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 2021

FINANCIAL HIGHLIGHT

	For the year ended 31 December		
	2021	2020	Changes
Turnover *(RMB'000)*	**2,936,604**	3,931,492	(25.3)%
Gross profit *(RMB'000)*	**363,004**	1,180,365	(69.2)%
Gross profit margin (%)	**12.4%**	30.0%	(17.6) percentage points
Operating (loss)/profit *(RMB'000)*	**(610,213)**	227,416	(368.3)%
(Loss)/profit attributable to equity shareholders of the Company *(RMB'000)*	**(717,191)**	49,660	(1,544.2)%
(Loss)/earnings per share			
– Basic *(RMB cents)*	**(13.54)**	0.94	(1,540.4)%
– Diluted *(RMB cents)*	**(13.54)**	0.94	(1,540.4)%

The Board does not recommend payment of dividend for the year ended 31 December 2021.

ANNUAL RESULTS

The Board of the Company hereby announces the consolidated results of the Group for the year ended 31 December 2021 (the "Relevant Year"), together with the comparative figures for the year ended 31 December 2020.

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 2021 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 2021

(All amounts in RMB unless otherwise stated)

	Notes	**Year ended 31 December** **2021** ***RMB'000***	2020 *RMB'000*
Revenue	*3*	**2,936,604**	3,931,492
Cost of sales	*6*	**(2,573,600)**	(2,751,127)
Gross profit		**363,004**	1,180,365
Distribution costs	*6*	**(161,975)**	(177,878)
Administrative expenses	*6*	**(480,621)**	(547,597)
Net impairment losses on financial assets and contract assets		**(363,100)**	(267,752)
Other income	*4*	**89,308**	87,612
Other losses, net	*5*	**(56,829)**	(47,334)
Operating (loss)/profit		**(610,213)**	227,416
Finance income	*7*	**95,679**	96,154
Finance expenses	*7*	**(228,350)**	(222,513)
Finance expenses – net		**(132,671)**	(126,359)
Share of net losses of associates and joint ventures accounted for using the equity method		**(2,460)**	(14,967)
(Loss)/profit before income tax		**(745,344)**	86,090
Income tax credit/(expense)	*8*	**11,343**	(25,950)
(Loss)/profit for the year		**(734,001)**	60,140
(Loss)/profit attributable to:			
– Owners of the Company		**(717,191)**	49,660
– Non-controlling interests		**(16,810)**	10,480
		(734,001)	60,140
(Loss)/profit per share attributable to owners of the Company (expressed in RMB cents per share)			
Basic and diluted	*9*	**(13.54)**	0.94

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2021

(All amounts in RMB unless otherwise stated)

	Year ended 31 December	
	2021	2020
	RMB'000	*RMB'000*
(Loss) /profit for the year	**(734,001)**	60,140
Other comprehensive income		
Items that may be reclassified to profit or loss		
Currency translation differences	**(24,314)**	(43,364)
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	**11,638**	(1,052)
Income tax relating to these items	**(2,549)**	151
Other comprehensive income for the year, net of tax	**(15,225)**	(44,265)
Total comprehensive income for the year	**(749,226)**	15,875
Total comprehensive income attributable to:		
– Owners of the Company	**(732,725)**	4,170
– Non-controlling interests	**(16,501)**	11,705
	(749,226)	15,875

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2021
(All amounts in RMB unless otherwise stated)

	Notes	As at 31 December 2021 RMB'000	2020 RMB'000
ASSETS			
Non-current assets			
Right of use assets		**323,561**	185,008
Property, plant and equipment		**2,921,864**	1,736,605
Intangible assets		**246,530**	230,823
Debt investments		**23,295**	53,950
Investments accounted for using the equity method		**34,037**	28,785
Deferred income tax assets		**256,730**	287,900
Financial assets at fair value through other comprehensive income		**92,664**	89,204
Term deposit		**90,000**	40,000
Trade and other receivables	*10*	**909,237**	803,428
Loan to an associate and other related party		**–**	731,565
Other non-current assets		**100,565**	53,707
Total non-current assets		**4,998,483**	4,240,975
Current assets			
Inventories	*11*	**1,822,660**	1,346,818
Contract assets		**448,825**	687,791
Trade and other receivables	*10*	**3,501,182**	3,699,407
Debt investments		**28,799**	43,956
Loan to an associate and other related party		**12,515**	683,827
Current tax recoverable		**780**	4,985
Financial assets at fair value through other comprehensive income		**26,609**	72,071
Pledged bank deposits		**204,640**	280,163
Cash and cash equivalents		**703,417**	952,384
Total current assets		**6,749,427**	7,771,402
Total assets		**11,747,910**	12,012,377

CONSOLIDATED BALANCE SHEET (CONTINUED)
AS AT 31 DECEMBER 2021
(All amounts in RMB unless otherwise stated)

	Notes	**As at 31 December** **2021** ***RMB'000***	2020 *RMB'000*
EQUITY			
Equity attributable to owners of the Company			
Share capital		**488,023**	488,023
Other reserves		**4,206,583**	4,223,282
Accumulated losses		**(1,156,970)**	(441,939)
		3,537,636	4,269,366
Non-controlling interests		**208,760**	225,261
Total equity		**3,746,396**	4,494,627
LIABILITIES			
Non-current liabilities			
Deferred income		**21,779**	47,621
Borrowings	*13*	**–**	2,229,719
Trade and other payables	*12*	**136,795**	–
Lease liabilities		**49,697**	70,118
Total non-current liabilities		**208,271**	2,347,458
Current liabilities			
Contract liabilities		**154,348**	139,608
Deferred income		**10,028**	4,492
Trade and other payables	*12*	**2,394,391**	2,655,744
Current income tax liabilities		**41,877**	63,865
Borrowings	*13*	**5,145,838**	2,255,142
Lease liabilities		**18,783**	18,199
Provisions for other liabilities and charges		**27,978**	33,242
Total current liabilities		**7,793,243**	5,170,292
Total liabilities		**8,001,514**	7,517,750
Total equity and liabilities		**11,747,910**	12,012,377

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 2022.

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.

During the year ended 31 December 2021, the Group reported a net loss of approximately RMB734,001,000 and an operating cash outflow of approximately RMB983,431,000. As at 31 December 2021, the Group's current liabilities exceeded its current assets by RMB1,043,816,000. At the same date, the Group's borrowings presented as current liabilities amounted to RMB5,145,838,000, including a senior note of USD200,000,000 due for repayment in August 2022 (the "Senior Notes"), while its cash and cash equivalents amounted to RMB703,417,000.

During the year ended 31 December 2021, a subsidiary within the Group failed to meet the requirements of financial indicators agreed in certain loan contracts, which constituted the subsidiary's failure to comply certain agreed terms of the relevant loan contracts and triggered default and cross-default clauses in several other bank loan contracts within the Group (hereinafter collectively referred to as "the Default Matters").

The Default Matters caused the relevant banks and financial institutions to have rights to request the Group to immediately repay all principals and interests of the relevant borrowings. As at 31 December 2021, the balances of such borrowings under default and cross-default were RMB901,462,000 and RMB2,375,130,000, respectively, totalling RMB3,276,592,000. These balances included principals and interests of short-term borrowings and long-term borrowings due within one year amounting to RMB2,140,274,000, and principals of long-term borrowings due after 31 December 2022 as agreed in original loan contracts amounting to RMB1,136,318,000 (which have been reclassified as borrowings presented as current liabilities).

The conditions and events described in the above paragraphs may cast significant doubt on the Group's ability to continue as a going concern.

