宏华集团
HONGHUA GROUP

Honghua Group Limited
宏華集團有限公司

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

(Stock code: 0196)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

FINANCIAL HIGHLIGHT

	For the year ended 31 December		
	2020	2019	Changes
Turnover *(RMB'000)*	**3,931,492**	4,425,686	-11.2%
Gross profit *(RMB'000)*	**1,180,365**	1,315,834	-10.3%
Gross margin *(%)*	**30.0%**	29.7%	0.3 percentage points
Operating profit *(RMB'000)*	**227,416**	378,391	-39.9%
Profit attributable to equity shareholders of the Company *(RMB'000)*	**49,660**	107,472	-53.8%
Earnings per share			
– Basic *(RMB cents)*	**0.94**	2.03	-53.7%
– Diluted *(RMB cents)*	**0.94**	2.03	-53.7%

The Board does not recommend payment of dividend for the year ended 31 December 2020.

ANNUAL RESULTS

The Board of the Company hereby announces the consolidated results of the Group for the year ended 31 December 2020 (the "Relevant Year"), together with the comparative figures for the year ended 31 December 2019.

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 2020 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 2020

(All amounts in RMB unless otherwise stated)

	Notes	Year ended 31 December 2020 RMB'000	2019 RMB'000
Revenue	3	**3,931,492**	4,425,686
Cost of sales	6	**(2,751,127)**	(3,109,852)
Gross profit		**1,180,365**	1,315,834
Distribution costs	6	**(177,878)**	(357,273)
Administrative expenses	6	**(547,597)**	(503,486)
Net impairment losses on financial assets and contract assets		**(267,752)**	(190,989)
Other income/(expense)	4	**87,612**	(11,954)
Other (losses)/gains, net	5	**(47,334)**	126,259
Operating profit		**227,416**	378,391
Finance income	7	**96,154**	23,035
Finance expenses	7	**(222,513)**	(231,938)
Finance expenses – net		**(126,359)**	(208,903)
Share of net losses of associates and joint ventures accounted for using the equity method		**(14,967)**	(3,223)
Profit before income tax		**86,090**	166,265
Income tax expense	8	**(25,950)**	(33,776)
Profit for the year		**60,140**	132,489
Profit attributable to:			
– Owners of the Company		**49,660**	107,472
– Non-controlling interests		**10,480**	25,017
		60,140	132,489
Profit per share attributable to owners of the Company (expressed in RMB cents per share)			
Basic and diluted	9	**0.94**	2.03

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

(All amounts in RMB unless otherwise stated)

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Profit for the year	**60,140**	132,489
Other comprehensive income		
Items that may be reclassified to profit or loss		
Currency translation differences	**(43,364)**	19,090
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	**(1,052)**	10,806
Income tax relating to these items	**151**	(1,792)
Other comprehensive income for the year, net of tax	**(44,265)**	28,104
Total comprehensive income for the year	**15,875**	160,593
Total comprehensive income attributable to:		
– Owners of the Company	**4,170**	135,964
– Non-controlling interests	**11,705**	24,629
	15,875	160,593

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2020
(All amounts in RMB unless otherwise stated)

	Notes	**As at 31 December** **2020** ***RMB'000***	2019 *RMB'000*
ASSETS			
Non-current assets			
Right of use assets		**185,008**	187,769
Property, plant and equipment		**1,736,605**	1,641,678
Intangible assets		**230,823**	180,342
Debt investments		**53,950**	97,906
Investments accounted for using the equity method		**28,785**	31,259
Deferred income tax assets		**287,900**	273,347
Financial assets at fair value through other comprehensive income		**89,204**	87,129
Term deposit		**40,000**	–
Trade and other receivables	*10*	**803,428**	1,281,354
Loan to an associate and other related party		**731,565**	1,450,181
Other non-current assets		**53,707**	67,502
Total non-current assets		**4,240,975**	5,298,467
Current assets			
Inventories	*11*	**1,346,818**	1,267,356
Contract assets		**687,791**	219,937
Trade and other receivables	*10*	**3,699,407**	3,593,152
Debt investments		**43,956**	24,915
Loan to an associate and other related party		**683,827**	88,278
Current tax recoverable		**4,985**	8,341
Financial assets at fair value through other comprehensive income		**72,071**	95,407
Pledged bank deposits		**280,163**	268,673
Cash and cash equivalents		**952,384**	889,802
Total current assets		**7,771,402**	6,455,861
Total assets		**12,012,377**	11,754,328

CONSOLIDATED BALANCE SHEET (CONTINUED)

AS AT 31 DECEMBER 2020

(All amounts in RMB unless otherwise stated)

	Notes	As at 31 December 2020 RMB'000	2019 RMB'000
EQUITY			
Equity attributable to owners of the Company			
Share capital		**488,023**	488,023
Other reserves		**4,223,282**	4,253,108
Accumulated losses		**(441,939)**	(475,551)
		4,269,366	4,265,580
Non-controlling interests		**225,261**	214,797
Total equity		**4,494,627**	4,480,377
LIABILITIES			
Non-current liabilities			
Deferred income		**47,621**	54,464
Borrowings		**2,229,719**	2,091,779
Lease liabilities		**70,118**	94,299
Total non-current liabilities		**2,347,458**	2,240,542
Current liabilities			
Contract liabilities		**139,608**	163,799
Deferred income		**4,492**	10,497
Trade and other payables	*12*	**2,655,744**	2,826,518
Current income tax liabilities		**63,865**	46,297
Borrowings		**2,255,142**	1,917,590
Lease liabilities		**18,199**	16,673
Provisions for other liabilities and charges		**33,242**	52,035
Total current liabilities		**5,170,292**	5,033,409
Total liabilities		**7,517,750**	7,273,951
Total equity and liabilities		**12,012,377**	11,754,328

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, providing drilling services and fracturing.

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 29 March 2021.

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 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.

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 2020:

- IAS 1 and IAS 8 (Amendment) – Definition of Material
- IFRS 3 (Amendment) – Definition of a Business
- Revised Conceptual Framework for Financial Reporting
- Amendments to IFRS 7, IFRS 9 and IAS 39 – Interest Rate Benchmark Reform
- Amendments to IFRS 16 – Covid 19-related Rent Concessions

The adoption of these standards and new accounting policies disclosed did not have any significant impact on the Group's accounting policies and did not require retrospective adjustments.

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 2020 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
IFRS 17	Insurance Contracts	1 January 2023
Amendments to IAS 1	Presentation of financial statements on classification of liabilities	1 January 2023
Amendments to IAS 16	Property, Plant and Equipment Proceeds before intended use	1 January 2022
Amendments to IFRS 3	Reference to the Conceptual Framework	1 January 2022
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Annual Improvements	Annual Improvements to IFRS Standards 2018 – 2020	1 January 2022

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, parts and components and others, drilling engineering services and fracturing) and geographically. In a manner consistent with the way in which information is reported internally to the Group's chief operating decision maker ("CODM") for the purposes of resource allocation and performance assessment, the Group has identified four reportable segments.

