宏华集团
HONGHUA GROUP

HONGHUA GROUP LIMITED
宏華集團有限公司

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

(Stock Code: 196)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

FINANCIAL HIGHLIGHT

	For the year ended 31 December		
	2019	2018	Changes
Turnover from continuing operations *(RMB'000)*	**4,425,686**	4,205,162	5.2%
Gross profit from continuing operations *(RMB'000)*	**1,315,834**	1,082,272	21.6%
Gross profit margin from continuing operations *(%)*	**29.7%**	25.7%	4 percentage points
Operating profit from continuing operations *(RMB'000)*	**378,391**	339,431	11.5%
Profit attributable to owners of the Company *(RMB'000)*	**107,472**	82,287	30.6%
Earnings per share			
– Basic (RMB cents)	**2.03**	1.55	31.0%
– Diluted (RMB cents)	**2.03**	1.55	31.0%

The Board does not recommend payment of dividend for the year ended 31 December 2019.

ANNUAL RESULTS

The Board of the Company hereby announces the consolidated results of the Group for the year ended 31 December 2019 (the "**Relevant Year**"), together with the comparative figures for the year ended 31 December 2018.

The annual results have also been reviewed by the Audit Committee, comprising solely the independent non-executive Directors, one of whom chairs the Audit Committee. The figures in respect of the Group's consolidated statement of profit and loss, consolidated statement of comprehensive income, consolidated balance sheet, and the related notes thereto for the year ended 31 December 2019 as set out in this announcement have been agreed by the Group's external auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the Relevant Year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on this announcement.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2019
(All amounts in RMB unless otherwise stated)

		Year ended 31 December	
		2019	2018
	Notes	***RMB'000***	*RMB'000*
Continuing operations			
Revenue	*3*	**4,425,686**	4,205,162
Cost of sales	*6*	**(3,109,852)**	(3,122,890)
Gross profit		**1,315,834**	1,082,272
Distribution costs	*6*	**(357,273)**	(313,211)
Administrative expenses	*6*	**(503,486)**	(469,484)
Net impairment losses on financial and contract assets		**(190,989)**	(93,829)
Other (expenses)/income	*4*	**(11,954)**	90,678
Other gains, net	*5*	**126,259**	43,005
Operating profit		**378,391**	339,431
Finance income	*7*	**23,035**	5,600
Finance expenses	*7*	**(231,938)**	(169,005)
Finance expenses – net		**(208,903)**	(163,405)
Share of net losses of associates and joint ventures accounted for using the equity method		**(3,223)**	(32,444)

		Year ended 31 December	
		2019	2018
	Notes	***RMB'000***	*RMB'000*
Profit before income tax		**166,265**	143,582
Income tax expense	*8*	**(33,776)**	(33,897)
Profit from continuing operations		**132,489**	109,685
Loss from discontinued operations		**–**	(13,063)
Profit for the year		**132,489**	96,622
Profit attributable to:			
– Owners of the Company		**107,472**	82,287
– Non-controlling interests		**25,017**	14,335
		132,489	96,622
Profit attributable to owners of the Company arises from:			
– Continuing operations		**107,472**	92,377
– Discontinued operations		**–**	(10,090)
		107,472	82,287
Profit per share from continuing and discontinued operations attributable to owners of the Company *(expressed in RMB cents per share)*			
Basic profit per share			
From continuing operations	*9*	**2.03**	1.74
From discontinued operations	*9*	**–**	(0.19)
	9	**2.03**	1.55
Diluted profit per share			
From continuing operations	*9*	**2.03**	1.74
From discontinued operations	*9*	**–**	(0.19)
	9	**2.03**	1.55

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019
(All amounts in RMB unless otherwise stated)

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Profit for the year	**132,489**	96,622
Other comprehensive income		
Items that may be reclassified to profit or loss		
Currency translation differences	**19,090**	25,164
Items that will not be reclassified to profit or loss		
Change in the fair value of equity investments at fair value through other comprehensive income	**10,806**	(717)
Income tax relating to these items	**(1,792)**	179
Other comprehensive income for the year, net of tax	**28,104**	24,626
Total comprehensive income for the year	**160,593**	121,248
Total comprehensive income attributable to:		
– Owners of the Company	**135,964**	106,091
– Non-controlling interests	**24,629**	15,157
	160,593	121,248
Total comprehensive income attributable to owners of the Company arises from:		
– Continuing operations	**135,964**	118,082
– Discontinued operations	**–**	(11,991)
	135,964	106,091

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2019
(All amounts in RMB unless otherwise stated)

		As at 31 December	
		2019	2018
	Notes	***RMB'000***	*RMB'000*
ASSETS			
Non-current assets			
Lease prepayments		**–**	192,242
Right-of-use assets		**187,769**	–
Property, plant and equipment		**1,641,678**	1,518,266
Payment for acquisition of leasehold prepayment		**–**	10,000
Intangible assets		**180,342**	161,186
Debt investments		**97,906**	–
Investments accounted for using the equity method		**31,259**	35,135
Deferred income tax assets		**273,347**	261,632
Financial assets at fair value through other comprehensive income		**87,129**	74,053
Trade and other receivables	*10*	**1,281,354**	907,304
Loan to an associate and other related party		**1,450,181**	1,584,192
Other non-current assets		**67,502**	28,165
Total non-current assets		**5,298,467**	4,772,175
Current assets			
Inventories	*11*	**1,267,356**	1,564,797
Contract assets		**219,937**	42,758
Trade and other receivables	*10*	**3,593,152**	2,939,969
Debt investments		**24,915**	–
Loan to an associate and other related party		**88,278**	79,982
Current tax recoverable		**8,341**	46
Assets classified as held for sale		**–**	684
Financial assets at fair value through other comprehensive income		**95,407**	93,884
Pledged bank deposits		**268,673**	137,302
Cash and cash equivalents		**889,802**	685,500
Total current assets		**6,455,861**	5,544,922
Total assets		**11,754,328**	10,317,097

	Notes	As at 31 December 2019 RMB'000	2018 RMB'000
EQUITY			
Equity attributable to owners of the Company			
Share capital		**488,023**	488,015
Other reserves		**4,253,108**	4,223,911
Accumulated losses		**(475,551)**	(583,183)
		4,265,580	4,128,743
Non-controlling interests		**214,797**	190,168
Total equity		**4,480,377**	4,318,911
LIABILITIES			
Non-current liabilities			
Deferred income		**54,464**	49,086
Borrowings		**2,091,779**	575,000
Lease liabilities		**94,299**	–
Total non-current liabilities		**2,240,542**	624,086
Current liabilities			
Contract liabilities		**163,799**	241,082
Deferred income		**10,497**	45,450
Trade and other payables	*12*	**2,826,518**	2,340,886
Current income tax liabilities		**46,297**	56,041
Borrowings		**1,917,590**	2,545,450
Lease liabilities		**16,673**	–
Provisions for other liabilities and charges		**52,035**	145,191
Total current liabilities		**5,033,409**	5,374,100
Total liabilities		**7,273,951**	5,998,186
Total equity and liabilities		**11,754,328**	10,317,097

1 GENERAL INFORMATION

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

The Company was incorporated in the Cayman Islands on 15 June 2007 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman, KY1-1108, Cayman Islands.

The Company was listed on the Main Board of the Stock Exchange of Hong Kong Limited on 7 March 2008.

These financial statements are presented in Chinese Renminbi ("RMB"), unless otherwise stated, and were approved for issue by the Board of Directors of the Company on 30 March 2020.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted by the Group 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 financial assets at fair value through other comprehensive income 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.

2.1.1 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 2019:

- IFRS 16 Leases
- Prepayment Features with Negative Compensation – Amendments to IFRS 9
- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28

- Annual Improvements to IFRS Standards 2015–2017 Cycle
- Plan Amendment, Curtailment or Settlement – Amendments to IAS 19
- Interpretation 23 Uncertainty over Income Tax Treatments.

