宏华集团
HONGHUA GROUP

Honghua Group Limited
宏華集團有限公司

(a company incorporated in the Cayman Islands with limited liability)
(Stock code: 0196)

ANNUAL RESULTS ANNOUNCEMENT FOR YEAR ENDED 31 DECEMBER 2014

FINANCIAL HIGHLIGHT

	For the year ended 31 December		
	2014	2013	% change
Turnover (RMB'000)	**7,812,537**	8,047,108	–2.9%
Gross profit (RMB'000)	**1,629,543**	1,905,465	–14.5%
Gross profit margin (%)	**20.9%**	23.7%	
Profit from operations (RMB'000)	**396,498**	848,366	–53.3%
Earnings attributable to equity shareholders of the Company (RMB'000)	**91,787**	537,617	–82.9%
Earnings per share			
— Basic (RMB cents)	**2.89**	16.99	–83.0%
— Diluted (RMB cents)	**2.87**	16.77	–82.9%

The Directors do not recommend the payment of final dividend for the year ended 31 December 2014.

ANNUAL RESULTS

The Board of the Company is hereby to announce the consolidated results of the Group for the year ended 31 December 2014, together with the comparative figures for the year ended 31 December 2013 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
for the year ended 31 December 2014
(Expressed in Renminbi)

	Note	**2014** **RMB'000**	2013 RMB'000
Turnover	5	**7,812,537**	8,047,108
Cost of sales		**(6,182,994)**	(6,141,643)
Gross profit		**1,629,543**	1,905,465
Other revenue	6	**113,120**	176,469
Other net (expenses)/income		**(7,326)**	7,435
Selling expenses		**(637,567)**	(524,053)
General and administrative expenses		**(688,464)**	(595,508)
Other operating expenses		**(12,808)**	(121,442)
Profit from operations		**396,498**	848,366
Finance income		**100,777**	66,688
Finance expenses		**(373,795)**	(206,106)
Net finance expenses	7a	**(273,018)**	(139,418)
Share of profit/(loss) from joint ventures		**186**	(7,948)
Profit before taxation	7	**123,666**	701,000
Income tax	8	**(13,499)**	(125,750)
Profit for the year		**110,167**	575,250
Attributable to:			
Equity shareholders of the Company		**91,787**	537,617
Non-controlling interests		**18,380**	37,633
Profit for the year		**110,167**	575,250
Earnings per Share	10		
Basic		**RMB2.89 cents**	RMB16.99 cents
Diluted		**RMB2.87 cents**	RMB16.77 cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2014
(Expressed in Renminbi)

	2014	2013
	RMB'000	*RMB'000*
Profit for the year	**110,167**	575,250
Other comprehensive income for the year:		
Items that may be reclassified subsequently to profit or loss:		
Net movement in the fair value reserve of available-for-sale securities	**225**	602
Exchange differences on translation of financial statements of operations outside the PRC, net of tax	**15,562**	(53,539)
Total comprehensive income for the year	**125,954**	522,313
Attributable to:		
Equity shareholders of the Company	**106,388**	484,312
Non-controlling interests	**19,566**	38,001
Total comprehensive income for the year	**125,954**	522,313

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
at 31 December 2014
(Expressed in Renminbi)

	Note	2014 RMB'000	2013 RMB'000
Non-current assets			
Fixed assets			
— Property, plant and equipment		**2,837,994**	2,148,103
— Interests in leasehold land held for own use under operating leases		**402,784**	361,890
— Freehold land		**4,934**	4,916
		3,245,712	2,514,909
Payment for acquisition of leasehold land		**163,192**	147,320
Construction in progress		**362,312**	728,019
Intangible assets		**212,829**	213,637
Goodwill		**13,484**	13,484
Interests in joint ventures		**86,914**	47,924
Interest in an associate		**9,000**	9,000
Other investments		**118,091**	74,053
Trade and other receivables	*12*	**825,445**	676,050
Deferred tax assets		**201,189**	123,975
Total non-current assets		**5,238,168**	4,548,371
Current assets			
Inventories	*11*	**2,980,996**	2,801,307
Trade and other receivables	*12*	**4,509,485**	3,961,427
Gross amount due from customers for contract work		**217,001**	176,158
Amounts due from related companies		**154,102**	44,819
Current tax recoverable		**8,002**	16,406
Other financial assets		**331,826**	804,102
Pledged bank deposits		**612,743**	593,337
Bank deposits maturing over three months		**4,003**	8,619
Cash and cash equivalents		**1,442,014**	1,274,509
Total current assets		**10,260,172**	9,680,684