As the business of fracturing becomes large enough, the CODM requested changes to the internal management reporting to show separately the performance of fracturing. As a result of the changes, the segment of fracturing was established by the Group and the segment of oil and gas engineering service changed to drilling engineering services which only focuses on drilling engineering services without fracturing engineering services from 1 January 2020. The Group has also restated the comparative segment information.

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 losses of joint ventures and associates, other (losses)/gains, net and other income/(expense). 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 2020 and 2019 respectively. 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		Drilling engineering services Year ended 31 December		Fracturing Year ended 31 December		Total Year ended 31 December	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Segment revenue	**621,523**	1,487,664	**1,788,594**	1,851,421	**247,919**	464,078	**1,339,871**	1,075,221	**3,997,907**	4,878,384
Inter-segment revenue	**–**	(218,308)	**(66,415)**	(234,390)	**–**	–	**–**	–	**(66,415)**	(452,698)
Revenue from external customers	**621,523**	1,269,356	**1,722,179**	1,617,031	**247,919**	464,078	**1,339,871**	1,075,221	**3,931,492**	4,425,686
Timing of revenue recognition										
At a point in time	**621,523**	1,487,664	**1,788,594**	1,851,421	**–**	–	**610,143**	934,488	**3,020,260**	4,273,573
Over time	**–**	–	**–**	–	**247,919**	464,078	**729,728**	140,733	**977,647**	604,811
Reportable segment (loss)/profit	**(42,330)**	115,875	**179,801**	108,669	**5,969**	12,734	**109,233**	233,330	**252,673**	470,608
Depreciation and amortisation for the year (i)	**30,805**	56,628	**63,113**	74,159	**38,204**	28,267	**63,890**	46,003	**196,012**	205,057
Impairment on trade and other receivables	**104,411**	35,545	**106,955**	88,570	**11,060**	4,865	**18,480**	724	**240,906**	129,704
Write-down of inventories	**1,903**	3,611	**49,803**	62,591	**3,988**	5,175	**–**	–	**55,694**	71,377
Impairment provision of property, plant and equipment	**–**	–	**–**	–	**1,035**	7,852	**–**	–	**1,035**	7,852

(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 2020, 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	
	2020	2019
	RMB'000	*RMB'000*
Segment profit		
– for reportable segments	**252,673**	470,608
Elimination of inter-segment profit	**(13,994)**	(87,622)
Segment profit derived from the Group's external customers	**238,679**	382,986
Share of losses of joint ventures	**(14,967)**	(3,223)
Other income and other gains, net	**40,278**	114,305
Finance income	**96,154**	23,035
Finance expenses	**(222,513)**	(231,938)
Unallocated head office and corporate expenses	**(51,541)**	(118,900)
Profit before income tax	**86,090**	166,265

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

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
PRC (country of domicile)	**2,905,901**	2,243,222
Americas	**42,137**	313,249
Middle East	**417,736**	900,364
Europe and Central Asia	**305,887**	884,494
South Asia and South East	**118,790**	25,434
Africa	**141,041**	58,923
	3,931,492	4,425,686

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

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
PRC (country of domicile)	**1,809,820**	1,670,303
Americas	**2,037**	2,711
Middle East	**351,146**	342,140
Europe and Central Asia	**43,140**	62,137
Africa	**28,785**	31,259
	2,234,928	2,108,550

For the year ended 31 December 2020, there was no customer contributed over 10% of the total revenue of the Group.

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.

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	
	2020	2019
	RMB'000	*RMB'000*
Contract assets	**706,302**	220,959
Less: loss allowance	**(18,511)**	(1,022)
Total contract assets	**687,791**	219,937
Current contract liabilities	**139,608**	163,799

(i) Contract assets and contract liabilities are recognised under fracturing, drilling engineering services and sales of parts and components and others segments.

(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 RMB24,191,000, which 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	
	2020	2019
	RMB'000	*RMB'000*
Revenue recognised that was included in the contract liabilities balance at the beginning of the year		
Sales of goods	**121,406**	239,848
Services	**1,976**	1,234

(c) *Unsatisfied performance*

As at 31 December 2020, the aggregate amount of the transaction price allocated to contracts that are partially or fully unsatisfied is RMB1,718,720,000 (as at 31 December 2019: RMB1,476,446,000).

The management expects that 74% (as at 31 December 2019: 77%) of the transaction price allocated to unsatisfied performance obligations as at 31 December 2020 will be recognised as revenue during the next reporting period (RMB1,268,400,000) (as at 31 December 2019: RMB1,137,970,000). The remaining will be recognised in the 2022 financial year and afterwards.

4 OTHER INCOME/(EXPENSE)

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Government grants	**63,687**	43,100
Sales of scrap materials	**12,926**	35,772
Service expense	**–**	(51,822)
Rental expense	**–**	(39,629)
Others	**10,999**	625
	87,612	(11,954)

5 OTHER (LOSSES)/GAINS, NET

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Insurance compensation	**50,519**	3,618
Net foreign exchange (losses)/gains	**(74,784)**	40,588
(Losses)/gains on disposals of property, plant and equipment	**(1,674)**	35,428
Net gains on disposals and dissolution of subsidiaries and a joint venture	**–**	17,169
Other penalty (losses)/gains	**(33,816)**	19,305
Others	**12,421**	10,151
	(47,334)	126,259

6 EXPENSES BY NATURE

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Raw materials and consumables used	**1,508,618**	1,952,218
Employee benefit expenses	**530,591**	572,679
Service fee	**323,444**	371,306
Amortisation and depreciation		
– Property, plant and equipment	**171,274**	163,874
– Intangible assets	**15,908**	13,568
– Right-of-use-assets	**8,830**	4,960
Transportation	**43,124**	105,519
Changes in inventories of finished goods and work in progress	**(81,464)**	328,444
Provision for inventory write-down	**55,694**	71,377
Research and development costs (i)	**177,329**	93,348
Less: amount capitalised into intangible assets	**(56,007)**	(38,135)
Utilities	**25,999**	45,989
Operating lease charges	**522,764**	10,833
Travelling expenses	**39,155**	57,843
Provision of prepayments	**(796)**	8,666
Repairs and maintenance expenditure on property, plant and equipment	**16,985**	18,122
Other taxes	**24,362**	40,653
Provision for warranty	**4,302**	25,357
Commission	**42,990**	60,634
Auditors' remuneration		
– Audit services	**4,707**	4,707
– Other services	**150**	550
Impairment provision of property, plant and equipment	**1,035**	7,852
Other expenses	**97,608**	50,247
Total cost of sales, distribution costs and administrative expenses	**3,476,602**	3,970,611

(i) The amount does not include staff costs of the research and development department of approximately RMB84,292,000 (2019: RMB86,396,000) and relevant amortisation and depreciation of approximately RMB22,689,000 (2019: RMB21,334,000).