The Group has applied IFRS 16 Leases for the first time for their annual reporting period commencing 1 January 2019. The Group had to change its accounting policies as a result of adopting IFRS 16. There is no retrospective adjustment recognised in prior periods. The impact of adopting IFRS 16 is disclosed in Note 2.2. Most of the other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

2.1.2 New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Standards, Amendments or Interpretations	**Subject**	**Effective for annual accounting periods beginning on or after**
Amendments to IAS 1 and IAS 8	Definition of Material	1 January 2020
Amendments to IFRS 3	Definition of a Business	1 January 2020
IAS 39, IFRS 7 and IFRS 9 (Amendments)	Hedge Accounting	1 January 2020
Conceptual Framework	Revised Conceptual Framework for Financial Reporting	1 January 2020
IFRS 17	Insurance Contracts	1 January 2021

2.2 Changes in accounting policy and disclosures

This note explains the impact of the adoption of IFRS 16 Lease on the Group's financial statements.

As indicated in Note 2.1 above, the Group has adopted IFRS 16 Leases from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.4%.

For leases previously classified as finance leases the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application. After the date of initial application, measurements of IFRS 16 can be applied by the entity. The remeasurements to the lease liabilities were recognised as adjustments to the related right-of-use assets immediately after the date of initial application.

(a) Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics

- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019

- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases

- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and

- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

(b) Measurement of lease liabilities

	RMB'000
Operating lease commitments disclosed as at 31 December 2018	**13,489**
Discounted using the lessee's incremental borrowing rate of at the date of initial application	**13,256**
Add: finance lease liabilities recognised as at 31 December 2018	**2,878**
Less: short-term leases recognised on a straight-line basis as expense	**(5,350)**
Less: low-value leases recognised on a straight-line basis as expense	**(51)**
Lease liability recognised as at 1 January 2019	**10,733**
Of which are:	
Current lease liabilities	**7,285**
Non-current lease liabilities	**3,448**
	10,733

(c) Measurement of right-of-use assets

The associated right-of-use assets were measured as if the new rules had always been applied.

The prepaid lease payment for land used rights are reclassified to right-of-use assets as at 31 December 2019 and 1 January 2019, respectively.

The recognised right-of-use assets mainly relate to prepaid lease payment for land use rights and buildings and equipment.

(d) Adjustments recognised in the balance sheet on 1 January 2019

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- right-of-use assets – increase by RMB203,202,000
- deferred tax assets – increase by RMB33,000
- lease liabilities – increase by RMB10,733,000
- lease prepayments – decrease by RMB192,242,000

The net impact on retained earnings on 1 January 2019 was an increase of RMB260,000.

(e) Lessor accounting

The Group did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of IFRS 16.

3 SEGMENT INFORMATION

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

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

The Group disposed its parts of equity interests in the major entities of offshore drilling rigs segment in 2018, and the results of those major entities of this segment have been presented as discontinued operations.

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, net and other (expense)/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 consolidated financial statements.

Sales between segments are carried out in the ordinary course of business and in accordance with the terms of the underlying agreements. The revenue from external parties reported to the senior executive management is measured in a manner consistent with that in profit or loss.

The following table presents revenue and profit information regarding the Group's operating segments for the years ended 31 December 2019 and 2018 respectively. The segment information below includes the discontinued operations. The Group derives revenue from the transfer of good and services over time and at a point in the following operating segments.

	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	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Segment revenue	**1,487,664**	2,326,526	**2,785,909**	1,691,014	**604,811**	319,265	**–**	16,544	**4,878,384**	4,353,349
Inter-segment revenue	**(218,308)**	–	**(234,390)**	(131,643)	**–**	–	**–**	(11,545)	**(452,698)**	(143,188)
Revenue from external customers	**1,269,356**	2,326,526	**2,551,519**	1,559,371	**604,811**	319,265	**–**	4,999	**4,425,686**	4,210,161
Timing of revenue recognition										
At a point in time	**1,487,664**	2,326,526	**2,785,909**	1,691,014	**–**	–	**–**	16,544	**4,273,573**	4,034,084
Over time	**–**	–	**–**	–	**604,811**	319,265	**–**	–	**604,811**	319,265
Reportable segment profit/(loss)	**115,875**	228,870	**347,159**	197,533	**7,574**	11,310	**–**	(46,225)	**470,608**	391,488
Depreciation and amortisation for the year (i)	**56,628**	58,768	**111,590**	87,303	**36,839**	40,027	**–**	53,212	**205,056**	239,310
Impairment on trade and other receivables	**35,545**	20,877	**89,294**	73,913	**4,865**	3,631	**–**	(10,073)	**129,705**	88,348
Write-down of inventories	**3,611**	24,888	**62,591**	21,091	**5,175**	9,088	**–**	4,795	**71,377**	59,862
Impairment provision of property, plant and equipment	**–**	576	**–**	315	**7,852**	–	**–**	–	**7,852**	891

(i) The amount includes depreciation and amortisation of property, plant and equipment, intangible assets, right-of-use assets, and other non-current assets.

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 2019, such information was not reviewed by the Group's chief operating decision maker. Accordingly, no segment assets and liabilities are presented.

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

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Segment profit		
– for reportable segments	**470,608**	391,488
Elimination of inter-segment (profit)/loss	**(87,622)**	13,587
Segment profit derived from the Group's external customers	**382,986**	405,075
Share of loss of joint ventures	**(3,223)**	(28,169)
Share of loss of associates	**–**	(4,275)
Other income and other gains, net	**114,305**	159,715
Finance income	**23,035**	6,641
Finance expenses	**(231,938)**	(174,040)
Unallocated head office and corporate expenses	**(118,900)**	(245,251)
Profit before income tax	**166,265**	119,696

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

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
PRC (country of domicile)	**2,243,222**	1,101,255
Americas	**313,249**	304,220
Middle East	**900,364**	1,358,710
Europe and Central Asia	**884,494**	1,121,046
South Asia and South East	**25,434**	283,848
Africa	**58,923**	41,082
	4,425,686	4,210,161

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

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
PRC (country of domicile)	**1,670,303**	1,501,686
Americas	**2,711**	174,377
Middle East	**342,140**	171,398
Europe and Central Asia	**62,137**	62,398
Africa	**31,259**	35,135
	2,108,550	1,944,994

For the year ended 31 December 2019, revenue of approximately RMB597,654,000 was derived from an external customer. The revenue was attributed to the sales of land drilling rigs in Europe and Central Asia.

For the year ended 31 December 2018, revenues of approximately RMB940,703,000, RMB863,879,000 and RMB517,241,000 were derived from three external customers respectively. These revenues were attributed to the sales of land drilling rigs in Middle East, the sales of land drilling rigs in Europe and Central Asia and the sales of parts and components in PRC (country of domicile), respectively.

Assets and liabilities related to contracts with customers

(a) The Group has recognised the following assets and liabilities related to contracts with customers:

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Current contract assets	**220,959**	42,887
Less: loss allowance	**(1,022)**	(129)
Total contract assets	**219,937**	42,758
Current contract liabilities	**163,799**	241,082

(i) Contract assets and contract liabilities recognised in relation to oil and gas engineering service and sale of goods.

(ii) Contract assets have increased as the Group has provided more services ahead of the agreed payment schedules for fixed-price contracts. The Group also recognised a loss allowance for contract assets in accordance with IFRS 9.

Contract liabilities for sales of goods have decreased by RMB77,283,000 as the Group was due to the negotiation of less prepayments from customers.

(b) Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in current reporting period relates to carried-forward contract liabilities:

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Revenue recognised that was included in the contract liability balance at the beginning of the year		
Sales of goods	**239,848**	–
Service	**1,234**	–

(c) Unsatisfied performance

As at 31 December 2019, the aggregate amounts of the transaction price allocated to contracts that are partially or fully unsatisfied are RMB1,476,446,000.

Management expects that 77% of the transaction price allocated to unsatisfied performance obligations as at 31 December 2019 will be recognised as revenue during the next reporting period (RMB1,137,970,000). The remaining will be recognised in the 2021 financial year and afterwards.