In view of such circumstances, the Directors have given careful consideration to the future liquidity and performance of the Group and its available sources of financing in assessing whether the Group will have sufficient financial sources to continue as a going concern for a period of not less than 12 months from 31 December 2021. The following plans and measures are formulated to mitigate the liquidity pressure and to improve the financial position of the Group:

(a) The Group has actively communicated with relevant banks and financial institutions to explain and clarify the causes of the Default Matters. The Directors are confident to convince the relevant banks and financial institutions not to exercise their rights to demand the Group's immediate repayment of the borrowings prior to their scheduled contractual repayment dates. The relevant banks and financial institutions have not required the Group to repay relevant borrowings immediately as of the date of reporting the financial statements.

(b) The Group is also actively negotiating with several existing banks and financial institutions on the renewal of certain borrowings due after 31 December 2021 as agreed in original loan contracts, and on the arrangement of new borrowings. Based on the good long-term business relationship between the Group and its major cooperative banks and financial institutions, the Group is confident that it will continue to obtain necessary credit lines from the banks and financial institutions and renew existing borrowings or obtaining new borrowings as and when necessary. Subsequent to 31 December 2021, the Group has renewed or obtained new borrowings totalling approximately RMB547,650,000, although the loan contracts for these renewed and new borrowings contain terms that cause such borrowings to be subject to immediate repayment if requested by relevant banks as a result of the Default Matters.

(c) On 26 November 2021, the shareholder of the Company, Kehua Technology Co., Limited, a wholly-owned subsidiary of China Aerospace Science and Industry Corporation Limited ("CASIC"), entered into a gratuitous transfer agreement with Dongfang Electric International Investment Co., Ltd. According to the gratuitous transfer agreement, Kehua Technology Co., Limited intends to transfer its 1,606,000,000 shares of the Company (accounting for 29.98% of the total issued shares of the Company) to Dongfang Electric International Investment Co., Ltd. for nil consideration (the "Gratuitous Transfer"). Dongfang Electric International Investment Co., Ltd. has planned to provide financial support to the Group, upon completion of the Gratuitous Transfer, for the repayments of the Senior Notes which will be due in August 2022 and to support the Group's liquidity needs. The Gratuitous Transfer is subject to, and yet to be approved by the State-Owned Assets Supervision and Administration Commission of the State Council ("SASAC") as of the date of reporting the financial statements. In anticipation of the time required for the SASAC approval of the Gratuitous Transfer, the Group has been in communication with CASIC to seek timely financial support if and when the Group needs fund to repay the Senior Notes in the transition period of the Gratuitous Transfer.

(d) The Group will take active measures to continue to promote business growth, speed up the collection of outstanding sales proceeds and other receivables, accelerate inventory turnover and control administrative costs and maintain containment of capital expenditures.

The Board of Directors of the Company have reviewed the Group's cash flow forecast prepared by management covering a period of not less than twelve months from 31 December 2021. They are of the opinion that, taking into account the plans and measures mentioned above, the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within twelve months from 31 December 2021. Accordingly, the Directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

Notwithstanding the above, material uncertainty exists as to whether the Group is able to achieve its plans and measures as described above. Whether the Group will be able to continue as a going concern would depend upon the following:

(a) the successful maintenance of a continuing and normal business relationship with the Group's existing banks and financial institutions such that no action will be taken by the relevant banks and financial institutions to exercise their contractual rights to demand immediate repayment of the relevant borrowings;

(b) the successful negotiations with the banks and financial institutions for renewal of outstanding borrowings when due for repayment or obtaining of new borrowings and facilities as and when needed;

(c) the successful and timely obtaining of adequate financial support from either Dongfang Electric International Investment Co., Ltd. or CASIC for the repayment of the Senior Notes; and

(d) the successful and timely implementation of the plans to promote business growth, speed up the collection of outstanding sales proceeds and other receivables, accelerate inventory turnover and control costs and contain capital expenditure so as to generate adequate net operating cash inflows.

Should the Group be unable to achieve the above-mentioned plans and measures and operate as a going concern, adjustments would have to be made to write down the carrying values of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in these consolidated financial statements.

2.1.1 New and amended standards adopted by the Group

The Group has applied the following amendments for the first time for their annual reporting period commencing 1 January 2021:

- Amendments to IFRS 9, ISA 39, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform Phase 2

The adoption of these 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 by the Group

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2021 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	Classification of Liabilities as Current or Non-current	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023
Amendments to IAS 8	Definition of Accounting Estimates	1 January 2023
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	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.

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 loss of joint ventures and associates, other losses, net and other income. Finance income and expenses are not allocated to segments, as this type of activity is driven by the central treasury function, which manages the cash position of the Group. Other information provided, except as noted below, to the senior executive management is measured in a manner consistent with that in the 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 2021 and 2020 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**	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Segment revenue	**89,127**	621,523	**1,799,416**	1,788,594	**236,940**	247,919	**1,018,677**	1,339,871	**3,144,160**	3,997,907
Inter-segment revenue	**(101,074)**	–	**(106,482)**	(66,415)	**–**	–	**–**	–	**(207,556)**	(66,415)
Revenue from external customers	**(11,947)**	621,523	**1,692,934**	1,722,179	**236,940**	247,919	**1,018,677**	1,339,871	**2,936,604**	3,931,492
Timing of revenue recognition										
At a point in time	**89,127**	621,523	**1,799,416**	1,788,594	**–**	–	**378,118**	610,143	**2,266,661**	3,020,260
Over time	**–**	–	**–**	–	**236,940**	247,919	**640,559**	729,728	**877,499**	977,647
Reportable segment (loss)/profit	**(86,293)**	(42,330)	**(385,730)**	179,801	**(34,253)**	5,969	**(82,529)**	109,233	**(588,805)**	252,673
Depreciation and amortisation for the year *(i)*	**7,202**	30,805	**105,106**	63,113	**46,112**	38,204	**22,433**	63,890	**180,853**	196,012
Impairment on trade and other receivables	**12,621**	104,411	**232,539**	106,955	**2,750**	11,060	**21,618**	18,480	**269,528**	240,906
Write-down of inventories	**5,510**	1,903	**33,137**	49,803	**14,184**	3,988	**–**	–	**52,831**	55,694
Impairment provision of property, plant and equipment	**–**	–	**–**	–	**14,196**	1,035	**–**	–	**14,196**	1,035

(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 2021, such information was not reviewed by the Group's chief operating decision maker. Accordingly, no segment assets and liabilities are presented.

A reconciliation of segment (loss)/profit to (loss)/profit before income tax is provided as follows:

	Year ended 31 December	
	2021	2020
	RMB'000	*RMB'000*
Segment (loss)/profit		
– for reportable segments	**(588,805)**	252,673
Elimination of inter-segment profit	**(17,409)**	(13,994)
Segment (loss)/profit derived from the Group's external customers	**(606,214)**	238,679
Share of loss of joint ventures	**(2,460)**	(14,967)
Other income and other losses, net	**32,479**	40,278
Finance income	**95,679**	96,154
Finance expenses	**(228,350)**	(222,513)
Unallocated head office and corporate expenses	**(36,478)**	(51,541)
(Loss)/profit before income tax	**(745,344)**	86,090

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

	Year ended 31 December	
	2021	2020
	RMB'000	*RMB'000*
PRC (country of domicile)	**2,176,955**	2,905,901
Americas	**43,612**	42,137
Middle East	**422,099**	417,736
Europe and Central Asia	**183,141**	305,887
South Asia and South East	**61,002**	118,790
Africa	**49,795**	141,041
	2,936,604	3,931,492

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

	As at 31 December	
	2021	2020
	RMB'000	*RMB'000*
PRC (country of domicile)	**3,117,061**	1,809,820
Americas	**280**	2,037
Middle East	**447,005**	351,146
Europe and Central Asia	**28,174**	43,140
Africa	**34,037**	28,785
	3,626,557	2,234,928

For the year ended 31 December 2021, revenue of approximately RMB326,011,000 was derived from one external customer. These revenue was attributed to the sales of facturing in the PRC.