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*
at 31 December 2014
(Expressed in Renminbi)

	Note	**2014**	2013
		RMB'000	*RMB'000*
Current liabilities			
Interest-bearing borrowings		**2,806,956**	3,273,544
Trade and other payables	*13*	**5,246,512**	4,240,962
Amounts due to related companies		**24,250**	27,465
Current tax payable		**60,641**	51,453
Provisions		**66,878**	168,421
Total current liabilities		**8,205,237**	7,761,845
Net current assets		**2,054,935**	1,918,839
Total assets less current liabilities		**7,293,103**	6,467,210
Non-current liabilities			
Interest-bearing borrowings		**2,320,097**	1,457,953
Trade and other payables	*13*	**9,236**	–
Deferred tax liabilities		**–**	50,611
Total non-current liabilities		**2,329,333**	1,508,564
NET ASSETS		**4,963,770**	4,958,646
CAPITAL AND RESERVES			
Share capital		**300,983**	300,833
Reserves		**4,427,994**	4,462,518
Total equity attributable to equity shareholders of the Company		**4,728,977**	4,763,351
Non-controlling interests		**234,793**	195,295
TOTAL EQUITY		**4,963,770**	4,958,646

1. REVIEW OF ANNUAL RESULTS

The annual results have been reviewed by the Audit Committee. The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2014 have been compared by the Company's auditors, KPMG, Certified Public Accountants, to the amounts set out in the Group's draft financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect was limited and did not constitute an audit, review or other assurance engagement and consequently no assurance has been expressed by the auditors on this announcement.

2. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board ("IASB") and the applicable disclosure requirements of the Hong Kong Companies Ordinance, which for this financial year and the comparative period continue to be those of the predecessor Hong Kong Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the new Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the group is set out below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

3 CHANGES IN ACCOUNTING POLICIES

The IASB has issued the following amendments to IFRSs and one new Interpretation that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

— Amendments to IFRS 10, IFRS 12 and IAS 27, *Investment entities*

— Amendments to IAS 32, *Offsetting financial assets and financial liabilities*

— Amendments to IAS 36, *Recoverable amount disclosures for non-financial assets*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the new or amended IFRSs are discussed below:

Amendments to IFRS 10, IFRS 12 and IAS 27, *Investment entities*

The amendments provide consolidation relief to those parents which qualify to be an investment entity as defined in the amended IFRS 10. Investment entities are required to measure their subsidiaries at fair value through profit or loss. These amendments do not have an impact on these financial statements as the company does not qualify to be an investment entity.

Amendments to IAS 32, *Offsetting financial assets and financial liabilities*

The amendments to IAS 32 clarify the offsetting criteria in IAS 32. The amendments do not have an impact on these financial statements as they are consistent with the policies already adopted by the Group.

Amendments to IAS 36, *Recoverable amount disclosures for non-financial assets*

The amendments to IAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or CGU whose recoverable amount is based on fair value less costs of disposal. The adoption of these amendments has no material impact on the financial statements.

4. SEGMENT REPORTING

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

Land drilling rigs	—	This segment manufactures and sells land drilling rigs.
Offshore drilling rigs	—	This segment manufactures and sells offshore drilling rigs and related parts and components.
Parts, components and others	—	This segment manufactures and sells parts and components of petroleum equipment.
Oil and gas engineering services	—	This segment provides oil and gas engineering services.

(a) Segment revenue and results

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments. The measure used for reporting segment profit is "adjusted profit from operations". To arrive at adjusted profit from operations, the Group's profit from operations are further adjusted for items not specifically attributed to individual segments, such as directors' remuneration and other head office or corporate administration costs.

Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2014 and 2013 is set out below.