4 OTHER (EXPENSE)/INCOME

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Government grants	**43,100**	23,799
Services (expense)/income	**(51,822)**	16,540
Rental (expense)/income	**(39,629)**	43,291
Sales of scrap materials	**35,772**	6,173
Others	**625**	875
	(11,954)	90,678

5 OTHER GAINS, NET

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Insurance compensation	**3,618**	41,930
Net foreign exchange gains	**40,588**	–
Gains on disposals of property, plant and equipment	**35,428**	1,505
Net gains/(losses) on disposals and dissolution of subsidiaries and a joint venture	**17,169**	(7,355)
Other penalty gains	**19,305**	–
Others	**10,151**	6,925
	126,259	43,005

6 EXPENSES BY NATURE

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Raw materials and consumables used	**1,952,218**	2,308,923
Employee benefit expenses	**572,679**	433,648
Service fee	**371,306**	221,281
Amortisation and depreciation		
– Property, plant and equipment	**163,874**	149,661
– Intangible assets	**13,568**	31,882
– Lease prepayment	**–**	4,604
– Right-of-use-assets	**4,960**	–
Transportation	**105,519**	157,664
Changes in inventories of finished goods and work in progress	**328,444**	95,229
Provision for inventory write-down	**71,377**	87,693
Research and development costs (a)	**93,348**	133,031
Less: amount capitalised into intangible assets	**(38,135)**	(51,388)
Utilities	**45,989**	77,095
Operating lease charges	**10,833**	69,396
Travelling expenses	**57,843**	48,654
Provision of prepayments	**8,666**	27,169
Repairs and maintenance expenditure on property, plant and equipment	**18,122**	17,456
Business and other taxes	**40,653**	17,124
Provision for warranty	**25,357**	10,263
Commission	**60,634**	5,542
Auditors' remuneration		
– Audit services	**4,707**	5,110
– Other services	**550**	80
Impairment provision of property, plant and equipment	**7,852**	891
Other expenses	**50,247**	54,577
Total cost of sales, distribution costs and administrative expenses	**3,970,611**	3,905,585

(a) The amount does not include staff costs of the research and development department of approximately RMB86,396,000 (2018: RMB32,984,000) and relevant amortisation and depreciation of approximately RMB21,334,000 (2018: RMB33,736,000).

7 FINANCE EXPENSES – NET

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Finance expenses		
Interest on borrowings wholly repayable within five years	**225,707**	161,785
Interest expense from lease liabilities	**6,893**	–
Net foreign exchange loss	**–**	7,394
Others	**–**	541
Less: interest expense capitalised into assets under construction	**(662)**	(715)
	231,938	169,005
Finance income		
Interest income on bank deposits	**(9,169)**	(5,100)
Interest income from non-current receivables	**(12,323)**	(500)
Net foreign exchange gains	**(1,543)**	–
	(23,035)	(5,600)
	208,903	163,405

8 INCOME TAX EXPENSE

Taxation in the consolidated statement of profit or loss represents:

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Current income tax – Hong Kong Profits Tax (a)		
Provision for the year	**23**	2,922
Over provision in respect of prior years	**(607)**	(304)
	(584)	2,618
Current income tax – PRC (b)		
Provision for the year	**43,776**	48,627
Under provision in respect of prior years	**373**	3,944
	44,149	52,571
Current income tax – Other jurisdictions (c)		
Provision for the year	**11,409**	7,987
Over provision in respect of prior years	**(7,961)**	(16)
	3,448	7,971
Total current income tax	**47,013**	63,160
Deferred income tax	**(13,237)**	(29,263)
Income tax expense	**33,776**	33,897

(a) 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 2019 and 2018.

(b) 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 2019 and 2018, except for the following companies:

(i) ***Sichuan Honghua Petroleum Equipment Co., Ltd ("Honghua Company") and Han Zheng Testing Technology Co., Ltd ("Han Zheng Testing")***

Corporate income tax ("CIT") of Honghua Company and Han Zheng Testing 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 2019 and 2018.

(ii) ***Sichuan Honghua Electric Co., Ltd ("Honghua Electric")***

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

(iii) ***Honghua Oil & Gas Engineering Technology Services Limited ("Sichuan Oil & Gas Services")***

CIT of Sichuan Oil & Gas Services is accrued at a tax rate of 15% applicable for Hi-tech enterprises pursuant to the relevant PRC tax rules and regulations for the year ended 31 December 2019 (2018: 25%).

(c) Others

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

(d) 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 2019 and 2018. 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.

(e) The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to the group entities as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Profit before income tax	**166,265**	143,582
Tax calculated at statutory tax rates applicable to each group entities	**18,998**	11,562
Tax effect of non-deductible expenses	**504**	9,406
Tax effect of non-taxable income	**(1,136)**	(3,413)
Tax effect of changing tax rate	**19,635**	–
Tax losses for which no deferred income tax asset was recognised	**31,698**	–
Deductible temporary differences for which no deferred income tax asset was recognised	**15,446**	1,262
Recognise deductible temporary differences for which no deferred income tax asset was recognised in prior years	**–**	(54,754)
Recognise tax losses for which no deferred income tax asset was recognised in prior years	**(41,849)**	–
Write off of previously recognised tax losses	**–**	66,699
(Over)/Under provision in respect of prior years	**(8,195)**	3,624
Use of tax losses which unrecognised in prior years	**(1,325)**	(489)
Income tax expense	**33,776**	33,897

(f) 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	
	2019	2018
	RMB'000	*RMB'000*
Deferred tax: Changes in the fair value of equity investments at fair value through other comprehensive income	**1,792**	(179)

9 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings 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	
	2019	2018
Profit attributable to owners of the Company *(RMB'000)*	**107,472**	82,287
From continuing operations	**107,472**	92,377
From discontinued operations	**–**	(10,090)
Weighted average number of ordinary shares in issue (thousands)	**5,355,958**	5,355,521
Effect of the share award scheme (thousands)	**(62,089)**	(62,089)
Effect of share options exercised (thousands)	**53**	213
Adjusted weighted average number of ordinary shares in issue *(thousands)*	**5,293,922**	5,293,645
Basic earnings per share (RMB cents per share)	**2.03**	1.55
From continuing operations (RMB cents per share)	**2.03**	1.74
From discontinued operations (RMB cents per share)	**–**	(0.19)

(b) Diluted earnings per share

The calculation of diluted earnings 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	
	2019	2018
Profit attributable to owners of the Company (RMB'000)	**107,472**	82,287
From continuing operations	**107,472**	92,377
From discontinued operations	**–**	(10,090)
Weighted average number of ordinary shares in issue (thousands)	**5,293,922**	5,293,645
Effect of deemed issue of shares under the share option scheme (thousands)	**–**	–
Adjusted weighted average number of ordinary shares (diluted) in issue (thousands)	**5,293,922**	5,293,645
Diluted earnings per share (RMB cents per share)	**2.03**	1.55
From continuing operations (RMB cents per share)	**2.03**	1.74
From discontinued operations (RMB cents per share)	**–**	(0.19)

10 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Trade receivables (a)	**3,501,437**	2,627,384
Bills receivable	**266,165**	33,637
Less: provision for impairment of trade receivables and bills receivable	**(266,775)**	(169,007)
	3,500,827	2,492,014
Amount due from related parties		
– Trade	**211,449**	349,870
– Non-trade	**311,738**	122,858
– Less: provision for impairment of trade receivables for amount due from related parties	**(27,711)**	–
	495,476	472,728
Finance lease receivables	**315,371**	254,832
Less: provision for impairment of finance lease receivables	**(77,239)**	(65,816)
Value-added tax recoverable	**74,929**	123,623
Prepayments	**425,549**	374,168
Less: provision for prepayments	**(36,970)**	(28,291)
Other receivables (b)	**299,408**	344,142
Less: provision for impairment of other receivables	**(122,845)**	(120,127)
	4,874,506	3,847,273
Representing:		
Current portion (c)	**3,593,152**	2,939,969
Non-current portion (d)	**1,281,354**	907,304
Total	**4,874,506**	3,847,273

(a) As at 31 December 2019 and 31 December 2018, 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	
	2019	2018
	RMB'000	*RMB'000*
Within 3 months	**2,517,145**	2,028,514
3 to 12 months	**564,943**	102,487
Over 1 year	**602,477**	710,883
	3,684,565	2,841,884

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.