7 FINANCE EXPENSES – NET

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Finance expenses		
Interest on borrowings wholly repayable within five years	**217,019**	225,707
Interest expense from lease liabilities	**6,100**	6,893
Less: interest expense capitalised into assets under construction	**(606)**	(662)
	222,513	231,938
Finance income		
Interest income on bank deposits	**(13,767)**	(9,169)
Interest income from non-current receivables	**(21,692)**	(12,323)
Net foreign exchange gains	**(60,695)**	(1,543)
	(96,154)	(23,035)
	126,359	208,903

8 INCOME TAX EXPENSE

Taxation in the consolidated statement of profit or loss represents:

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Current income tax – Hong Kong Profits Tax *(a)*		
Provision for the year	**495**	23
Over provision in respect of prior years	**(241)**	(607)
	254	(584)
Current income tax – PRC *(b)*		
Provision for the year	**23,931**	43,776
Under provision in respect of prior years	**6,086**	373
	30,017	44,149
Current income tax – Other jurisdictions *(c)*		
Provision for the year	**10,161**	11,409
Over provision in respect of prior years	**–**	(7,961)
	10,161	3,448
Total current income tax	**40,432**	47,013
Deferred income tax	**(14,482)**	(13,237)
Income tax expense	**25,950**	33,776

(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 2020 and 2019.

(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 2020 and 2019, except for the following companies:

(a) Sichuan Honghua Petroleum Equipment Co., Ltd., Han Zheng Testing Technology Co., Ltd., and Honghua Oil & Gas Engineering Technology Services Limited

Corporate income tax ("CIT") of Sichuan Honghua Petroleum Equipment Co., Ltd., Han Zheng Testing Technology Co., Ltd., and Honghua Oil & Gas Engineering Technology Services Limited 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 2020 and 2019.

(b) Sichuan Honghua Electric Co., Ltd.

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. Sichuan Honghua Electric Co., Ltd. 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.

(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 2020 and 2019. 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 tax rate applicable to the group entities as follows:**

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Profit before income tax	**86,090**	166,265
Tax calculated at statutory tax rates applicable to each group entities	**39,304**	18,998
Tax effect of non-deductible expenses	**379**	504
Tax effect of non-taxable income	**(230)**	(1,136)
Tax effect of changing tax rate	**–**	19,635
Tax losses for which no deferred income tax asset was recognised	**10,179**	31,698
Deductible temporary differences for which no deferred income tax asset was recognised	**2,890**	15,446
Additional deduction of research and development expense	**(11,757)**	–
Recognise tax losses for which no deferred income tax asset was recognised in prior years	**–**	(41,849)
Reversal of previously recognised deferred income tax assets of deductible temporary differences	**6,702**	–
Write off of previously recognised deferred income tax assets of tax losses	**1,548**	–
Under/(over) provision in respect of prior years	**5,845**	(8,195)
Use of tax losses which unrecognised in prior years	**(28,910)**	(1,325)
Income tax expense	**25,950**	33,776

(f) **Amounts recognised directly in other comprehensive income**

Aggregate 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	
	2020	2019
	RMB'000	*RMB'000*
Deferred tax: Changes in the fair value of equity investments at fair value other comprehensive income	**(151)**	1,792

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	
	2020	2019
Profit attributable to owners of the Company *(RMB'000)*	**49,660**	107,472
Weighted average number of ordinary shares in issue *(thousands)*	**5,355,995**	5,355,958
Effect of the share award scheme *(thousands)*	**(61,089)**	(62,089)
Effect of share options exercised *(thousands)*	**–**	53
Adjusted weighted average number of ordinary shares in issue *(thousands)*	**5,294,906**	5,293,922
Basic earnings per share *(RMB cents per share)*	**0.94**	2.03

(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	
	2020	2019
Profit attributable to owners of the Company *(RMB'000)*	**49,660**	107,472
Weighted average number of ordinary shares in issue *(thousands)*	**5,294,906**	5,293,922
Effect of deemed issue of shares under the share option scheme *(thousands)*	**–**	–
Adjusted weighted average number of ordinary shares (diluted) in issue *(thousands)*	**5,294,906**	5,293,922
Diluted earnings per share *(RMB cents per share)*	**0.94**	2.03

10 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Trade receivables *(a)*	**2,981,797**	3,501,437
Bills receivable	**549,190**	266,165
Less: provision for impairment of trade receivables and bills receivable	**(435,724)**	(266,775)
	3,095,263	3,500,827
Amount due from related parties		
– Trade	**400,473**	211,449
– Non-trade	**359,785**	311,738
– Less: provision for impairment of trade receivables for amount due from related parties	**(68,474)**	(27,711)
	691,784	495,476
Finance lease receivables	**254,830**	315,371
Less: provision for impairment of finance lease receivable	**(75,279)**	(77,239)
Value-added tax recoverable	**64,517**	74,929
Prepayments	**311,285**	425,549
Less: provision for prepayments	**(32,662)**	(36,970)
Other receivables *(b)*	**319,198**	299,408
Less: provision for impairment of other receivables	**(126,101)**	(122,845)
	4,502,835	4,874,506
Representing:		
Current portion *(c)*	**3,699,407**	3,593,152
Non-current portion *(d)*	**803,428**	1,281,354
Total	**4,502,835**	4,874,506

(a) As at 31 December 2020 and 2019, 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	
	2020	2019
	RMB'000	*RMB'000*
Within 3 months	**2,283,515**	2,517,145
3 to 12 months	**584,314**	564,943
Over 1 year	**559,433**	602,477
	3,427,262	3,684,565

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 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 2020 included (1) finance lease receivables of approximately RMB76,283,000 (2019: RMB129,193,000); (2) receivables of approximately RMB727,145,000 (2019: RMB1,151,961,000) arising from instalment sales which are due for payment one year after the end of the reporting period and are discounted at the rate which discounts the nominal amount of the promised consideration to the price that customer would pay in cash for the goods or services when or as the Group transfers to the customer; and (3) prepayment for acquisition of property, plant and equipment of approximately RMB0 (2019: RMB200,000).

(e) As at 31 December 2020 and 2019, 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 2020, bills receivables of approximately RMB222,658,000 and accounts receivable of RMB71,702,000 were secured for borrowings.

(i) As at 31 December 2020, lease liabilities of RMB85,837,000 (as at 31 December 2019: RMB108,721,000) were secured by finance lease receivables of RMB81,899,000(as at 31 December 2019: RMB103,425,000).

(j) As at 31 December 2020 and 2019, the Group had receivables under finance lease as follows:

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Non-current receivables		
Finance leases – gross receivables	**84,830**	146,911
Unearned finance income	**(8,547)**	(17,718)
	76,283	129,193
Current receivables		
Finance leases – gross receivables	**187,288**	198,045
Unearned finance income	**(8,741)**	(11,867)
	178,547	186,178
Gross receivables from finance leases:		
— No later than 1 year	**187,288**	198,045
— Later than 1 year and no later than 5 years	**84,830**	146,911
	272,118	344,956
Unearned future finance income on finance leases	**(17,288)**	(29,585)
Net investment in finance leases	**254,830**	315,371

The net investment in finance leases is analysed as follows:

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
No later than 1 year	**178,547**	186,178
Later than 1 year and no later than 5 years	**76,283**	129,193
Total	**254,830**	315,371

(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	
	2020	2019
	RMB'000	*RMB'000*
Raw materials	**409,733**	539,199
Work in progress	**470,638**	357,737
Finished goods	**349,162**	369,742
Costs to fulfil contracts	**83,891**	–
Revolving materials and others	**33,394**	678
	1,346,818	1,267,356

For the year ended 31 December 2020, the cost of inventories recognised as the Group's expense and included in 'cost of sales' amounted to approximately RMB1,427,154,000 (2019: RMB2,280,662,000).