	Land drilling rigs		Offshore drilling rigs		Parts, components and others		Oil and gas engineering services		Total	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Revenue from external customers	**4,770,926**	5,664,602	**129,577**	196,609	**2,468,947**	1,777,194	**443,087**	408,703	**7,812,537**	8,047,108
Inter-segment revenue	**–**	–	**299**	24,741	**1,605,833**	1,552,075	**26,291**	–	**1,632,423**	1,576,816
Reportable segment revenue	**4,770,926**	5,664,602	**129,876**	221,350	**4,074,780**	3,329,269	**469,378**	408,703	**9,444,960**	9,623,924
Reportable segment profit/(loss)	**637,870**	787,370	**(150,382)**	(27,772)	**64,762**	109,797	**(215,400)**	32,864	**336,850**	902,259
Depreciation and amortisation for the year	**49,850**	43,837	**85,695**	65,026	**44,600**	39,257	**133,194**	92,470	**313,339**	240,590
Impairment on trade and other receivables	**25,164**	6,022	**–**	–	**2,873**	37,843	**–**	–	**28,037**	43,865
Write-down of inventories	**6,845**	35,101	**–**	–	**3,592**	14,456	**71,170**	–	**81,607**	49,557

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 2014, such information was not reviewed by the Group's chief operating decision maker. Accordingly, no segment assets and liabilities are presented.

(b) Reconciliation of reportable segment profit or loss

	2014	2013
	RMB'000	*RMB'000*
Profit		
Reportable segment profit	**336,850**	902,259
Elimination of inter-segment profits	**11,843**	(21,852)
Reportable segment profit derived from Group's external customers	**348,693**	880,407
Share of profit/(losses) from joint ventures	**186**	(7,948)
Other revenue, other net (expenses)/income and other operating expenses	**92,986**	62,462
Net finance expenses	**(273,018)**	(139,418)
Unallocated head office and corporate expenses	**(45,181)**	(94,503)
Consolidated profit before taxation	**123,666**	701,000

(c) Geographic information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's non-current trade and other receivables, fixed assets, construction in progress, intangible assets, goodwill, payment for acquisition of leasehold land and interests in joint ventures and an associate ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or the goods are delivered. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of fixed assets, the location of the operation to which they are allocated, in the case of goodwill and intangible assets, and the location of operations, in the case of interests in joint ventures and an associate.

	Revenue from external customers		**Specified non-current assets**	
	2014	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
PRC (country of domicile)	**930,615**	1,825,912	**4,082,384**	3,553,366
Americas	**1,180,887**	1,190,687	**78,663**	122,336
Middle East	**2,248,781**	2,921,498	**200,981**	239,198
Europe and Central Asia	**2,271,007**	1,666,094	**511,756**	389,789
South Asia and South East Asia	**491,853**	354,485	**–**	–
Africa	**689,394**	34,567	**–**	–
Others	**–**	53,865	**45,104**	45,654
	7,812,537	8,047,108	**4,918,888**	4,350,343

5. TURNOVER

The principal activities of the group are manufacturing, sale and trading of land drilling rigs, offshore drilling rigs, parts and components and provision of oil and gas engineering services. Turnover mainly represents revenue recognised for the sales value of goods supplied, revenue from construction contracts and oil and gas engineering services provided to customers net of value-added tax, returns and trade discounts.

6. OTHER REVENUE

	2014	2013
	RMB'000	*RMB'000*
Government grants *(note (i))*	**42,805**	30,421
Sales of scrap materials	**22,224**	21,775
Repair services income	**13,531**	13,423
Rental income	**15,848**	14,874
Settlement income *(note (ii))*	**–**	82,000
Others	**18,712**	13,976
	113,120	176,469

Notes:

(i) Government grants are subsidies received from government mainly for export and industry development encouragement and contributions to Hi-Tech industrial projects in Sichuan in the PRC.

(ii) Sichuan Honghua Petroleum Equipment Co., Ltd (四川宏華石油設備有限公司) ("Honghua Company") entered into several sales contracts with a customer during the year ended 31 December 2009 and received advance payment of RMB82,000,000 which were subsequently suspended by the customer. The sales contracts were terminated by the customer during the year ended 31 December 2013. As a result of the termination, Honghua Company recognised the receipts in advance of RMB82,000,000 as settlement income pursuant to the terms of the sales contracts.

7. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

(a) Net finance expenses

	2014	2013
	RMB'000	*RMB'000*
Interest on interest-bearing borrowings wholly repayable within five years	**249,767**	179,923
Bank charges	**71,058**	26,550
Foreign exchange loss, net	**82,880**	26,549
Changes in fair value of derivative financial instruments	**3,108**	–
Interest income on bank deposits	**(46,316)**	(22,441)
Interest income from long-term receivables	**(44,688)**	(37,902)
Fair value change of other financial assets	**(9,773)**	(6,345)
Others	**3,474**	4,567
	309,510	170,901
Less: Interest expense capitalised into assets under construction*	**(36,492)**	(31,483)
	273,018	139,418

* The borrowing costs have been capitalised at a rate of per annum 1.76% to 7.80% (2013: 1.17% to 7.04%).