(b) Included in other receivables of the Group as at 31 December 2019 is an amount of approximately RMB21,032,000 (2018: RMB42,380,000) to be indemnified by some beneficiary owners of the Company in relation to a legal claim.

(c) Except for the non-current trade and other receivables, all of the other trade and other receivables are expected to be recovered within one year.

(d) Non-current trade and other receivables as at 31 December 2019 included (1) finance lease receivables of approximately RMB129,193,000 (2018: RMB76,759,000); (2) receivables of approximately RMB1,151,961,000 (2018: RMB830,345,000) arising from instalment sales which are due for payment one year after the end of the reporting period and are discounted at market interest rate as at 31 December 2019; and (3) prepayment for acquisition of property, plant and equipment of approximately RMB200,000 (2018: RMB200,000).

(e) As at 31 December 2019 and 2018, the Group's maximum exposure to credit risk was the carrying value of each class of receivables mentioned above.

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

(g) The creation and release of provision for prepayments has been included in "Administrative expenses" and provision for impaired receivables has been included in "Net impairment losses on financial and contract assets" in profit or loss respectively.

(h) As at 31 December 2019, bills receivables of approximately RMB31,700,000 and RMB4,000,000 were secured for borrowings and bills payables, respectively.

(i) As at 31 December 2019, lease liabilities of RMB108,721,000 were secured by finance lease receivables of RMB103,425,000.

(j) As at 31 December 2019 and 2018, the Group had receivables under finance lease as follows:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Non-current receivables		
Finance leases – gross receivables	**146,911**	80,373
Unearned finance income	**(17,718)**	(3,614)
	129,193	76,759
Current receivables		
Finance leases – gross receivables	**198,045**	182,599
Unearned finance income	**(11,867)**	(4,526)
	186,178	178,073
Gross receivables from finance leases:		
– No later than 1 year	**198,045**	182,599
– Later than 1 year and no later than 5 years	**146,911**	80,373
	344,956	262,972
Unearned future finance income on finance leases	**(29,585)**	(8,140)
Net investment in finance leases	**315,371**	254,832

The net investment in finance leases is analysed as follows:

No later than 1 year	**186,178**	178,073
Later than 1 year and no later than 5 years	**129,193**	76,759
Total	**315,371**	254,832

(k) Impairment and risk exposure

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

11 INVENTORIES

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Raw materials	**539,199**	527,939
Work in progress	**357,737**	522,983
Finished goods	**369,742**	513,300
Goods in transit	**678**	575
	1,267,356	1,564,797

For the year ended 31 December 2019, the cost of inventories recognised as the Group's expense and included in 'cost of sales' amounted to approximately RMB2,280,662,000 (2018: RMB2,404,152,000).

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

	Years ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
At 1 January	**172,690**	91,488
Provision	**71,698**	114,146
Write off	**(76,472)**	(5,246)
Reversal	**(321)**	(26,453)
Disposal of subsidiaries	**–**	(1,245)
At 31 December	**167,595**	172,690

12 TRADE AND OTHER PAYABLES

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Trade payables	**1,538,066**	1,198,420
Amounts due to related companies		
– Trade	**8,681**	603
– Non-trade	**43,216**	230
Bills payable	**689,010**	638,282
Receipts in advance	**401**	572
Other payables	**547,144**	502,779
	2,826,518	2,340,886

At 31 December 2019 and 2018, the ageing analysis of the trade payables and bills payable (including amounts due to related parties of trading in nature) based on invoice date is as follows:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Within 3 months	**446,514**	948,322
3 to 6 months	**492,896**	502,994
6 to 12 months	**747,348**	136,991
Over 1 year	**548,999**	248,998
	2,235,757	1,837,305

As at 31 December 2019 and 2018, all the trade payables, bills payable and other payables of the Group were non-interest bearing and their fair value approximated their carrying amounts due to their short maturities.

As at 31 December 2019 and 2018, bills payable were secured by certain pledged bank deposits. All the current trade and other payables are expected to be settled within one year or are repayable on demand.

MANAGEMENT DISCUSSION AND ANALYSIS

In 2019, the Group's revenue from continuing operations amounted to approximately RMB4,426 million, representing an increase of 5.2% from RMB4,205 million for Last Year. Gross profit from continuing operations was approximately RMB1,316 million, representing an increase of 21.6% from RMB1,082 million for Last Year. The profit attributable to shareholders was approximately RMB107 million.

MARKET REVIEW

In 2019, the oil price, remaining at medium to low position, fluctuates frequently. Driven by favorable factors such as production reduction orders and the improvement of global trade, the international oil price ushered in a long-lost rise as at the year end. In 2019, WTI and BRENT oil prices increased by 34.46% and 22.68% in aggregate, respectively. According to the data released by Baker Hughes Inc., an American oil service company, the number of active crude oil wells in the United States decreased by 207 in total for 2019, which was the first annual decline since 2016. However, the crude oil production of the United States rose from 11.7 million barrels per day at the beginning of 2019 to 12.9 million barrels per day on 20 December. In view of the slowdown in the growth of shale oil in the United States, the U.S. sanctions on Venezuela and Iran, and the extension of oil output cuts as agreed by the Organization of the Petroleum Exporting Countries (OPEC), the market's concerns about oversupply have eased. As the substantial growth of crude oil on the supply side was limited, the demand side became the main factor restraining the increase in crude oil prices. However, uncertainties remained in macroeconomics and geopolitics. Sino-US trade frictions, Brexit, and geopolitical factors in the Middle East led to increased turbulence in oil prices throughout the year.

In 2019, China's reliance on imported crude and natural gas was over 70% and 40%, respectively. The National Energy Administration convened a working conference on the significant enhancement of exploration and development of oil and gas, requiring oil companies to fulfill their responsibility for increasing reserves and production, and continuing to increase investment in upstream exploration and development. The total capital expenditure of the three major oil suppliers increased by 23% for the year, which was up to about RMB370 billion. At the beginning of 2019, the three major oil suppliers all formulated a "seven-year action plan" with respect to oil exploration and production from 2019 to 2025. By virtue of the advancement of policies, the domestic oil service market is expected to usher in a long-term boom. Despite the in-depth implementation of the system reform in the oil and gas industry in China, the shale gas development will be at risk of development below expectation, the shale gas subsidies will be at risk of reduction, and the oil and gas capital expenditures at home and abroad will be at risk of growth below expectation. The National Energy Conference has clearly emphasized the promotion of market-oriented reforms in the energy sector, relaxation of oil and gas exploration and development, and investment and construction of oil and gas pipeline networks, liquefied natural gas (LNG) terminals, and gas storage and peak shaving facilities, as well as market access for the power distribution business, in order to encourage the active participation by various types of social capital.

BUSINESS REVIEW

In 2019, global oil and gas industry continued to recover. With the increase in upstream capital expenditure, Honghua recorded growth in both operating revenue and net profit during the Year, reaching a record high since 2015. Centering on the three major strategic transformation tasks of our major shareholder, China Aerospace Science and Industry Corporation Limited ("CASIC"), Honghua adopted flexible and diversified marketing tactics. Through commercial model innovations such as lease-driven sales, our business scope has been expanded, thus promoting sales growth. In addition, through establishing the overseas marketing coordination platform of Aerospace Cloud, we have facilitated online and offline sales coordination, as well as created synergy development between manufacturing and service segments, thus promoting steady growth in operating results and quality of the Group.