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

	Years ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
At 1 January	**167,595**	172,690
Provision	**74,124**	71,698
Write off	**(72,152)**	(76,472)
Reversal	**(18,430)**	(321)
Currency translation difference	**(2,794)**	–
At 31 December	**148,343**	167,595

12 TRADE AND OTHER PAYABLES

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Trade payables	**1,421,207**	1,538,066
Amounts due to related companies		
– Trade	**19,423**	8,681
– Non-trade	**44,376**	43,216
Bills payable	**755,316**	689,010
Receipts in advance	**501**	401
Other payables	**414,921**	547,144
	2,655,744	2,826,518

At 31 December 2020 and 2019, 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	
	2020	2019
	RMB'000	*RMB'000*
Within 3 months	**567,463**	446,514
3 to 6 months	**532,146**	492,896
6 to 12 months	**766,736**	747,348
Over 1 year	**329,601**	548,999
	2,195,946	2,235,757

As at 31 December 2020 and 2019, 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 2020 and 2019, 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 2020, the Group's revenue amounted to RMB3,931 million, representing a decrease of 11.2% from RMB4,426 million for Previous Year. Gross profit was approximately RMB1,180 million, representing a decrease of 10.3% from RMB1,316 million for Previous Year. The profit attributable to equity shareholders of the company was approximately RMB50 million.

MARKET REVIEW

International oil prices experienced a roller coaster-like rise and fall in 2020. At the beginning of the year, international oil prices were rising all the way as boosted by the risk premium brought by geopolitical events in the Middle East. In early March, hit by the unprecedented black swan events – the global outbreak of COVID-19 and superimposed on the oil price war between the Organization of the Petroleum Exporting Countries (OPEC) and Russia, the oil price plummeted to a historic low. With the exhaustion of market pessimism and the reduced pressure on crude oil inventories, OPEC began to reduce oil outputs together, allowing oil price recovery. Throughout the year, oil prices demonstrated a deep-V trend of rebounding from a steep fall. In 2020, the annual average spot price of West Texas Intermediate crude oil ("WTI") was USD39.28 per barrel, a 31.1% decrease from the same period of Previous Year; while the annual average spot price of North Sea Brent crude oil was USD41.78 per barrel, a decrease of 34.9% from the same period Previous Year. According to the data released by Baker Hughes Inc., an American oil service company, the number of active oil wells in the United States at the end of 2020 decreased by 403 in total from the beginning of the year, which was the largest decline since 2015. According to the information from the U.S. Energy Information Administration, the crude oil production of the United States decreased from 12.25 million barrels per day in 2019 to 11.31 million barrels per day in 2020.

In 2020, despite the plunge in international oil prices, China still attached great importance to national energy security. Domestic crude oil production amounted to 195 million tons, an increase of 1.6% over the same period of Previous Year, while natural gas production amounted to 188.8 billion cubic meters, an increase of 9.8% over the same period of Previous Year. In order to further stabilize and increase production, China needs to overcome multiple problems, such as resource replacement, technology innovation and cost reduction, and also needs to seek strategic breakthroughs in new alternative resources such as shale oil.[1] The National Development and Reform Commission and the National Energy Administration jointly promulgated the Guiding Opinions on Energy Security for 2020 (《關於做好 2020 年能源安全保障工作的指導意見》), which called for improving energy production and supply capacity, promoting stable and increased production of domestic oil and gas fields, strengthening domestic oil and gas exploration and development efforts, and accelerating the exploration and development of unconventional oil and gas resources. During the Period, PipeChina fully took over the operation of oil and gas pipeline network assets, separated the operation of pipeline transportation as the intermediate link from upstream resources and downstream sales, and opened it up to third-party market entities in a fair manner, which would be conducive to more market-oriented development of oil and gas resources, diversifying domestic oil and gas supply entities, and promoting the market-oriented development of upstream exploration and development as well as the import links.

In 2020, nationwide newly-installed grid-connected wind power capacity was 71.67 million kW, of which newly-installed onshore wind power capacity was 68.61 million kW and newly-installed offshore wind power capacity was 3.06 million kW. The cumulative nationwide installed wind power capacity amounted to 281 million kW, of which the cumulative installed onshore wind power capacity was 271 million kW and the cumulative installed offshore wind power capacity was approximately 9 million kW.[2]

1 National Energy Administration
2 National Energy Administration

BUSINESS REVIEW

In 2020, affected by the global outbreak of COVID-19 and the plunge in oil prices, Honghua encountered numerous challenges in its operations. For the staff safety, Honghua reduced domestic and overseas sales visit activities, increased the proportion of online marketing activities and orderly organized the staff to receive COVID-19 vaccination in order to keep the staff safe. For the markets business, the COVID-19 epidemic resulted in a sudden reduction in energy demand. Honghua swiftly adjusted its mindset, kept up with the changes in overseas client' demand, and actively explored the new model of after-sales service driving sales for parts and components, and resource-integrated development driving collaborative sales. Relying on the background advantages of our major shareholder CASIC, Honghua entered into the offshore wind power industry to hedge against cyclical fluctuations of the oil and gas industry and find a new direction for the layout of the energy industry.

In 2020, despite the impacts of the COVID-19 pandemic and the plunge in oil prices on the global oil and gas market, we still benefited from the domestic energy security strategy. Honghua's revenue generated from China recorded significant growth of 29.5%, representing 73.9% of business structure and reached a record high since its listing. During the Period, Honghua's equipment-driven electric fracturing pumping service achieved a sizeable and explosive development, and obtained a number of shale gas fracturing engineering service contracts, which further expanded the scope of fracturing services and consolidated Honghua's leading position in the field of electric fracturing. In addition to the complete set electric fracturing equipment with 6000HP electric fracturing pump as core equipment that has been continuously improving, Honghua launched the nation's first set of electric drive coiled tubing, which became an important part of "all electric drive, smart fracturing".

1. Drilling Rigs and Related Product Business Segment

In 2020, Honghua sold 12 drilling rigs with sales of approximately RMB622 million, representing a decrease of 51.0% from RMB1,269 million in the corresponding period of Previous Year. Total sales for parts and components amounted to RMB1,722 million, representing an increase of 6.5% from RMB1,617 million in the corresponding period of Previous Year.

