,103
Non-controlling interests	(3,647)
Net assets disposed	4,456
Cash received	50
Less: Cash and cash equivalents of subsidiary disposed	(117)
Net cash outflow on disposal of subsidiary	(67)

37 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.

37 NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (continued)

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

	As at 31 December	
	2017 RMB'000	2016 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	–

37 NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (continued)

(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)

37 NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (continued)

(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, net	**(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)

37 NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (continued)

(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)

38 EVENT AFTER THE REPORTING PERIOD

According to the announcement dated 12 January 2018, the Company announces that it has informed the Trustee and holders of the Senior notes that USD77,000,000 in principal amount of the outstanding Senior notes will be redeemed on 12 February 2018 (the "Redemption Date") at a redemption price equal to 103.725% of the principal amount thereof, plus accrued and unpaid interest, if any, to the Redemption Date. The Group repaid those Senior notes on 7 February 2018.

39 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

BALANCE SHEET OF THE COMPANY

	Note	As at 31 December 2017 RMB'000	2016 RMB'000
ASSETS			
Non-current assets			
Intangible assets		**23,285**	62,294
Investments in subsidiaries		**3,365,819**	3,380,469
Total non-current assets		**3,389,104**	3,442,763
Current assets			
Other receivables		**1,604**	1,716
Amounts due from subsidiaries		**1,526,386**	516,494
Cash and cash equivalents		**2,376**	1,290
Total current assets		**1,530,366**	519,500
Total assets		**4,919,470**	3,962,263
EQUITY			
Equity attributable to owners of the Company			
Share capital		**487,983**	300,983
Other reserves	(a)	**3,587,166**	2,578,718
Accumulated losses	(a)	**(497,507)**	(345,126)
Total equity		**3,577,642**	2,534,575

39 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (continued)

BALANCE SHEET OF THE COMPANY (continued)

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
LIABILITIES		
Non-current liabilities		
Borrowings	**1,294,690**	1,369,345
Current liabilities		
Other payables	**47,138**	58,343
Total liabilities	**1,341,828**	1,427,688
Total equity and liabilities	**4,919,470**	3,962,263

The balance sheet of the Company was approved by the Board of Directors on 29 March 2018 and was signed on its behalf.

Director *Director*

39 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (continued)

(a) RESERVE MOVEMENT OF THE COMPANY

	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000	Capital reserve RMB'000	Exchange reserve RMB'000	Shares held for share award scheme RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2016	300,983	2,349,292	389,691	99,425	(299,184)	(124,618)	(193,390)	2,522,199
Loss for the year	–	–	–	–	–	–	(151,736)	(151,736)
Other comprehensive income	–	–	–	–	163,864	–	–	163,864
Total comprehensive income	–	–	–	–	163,864	–	(151,736)	12,128
Equity-settled share-based transactions	–	–	–	248	–	–	–	248
Balance at 31 December 2016	300,983	2,349,292	389,691	99,673	(135,320)	(124,618)	(345,126)	2,534,575
Balance at 1 January 2017	300,983	2,349,292	389,691	99,673	(135,320)	(124,618)	(345,126)	2,534,575
Loss for the year	–	–	–	–	–	–	(152,381)	(152,381)
Other comprehensive income	–	–	–	–	(239,364)	–	–	(239,364)
Total comprehensive income	–	–	–	–	(239,364)	–	(152,381)	(391,745)
Issue of new ordinary shares	186,961	1,247,436	–	–	–	–	–	1,434,397
Shares issued under share option scheme	39	199	–	(65)	–	–	–	173
Equity-settled share-based transactions	–	–	–	242	–	–	–	242
Total transactions with owners, Recognised directly in equity	187,000	1,247,635	–	177	–	–	–	1,434,812
Balance at 31 December 2017	487,983	3,596,927	389,691	99,850	(374,684)	(124,618)	(497,507)	3,577,642

40 BENEFITS AND INTERESTS OF DIRECTORS

(a) DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

The remuneration of every director and the chief executive is set out below:

For the year ended 31 December 2017:

Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertakings:

Name	Fees RMB'000	Basic salaries, allowances and other benefits in kind RMB'000	Contributions to defined contribution retirement scheme RMB'000	Discretionary bonuses RMB'000	Equity-settled share-based payment expenses RMB'000	Total RMB'000
Chairman and Executive Director						
Chen Yajun	–	809	44	–	–	853
Executive Directors						
Zhang Mi	–	558	–	599	23	1,180
Ren Jie (Chief executive officer)	–	680	59	354	147	1,240
Liu Zhi	–	754	57	84	14	909
Non-executive Director						
Han Guangrong	–	–	–	–	–	–
Chen Wenle	–	–	–	–	–	–
Independent Non-executive Directors						
Liu Xiaofeng	200	–	–	–	45	245
Qi Daqing	200	–	–	–	45	245
Chen Guoming	100	–	–	–	32	132
Su Mei	100	–	–	–	–	100
Pan Zhaoguo	150	–	–	–	–	150
Chang Qing	100	–	–	–	–	100
Total	850	2,801	160	1,037	306	5,154

40 BENEFITS AND INTERESTS OF DIRECTORS (continued)

(a) DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

The remuneration of every director and the chief executive is set out below:

For the year ended 31 December 2016:

Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertakings:

Name	Fees	Basic salaries, allowances and other benefits in kind	Contributions to defined contribution retirement scheme	Discretionary bonuses	Equity-settled share-based payment expenses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Chairman and Executive Director						
Zhang Mi	–	1,111	39	599	106	1,855
Executive Directors						
Ren Jie (Chief executive officer)	–	938	51	354	130	1,473
Liu Zhi	–	792	50	84	65	991
Non-executive Director						
Siegfried Meissner	–	–	–	–	–	–
Independent Non-executive Directors						
Qi Daqing	170	–	–	–	57	227
Liu Xiaofeng	170	–	–	–	57	227
Chen Guoming	85	–	–	–	41	126
Shi Xingquan	85	–	–	–	41	126
Guo Yanjun	128	–	–	–	49	177
Total	638	2,841	140	1,037	546	5,202

40 BENEFITS AND INTERESTS OF DIRECTORS (continued)

(b) DIRECTORS' RETIREMENT BENEFITS AND TERMINATION BENEFITS

For the years ended 31 December 2017 and 2016, no special retirement and termination benefits plans to the directors for the year except for the plans to all the Group's employees mentioned in note 9. No other retirement and termination benefits were paid to or receivable by those directors in respect of their other services in connection with the management of the affairs of the Company or its subsidiary undertaking.

(c) CONSIDERATION PROVIDED TO THIRD PARTIES FOR MAKING AVAILABLE DIRECTORS' SERVICES

During the year ended 31 December 2017, the Company did not provide any consideration to any third party for making available director's services (2016: nil).

(d) INFORMATION ABOUT LOANS, QUASI-LOANS AND OTHER DEALINGS IN FAVOUR OF DIRECTORS, CONTROLLED BODIES CORPORATE BY AND CONNECTED ENTITIES WITH SUCH DIRECTORS

During the year ended 31 December 2017, no loans, quasi-loans or other dealings in favour of directors of the Company, controlled bodies corporate by and connected entities with such directors (2016: nil).

(e) DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save for contracts amongst group companies and the interests in transactions, arrangements or contracts mentioned in note 35, no other significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