In 2019, Honghua's revenue generated from China recorded significant growth of 103.7%, representing 50.7% of business structure and reaching a record high since its listing. In line with the national energy security strategy, Honghua focused on the development of domestic shale gas market, and implemented the general solution for eco-friendly shale gas development focusing on "putting electric grid first and pumping gas with electricity". For the equipment business of the Group, it has been developed from drilling rigs into complete set electric fracturing equipment with 6000HP electric fracturing pumps as core equipment. Leveraging on equipment to facilitate services, Honghua enhanced its oil and gas engineering services from rig drilling to drilling and completion integration engineering service. Taking technology innovation as core driver, Honghua is leading the new trend for green development in the industry.

1. *LAND DRILLING RIGS AND RELATED PRODUCT BUSINESS SEGMENT*

In 2019, Honghua sold 24 land drilling rigs with sales of approximately RMB1,269 million, representing a decrease of 45.5% from RMB2,327 million in the corresponding period of Last Year. Total sales for parts and components amounted to RMB2,552 million, representing an increase of 63.7% from RMB1,559 million in the corresponding period of Last Year.

In the international market, Honghua signed orders for improvement of 4 complete sets of drilling rig and 11 retrofit rigs with existing customers in the Middle East, which worth USD61.52 million in aggregate. Leveraging on its reputation and brand influence in the region over the years, Honghua successfully gained a new customer and obtained new order for 2 drilling rigs. In the Middle Asia, Honghua successfully signed order for 5 complete sets of drilling rig and workover rigs, and sold several sets of parts and components, including top drive and mud pump, independently invented by Honghua as part of the sales of drilling rigs. Following the successful expansion of sales channel into Columbia, South America and realization of rig sales in the first half of the year, Honghua successfully signed new order for 1 drilling rig in the second half. In Africa-Asia and Russian region, leveraging on its competitive edges in relation to customized products such as alpine drilling rig and dessert fast moving rig, Honghua successfully signed orders for 5 drilling rigs. In 2019, thanks to the national energy security strategy and the prime period for the development of unconventional oil and gas such as shale gas, Honghua achieved significant growth in new domestic orders, bringing the proportion to domestic sales revenue for the year up to 50.7%, the highest level since the listing of the Company. During the period, Honghua obtained an order for main drilling rigs from a subsidiary of CNPC Group, which worth RMB110 million. Subsequently, Honghua signed orders for ancillary equipment such as electric system, which worth RMB60 million. Such orders were bided by 6 drilling rig manufacturers, and Honghua won all orders with its high quality drilling rigs and outstanding aftersales services.

Parts and components sales recorded rapid growth in 2019. In particular, there was significant increase in the proportion of independent sales of core parts and components to total sales, reflecting the implementation of Honghua's strategic positioning of "machine-to-component". The independent sales of top drives, the core self-produced parts and components of Honghua, increased by 78.9% as compared to the corresponding period of Last Year. Domestic drilling works increased rapidly, with higher requirements on the functions of drilling rigs for exploration of unconventional oil and gas. By fulfilling customer demand on upgrade and improvement of traditional drilling rigs to digital-control drilling rigs, there was significant increase in orders for drilling rig improvement. In terms of supporting characteristic equipment of shale gas, we sold 8 sets of fracturing pumps throughout the year. Flexible liquid tanks have been recognized by customers, who entered into bulk purchase orders. Hence, the sales of flexible liquid tanks increased by 40.61% as compared to the corresponding period of Last Year. During the Year, the progress of creating a complete set for our fracturing equipment ran quickly. Honghua have introduced fracturing ancillary equipment such as electric sand mixing shovel, liquid supply shovel and 105MPa high pressure manifold. Meanwhile, Honghua conducted structural optimization on electric fracturing pump, thus improving both operating efficiency and operating time of the product. We have achieved a national new record of zero default for continuous operation of 200 hours in our operation block.

In 2019, Honghua continued to adopt flexible and diversified sale models. Through different means such as "financing lease", "operating lease" and "sale by lease", Honghua fulfilled different demands of customers, thus driving significant increase in sales of drilling rigs and parts and components. Leveraging on its strong product quality and flexible sales models, Honghua successfully achieved breakthrough in 1 new market, and obtained 11 orders from new customers.

2. *OIL AND GAS ENGINEERING SERVICE BUSINESS SEGMENT*

In 2019, Honghua had a total of 11 drilling crews achieving 94,018 meters in footage during the Year, which is the highest workload in last three years. Honghua also had a total of 12 fracturing pumping crews, and offered 2,934 lots of pumping services. Engineering services provided by Honghua realized total sales amount of approximately RMB605 million, representing an increase of 89.66% from RMB319 million in the corresponding period of Last Year.

In 2019, Honghua expanded its operations into several domestic oil service markets. During the first half of the Year, the turnkey project on the integration of fracturing oil testing for the first drilling rig at the shale gas platform in Changning, Sichuan has completed, marking the leap-forward breakthrough in oil services from drilling and fracturing single engineering services to platform turnkeys. Attributable to our outstanding performance in Changning Block, Honghua obtained new orders of RMB230 million in aggregate from our Changning shale gas drilling project throughout the year, including the workloads of several wells at 2 platforms. During the Year, our oil service crew completed drilling of 7 wells in Changning Block, and 10 drilled wells were still in the midst of intense operation. The newly contracted national shale gas development demonstration project in Guizhou has operated smoothly, and achieved 3,089 meters in footage as at the end of 2019. During the Year, Honghua's oil service team entered Chongqing market for the first time. It has obtained orders for 2 wells, and broke the highest footage record in a single day for the project. In respect of operation efficiency, Honghua's oil service team continued to deepen the implementation of measures on reducing costs and improving efficiency, thereby ensuring service quality while improving operation efficiency. Production efficiency for the year was 80.76%, up by 16.9%

as compared to Last Year. In Changning Block, we achieved drilling for relocation in 17 days and the fastest well relocation in 1.3 day, and created several new records such as the fastest "four commencement and four completion" for shale gas drilling in China. With the rapid development of domestic shale gas market, in order to achieve best allocation of technology and resources, Honghua entered into strategic cooperation agreement with Schlumberger China Limited ("Schlumberger China"). Pursuant to which, both parties reached an agreement on priority cooperation for the shale gas drilling and fracturing integration project in Sichuan, thus laying foundation for the cooperation on several projects to be conducted in the future.

In 2019, Honghua's oil and gas engineering service achieved major breakthrough in overseas markets. It has obtained project orders, which worth over USD30 million in aggregate, from international renowned oil service companies, with service term effective throughout 2020. The cooperation with international renowned oil service companies can enhance the brand influence of Honghua in the Middle East, which will provide good demonstration for subsequent cooperation. In the Middle East, Honghua's oil service has established good reputation with its quality service, and successfully renewed the drilling project, which worth approximately USD16 million, with existing customer, COSL.

In 2019, both orders and workloads for fracturing service achieved significant growth. Honghua obtained RMB90 million fracturing service contract from the tight oil and gas exploration and development department of Southwest Oil & Gasfield, which is the first tight gas fracturing engineering service contract of the Company. During the period, by entering into the shale gas fracturing engineering service agreement, which worth approximately RMB50 million in aggregate, with a subsidiary of CNPG, we achieved a breakthrough in the business scope of fracturing service of Honghua, marking the business expansion of Honghua from single pumping services to comprehensive electric fracturing services. Our goal on creating a complete set for our fracturing equipment has gradually realized on schedule. In Weiyuan and Changning, Sichuan and Nanchuan, Chongqing, the complete set of fracturing equipment, including 6000HP electric fracturing pumps, electric sand mixing shovel, smart control center, 105MPa high pressure manifold and flexible water tanks etc. independently invented by Honghua, has been utilized for the first time, and recognized by the owners. During the Year, Honghua offered 2,934 lots of pumping services in Changning, Weiyuan, Rong County and Lu County, Sichuan, Fuling and Nanchuan, Chongqing and Taitema Lake, Xinjiang, covering the four major production zones in China, namely Fuling Shale Gas Field, Nanchuan Shale Gas Field, Weirong Shale Gas Field and Changning Shale Gas Demonstration Zone. During the Year, Honghua has expanded its fracturing service into Jiaoshiba Region, the core region of Fuling Shale Gas Field. Our oil service team realized 24-hour continuous operation in Taitema Lake, Xinjiang, which fully testified the reliability, stability and effectiveness of our electric fracturing pumps. Looking forward, Honghua's oil service will continue to maintain rapid growth, and aim at increasing its market share.