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

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	
	2021	2020
	RMB'000	*RMB'000*
Contract assets	**460,090**	706,302
Less: loss allowance	**(11,265)**	(18,511)
Total contract assets	**448,825**	687,791
Current contract liabilities	**154,348**	139,608

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

(ii) Contract assets have decreased as the Group has fulfilled the wind power contracts. The Group also recognised a loss allowance for contract assets in accordance with IFRS 9.

Contract liabilities for sales of goods have increased by RMB14,740,000, which was due to the signing of new contracts with 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	
	2021	2020
	RMB'000	*RMB'000*
Revenue recognised that was included in the contract liabilities balance at the beginning of the year		
Sales of goods	**67,569**	121,406
Services	**–**	1,976

(c) Unsatisfied performance

As at 31 December 2021, the aggregate amount of the transaction price allocated to contracts that are partially or fully unsatisfied is RMB2,931,877,000 (as at 31 December 2020: RMB1,718,720,000).

The management expects that 74% (as at 31 December 2020: 74%) of the transaction price allocated to unsatisfied performance obligations as at 31 December 2021 will be recognised as revenue during the next reporting period RMB2,169,071,000 (as at 31 December 2020: RMB1,268,400,000). The remaining will be recognised in the 2022 financial year and afterwards.

4 OTHER INCOME

	Year ended 31 December	
	2021	2020
	RMB'000	*RMB'000*
Government grants	**56,828**	63,687
Sales of scrap materials	**25,391**	12,926
Others	**7,089**	10,999
	89,308	87,612

5 OTHER LOSSES, NET

	Year ended 31 December	
	2021	2020
	RMB'000	*RMB'000*
Insurance compensation	**2,698**	50,519
Net foreign exchange losses	**(59,545)**	(74,784)
Gains/(losses) on disposals of property, plant and equipment	**3,264**	(1,674)
Other penalty losses	**–**	(33,816)
Legal claims	**(13,256)**	(2,759)
Others	**10,010**	15,180
	(56,829)	(47,334)

6 EXPENSES BY NATURE

	Year ended 31 December	
	2021	2020
	RMB'000	*RMB'000*
Raw materials and consumables used	**1,462,495**	1,508,618
Employee benefit expenses	**490,001**	530,591
Service fee	**320,760**	323,444
Amortisation and depreciation		
– Property, plant and equipment	**149,022**	171,274
– Intangible assets	**22,252**	15,908
– Right-of-use-assets	**9,579**	8,830
Transportation	**66,877**	43,124
Changes in inventories of finished goods and work in progress	**(266,196)**	(81,464)
Provision for inventory write-down	**52,831**	55,694
Research and development costs *(i)*	**57,527**	177,329
Less: amount capitalised into intangible assets	**(20,438)**	(56,007)
Utilities	**82,656**	25,999
Operating lease charges	**568,791**	522,764
Travelling expenses	**59,498**	39,155
Provision of prepayments	**88**	(796)
Repairs and maintenance expenditure on property, plant and equipment	**14,505**	16,985
Other taxes	**20,502**	24,362
Provision for warranty	**3,074**	4,302
Commission	**11,385**	42,990
Auditors' remuneration		
– Audit services	**4,979**	4,707
– Other services	**–**	150
Impairment provision of property, plant and equipment	**14,196**	1,035
Other expenses	**91,812**	97,608
Total cost of sales, distribution costs and administrative expenses	**3,216,196**	3,476,602

(i) The amount does not include staff costs of the research and development department of approximately RMB93,377,000 (2020: RMB84,292,000) and relevant amortisation and depreciation of approximately RMB28,837,000 (2020: RMB22,689,000).

7 FINANCE EXPENSES – NET

	Year ended 31 December 2021 RMB'000	2020 RMB'000
Finance expenses		
Interest on borrowings wholly repayable within five years	**224,038**	217,019
Interest expense from lease liabilities	**4,715**	6,100
Other	**3**	–
Less: interest expense capitalised into assets under construction	**(406)**	(606)
	228,350	222,513
Finance income		
Interest income on bank deposits	**(27,208)**	(13,767)
Interest income from non-current receivables	**(14,723)**	(21,692)
Net foreign exchange gains	**(53,748)**	(60,695)
	(95,679)	(96,154)
	132,671	126,359

8 INCOME TAX (CREDIT)/EXPENSE

Taxation in the consolidated statement of profit or loss represents:

	Year ended 31 December 2021 RMB'000	2020 RMB'000
Current income tax – Hong Kong Profits Tax *(a)*		
Provision for the year	**2,736**	495
Over provision in respect of prior years	**(895)**	(241)
	1,841	254
Current income tax – PRC *(b)*		
Provision for the year	**6,808**	23,931
Over/Under provision in respect of prior years	**(2,962)**	6,086
	3,846	30,017
Current income tax – Other jurisdictions *(c)*		
Provision for the year	**12,528**	10,161
Total current income tax	**18,215**	40,432
Deferred income tax	**(29,558)**	(14,482)
Income tax (credit)/expense	**(11,343)**	25,950

(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 2021 and 2020.

(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 2021 and 2020, except for the following companies:

(i) Sichuan Honghua Petroleum Equipment Co., Ltd.("Honghua Company"), Han Zheng Testing Technology Co., Ltd. ("Han Zheng Testing"), Gansu Hongteng Oil & Gas Equipment Co., Ltd. ("Gansu Hongteng"), Honghua Offshore Oil and Gas Equipment (Jiangsu) Co., Ltd. ("Honghua (Jiangsu)") and Honghua Oil & Gas Engineering Technology Services Limited ("Sichuan Oil & Gas Services").

Corporate income tax ("CIT") of Honghua Company, Han Zheng Testing, Honghua (Jiangsu) and 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 years ended 31 December 2021 and 2020. Gansu Hongteng 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 2021.

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

On 23 April 2020, State Taxation Administration issued Notice 23 (2020) ("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 2021 to 2030.

(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 2021 and 2020. 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 (loss)/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	
	2021	2020
	RMB'000	*RMB'000*
(Loss)/profit before income tax	**(745,344)**	86,090
Tax calculated at statutory tax rates applicable to each group entities	**(104,393)**	39,304
Tax effect of non-deductible expenses	**1,268**	379
Tax effect of non-taxable income	**–**	(230)
Tax effect of changing tax rate	**532**	–
Tax losses for which no deferred income tax asset was recognised	**4,326**	10,179
Deductible temporary differences for which no deferred income tax asset was recognised	**46,120**	2,890
Additional deduction of research and development expense	**(4,599)**	(11,757)
Recognise tax losses for which no deferred income tax asset was recognised in prior years	**(6,880)**	–
Reversal of previously recognised deferred income tax assets of deductible temporary differences	**45,214**	6,702
Write off of previously recognised deferred income tax assets of tax losses	**10,926**	1,548
(Over)/under provision in respect of prior years	**(3,857)**	5,845
Use of tax losses which unrecognised in prior years	**–**	(28,910)
Income tax (credit)/expense	**(11,343)**	25,950

(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	
	2021	2020
	RMB'000	*RMB'000*
Deferred tax: Changes in the fair value of equity investments at fair value other comprehensive income	**(2,549)**	(151)

9 (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

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

	Year ended 31 December	
	2021	2020
(Loss)/profit attributable to owners of the Company *(RMB'000)*	**(717,191)**	49,660
Weighted average number of ordinary shares in issue *(thousands)*	**5,355,995**	5,355,995
Effect of the share award scheme *(thousands)*	**(61,089)**	(61,089)
Adjusted weighted average number of ordinary shares in issue *(thousands)*	**5,294,906**	5,294,906
Basic (loss)/earnings per share *(RMB cents per share)*	**(13.54)**	0.94