In the international market, impacted by factors such as the global outbreak of COVID-19 and low oil prices, the overseas sales of Honghua's complete set drilling rigs declined. Nevertheless, thanks to the good reputation and market influence of the Group in traditional advantageous locations, namely the Middle East and Russia, Honghua entered into another order for 4 sets of 7000m CNC drilling rigs and an order for 2 sets of retrofit rigs with customers in the region. In West Asia, Honghua successfully entered into an order for 2 sets of workover rigs. During the Period, Honghua succeeded in developing the nation's first "one-key linkage" automatic machine tool system, which upgraded the multi-person distributed operation of the traditional machine tool system to an automatic batch operation process, realizing single driller operation and parallel linkage of the iron driller, pipe arranging machine and drill floor manipulator on the drilling rig. The successful development of "one-key linkage" was a giant leap for Honghua's drilling rigs towards automation.

In respect of parts and components, although the overseas market was affected by factors including the pandemic and oil prices, Honghua managed to adopt a flexible sales mechanism to seize the needs of customers for parts and components updates and upgrades, and deepened the long-term partnerships. In Russia, relying on the long-term cooperative relationship with existing customers, Honghua signed a framework agreement for the procurement of oilfield stimulation equipment worth USD30 million, which included several sets of top drives, direct drive pumps, retrofit rigs and other products independently developed by Honghua. In Europe, subsequent to the completion of the previous drilling rig and renovation project, Honghua signed a new rig upgrading and after-sales service framework contract with the customer. During the Period, the sales of Honghua's core components achieved relatively rapid growth. The independent sales of mud pumps increased by 83% as compared to the corresponding period of Previous Year, mainly attributable to the achievement of mass sales of mud pumps due to the shortlisting of Sinopec's annual drilling mud pump framework agreement this year.

In 2020, leveraging its background advantages as a state-owned enterprise and utilizing its existing manufacturing capacity, Honghua successively entered into offshore wind power construction agreements with state-owned enterprises including Huadian Heavy Industry, Guangzhou Salvage Bureau and Guangdong Thermal Power, and entered into orders totaling more than RMB1 billion throughout the year. Honghua took this opportunity to actively deploy the new energy industry.

As at 31 December 2020, Honghua's total contract backlog of drilling rigs and related products amounted to approximately RMB1,362 million, including onshore drilling rigs of approximately RMB107 million.

2. Fracturing

In 2020, Honghua had a total of 17 pumping teams to provide 4,357 stages for pumping service during the Period, representing an increase of 48.5% in the corresponding period of Previous Year. The total realized sales of equipment and engineering services provided during the Period amounted to approximately RMB1,339 million, representing an increase of 24.6 % from RMB1,075 million in the corresponding period of Previous Year.

In respect of fracturing equipment for unconventional oil and gas development, Honghua realized the sales of 4 sets of electric fracturing pumps in 2020. With the in-depth development of fracturing business, Honghua continued to expand its product lines of complete fracturing equipment. During the Period, Honghua launched the China's first set of electric coiled tubing, which completed industrial testing in early 2021. Compared with traditional diesel-driven coiled tubing, electric coiled tubing innovated and improved in three aspects, i.e. performance and efficiency, automation, and synchronization control. The electric automatic sand transportation and storage device was successfully rolled off the production line and realized the first well site operation. Adhering to the concept of the overall development of electric fracturing and taking 6000HP electric fracturing pump as core equipment, Honghua launched numerous complete sets of electric fracturing equipment in turn, including electric fluid supply skid, command control center, flexible tank, high pressure manifold, electric coiled tubing, and automatic sand transportation and storage device.

In 2020, under the impact of the global outbreak of the COVID-19 pandemic, the overall demand in the oil and gas market declined. During the oil price downturn, the industry actively explored cost-reducing and efficiency-enhancing development models. Compared with traditional diesel-driven fracturing equipment, Honghua's electric fracturing development model better met the requirements of eco-friendly and high-efficiency development, receiving recognition from the market. Honghua's pumping service achieved explosive growth, with stages of pumping service offered throughout the year amounting to 4,357, an increase of 48.5% over the Previous Year. Through years of accumulation, Honghua's electric pumping crews supported PetroChina and Sinopec to achieve sizeable all-electric fracturing in multiple blocks in Sichuan and Chongqing. And Honghua assisted clients in breaking multiple records throughout the year. At Fuling block, an average daily fracturing construction record of 5.6 stages and a daily fracturing construction record of 8 stages were achieved, which marked the legendary "Fuling speed". At Sichuan shale gas block, Honghua also achieved a breakthrough of 24-hour all-electric zipper-like operation, which reduced costs and increased efficiency, contributing to the shale gas development.

Following Honghua's first shale gas fracturing engineering service contract in 2019, after expanding the scope of operations from single pumping service to comprehensive electric fracturing services, Honghua obtained a complete set of electric fracturing equipment leasing and service contract in Changning that worth RMB325 million from CNPC Western Drilling, a subsidiary of PetroChina, as well as all-electric fracturing engineering service contracts for three shale gas platforms in a block in Chongqing that worth RMB288 million. The project was a key project in the pilot test area for shale gas, with the drilling depth exceeding 6,000 meters, the horizontal drilling exceeding 1,500 meters, and the pressure exceeding 100MPa. Honghua's fracturing crews created a record of 366.7 tons of sand addition during operation, setting a new sand addition record following PetroChina's sand addition record during deep shale gas single-stage reservoir reconstruction.

As at 31 December 2020, Honghua's total contract backlog of fracturing business amounted to approximately RMB236 million.

3. Drilling Engineering Service Business

In 2020, Honghua's 11 drilling crews completed a footage of approximately 87,635 meters during the year, representing a decrease of 6.8% for the same period of Previous Year, providing engineering services with a total sales amount of approximately RMB248 million, representing a decrease of 46.6% from RMB464 million in the same period of Previous Year.

In 2020, despite the global impact of the COVID-19 pandemic, the domestic market benefited from the national energy security strategy, which still placed increasing reserves and production on the agenda. Honghua signed domestic drilling service contracts totaling RMB240 million. A service contract for directional wells that worth RMB50 million was newly signed. In the Changning block, Honghua's oil service crews created a record of the longest horizontal drilling of a shale gas well in China, with a completion depth of 4,850 meters and a horizontal drilling of 3,100 meters. In respect of technological breakthroughs, the oil service crews utilized advanced downhole tools in operations to improve the efficiency of drilling rigs. For directional drilling projects, Honghua put near-bit azimuth gamma into use for the first time, which improved the accuracy of drilling data and reduced the failure rate. At the same time, the torsion-pendulum top drive system was adopted in directional constructions, and periodical rotation of drill tools was achieved through multi-parameter intelligent algorithm, which reduced the friction resistance and solved the problem of inability to drill due to sliding directional decompression. And the utilization of the hydraulic oscillator independently developed by Honghua reduced the friction and increased the mechanic drilling speed. In respect of operation efficiency, the production efficiency for the Year was 85.6%, up by 4.8 percentage point over the same period of Previous Year, and the organizational downtime was 1.8%, down by 0.75 percentage point year-on-year. For the directional service of horizontal wells in Yibin area, the average daily footage increased by 16% year-on-year.