ENVIRONMENTAL POLICIES AND PERFORMANCE

For the year ended 31 December 2019, Honghua's business operation made continuous efforts in mitigating pollution of 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 heightened concerns on key material issues, which include (i) Product Quality; (ii) Emissions; (iii) Health and Safety; (iv) Food Health and Safety, and (v) Intellectual Property Rights. These aspects had already been managed by Honghua and Honghua will continue to keep close communication with stakeholders for advancing environmental, social and governance management. Details of Honghua's environmental policies and performance are set out in the Environmental, Social and Governance Report of this annual report.

QUALITY MANAGEMENT AND RESEARCH & DEVELOPMENT

During the Year, Honghua continued to enhance its quality control, and established long-term mechanism on quality and technology. We have fully completed the five standards for advanced manufacturing technology, and successfully passed the annual assessment of different standards such as ISO 9001, API Q1, CCC, ATEX and CSA. We have also obtained new API8C qualification for hydraulic elevator, non-destructive inspection CG qualification and four CNEx certificate of conformity on explosion proof.

In 2019, Honghua focused our product and technology R&D projects on equipment such as intelligent downhole tools, unconventional oil and gas development equipment, natural gas hydrate exploring equipment systems and deep-sea mining devices.

In May 2019, we have completed the prototype installation and in-house testing of our first intelligent trajectory guidance system. In June, we have conducted the first downhole testing. All testing were completed in a single drill, and did not experience loss of signal and order or repeating of drilling works during the testing. In December, our testing platform successfully completed the testing on angle adjustment and direction twist of guidance tools. Several rounds of downhole application of hydraulic interchange crawlers and other downhole tools were completed at the well site. The longest downhole operation lasted for 240 hours, with average mechanic drilling speed increased to 37%, maximum at above 90%. In respect of unconventional oil and gas development equipment, the processing and installation technology design for the ultra-high pressure, large displacement, highly reliable, long useful life, modular and long-distance automatic control-capable ultra-high pressure fracturing system has completed, pending for production of prototype. The 20 sections of industrial testing on 105MPa high pressure manifold have completed. The industrial testing on electric sand mixing shovel was conducting at the well site. The trial production for automatic sand transportation and storage system has completed, and ready for industrial testing. Trial production of prototype for electric continuous mixing shovel was conducting. The research and development of mining equipment for solid and liquefied natural gas hydrate has successfully passed the 2019 annual expert assessment of the Ministry of Science and Technology. The on-site launch test for excavation principle machine has completed. The hydrate trial dredger project has gained the support from the high-tech shipping technology research project of the Ministry of Industry and Information Technology. We have established connection with China Geological Survey, Guangzhou Marine Geological Survey and Huangpu Shipyard, and is currently conducting drilling package design. In respect of deep-sea mining, Honghua has established projects on development of submarine lifting pump and design for mining cart upgrade, thereby realizing comprehensive system and equipment set covering from deck to submarine level.

The "Key Technology for Top-Drive and Accurate Pressure Control Drilling Equipment and Its Application" jointly invented by Jilin University and Honghua won the second prize of the 2019 State Technological Invention Award. The project has been applied to the Earth Crust No. 1, the first 10,000m drilling rig for continental scientific drilling in China. This drilling rig created a new record on depth of core drilling for deep earth research, and was the first scientific well drilled through Continental Cretaceous in the world. The 6000HP electric fracturing pumps independently invented by Honghua won the Silver Award of the 2019 China Best Design Award.

As at 31 December 2019, Honghua has a total of 458 effective patents, including a total of 170 effective invention patents. During the Year, Honghua applied for 118 new patents, including 2 international invention patents and 60 domestic invention patents. 56 patents were granted, including 8 invention patents.

HUMAN RESOURCES MANAGEMENT

During the Year, Honghua continued to implement the talent thriving enterprise strategy, and improved the value-based talent development incentive system. We also optimized our talent selection and allocation mechanism, enhanced the performance-driven appraisal system, improved the introduction, cultivation and incentive mechanism for innovative, professional and skilled talents, amended special remuneration incentive proposal, and optimized benefit plan so as to increase the sense of happiness and achievement of our staff. As at 31 December 2019, the total number of employees of Honghua was 3,795, increased by 84 as compared to the corresponding period of Last Year, with 652 being R&D staff.

During the Year, Honghua implemented a total of 940 training projects, and trained 44,209 person-head with 35.18 hours per person. Honghua always strives to the concept of "centering on technology innovation and driving by talent development", and focuses on introduction and cultivation of quality talent. During the Year, Honghua participated in the special "visa talent" introduction plan organized by the Ministry of Human Resources and Social Security, so as to introduce quality talent suitable for corporate development. Through the postgraduate workshop project of Chongqing University of Science & Technology and the outstanding engineer internship program of Xi'an Shiyou University, the coordinated innovation between enterprises, colleges and science research institutions was formed, thus promoting in-depth integration of industry knowledge and research. In the future, the talent pool of the Group will focus on the direction of professionalism and research on mechanical integration, automation, big data, intellectualization and smart drilling.

OUTLOOK

Affected by public health emergencies and international geopolitics, it is estimated that the international oil prices will experience drastic fluctuations in 2020. In view of the risk of the plunge of international oil prices, the industry will actively seek effective solutions to further reduce production costs so as to increase the profit margins being squeezed by low oil prices. In the domestic market, 2020 is the second year of the implementation of the "Seven-Year Action Plan" proposed by the three major oil companies. The situation of high domestic reliance on foreign oil and gas remains severe. On 31 December 2019, the Ministry of Natural Resources announced files of Several Matters Concerning Promoting the Reform of Mineral Resources Administration (for Trial Implementation), any qualified domestic and overseas companies are eligible to acquire oil and gas mining rights pursuant to relevant requirements. The Chinese government has further opened up the rights on upstream exploration and development, and encouraged market competitors to participate in oil and gas market development. This will bring huge development opportunities for enterprises with state-owned background, such as Honghua, other than the Three Chinese Oil and Gas Companies.

First of all, in response to the national policy on energy security, we will continue to increase the proportion of clean energy. Honghua will promote the general eco-friendly development solution for unconventional oil and gas exploration, from drilling to completion and then transportation. During the period of low oil prices, the cost-saving advantages of Honghua's all-electric fracturing solution are further highlighted. Honghua will implement the general eco-friendly development solution of "pumping gas with electricity and combination of gas and electricity", thereby realizing the mutual win-win mode of income sharing with owners, promoting the industry to realize the cost-reduction and eco-friendly development. Honghua will also facilitate the application of packaging and standardization of complete set of fracturing equipment, with 6000HP electric fracturing pump as core. Meanwhile, leveraging on our competitive edges as manufacturer, and driving our services with equipment, we will further enhance the efficiency of our oil service team and project management capability, thereby further expanding our business scale and enhancing profitability.

Secondly, Honghua will continue to build up its core competitiveness with technologies. We will facilitate the research and commercialization of downhole tools, especially for twist guidance downhole tools, thus creating another feature product line of Honghua. In addition, Honghua will also enhance the upgrade of intelligence electric fracturing system, and facilitate the research and development on deep-sea mining projects such as the fluidization equipment for solidified natural gas hydrate, thus continue to inject vitality to the Company and create new point of growth. At the same time, Honghua will enhance the technology and human resources integration with CASIC, thus bringing synergies. Based on the demand on core technologies in global oil and gas industry, leveraging on the technology and human resources of different subsidiaries of CASIC, Honghua will facilitate the construction of cross-sector integration and innovation industrial park in Chengdu Base, and proactively promote the implementation of cross-sector technology application projects.