(b) Diluted (loss)/earnings per share

The calculation of diluted (loss)/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	
	2021	2020
(Loss)/profit attributable to owners of the Company *(RMB'000)*	**(717,191)**	49,660
Weighted average number of ordinary shares in issue *(thousands)*	**5,294,906**	5,294,906
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**	5,294,906
Diluted (loss)/earnings per share *(RMB cents per share)*	**(13.54)**	0.94

10 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2021	2020
	RMB'000	*RMB'000*
Trade receivables *(a)*	**3,008,452**	2,981,797
Bills receivable	**574,413**	549,190
Less: provision for impairment of trade receivables and bills receivable	**(466,121)**	(435,724)
	3,116,744	3,095,263
Amount due from related parties		
– Trade	**319,116**	400,473
– Non-trade	**222,457**	359,785
– Less: provision for impairment of trade receivables for amount due from related parties	**(17,947)**	(68,474)
	523,626	691,784
Finance lease receivables	**160,763**	254,830
Less: provision for impairment of finance lease receivable	**(78,123)**	(75,279)
Value-added tax recoverable	**140,689**	64,517
Prepayments	**399,466**	311,285
Less: provision for prepayments	**(32,679)**	(32,662)
Other receivables	**316,673**	319,198
Less: provision for impairment of other receivables	**(136,740)**	(126,101)
	4,410,419	4,502,835
Representing:		
Current portion *(b)*	**3,501,182**	3,699,407
Non-current portion *(c)*	**909,237**	803,428
Total	**4,410,419**	4,502,835

(a) As at 31 December 2021 and 2020, 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	
	2021	2020
	RMB'000	*RMB'000*
Within 3 months	**2,325,772**	2,283,515
3 to 12 months	**782,534**	584,314
Over 1 year	**309,607**	559,433
	3,417,913	3,427,262

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) 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.

(c) Non-current trade and other receivables as at 31 December 2021 included (1) finance lease receivables of approximately RMB48,917,000 (2020: RMB76,283,000); (2) receivables of approximately RMB737,587,000 (2020: RMB727,145,000) arising from instalment sales which are due for receipt over 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; (3) deposit receivable of approximately RMB17,785,000 which is due for receipt over one year after the end of reporting period and is discounted at the loan interest rate stipulated by the People's Bank of China for the corresponding period; (4) prepayments for land use rights of approximately RMB104,948,000.

(d) As at 31 December 2021 and 2020, the Group's maximum exposure to credit risk was the carrying value of each class of receivables mentioned above.

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

(f) 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 assets and contract assets" in profit or loss respectively.

(g) As at 31 December 2021, bills receivables of approximately RMB152,856,000 (2020: RMB222,658,000), trade receivables of RMB463,651,000 (2020: RMB71,702,000) were secured for borrowings (Note 13).

(h) As at 31 December 2021, lease liabilities of RMB67,400,000 (as at 31 December 2020: RMB85,837,000) were secured by finance lease receivables of RMB65,025,000 (as at 31 December 2020: RMB81,899,000).

(i) As at 31 December 2021 and 2020, the Group had receivables under finance lease as follows:

	As at 31 December	
	2021	2020
	RMB'000	*RMB'000*
Non-current receivables		
Finance leases – gross receivables	**53,808**	84,830
Unearned finance income	**(3,815)**	(8,547)
	49,993	76,283
Current receivables		
Finance leases – gross receivables	**118,378**	187,288
Unearned finance income	**(7,608)**	(8,741)
	110,770	178,547
Gross receivables from finance leases:		
— No later than 1 year	**118,378**	187,288
— Later than 1 year and no later than 5 years	**53,808**	84,830
	172,186	272,118
Unearned future finance income on finance leases	**(11,423)**	(17,288)
Net investment in finance leases	**160,763**	254,830

The net investment in finance leases is analysed as follows:

No later than 1 year	**110,770**	178,547
Later than 1 year and no later than 5 years	**49,993**	76,283
Total	**160,763**	254,830

(j) 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	
	2021	2020
	RMB'000	*RMB'000*
Raw materials	**460,396**	409,733
Work in progress	**840,086**	470,638
Finished goods	**372,127**	349,162
Costs to fulfil contracts	**128,600**	83,891
Revolving materials and others	**21,451**	33,394
	1,822,660	1,346,818

For the year ended 31 December 2021, the cost of inventories recognised as the Group's expense and included in 'cost of sales' amounted to approximately RMB1,196,299,000 (2020: RMB1,427,154,000).

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

	Years ended 31 December	
	2021	2020
	RMB'000	*RMB'000*
At 1 January	**148,343**	167,595
Addition	**52,831**	55,694
Write off	**(17,824)**	(72,152)
Currency translation difference	**(404)**	(2,794)
At 31 December	**182,946**	148,343

12 TRADE AND OTHER PAYABLES

	As at 31 December	
	2021	2020
	RMB'000	*RMB'000*
Trade payables	**1,354,667**	1,421,207
Amounts due to related companies		
– Trade	**57,929**	19,423
– Non-trade	**3,610**	44,376
Bills payable	**590,496**	755,316
Receipts in advance	**633**	501
Other payables	**523,851**	414,921
	2,531,186	2,655,744

At 31 December 2021 and 2020, 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	
	2021	2020
	RMB'000	*RMB'000*
Within 3 months	**746,413**	567,463
3 to 6 months	**353,430**	532,146
6 to 12 months	**344,259**	766,736
Over 1 year	**558,990**	329,601
	2,003,092	2,195,946

As at 31 December 2021 and 2020, 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 2021 and 2020, all the current trade and other payables are expected to be settled within one year or are repayable on demand.

13 BORROWINGS

		As at 31 December	
		2021	2020
		RMB'000	*RMB'000*
(a)	Bank loans		
	Secured *(i)*		
	– Current portion	**1,359,083**	611,732
	– Non-current portion	**–**	173,000
		1,359,083	784,732
	Unsecured		
	– Current portion	**2,480,264**	1,533,373
	– Non-current portion	**–**	723,862
		2,480,264	2,257,235
(b)	Unsecured loan from related party		
	– Current portion	**–**	110,037
(c)	Other loans		
	Senior notes *(ii)*		
	– Current portion	**1,306,491**	–
	– Non-current portion	**–**	1,332,857
	Current borrowings *(iii)*	**5,145,838**	2,255,142
	Non-current borrowings	**–**	2,229,719
	Total borrowings	**5,145,838**	4,484,861

(i) As at 31 December 2021, the bank loans were secured by pledged bank deposits as collateral of RMB83,592,000, letters of guarantee as collateral of RMB90,000,000, bills receivables as collateral of RMB152,856,000, trade receivables as collateral of RMB463,651,000 and 20% equity interest of Honghua Company, a subsidiary of the Group.

As at 31 December 2020, the bank loans were secured by letters of guarantee as collateral of RMB200,000,000, bills receivables of RMB222,658,000, trade receivables of RMB71,702,000 and 20% equity interest of Honghua Company, a subsidiary of the Group.

(ii) On 1 August 2019, the Company issued listed senior notes in the aggregate principal amount of USD200,000,000 ("Senior Notes"). The Senior Notes bear interest at 6.375% per annum, payable semi-annually in arrears and will be due in 2022.

The Senior Notes are guarnteed by the Group's existing subsidiaries, Honghua Holdings Limited, Newco (H.K.) Limited, Honghua Oil & Gas Engineering Services Limited, Honghua Golden Coast Equipment FZE as stated in the Company's offering memorandum on 25 July 2019.

(iii) The current borrowings included borrowings with principal amounts of RMB1,136,318,000 due after 31 December 2022 as agreed in original loan contracts which have been reclassified as current liabilities as at 31 December 2021 as a result of the matters described in Note 2.1.