In 2020, regardless of the impacts of the global outbreak of COVID-19 pandemic on the overseas market, Honghua renewed drilling service framework contracts with international oilfield service companies based on its high-quality overseas operation capability, with an estimated value reaching USD9 million. In the Middle East, the operation crews also created a footage record of 16.2 m/h, and set the record of drilling speed in this block twice. Meanwhile, the actual operation cycle of the crews under the well ZB-469 was 20.8 days, breaking the record of drilling completion cycle of the block that lasted for around four years.

As at 31 December 2020, Honghua's total contract backlog of drilling engineering service business amounted to approximately RMB121 million.

ENVIRONMENTAL POLICIES AND PERFORMANCE

For the year ended 31 December 2020, 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/Service Quality, (ii) Customer Service, (iii) Data Protection, (iv) Intellectual Property, and (v) Supplier Management. 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 ensure the effective operation of its quality control system and made steady improvement in product quality. We successfully passed the annual assessment of the quality system, and obtained new ISO 9001: 2015 certification for compression equipment, skid-mounted equipment and pressure equipment, further adding new members to the products with CE certification, CCC certification and ATEX certification. We also added 81 CNAS inspection standards and 66 CMA inspection standards, and obtained QESHSE certificate for four systems of quality control. After tackling the key problems in proprietary technologies, we made significant progress in the quality issues of our key products such that the number of quality issues and losses reduced by more than 10% compared with Previous Year, and product quality has been further improved. Honghua actively participated in the revision of industry standards to reinforce our discourse power in the industry. In 2020, a total of 5 national and industry standards were issued. We participated in the formulation and revision of 4 national and industry standards, took lead in the formulation of a group standard, and actively applied for the approval of a national standard. In 2020, Honghua made overall plans on and coordinate relevant resources to push forward the progress of R&D projects affected by the COVID-19 pandemic and stayed focused on solving the problems of getting stuck during project R&D, so as to promote the implementation of projects with high quality. With respect to smart rigs, we established a digital drilling control simulation laboratory for the integrated smart drilling system UNISON, with a plan to gradually promote our official products.

In respect of unconventional oil and gas development equipment, Honghua successfully introduced the electric coiled tubing and completed its industrial testing during the Period, which became an important component of complete set of electric fracturing equipment. We also launched the automatic sand transportation and storage system and completed its industrial testing. We completed the development of the centralized control system of fracturing auxiliary equipment for the intelligence electric fracturing system, which achieved the automation of the whole process of major fracturing equipment and auxiliary equipment.

In terms of offshore development, the offshore natural gas hydrate project has been rated as a special research project for natural gas hydrate development technology of the Ministry of Science and Technology. Honghua undertook the research of technology development of hydrates in shallow surface layers as well as development of equipment system, and completed the design of the prototype for development of equipment system. The hydrate trial dredger project has completed the task of high-tech shipping technology research project of the Ministry of Industry and Information Technology by tackling the key technical problems. The deep-sea mining project maintained close communication with CSSC on technical issues, and commenced the development of China's first deep-sea ore slurry lift system. The automation and localization of offshore drilling equipment were carried out in an orderly manner. We won the bid for the automation equipment system of a drilling platform in Bohai Bay, which has been installed on the platform and commenced drilling operations, achieving a breakthrough in the localization alternative of offshore automation drilling equipment.

As at 31 December 2020, Honghua has a total of 518 effective patents, including a total of 173 effective invention patents. During the Period, Honghua applied for 189 new patents, including 105 invention patents. 82 patents were granted, including 3 invention patents.

HUMAN RESOURCES MANAGEMENT

During the Year, Honghua continued to implement the strategy of a thriving enterprise backed by stronger talents, and further optimized the personnel structure. The proportion of professional and technical personnel increased by 2.5 percentage points compared with the same period of Previous Year. Honghua improved the incentive policies for Honghua's staff, and strengthened the linkage between the income level of the management and business performance. Honghua promoted stability in our core talent team through policies and mechanisms such as extra incentives, technological incentives, and sales incentives, and continued to strengthen the reserve and training of strategic and innovative young talents. As at 31 December 2020, the total number of employees of Honghua was 3,570, decreased by 225 as compared to the corresponding period of Previous Year, with 523 being R&D staff. The total headcount decreased by 5.9% compared with the same period of Previous Year, mainly due to the reduction and optimization of non-key business and non-key positions. The number of R&D staff increased by 10.1% over the same period of Previous Year, mainly due to the replenishment and reserve of scientific and technological talents centering on the strategic business layout.

During the Year, Honghua implemented a total of 849 training projects, to a total of 47,540 trainees – which was 41 hours per trainee. Making a point of improving the professional and technical competence as well as comprehensive quality of its employees, Honghua focused on planning and implementing technical marketing elite exchanges, capacity improvement of sales staff, supply chain and other special trainings, so as to further enhance the training of key and core talents. In 2021, in view of its strategic layout and business priorities, Honghua will continue to optimize the structure of its talents pool, and will also step up its effort to retain industry leaders and young scientific and technological talents in the fields of electrical, automation, intelligence, cloud computing, big data and fracturing industry. Honghua will accelerate the digital transformation of training and promote the construction and the use of online education platforms, in order to enhance the effectiveness of training and improve management efficiency. The performance evaluation mechanism will be optimized in an all-round way by establishing a sound evaluation and allocation mechanism based on value creation. With a sound talent introduction, training and incentive system, Honghua Group's scientific and technological innovation capabilities and core competitiveness will be enhanced.

OUTLOOK

At the beginning of 2021, the COVID-19 pandemic remains not yet fully under control, and there are still many uncertainties in the oil and gas market. The COVID-19 pandemic has further accelerated the process of energy transition worldwide. In the long run, low-carbon and clean energy will be the direction of future development, which will pose challenges to the traditional petrochemical industry. Nevertheless, we still see many positive factors are emerging in the short term. With the expected large-scale vaccination programs, and the oil prices in stable recovery as a result of the ongoing joint production cuts by the Organization of the Petroleum Exporting Countries, the "darkest moment" of the oil and gas industry had passed. In the domestic market, by virtue of the national energy security strategy, the reform of the energy system will bring more market opportunities. As a leading supplier of oil and gas equipment and services, Honghua will safeguard the national economic security and development interests, adapt to the transition of China from a major energy consumer to a powerhouse of energy technology and equipment, and provide the industry with green, environmentally friendly, efficient and safe energy equipment and service solutions.