Thirdly, in the coming year, Honghua will continue to focus on China, the Middle East and other markets, expand the domestic market share, and explore the equipment upgrade customized demand in OPEC countries. We will strive to push forward the large-scale lease and sales of our core self-produced products of parts and components, such as top drives, automatic machines and five-cylinder pumps, and overcome various challenges such as short delivery cycle and high cost control requirement to further enhance production and management standard. During the period of fluctuating oil prices, Honghua will further improve the level of refined management, control cash flows, strengthen control on investment costs, leverage the advantage in risk tolerance with a state-owned enterprise as back-up forces, and continue to expand low-cost financing channels. Leveraging on its high quality development and profitability, Honghua strives to become a global leader in equipment and technology for oil and gas exploration and development, and an integrated supplier offering a full range of energy services and solutions with comprehensive competitive strengths.

FINANCIAL REVIEW

During the Year, the Group's gross profit and profit attributable to shareholders of the Company amounted to RMB1,316 million and RMB107 million respectively, gross profit margin and net profit margin amounted to approximately 29.7% and 2.4% respectively. While gross profit and profit attributable to shareholders of the Company in the Last Year amounted to approximately RMB1,082 million and RMB82 million respectively, gross profit margin and net profit margin in the Last Year amounted to approximately 25.7% and 2.0% respectively. Profit attributable to shareholders for the year increased than that for Last Year, which was mainly attributable to the continued improvement of global oil and gas industry and the moderate increase in upstream capital expenditure. Meanwhile, the Group actively grasped the market trends, adopted a flexible and diversified marketing approach, which led the significant growth of sales in parts and components and others, specially, new products continue to gain market acceptance, such as 6000HP electric fracturing pumps, top drives and flexible liquid tanks.

Turnover

During the Year, the Group's turnover amounted to approximately RMB4,426 million, representing an increase of RMB221 million or 5.2% from RMB4,205 million for Last Year. The increase was mainly attributable to the continuous growth of Chinese shale gas and natural gas production activities, the Group's revenues from parts, rig upgrading and oil and gas engineering services have increased significantly. At the same time, the traditional land drilling rig market maintains a certain amount of market sales.

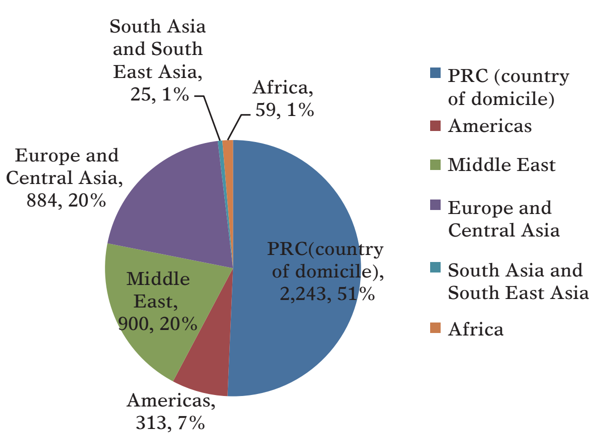
(1) Revenue by Geographical Areas

The Group's revenue by geographical segment areas during the Year was as follows: (1) Sales revenue in mainland China increased by RMB1,142 million compared with that for Last Year to approximately RMB2,243 million, accounting for approximately 50.7% of total revenue. (2) The Group's export revenue decreased by RMB926 million with that for Last Year to approximately RMB2,182 million, accounting for approximately 49.3% of total revenue.

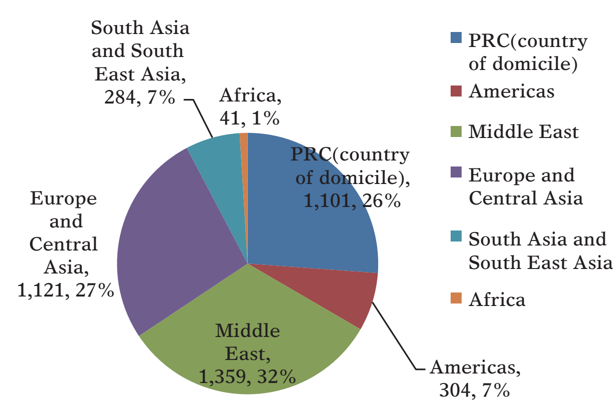
The Group's sales revenue by region is affected by oil and gas exploration activities across different areas of the world. Faced with the operational situation featuring fluctuation adjustments in the oil and gas industry market, the Group continued to focus on technology innovation, improved the quality of products and services, and concentrated on international business development while strictly controlling operating costs. Meanwhile, the Group will make an effort to develop the domestic market by leveraging the platform advantage of CASIC so as to form a new source of business growth.

Revenue by Geographical Areas

Year ended 31 December 2019
Expressed in RMB'million



Year ended 31 December 2018
Expressed in RMB'million



(2) Revenue by Business Categories

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

During the Year, the Group's sales revenue from land drilling rigs amounted to approximately RMB1,269 million, representing a decrease of RMB1,058 million or 45.5% from approximately RMB2,327 million for Last Year.

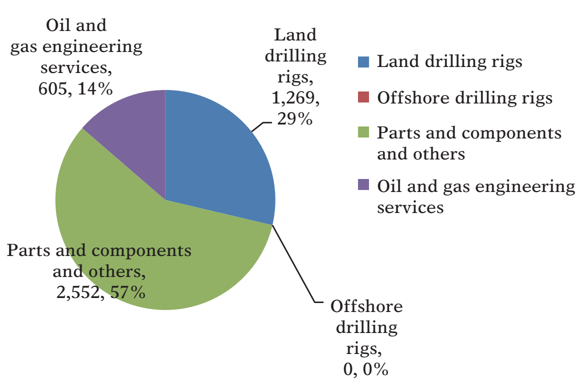
During the Year, the Group's sales revenue from parts and components and others amounted to approximately RMB2,552 million, representing an increase of RMB993 million or 63.7% from approximately RMB1,559 million for Last Year.

During the Year, the Group's revenue from oil and gas engineering services amounted to approximately RMB605 million, representing an increase of RMB286 million or 89.7% from approximately RMB319 million for Last Year.

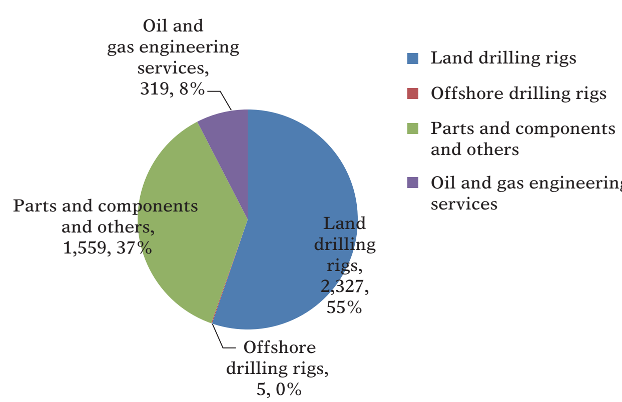
During the Year, there is no revenue from offshore drilling rigs because the related business was disposed of in Last Year which revenue from offshore drilling rigs amounted to approximately RMB5 million.

Revenue by Business Categories

Year ended 31 December 2019
Expressed in RMB'million



Year ended 31 December 2018
Expressed in RMB'million



Cost of Sales

During the Year, the Group's cost of sales from continuing operations amounted to approximately RMB3,110 million, while it was approximately RMB3,123 million in the Last Year, representing a decrease of RMB13 million or approximately 0.4%, which was mainly attributable to the Group's strict cost control and measures was adopted to reduce costs and improve efficiency which began to bear fruit. With a slight increase in sales revenue and further reduced cost of sales, there is greater room for profit exploration.

Gross Profit and Gross Margin

During the Year, the Group's gross profit from continuing operations amounted to approximately RMB1,316 million, representing an increase of RMB234 million or 21.6% from RMB1,082 million for Last Year.