The borrowings at 31 December 2021 bore annual interest ranging from 1.00%-5.70% annually (2020: 1.00%-5.70% annually).

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

	As at 31 December	
	2021	2020
	RMB'000	*RMB'000*
Within 1 year	**5,145,838**	2,255,142
Between 1 and 2 years	**–**	1,855,705
Between 2 and 5 years	**–**	374,014
	5,145,838	4,484,861

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

	As at 31 December	
	2021	2020
	RMB'000	*RMB'000*
Carrying amount		
Bank borrowings	**3,839,347**	3,041,967
Unsecured loan from related party	**–**	110,037
Senior notes	**1,306,491**	1,332,857
Fair value		
Bank borrowings	**3,808,831**	3,011,531
Unsecured loan from related party	**–**	110,059
Senior notes	**1,152,523**	1,278,880

Except the Senior Notes, the fair values of non-current borrowings are estimated based on discounted cash flow approach using the prevailing market rates of interest available to the Group for financial instruments with substantially the same terms and characteristics, which were 4.35%-4.90% as at 31 December 2021 (2020: 4.35%-4.90%). The fair value of Senior Notes is estimated based on the market price of Senior Notes traded at over-the-counter as at 31 December 2021. All the fair values of the non-current borrowings are classified as level 2 of the fair value hierarchy.

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

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

	As at 31 December	
	2021	2020
	RMB'000	*RMB'000*
RMB	**2,799,305**	2,486,268
USD	**2,346,533**	1,998,593
	5,145,838	4,484,861

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

	As at 31 December	
	2021	2020
	RMB'000	*RMB'000*
Fixed rate		
Expiring within 1 year	**3,381,860**	2,693,866

These facilities have been arranged for financing daily operations.

MANAGEMENT DISCUSSION AND ANALYSIS

In 2021, the Group's revenue amounted to RMB2,937 million, representing a decrease of 25.3% from RMB3,931 million for Previous Year. Gross profit was approximately RMB363 million, representing a decrease of 69.2% from RMB1,180 million for Previous Year. The loss attributable to equity shareholders was approximately RMB717 million.

MARKET REVIEW

After the massive lockdown measures in 2020 and early 2021, global economic activities gradually recovered by mid-year. At the end of 2021, many countries and regions tightened their epidemic prevention measures, including strengthening border epidemic prevention and control, against the Omicron strain, a variant of COVID-19, which brought pressure on the global economic recovery to a certain extent.

Despite the continuous spread of the global COVID-19 epidemic in 2021, WTI oil prices went up by more than 55% in a year, the greatest annual growth in 12 years; and Brent oil prices rose by more than 50% in a year, the largest annual increase in five years, due to multiple factors such as the increase in international crude oil demand brought about by the economic recovery in many countries, inadequate inventories, the relatively insufficient crude oil supply and a low oil price base in 2020. Crude oil prices continuously picked up in 2021, but global oil and gas capital expenditure remained tight as oil companies were still cautious about investing in upstream oil and gas exploration and development. According to the statistics of the IEA World Energy Investment report, in 2021, the capital expenditure for major upstream oil and gas projects worldwide only increased slightly by 8% year-on-year to USD350 billion, down 27% from 2019 and far below the average level of the past decade.

Domestically, in order to implement the Seven-Year E&P Action Plan to secure national energy security and boost reserves and output, each of the so-called China's "Three Barrels of Oil" increased its investment in upstream exploration, and continued with steady onshore oil and gas production with growing output. In 2021, the crude oil production of China was 198.976 million tons, representing a year-on-year increase of 2.4%, and the natural gas production was 205.26 billion cubic meters, representing a year-on-year increase of 8.2%. Shale gas was the driving force behind the unconventional gas reserves and output increase during the "14th Five-Year Plan" period. In 2021, the domestic shale gas production reached 23 billion cubic meters, representing a year-on-year increase of 15%.

In the wind power market, a "rush of installation" boom had been ignited in the PRC's offshore wind power industry since 2020 due to the phasing out of government subsidies for offshore wind power in 2022. In 2021, the PRC's newly commissioned offshore wind power reached 16.9 million kilowatts, representing a year-on-year increase of approximately 340%, and the total installed capacity reached 26.38 million kilowatts, ranking first in the world.

BUSINESS REVIEW

In the face of the extremely challenging industry environment such as repeated global epidemics, cautious capital expenditure worldwide and the policy vacuum period after the "rush of installation" in the offshore wind power market, the Group adjusted its market layout and sales strategy in a timely manner to strengthen its overseas market expansion, with overseas sales growing against the overall downward trend. Domestically, it intensified the execution of projects and resumed work and production efficiently, ensuring the stability of the supply chain and the timely delivery of orders. The Group firmly promoted its transformation in "from equipment manufacturer to comprehensive solution provider", "from equipment sales to service-driven equipment sales", and from "equipment supply" to the dual-mode service of "equipment + software" containing both software and hardware services, and made significant progress in digital transformation, new product development and new business expansion.

1. Drilling Equipment and Related Product Business Segment

In 2021, Honghua recorded the total number of 4 drilling rigs sold with an aggregate amount of approximately RMB60 million, representing a decrease of 90.35% from RMB622 million in the corresponding period of Previous Year. Sales return from Previous Year amounted to approximately RMB72 million. Total sales of parts and components amounted to RMB1,693 million, representing a decrease of 1.7% from RMB1,722 million in the corresponding period of Previous Year.

During the Period, the international business of drilling equipment was greatly impacted, especially the business of complete drilling rigs which declined drastically, due to the persistent epidemic and the cautious capital expenditure of customers. The total amount of new overseas drilling equipment orders signed throughout the year was RMB1.626 billion, representing an increase of 122% over 2020. In particular, orders amounted to RMB1.1 billion, which accounted for nearly two-third of the total, were signed solely in the fourth quarter. As the newly signed drilling equipment orders were concentrated in the fourth quarter, they were not able to form a strong support for the revenue for the year.

For new products, novel products such as "one-key linkage" automated machines, second-generation five-cylinder pumps and coiled tubing machines achieved major market breakthroughs. The Group's push-and-support "one-key linkage" system accumulated nearly one million meters of tripping in aggregate, and more than five sets were promoted in China; the lift-type "one-key linkage" system, with the tripping speed reaching 27 columns per hour and three sets sold through foreign sales, laid a solid foundation for the subsequent overseas market promotion of new products; the advanced technology of the second-generation five-cylinder pump filled the gap in the industry and achieved sales of 30 sets; the PRC's first electric-driven coiled tubing machine developed by the Group achieved commercial sales immediately upon completion of the industrial test.

Under the philosophy of onshore manufacturing of offshore equipment and with the support of Honghua's onshore manufacturing base, the Group set records in offshore wind power equipment manufacturing. For instance, Qingzhou III Offshore Wind Power Project, in which Honghua participated, had been the tallest deep-water offshore wind power jacket in Asia and the deep-water offshore wind power project with the farthest offshore, the deepest water depth, the largest single-machine capacity and the largest total installed capacity in China. For the first time in China, Honghua adopted the method of vertical joining of an onshore gantry crane to build a suction jacket, which helped effectively reduce the project duration and safety risks. The Group recorded an annual revenue of RMB600 million.

In the digitalization field, the Group made every effort to expand the automated drilling rig interaction system, and deepen cooperation with Schlumberger in the field of drilling digitalization, with the Drillops system being successfully deployed in the Middle East and breaking through the Russian market for the first time. Meanwhile, the digital product OPERA was recognized and successfully bid by Total. During the Period, the scope expansion of "double soft certification" of software enterprises and software products, plus ISO9001, the three-certificate "system integration", was completed. The African project signed with Sinopec during the Year imposed high requirements on environmental protection, animal friendliness and noise, with a total contract value of RMB230 million. The drilling rig was not only equipped with the one-button linkage automatic machine tool, direct-drive pump and pump quick release tool independently developed by the Group, but also adopted the Group's automated drilling solutions, including the integrated drilling intelligence system, regional management system and drilling rig automation control platform, which could improve the automation control level of drilling rigs and enhance the safety protection between equipment.