In terms of markets, first of all, against the backdrop of the pursuit of high efficiency and environmental protection in the market, Honghua's comprehensive electric fracturing solutions conforms to the market trend of green development and meets the needs of customers for cost reduction and efficiency enhancement. Honghua will further consolidate its core competitive advantages in fracturing equipment and services, accelerate the market-oriented development of complete fracturing equipment, and realize large-scale and piecemeal development of unconventional oil and gas by driving its services with equipment. Secondly, in light of the bottoming out in the overseas market, Honghua will seize the strong demand arising from the recovery of the overseas market, adapt to the transformation and upgrade needs of customers, meet customer demand for customized products, further strengthen its principal business of drilling rigs, and promote the execution of major domestic and overseas orders. At the same time, leveraging the advantages of leading rig products, we will allocate more resources for high value-added businesses, enhance the R&D efforts in the upgrade of drilling rigs automation, and further complete the upgrade of smart drilling rigs. Lastly, adhering to the development concepts of platform construction, ecology cultivation and resource coordination, Honghua will strengthen the coordination of industry and resources in cooperation with its major shareholder CASIC. The offshore wind power industry has empowered Honghua with successful experience and confidence in entering new industries. Honghua will further create new growth points for the offshore wind power business and expand the offshore equipment business.

In terms of management, focusing on the two core indicators consisting of net profit and cash flows, Honghua will strengthen cost control, strictly monitor the level of total liabilities, optimize supply chain management, and improve the ability to deliver on time and of high quality, so as to achieve higher quality and efficiency in operation management. An overall plan will be made to promote the integration and intensification of legal compliance and risk control. During the recovery of the oil and gas industry, Honghua has to strengthen the construction of the risk control and compliance system and focus on preventing and resolving major risks. Centering on product data model integration, digital equipment network connection, digital technology improvement and other key indicators, we will continue to promote digital transformation, and initiate digital transformation and upgrading with "smart manufacturing" as the core. In 2021, Honghua will strengthen its corporate governance and make good use of its institutional advantages as an enterprise under mixed ownership, striving to become a world-class and domestically leading supplier of integrated solutions for energy development.

FINANCIAL REVIEW

During the Year, the Group's gross profit and profit attributable to shareholders of the Company amounted to approximately RMB1,180 million and RMB50 million respectively, and gross margin and net margin amounted to approximately 30.0% and 1.3% respectively. While gross profit and profit attributable to shareholders of the Company in the Previous Year amounted to approximately RMB1,316 million and RMB107 million respectively, gross margin and net margin amounted to approximately 29.7% and 2.4% respectively. During the Year, due to the COVID-19 and the significant fluctuation in the international oil price, the global oil and gas service market demand declined. At the same time, based on the principle of prudence, the impact of non-recurring gains and losses such as financial asset impairment losses and other losses is fully considered, which makes the Group's net profit margin decrease.

Turnover

During the Year, the Group's revenue amounted to approximately RMB3,931 million, representing a decrease of RMB495 million or 11.2% from RMB4,426 million for Previous Year. The decrease in revenue mainly came from the international market. Affected by the COVID-19 pandemic and oil price fluctuation, overseas drilling rig orders decreased and some projects were delayed, resulting in a decrease compared with Previous Year in terms of sales revenue of the Group.

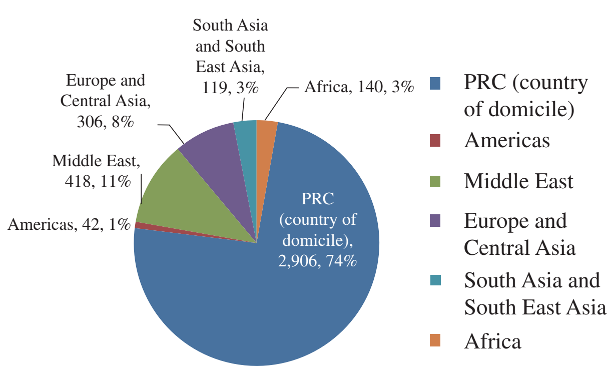
(1) Revenue by geographical locations

The Group's revenue by geographical segment during the Year: (1) revenue generated from the PRC amounted to approximately RMB2,906 million, accounting for approximately 73.9% of the total revenue, representing an increase of RMB663 million as compared to Previous Year; (2) The Group's export revenue amounted to approximately RMB1,025 million, accounting for approximately 26.1% of the total revenue, representing a decrease of RMB1,156 million as compared to Previous Year.

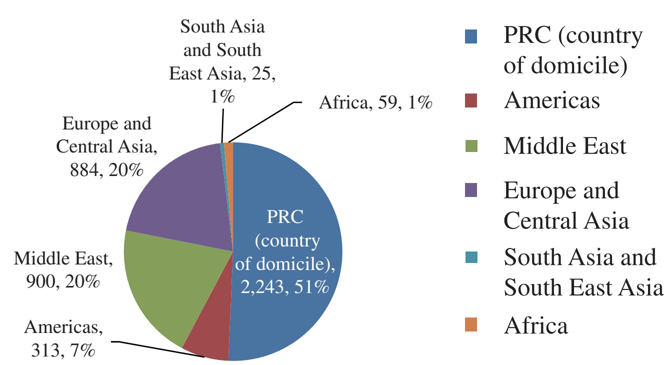
The regional distribution of the Group's sales revenue is affected by changes in oil and gas production activities in various regions of the world. In the face of market shocks in the oil industry, the Group continues to adhere to technological innovation, improve the quality of products and services, strictly control operating costs, and focus on developing international business; at the same time, the domestic shale gas market has developed rapidly, and the Group entered into offshore wind power construction agreements and took the opportunity to actively deploy the new energy industry, promoting the continuous growth of the domestic market.

Revenue by geographical locations

Ended 31 December 2020
(Expressed in RMB'million)



Ended 31 December 2019
(Expressed in RMB'million)



(2) Revenue by operating segments

The Group's business is divided into land drilling rigs, parts and components and others, drilling engineering service business and fracturing business.

During the Year, external revenue from land drilling rigs amounted to approximately RMB622 million, representing a decrease of RMB647 million or 51.0% from approximately RMB1,269 million for Previous Year.

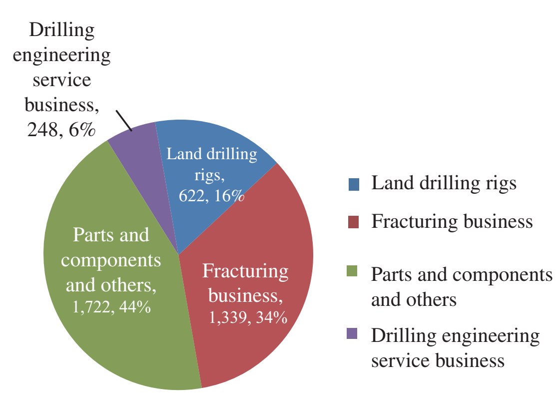
During the Year, external revenue from parts and components and others amounted to approximately RMB1,722 million, representing an increase of RMB105 million or 6.5% from approximately RMB1,617 million for Previous Year.

During the Year, external revenue from drilling engineering service business amounted to approximately RMB248 million, representing a decrease of RMB216 million or 46.6% from approximately RMB464 million for Previous Year.