During the Year, the Group's overall gross margin from continuing operations amounted to 29.7%, representing an increase of 4 percentage points from 25.7% for Last Year, which was mainly attributable to changes in the Group's product sales of structural adjustments and strict cost control which began to bear fruit. Driven by the gradual recovery of the oil and gas industry, the sales proportion of the Group's parts and components and others business represented a significant increase of 20.7 percentage points to 57.7% from Last Year. Especially the gross margin growth was mainly attributable to more sales of new products with high gross margin.

Expenses in the Year

During the Year, the Group's distribution costs from continuing operations amounted to approximately RMB357 million, representing an increase of RMB44 million or 14.1% from RMB313 million for Last Year, which was mainly attributable to the Group's sales growth and the corresponding increase in relevant commission and warranty costs.

During the Year, the Group's administrative expenses from continuing operations amounted to approximately RMB503 million, representing an increase of RMB34 million or approximately 7.2% from RMB469 million for Last Year. This is mainly due to the increased research and development costs for the continuous development.

During the Year, the Group's net financial expenses from continuing operations amounted to approximately RMB209 million, representing an increase of RMB46 million or 28.2% from net financial expenses of approximately RMB163 million for Last Year. It was mainly attributable to the increase of borrowings. Meanwhile, the Group obtained borrowings from CASIC at a lower interest rate, issued new dollar senior notes replace the original one at a lower interest rate during the Year, and further improved the debt structure, and the increasing of financial expenses is lower than the increasing of total borrowings.

Profit before Tax

During the Year, the Group's profit before tax from continuing operations amounted to approximately RMB166 million, representing an increase of RMB22 million or 15.3% from RMB144 million for Last Year.

Income Tax Expenses

During the Year, the Group's income tax expense from continuing operations amounted to approximately RMB34 million compared with the income tax expense of approximately RMB34 million for Last Year.

Profit for the year

The Group's profit for the year amounted to approximately RMB132 million compared with approximately RMB97 million for Last Year, in which profit attributable to owners of the Company and profit attributable to non-controlling interests amounted to approximately RMB107 million and approximately RMB25 million respectively. Net margin for the year amounted to 2.4% compared with a net margin of 2.0% for Last Year.

EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION ("EBITDA") AND EBITDA MARGIN

EBITDA for the year amounted to approximately RMB558 million compared with approximately RMB493 million for Last Year, which was mainly attributable to the impact of market recovery, the adjustment of the group's product structure and the increase of profitable spare parts and other businesses. EBITDA margin amounted to 12.6% compared with 11.7% for Last Year.

Dividend

As at 31 December 2019, the Board did not recommend distribution of annual dividends.

Source of Funds and Borrowings

The Group's principal sources of funds include cash from operations, bank borrowings and debt securities financing.

As at 31 December 2019, the Group's borrowings for continuing operations increased by RMB889 million to approximately RMB4,009 million compared with that as at 31 December 2018. In particular, borrowings repayable within one year decreased by RMB628 million or 24.7% to approximately RMB1,918 million compared with that as at 31 December 2018.

Deposit and Cash Flow

As at 31 December 2019, the Group's cash and cash equivalents from continuing operations increased by approximately RMB204 million to approximately RMB890 million compared with that as at 31 December 2018.

During the Year, the Group's net cash inflow from operating activities amounted to approximately RMB103 million, net cash outflow from investing activities amounted to approximately RMB317 million, and net cash inflow from financing activities amounted to approximately RMB413 million.

Assets Structure and Changes

As at 31 December 2019, total assets of the Group amounted to approximately RMB11,754 million. In particular, current assets increased by RMB911 million to approximately RMB6,456 million compared with that as at 31 December 2018, accounting for approximately 54.9% of total assets, which was mainly attributable to the increase in trade and other receivables; non-current assets increased by RMB526 million to approximately RMB5,298 million compared with that as at 31 December 2018, accounting for approximately 45.1% of total assets, which was mainly attributable to the increase in long-term receivables.

Liabilities

As at 31 December 2019, total liabilities of the Group amounted to approximately RMB7,274 million. In particular, total current liabilities decreased by RMB341 million to approximately RMB5,033 million compared with that as at 31 December 2018, accounting for approximately 69.2% of total liabilities; total non-current liabilities increased by RMB1,617 million to approximately RMB2,241 million compared with that as at 31 December 2018, accounting for approximately 30.8% of total liabilities. As at 31 December 2019, the Group's gearing ratio was approximately 61.9%, increasing by 3.8 percentage points compared with that as at 31 December 2018.

Equity

As at 31 December 2019, total equity amounted to approximately RMB4,480 million, representing an increase of RMB161 million compared with that as at 31 December 2018. Total equity attributable to owners of the Company amounted to approximately RMB4,266 million, representing an increase of RMB137 million compared with that as at 31 December 2018. Non-controlling interests totaled approximately RMB215 million, representing an increase of RMB25 million compared with that as at 31 December 2018. During the period, the Company's basic profit per share and diluted profit per share amounted to approximately RMB2.03 cents and RMB2.03 cents respectively.

Capital Expenditure, Major Investments and Capital Commitments

During the Year, the Group's total capital expenditure on infrastructure and technical improvements amounted to approximately RMB274 million, representing a decrease of approximately RMB73 million compared with that for Last Year.

As at 31 December 2019, the Group had capital commitments of approximately RMB11 million, which were used for the optimization of its business and production capacity.

PURCHASE, SALE OR REDEMPTION OF COMPANY'S LISTED SECURITIES

During the Year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's Shares.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 15 June 2020 to Thursday, 18 June 2020, 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 Friday, 12 June 2020.

AUDIT COMMITTEE

The Audit Committee comprises all the Independent Non-executive Directors with written terms of reference in compliance with the Listing Rules. The Audit Committee is responsible for reviewing and supervising the adequacy and effectiveness of the Group's financial reporting system, internal control systems and risk management system and associated procedures and providing advices and recommendations to the Board.

The Audit Committee shall hold at least two meetings a year and review opinions of internal auditors, matters in respects of internal control, risk management and financial reporting. The Audit Committee has reviewed the consolidated financial statements of the Group for the year ended 31 December 2019 and the accounting principles and practices adopted by the Group during the Year.

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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Except for the deviation as mentioned below, the Company has complied with the code provisions as set out in the Corporate Governance Code in Appendix 14 to the Listing Rules ("CG Code") throughout the year ended 31 December 2019.

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

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

Specific enquiry has been made of all the Directors and all the Directors have confirmed that they have complied with the Company Code and the Model Code throughout the year ended 31 December 2019.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT FOR 2019

This announcement is published on both the websites of the Company (www.hh-gltd.com) and of the Stock Exchange (www.hkexnews.hk). The annual report of the Company for the year ended 31 December 2019 will be dispatched to shareholders of the Company and published on the aforesaid websites in due course.

DEFINITION

"Annual General Meeting"	:	the annual general meeting of the Company which will be held on Thursday, 18 June 2020
"Audit Committee"	:	the audit committee of the Company
"Board"	:	the Board of Directors of the Company
"CG Code"	:	Corporate Governance Code set out in Appendix 14 to the Listing Rules
"Code for Securities Trading"	:	code for securities trading adopted by the Company since 21 January 2008
"Company"	:	Honghua Group Limited
"Directors"	:	directors of the Company
"During the Year" or "Relevant Year"	:	for the year ended 31 December 2019
"Group", "Honghua" or "We"	:	the Company and its subsidiaries
"HK$" or "HK dollars"	:	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	:	the Hong Kong Special Administrative Region of the PRC
"Last Year"	:	for the year ended 31 December 2018
"Listing Rules"	:	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
"Model Code"	:	Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules

"PRC" or "China"	:	the People's Republic of China, unless the context requires otherwise, reference in this announcement of the PRC or China excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"RMB"	:	Renminbi, the lawful currency of the PRC
"Share(s)"	:	ordinary shares issued by the Company, with a nominal value of HK$0.10 each
"Stock Exchange"	:	The Stock Exchange of Hong Kong Limited
"US"	:	the United States of America, including its territories and possessions
"US$"	:	United States dollars, the lawful currency of the US

On behalf of the Board
Honghua Group Limited
Jin Liliang
Chairman

PRC, 30 March 2020

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