As at 28 February 2022, Honghua's total contract backlog of drilling rigs and related products amounted to approximately RMB1,675 million, including onshore drilling rigs of approximately RMB772 million.

2. Fracturing Equipment and Service Business

During the Period, Honghua Electric further consolidated the market competitiveness of Honghua's fracturing equipment and services through digital upgrade of electric fracturing, high-efficiency pumping construction operations, in combination with gas-fired power generation solutions and special power grid electricity framework services. The equipment and engineering services provided during the Period achieved a total sales amount of approximately RMB1,019 million, an decrease of 24% over the corresponding period of Previous Year.

The Group had a total of 16 pumping teams which completed more than 5,400 fracturing operations during the Year, representing an increase of 24% over the corresponding period of Previous Year, including more than 4,700 shale gas operations and 700 shale oil operations. In terms of operation efficiency, a platform of Sinopec in Nanchuan area of Chongqing, in which the Group participated, set a national fracturing operation speed record of 12 fracturing stages per day per well per machine; a well with a total length of 3,583 meters in which the Group participated successfully completed 50 stages of staged fracturing operations, hitting a new record for the longest horizontal shale gas well construction in which the Group participated. In 2021, the full-process electric fracturing automation successfully realized industrialized application in Sinopec's southeastern Sichuan block, with smart fracturing achieving a staged breakthrough; the domestic shale oil market achieved a breakthrough by obtaining the Hua H100 project, the largest onshore horizontal shale oil well in Asia.

In respect of fracturing equipment for unconventional oil and gas development, Honghua carried out a comprehensive digital upgrade of the first-generation electric fracturing pump and its supporting equipment manufactured in the early stage to realize sales, with a sales amount of approximately RMB322 million. In specialty power, Honghua entered into grid power frameworks and service contracts for multiple projects with subsidiaries of Sinopec and PetroChina, and completed the qualifications for electricity sales in five regions; and it promoted the successful application of the all-gas power supply mode with Sinopec's first electric fracturing platform in southwest China.

As at 28 February 2022, Honghua's total contract backlog of fracturing equipment and service business amounted to approximately RMB290 million.

3. Oil and gas engineering service business

The total sales amount of oil and gas engineering services provided by the Group amounted to approximately RMB237 million, representing a decrease of 4.4% from RMB248 million in the corresponding period of Previous Year.

During the Period, the overseas market grew well, and the sales amount of international oil and gas engineering services was approximately RMB209 million, representing a year-on-year increase of 59.5%. The newly signed overseas oil and gas engineering services orders amounted to approximately USD120 million, hitting a new high in recent years. The Iraqi HH029 team, which was established less than two and a half years ago, was the only well team that did not suspend operations during the epidemic. Handing over a total of 20 wells with a cumulative footage of 67,177 meters, the team constantly refreshed the moving records as well as the drilling and completion records, without any lost-time incident for 920 consecutive days. With its excellent operational capabilities, Honghua signed long-term service agreements with various internationally renowned oilfield service companies, with one of the drilling rig agreements having a service period of 54 months, as the contract with the longest service period and the highest amount in the history of Honghuao's oil services. The project commenced operation in November 2021 to bring stable and continuous cash flow to Honghua.

In the domestic market, customers significantly reduced their investments. Service prices also continuously decreased. Domestic oil and gas engineering services achieved sales of approximately RMB28 million, representing a year-on-year decrease of 76.1%. When the Southwest shale gas market began to fully recover, the Group planned ahead, actively participated in the market and seized the opportunities to acquire two integrated drilling and fracturing projects for deep shale gas, and 12 wells on two platforms with a workload of RMB540 million. For the first time, the Group realized direct cooperation with a subsidiary of CNPC.

As at 28 February 2022, the Group's total contract backlog of drilling engineering services business amounted to approximately RMB1.03 billion.

QUALITY MANAGEMENT AND RESEARCH & DEVELOPMENT

During the Period, Honghua continued to ensure the effective operation of its quality control system and made a breakthrough in obtaining certifications for its product. We obtained 9 product certificates, successfully passed API 8C inspection standard audit, added 77 CMA inspection standards, participated in the formulation and revision of 5 national and industry standards and issued 3 national and industry standards. We also achieved refined quality management, and improved the quality of high-power fracturing equipment and high-power and high-voltage pump products, which was well received by users. The product system of the "one-key linkage" series maintained stable and efficient operation, placing it in a leading position in the industry. We continuously carried out "zero defect" quality activities to create a quality atmosphere in which everyone was able to achieve 100% quality, and fulfill the development requirements of improving the quality of all staff.

In 2021, centering around the deep integration of machine, electricity, liquid, as well as the idea of automation, information and intelligence of drilling and well completion equipment and services, the Group developed the application technology for the fully electric technology in powered catwalks and piping machines, and developed a "one-button" connection machine and equipment system with the characteristics of increase in speed and efficiency, decrease in headcount and safety. The intelligent drilling machine project completed the prototype testing of key systems and key components, the intelligent electric fracturing system project established a digital fracturing simulation laboratory and the comprehensive drilling intelligent system UNISON project launched the OPERA product and drilling expert system.

During the Period, the Group had a total of 617 effective patents, including a total of 189 effective invention patents, applied for 167 new patents, including 99 invention patents, and were granted 103 patents, including 16 invention patents.

HUMAN RESOURCES MANAGEMENT

To better support industry transformation and upgrade and promote the achievement of high-quality development goals, the Group steadily adjusted its staff structure, improved talent quality and improved average efficiency. At the end of 2021, the total headcount of the Group was 2,838 (2,953, including Jiangsu Honghua), representing a decrease of 732 (617, including Jiangsu Honghua) or 25.8% (20.9%, including Jiangsu Honghua) as compared with the corresponding period of Previous Year, mainly due to the reduction and optimization of non-key business, redundancy and staff with poor performance. The Group had a total of 542 R&D staff (551, including R&D staff in Jiangsu Honghua), representing an increase of 3.62% as compared with the corresponding period of Previous Year (an increase of 5.35%, including R&D staff in Jiangsu Honghua), which mainly due to the replenishment of young technological talents for strategic business, emerging industries and key projects. The Group fully implemented the management of employment system and contracts for management members across all levels, closely connected the performance appraisal, compensation and incentive, duties and positions and the operating performance of the Company to ensure that managers can be promoted and demoted, and their compensation can be increased and decreased. We continued to strengthen the establishment of the key talent teams in technology, marketing, quality and process. In addition, experts that enjoy State Council's special subsidies, academic and technology leaders in Sichuan Province, as well as experts and talents with Aerospace National Award for Excellence (航天報國英才獎) and Aerospace Contribution Award (航天貢獻獎) continued to emerge.

The Group continued to vigorously implement talent training and nurturing, increased 691 training sessions for its business capacity, covering talents in management, professional technology and skills, obtained 1,424 qualification certificates and ensured its staff to have required certificates. The Group implemented precision training with an aim to problem-solving, conducted special training on enhancing the performance of external directors and supervisors, supply chain system management and corporate operation, upgrading innovation ability and constructing new development direction, so as to improve the operation and management ability of the management and their ability in response to urgent and difficult tasks. The Group focused on improvement in its professional ability and comprehensive quality, conducted special training on product knowledge, process, cost management, digital transformation to ensure that the capacity structure of the employees is in line with the industry structure of the Company. The Group built the Honghua digital education and training platform, which integrated high-quality training resources in the market and the industry, so as to promote training digitization and information transformation. The Group continued to engage industry-leading talents and young innovative technology talents in automation, software development, cloud computing, big data, etc. The Group strengthened the core organizational capacity of the Honghua Group by optimizing the performance appraisal system, incentive allocation and talent selection evaluation system under the value chain-oriented principle.