FIVE-YEAR FINANCIAL HIGHLIGHTS

	2017 RMB'000	2016 (Restated) RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000
Consolidated Income Statement					
Revenue	**2,175,856**	2,147,592	4,219,253	7,812,537	8,047,108
Cost of sales	**(1,540,763)**	(1,789,716)	(3,272,716)	(6,182,994)	(6,141,643)
Gross profit	**635,093**	357,876	946,537	1,629,543	1,905,465
Other income	**92,652**	126,732	(77,504)	100,312	55,027
Other gains/(losses), net	**(43,319)**	9,210	(9,863)	(7,326)	7,435
Distribution expenses	**(232,616)**	(369,608)	(472,764)	(637,567)	(524,053)
Administrative expenses	**(555,184)**	(589,195)	(584,016)	(688,464)	(595,508)
Profit/(loss)from operations	**(103,374)**	(464,985)	(42,602)	396,498	848,366
Net finance (expenses)/income	**(214,203)**	(77,496)	(261,835)	(273,018)	(139,418)
Share of profit/(loss) of joint ventures	**(4,362)**	(3,905)	1,793	186	(7,948)
Share of profit of associates	**(24,606)**	3,487	925		–
Profit/(loss)before taxation	**(346,545)**	(542,899)	(301,719)	123,666	701,000
Income tax	**(48,651)**	25,428	35,853	(13,499)	(125,750)
Loss for the year from continuing operations	**(395,196)**	(517,471)	–	–	–
Discontinued operations					
Loss for the year from discontinued operations	**(834,386)**	(109,778)	–	–	–
Profit/(loss) for the year	**(1,229,582)**	(627,249)	(265,866)	110,167	575,250
Attributable to:					
Equity shareholders of the company	**(1,239,368)**	(609,689)	(252,207)	91,787	537,617
Non-controlling interests	**9,786**	(17,560)	(13,659)	18,380	37,633
Figures per share					
— Basic earnings/(loss) per share (RMB cents)	**(26.50)**	(19.18)	(7.93)	2.89	16.99
— Diluted earnings/(loss) per share (RMB cents)	**(26.50)**	(19.18)	(7.93)	2.87	16.77
Dividend					
Dividends declared and paid	**–**	–	–	–	–
Dividends declared and paid per share	**–**	–	–	–	–
Dividend proposed after balance sheet date	**–**	–	–	–	151,983
Dividend proposed after balance sheet date per share	**–**	–	–	–	HKD0.06

	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000
Consolidated Balance Sheet					
Total non-current assets	**2,334,095**	4,415,887	4,791,979	5,238,168	4,548,371
Total current assets	**7,732,449**	6,851,879	8,390,361	10,260,172	9,680,684
Total assets	**10,066,544**	11,267,766	13,182,340	15,498,340	14,229,055
Total current liabilities	**3,938,579**	5,022,637	6,001,637	8,205,237	7,761,845
Total non-current liabilities	**1,950,315**	2,161,677	2,406,517	2,329,333	1,508,564
Total liabilities	**5,888,894**	7,184,314	8,408,154	10,534,570	9,270,409
Total equity	**4,177,650**	4,083,452	4,774,186	4,963,770	4,958,646

Key financial ratios	**2017**	2016	2015	2014	2013
Profitability					
Gross margin from continuing operations	**29.2%**	16.7%	22.4%	20.9%	23.7%
EBITDA margin	**–24.0%**	-13.4%	7.4%	9.1%	13.4%
Net margin from continuing operations	**–57.0%**	-28.4%	–6.0%	1.2%	6.7%
Return					
Return on average equity	**–31.3%**	-14.4%	–5.4%	1.9%	11.7%
Return on average assets	**–11.6%**	-5.0%	–1.8%	0.6%	4.5%
Liquidity					
Current ratio	**1.96**	1.36	1.40	1.25	1.25
Quick ratio	**1.50**	0.94	1.04	0.89	0.89
Turnover					
Turnover of average trade and bills receivable	**172**	453	304	155	107
Turnover of average trade and bills payable	**128**	348	321	184	120
Turnover of average inventory	**160**	378	287	170	165
Gearing					
Total debts/Total assets	**32.9%**	38.2%	35.4%	33.1%	33.3%
Total liabilities/Total assets	**58.5%**	63.8%	63.8%	68.0%	65.2%
EBIT/Interest expenses	**–3.56**	(2.38)	(0.16)	1.57	3.98

FIVE-YEAR FINANCIAL HIGHLIGHTS

Note:

Profitability		
Gross margin	=	Gross profit/Turnover
EBITDA	=	(Loss)/profit from operations + Share of (loss)/profit from jointly controlled entities + share of Profit from an associate + Depreciation + Amortization
EBITDA margin	=	EBITDA/Turnover
Net margin	=	(Loss)/profit attributable to equity shareholders of the Company/Turnover
Return		
Return on average assets	=	(Loss)/profit attributable to equity shareholders of the Company/Average assets
Return on average equity	=	(Loss)/profit attributable to equity shareholders of the Company/Average equity attributable to equity shareholders of the Company
Liquidity		
Current ratio	=	Current assets/Current liabilities
Quick ratio	=	(Current assets — Inventory)/Current liabilities
Turnover		
Turnover of average trade and bills receivable	=	365.25* Average trade and bills receivable/Turnover
Turnover of average trade and bills payable	=	365.25* Average trade and bills payable/Cost of sales
Turnover of average inventory	=	365.25* Average inventory/Cost of sales
Gearing		
Total debts/Total assets	=	(Long term interest-bearing borrowings + Short term interest-bearing borrowings)/Total assets
Total liabilities/Total assets	=	Total liabilities/Total assets
EBIT/Interest expenses	=	((Loss)/profit from operations + Share of (loss)/profit from jointly controlled entities + share of profit of associates/Interest expenses

DEFINITIONS

"Articles of Association"	the Articles of Association of the Company, approved at extraordinary shareholders' meetings of the Company on 21 January 2008, revised and approved at annual general meeting of the Company on 3 June 2009
"Board of Directors" or "Board"	the Board of Directors of the Company
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as the case may be
"Company" or "our Company"	Honghua Group Limited, (宏華集團有限公司) an exempted company incorporated in the Cayman Islands with limited liability on 15 June 2007
"Controlling Shareholder(s)"	has the meaning ascribed thereto under the Listing Rules
"Director(s)"	member(s) of the Board of Directors of the Company
"During the Year"	for the year ended 31 December 2017
"Group" or "we" or "us"	the Company and its subsidiaries, and, for the period before the Company became the holding company for such subsidiaries, the entities which carried on the business of the Group
"HK$" or "HK dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Honghua Company"	Sichuan Honghua Petroleum Equipment Co., Ltd. (四川宏華石油設備有限公司), formerly known as Chuanyou Guanghan Honghua Co., Ltd. (川油廣漢宏華有限公司), a limited liability company established in the PRC on 31 December 1997, and a wholly-owned subsidiary of Honghua Holdings Limited
"Honghua Oil & Gas Engineering",	Honghua Oil & Gas Engineering and Technology Services (Sichuan) Co., Ltd. (宏華油氣工程技術服務(四川)有限公司), an indirect wholly-owned subsidiary of Honghua Group Limited
"Hongtai Company"	Guanghan Hongtai Business Trading Co., Ltd (廣漢市宏泰商貿有限公司), a limited liability company established in the PRC on 21 June 2002
"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 and, except where the context requires and only for the purpose of this Annual Report, references in this Annual Report to the PRC or China do not apply to Taiwan or Hong Kong and Macau Special Administrative Regions
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"Russia"	The Russian Federation
"Securities and Futures Commission" or "SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary shares issued by the Company, with a nominal value of HK$0.10 each
"Shareholder(s)"	holder(s) of our Share(s)
"Shenyuan Company"	Sichuan Deep & Fast Oil Driling Tools Co., Ltd. (四川深遠石油鑽井工具有限公司), a limited liability company established in Chengdu City, PRC
"Stock Exchange" or "HKSE"	The Stock Exchange of Hong Kong Limited
"Substantial Shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"UAE"	the United Arab Emirates
"United States", "USA" or "U.S."	the United States of America, including its territories and possessions
"US$" or "U.S. dollars" or "USD"	United States dollars, the lawful currency of the United States

宏华集团有限公司
HONGHUA GROUP LIMITED