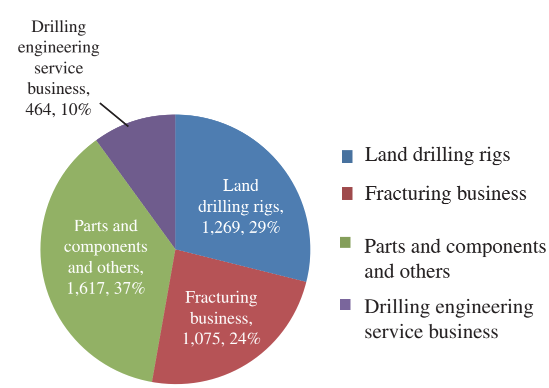
During the Year, external revenue from fracturing business amounted to approximately RMB1,339 million, representing an increase of RMB264 million or 24.6% from approximately RMB1,075 million for Previous Year.

Revenue by operating segments

Ended 31 December 2020
(Expressed in RMB'million)



Ended 31 December 2019
(Expressed in RMB'million)



Cost of Sales

During the Year, the Group's cost of sales amounted to approximately RMB2,751 million, representing a decrease of RMB359 million or approximately 11.5%,while it was approximately RMB3,110 million in the Previous Year. Mainly affected by the reduction of sales scale, the sales cost of each sector has also decreased. Meanwhile, the Group has continued to promote cost-cutting and efficiency-improving work, strictly controlled the cost and expenses, optimized the cost structure, and continuously improved the operating level.

Gross Profit and Gross Margin

During the Year, the Group's gross profit amounted to approximately RMB1,180 million, representing a decrease of RMB136 million or 10.3% from RMB1,316 million for Previous Year.

During the Year, the Group's overall gross margin was 30.0%, representing an increase of 0.3 percentage points from 29.7% for Previous Year. The main reason is that the Group actively promoted new products with high added value. In addition, under the influence of positive measures such as cost reduction, cost control and cost structure optimization, the gross profit has increased.

Expenses in the Year

During the Year, the Group's distribution expenses amounted to approximately RMB178 million, representing a decrease of RMB179 million or 50.1% from RMB357 million for Previous Year. It is mainly due to the decrease of sales revenue that leads to the decrease of project related expenses.

During the Year, the Group's administrative expenses amounted to approximately RMB548 million, representing an increase of RMB45 million or 8.9% from RMB503 million for Previous Year. It is mainly due to the increase of R & D investment, while improving competitiveness for sustainable development.

During the Year, the Group's net finance expenses amounted to approximately RMB126 million, representing a decrease of RMB83 million or 39.7% from RMB209 million for Previous Year. The main reason is that being affected by the fluctuation of RMB exchange rate, the exchange income in the debt securities increased in the year.

Profit before Income Tax

During the Year, the Group's profit before income tax amounted to approximately RMB86 million, representing a decrease of RMB80 million or 48.2% from RMB166 million for Previous Year.

Income Tax Expense

During the Year, the Group's income tax expense amounted to approximately RMB26 million, compared with the income tax expense of approximately RMB34 million for Previous Year.

Profit for the year

During the Year, the profit for the Year amounted to approximately RMB60 million compared with approximately RMB132 million for Previous Year. Specifically, profit attributable to equity shareholders of the Company was approximately RMB50 million, while profit attributable to non-controlling interests was approximately RMB10 million. During the Year, net margin amounted to 1.3%, compared with a net margin of 2.4% for Previous Year.

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

EBITDA for the Year amounted to RMB408 million compared with approximately RMB558 million for Previous Year. The main reason is that affected by the COVID-19 pandemic and oil price fluctuation, the income decreased. The EBITDA margin amounted to 10.4%, compared with 12.6% for Previous Year.

Dividends

As at 31 December 2020, the Board did not recommend distribution of annual dividends.

Source of Capital and Borrowings

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

As at 31 December 2020, the Group's bank borrowings and senior notes amounted to approximately RMB4,485 million, representing an increase of RMB476 million as compared to 31 December 2019. Among which, borrowings repayable within one year amounted to approximately RMB2,255 million, representing an increase of RMB337 million or 17.6%, as compared to 31 December 2019.

Deposits and Cash Flow

As at 31 December 2020, the Group's cash and cash equivalents amounted approximately RMB952 million, representing an increase of approximately RMB62 million as compared to 31 December 2019.

During the Year, the Group's net cash outflow from operating activities amounted to approximately RMB166 million; net cash outflow from investing assets amounted to approximately RMB79 million; and net cash inflow from financing activities amounted to approximately RMB326 million.

Assets Structure and Changes

As at 31 December 2020, the Group's total assets amounted to approximately RMB12,012 million. Specifically, current assets amounted to approximately RMB7,771 million, accounting for 64.7% of total assets, representing an increase of RMB1,315 million as compared to 31 December 2019, which is due to the increase in contract assets, account receivable and other receivable; and non-current assets amounted to approximately RMB4,241 million, accounting for 35.3% of total assets, representing a decrease of approximately RMB1,057 million as compared to 31 December 2019, which is due to a decrease in long-term receivables.

Liabilities

As at 31 December 2020, the Group's total liabilities amounted to approximately RMB7,518 million. Specifically, current liabilities amounted to approximately RMB5,170 million, accounting for approximately 68.8% of total liabilities, representing an increase of approximately RMB137 million as compared to 31 December 2019; and non-current liabilities amounted to approximately RMB2,348 million, accounting for approximately 31.2% of total liabilities, representing an increase of approximately RMB107 million as compared to 31 December 2019. As at 31 December 2020, the Group's total liabilities/total assets ratio was 62.6%, representing an increase of 0.7 percentage points as compared to 31 December 2019.

Equity

As at 31 December 2020, total equity amounted to approximately RMB4,495 million, representing an increase of 15 million as compared to 31 December 2019. Total equity attributable to equity shareholders of the Company amounted to approximately RMB4,270 million, representing an increase of 4 million as compared to 31 December 2019. Non-controlling interests amounted to approximately RMB225 million, representing an increase of RMB11 million as compared to 31 December 2019. During the Year, the Group's basic earnings per share was RMB0.94 cent, and diluted earnings per share was RMB0.94 cent.

Capital Expenditure, Major Investment and Capital Commitments

During the Year, capital expenditure of the Group on infrastructure and technical improvements amounted to approximately RMB183 million, representing a decrease of approximately RMB91 million as compared to Previous Year.

As at 31 December 2020, capital commitment of the Group amounted to approximately RMB3 million.

PURCHASE, SALE OR BUY-BACK OF THE 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 Friday, 21 May 2021 to Wednesday, 26 May 2021, 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 Thursday, 20 May 2021.

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 2020 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 CG CODE

Except for the deviation as mentioned below, the Company has complied with the code provisions as set out in the CG Code throughout the year ended 31 December 2020.

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.

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 2020.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT FOR 2020

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 2020 will be dispatched to shareholders of the Company and published on the aforesaid websites in due course.

DEFINITION

"Annual General Meeting"	the annual general meeting of the Company which will be held on Wednesday, 26 May 2021
"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/Period”	for the year ended 31 December 2020
“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
“Previous Year”	for the year ended 31 December 2019
“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, 29 March 2021

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.