FUTURE OUTLOOK

In 2022, the overall pandemic trend is likely to improve, which will have a positive impact on oil prices. While the Delta and Omicron variants persist, vaccination and herd immunity will continue to weaken the pandemic, and the global economy is likely to remain on the way to recovery. In 2022, the global crude oil supply will continue to increase and shift towards pre-pandemic levels. Capital expenditure in the oil and gas sector worldwide is expected to return to USD400 billion, which remains to be a significant decrease of 19% as compared with 2019. The prudent production control policy of OPEC+ may continue, and the pursuit of high oil prices by oil-producing countries will, to a certain extent, limit the crude oil supply. The Russian-Ukrainian conflict has become an uncertainty in the future oil and gas supply. Although negotiation between Russia and Ukraine is now underway, it is unlikely that an agreement can be reached in the short term. Under the limitation of oil and gas safety, the domestic markets will continue to implement plans to increase production. In addition to shale gas, shale oil and tight gas are important sources in growth in 2022.

In the offshore wind power market, cost reduction and efficiency increase have become common pursuits. After the record-breaking centralized production of offshore wind farms in 2021, the new production scale is expected to slow down in 2022, with a compound annual growth rate of approximately 23% in the coming four years. With the full withdrawal of the "national subsidy" policy, the development of wind-photovoltaic hybrid power storage advanced rapidly, the shift towards large-scale wind turbines is accelerating, and all aspects of the wind power industry chain are facing fierce competition.

Leveraging its existing advantages of the oil and gas industry and its international business presence, the Group will pursue the development initiatives of "platform+industry" and "manufacturing+service," restoring the fundamentals of the international drilling equipment business and increasing the proportion of its international business. The Group will give full play to its advantages of fracturing services and pumping services on the basis of the electric fracturing equipment industry, so as to promote the service-driven sales of fracturing equipment. The Group will enhance the efficiency of market transformation of new products and technology, making the one-key linkage automation tools and new five-cylinder pumps important factors to promote the transformation and upgrade of drilling equipment business and optimize industry development. The Group will concentrate its resources to cultivate 1-2 new product lines that support high-quality development in the next 3-5 years. In the wind power business, the Group will strengthen its cooperation with Dongfang Electric, increase the market share of its wind power business, and gradually restore the profitability of Honghua Offshore.

With regard to internal management, the Group will strengthen the refined management across all procedures and aspects, continue to implement strict cost planning and integrate cost control into design, R&D, production, logistics, which together will optimize cost structure. With regard to supply chain management, the Group will implement the efficient synergy among its procurement plan, production plan and sales plan, and establish a win-win mechanism of the long-term development and synergetic growth between the Group and its strategic suppliers, so as to meet the diverse business needs and facilitate business growth with high-quality supply chain resources. With regard to internal resource allocation, investments will be made according to production, and internal resources will shift towards companies, businesses and teams that generate higher values. With regard to turnover, the Group will strengthen the revitalization of the inventory and relevant business of Honghua Offshore, improve the efficiency of asset utilization, and continuously enhance the overall profitability of Honghua. With regard to culture establishment, the Group will continuously improve the Group's cultural management system, deepen its core values, enhance staff satisfaction and dedication, enhance their sense of honor and mission, and build a more active, transparent, fair and honest corporate culture. At the same time, the Company will also continue to strengthen its requirements in labor, occupational health and environmental protection to ensure sustainable development.

FINANCIAL REVIEW

During the Year, the Group's gross profit and loss attributable to shareholders of the Company amounted to approximately RMB363 million and RMB717 million respectively, and gross margin and net loss margin amounted to approximately 12.4% and 24.4% respectively. In the Previous Year the 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 profit margin amounted to approximately 30.0% and 1.3% respectively. The loss attributable to shareholders of the Company is primarily due to the financial losses caused by the debt default of the Offshore Segment,and the combined impact of the COVID-19 pandemic and the cautious capital expenditure worldwide,the exports of petroleum equipment (especially drilling rigs) of the Group which had advantages traditionally bore the brunt in terms of number of orders, thus the operating revenue still recorded a year-on-year decrease despite our proactive adjustment to the business structure during the Year.

Turnover

During the Year, the Group's revenue amounted to approximately RMB2,937 million, representing a decrease of 994 million or 25.3% from RMB3,931 million for Previous Year. Due to the influence of the COVID-19 epidemic, overseas orders for rigs and business performance in international markets decreased, resulting in a decrease compared with the Previous Year.

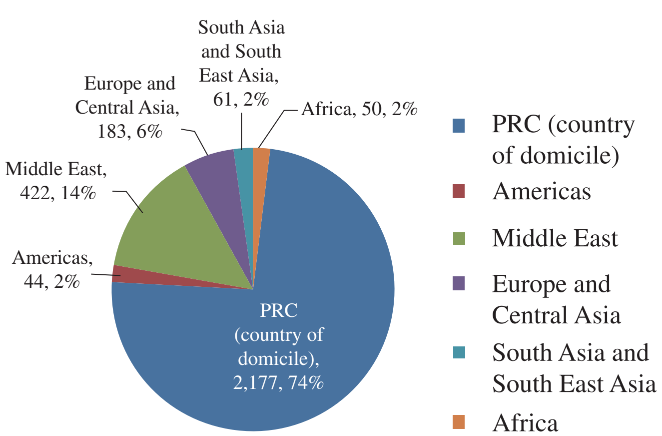
(i) Revenue by geographical locations

The Group's revenue by geographical segment during the Year: (1) revenue generated from the PRC amounted to approximately RMB2,177 million, accounting for approximately 74.1% of the total revenue, representing a decrease of RMB729 million as compared to Previous Year; (2) The Group's export revenue amounted to approximately RMB760 million, accounting for approximately 25.9% of the total revenue, representing a decrease of RMB265 million as compared to Previous Year.

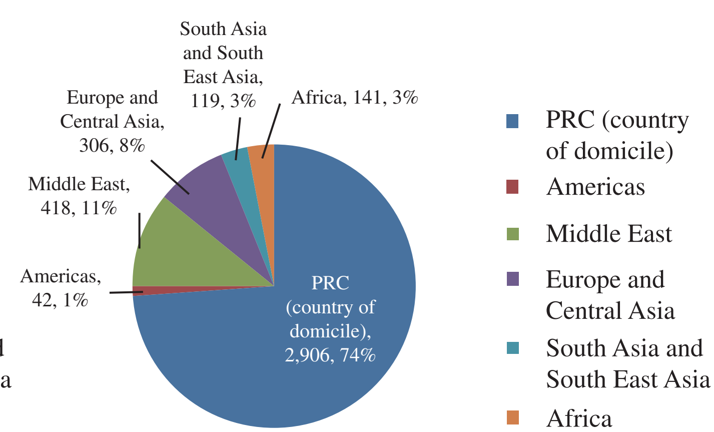
The regional distribution of the Group's sales revenue is influenced by the changes of oil and gas exploitation activities in various regions of the world. The Group continues to adhere to technological innovation, improve the quality of products and services and strictly control operating costs. At the same time, the Group adheres to promote sustained growth in the domestic market and have become the new performance cornerstone, by continuously expanding the domestic market, the domestic shale gas market and offshore wind power projects.

Revenue by geographical locations

Ended 31 December 2021
(Expressed in RMB'million)



Ended 31 December 2020
(Expressed in RMB'million)



(ii) Revenue by operating segments

The Group's business are divided into four segments, namely, 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 RMB60 million, sales return from Previous Year amounted to approximately RMB72 million, representing a decrease of RMB634 million or 101.9% from approximately RMB622 million for Previous Year.

During the Year, external revenue from parts and components and others amounted to approximately RMB1,693 million, representing a decrease of RMB29 million or 1.7% from approximately RMB1,722 million for Previous Year.

During the Year, external revenue from drilling engineering service business amounted to approximately RMB237 million, representing a decrease of RMB11 million or 4.4% from approximately RMB248 million for Previous Year.

During the Year, revenue from fracturing business amounted to approximately RMB1,019 million, representing a decrease of RMB320 million or 23.9% from approximately RMB1,339 million for Previous Year.

Cost of Sales

During the Year, the Group's cost of sales amounted to approximately RMB2,574 million, representing a decrease of RMB177 million or approximately 6.4% as compared to RMB2,751 million in the Previous Year. Mainly affected by the reduction of sales scale, the cost of sales of each sector has also decreased.

Gross Profit and Gross Margin

During the Year, the Group's gross profit amounted to approximately RMB363 million, representing a decrease of RMB817 million or 69.2% from RMB1,180 million for Previous Year.

During the Year, the Group overall gross margin was 12.4%, representing a decrease of 17.6 percentage points from 30.0% for Previous Year. These were mainly due to the restructuring of the group's business, the decrease in drilling rig sales and the increase in the proportion of products with low gross margin.

Expenses in the Year

During the Year, the Group's distribution expenses amounted to approximately RMB162 million, representing a decrease of RMB16 million or 9.0% from RMB178 million for Previous Year. This was mainly due to the decrease in related project expenses affected by decrease in sales revenues.

During the Year, the Group's administrative expenses amounted to approximately RMB481 million, representing a decrease of RMB67 million or 12.2 % from RMB548 million for Previous Year. This was mainly due to the continuing effect of the Group's cost-cutting and efficiency-improving measures and the strict control and management of administrative expenses,and the adjustment in R&D investment.

During the Year, the Group's finance expenses amounted to approximately RMB133 million, representing a increase of RMB7 million or 5.6% from RMB126 million for Previous Year. This was mainly due to the increase of financing cost affected by the increase in financing scale.

Loss before Income Tax

During the Year, the Group's loss before income tax amounted to approximately RMB745 million, representing a decrease of RMB831 million or 966.3% as compared to the profit before income tax of RMB86 million in the Previous Year.

Income Tax Credit

During the Year, the Group's income tax credit amounted to approximately RMB11 million, compared to the income tax expense of approximately RMB26 million in the Previous Year.

Loss for the Year

During the Year, the loss for the Period amounted to approximately RMB734 million compared with the profit of approximately RMB60 million for Previous Year. Specifically, loss attributable to equity shareholders of the Company was approximately RMB717 million, and the loss attributable to non-controlling interests was approximately RMB17 million. During the Year, the net loss margin was 24.4%, compared with the net profit margin of 1.3% for Previous Year.

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

During the Year, EBITDA amounted to RMB -432 million, compared with approximately RMB408 million for Previous Year. This was mainly attributable to the reduction in oversea orders and sales revenues, and the financial losses caused by the debt default of the Offshore Segment. The EBITDA margin was -14.7%, compared with 10.4% for Previous Year.

Dividends

As at 31 December 2021, the Board does 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 securities financing.

As at 31 December 2021, the Group's bank borrowings and senior notes amounted to approximately RMB5,146 million, representing an increase of RMB661 million as compared to the amount as at 31 December 2020. Specifically, borrowings repayable within one year amounted to approximately RMB5,146 million, representing an increase of RMB2,891 million or 128.2%, as compared to 31 December 2020.

Deposits and Cash Flow

As at 31 December 2021, the Group's cash and cash equivalents amounted to approximately RMB703 million, representing a decrease of approximately RMB249 million as compared to 31 December 2020.

During the Year, the Group's net cash outflow from operating activities amounted to approximately RMB983 million; net cash inflow from investing activities amounted to approximately RMB9 million; and net cash inflow from financing activities amounted to approximately RMB730 million.

Assets Structure and Changes

As at 31 December 2021, the Group's total assets amounted to approximately RMB11,748 million. Specifically, current assets amounted to approximately RMB6,750 million, accounting for 57.5% of total assets, representing a decrease of RMB1,021 million as compared to the amount as at 31 December 2020. This was mainly due to the increase in contract assets, receivables and other receivables. Non-current assets amounted to approximately RMB4,998 million, accounting for 42.5% of total assets, representing an increase of approximately RMB757 million as compared to the amount as at 31 December 2020. This was mainly due to the increase in real estates, plant and equipment in the Offshore Segment.

Liabilities

As at 31 December 2021, the Group's total liabilities amounted to approximately RMB8,002 million. Specifically, current liabilities amounted to approximately RMB7,793 million, accounting for approximately 97.4% of total liabilities, representing an increase of approximately RMB2,623 million as compared to 31 December 2020. And non-current liabilities amounted to approximately RMB209 million, accounting for approximately 2.6% of total liabilities, representing a decrease of approximately RMB2,138 million as compared to 31 December 2020. As at 30 December 2021, the Group's total liabilities/total assets ratio was 68.1%, representing an increase of 5.5 percentage points as compared to 31 December 2020.

Equity

As at 31 December 2021, the total equity amounted to approximately RMB3,746 million, representing a decrease of RMB749 million as compared to 31 December 2020. The total equity attributable to equity shareholders of the company amounted to approximately RMB3,537 million, representing a decrease of RMB732 million as compared to 31 December 2020. Non-controlling interests amounted to approximately RMB209 million, representing a decrease of RMB16 million as compared to 31 December 2020. During the Period, the Group's basic loss per share was RMB13.54 cent, and diluted loss per share was RMB13.54 cent.

Capital Expenditure, Major Investment and Capital Commitments

During the Year, capital expenditure of the Group on infrastructure and technical improvements amounted to approximately RMB151 million, representing a decrease of approximately RMB32 million as compared to Previous Year.

As at 31 December 2021,the capital commitment of the Group amounted to approximately RMB10 million, which was used to optimize and adjust the Group's business and production capacity.

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, 17 June 2022 to Wednesday, 22 June 2022, 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, 16 June 2022.

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 2021 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 adopted the principles and code provisions as set out in the CG Code as basis of the Company's corporate governance practices and complied with the code provisions in the CG Code throughout the year ended 31 December 2021.

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.

During the Year under review, the Company fails to meet the requirement set out in Rule 3.25 of the Listing Rules which provides that the Remuneration Committee must be comprised by a majority of independent non-executive directors. The Company has made its best endeavor to identify suitable candidates to fill the causal vacancy of the membership of Remuneration Committee as soon as practicable pursuant to the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a set of its own code of conduct regarding Directors' dealings in the Company's securities (the "**Code for Securities Trading**") with 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 Code for Securities Trading and the Model Code throughout the year ended 31 December 2021.

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

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT FOR 2021

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 2021 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, 22 June 2022
"Audit Committee"	the audit committee of the Company
"Board"	the board of directors of the Company
"CG Code"	Corporate Governance Code as 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 2021
"Group" or "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 2020
"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 as 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
"USD"	United States dollars, the lawful currency of the US

On behalf of the Board
Honghua Group Limited
Jin Liliang
Chairman

PRC, 29 March 2022

As at the date of this announcement, the executive Directors of the Company are Mr. Jin Liliang (Chairman) and Mr. Ren Jie, the non-executive Directors of the Company are Mr. Zhang Mi, Mr. Chen Wenle, and Mr.Wang Xiuchang, and the independent non-executive Directors of the Company are Mr. Chen Guoming, Ms. Su Mei, Mr. Chang Qing and Mr. Wei Bin.