(b) Staff costs

	2014	2013
	RMB'000	*RMB'000*
Contributions to defined contribution retirement schemes	**134,626**	91,474
Equity-settled share-based payment expenses	**8,292**	75,896
Salaries, wages and other benefits	**734,586**	633,262
	877,504	800,632

(c) Other items

	2014	2013
	RMB'000	*RMB'000*
Operating lease charges:		
— properties	**20,574**	11,196
— plant and machinery	**13,721**	8,897
Amortisation and depreciation:		
— leasehold land held for own use under operating leases	**7,142**	12,127
— property, plant and equipment	**268,296**	193,535
— intangible assets	**38,920**	35,731
	314,358	241,393
Impairment losses on trade and other receivables	**28,037**	43,865
Auditors' remuneration		
— audit services	**4,170**	3,402
— tax services	**126**	–
— other services	**2,497**	808
	6,793	4,210
Research and development costs *	**102,711**	90,565
Less: Amount capitalised into intangible assets	**(37,454)**	(31,697)
	65,257	58,868

* The amounts included staff costs of the research and development department of RMB40,714,000 (2013: RMB49,770,000), which are included in the total staff costs as disclosed in note 7(b).

8. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) Taxation in the consolidated statement of profit or loss represents:

	2014	2013
	RMB'000	*RMB'000*
Current tax — Hong Kong Profits Tax		
Provision for the year	**7,882**	17,064
Current tax — PRC		
Provision for the year	**115,631**	78,987
Under-provision in respect of prior years	**5,378**	5,370
Sub-total	**121,009**	84,357
Current tax — other jurisdictions		
Provision for the year	**13,624**	6,565
Current tax — total	**142,515**	107,986
Deferred tax		
Origination and reversal of temporary differences	**(129,016)**	17,764
	13,499	125,750

(i) Hong Kong

The provision for Hong Kong Profits Tax for 2014 is calculated at 16.5% (2013: 16.5%) of the estimated assessable profits of the subsidiaries of the Group incorporated in Hong Kong for the year.

(ii) PRC

Pursuant to the income tax rules and regulations of the PRC, the subsidiaries of the Group in the PRC are liable to PRC enterprise income tax at a rate of 25% (2013: 25%) during the year ended 31 December 2014, except for the following companies:

(a) Honghua Company

Income tax for Honghua Company is accrued at a tax rate of 15% (2013: 15%) applicable for Hi-Tech Enterprises pursuant to the relevant PRC tax rules and regulations during the years ended 31 December 2013 and 2014.

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

On 27 July 2011, the Ministry of Finance, the General Administration of Customs and the State Administration of Taxation jointly issued CaiShui [2011] No. 58 which states that enterprises within encouraged industries and located in the Western Region are entitled to a preferential tax rate of 15% for the period from 1 January 2011 to 31 December 2020 ("Tax Concession"). The Tax Concession needs to be applied annually. Honghua Electric applied for and successfully obtained the Tax Concession with 15% preferential income tax rate for the 12 months ended 31 December 2013. The directors of the company assess that it is highly probable that the subsidiary will continue to be granted with the Tax Concession upon their application for renewal, and accordingly provision for PRC enterprise income tax for the subsidiary was made at the preferential rate of 15% in these financial statements.

(iii) Others

Taxation for other entities is charged at the appropriate current rates of taxation ruling in the relevant jurisdictions.

(b) 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. During the year ended 31 December 2013, the Company's PRC subsidiaries obtained approval from the respective tax authority for paying withholding tax of dividend income at the reduced rate of 5%. Accordingly, a reversal of withholding tax was recognized during 2013 to reflect the reduction of withholding tax rate from 10% to 5%.

The Company's directors revisited the dividend policy of the group in 2014. To retain 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.

(c) Reconciliation between tax expenses and accounting profit at applicable tax rates:

	2014	2013
	RMB'000	*RMB'000*
Profit before taxation	**123,666**	701,000
Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned	**42,779**	120,861
Tax effect of non-deductible expenses	**12,601**	3,779
Tax effect of non-taxable income	**(11,408)**	(2,453)
Unrecognised tax losses	**2,069**	13,749
Reversal of withholding tax provision on expected profits distribution from PRC subsidiaries	**(37,920)**	(15,556)
Under-provision in respect of prior years	**5,378**	5,370
Actual tax expenses	**13,499**	125,750

9. DIVIDENDS

(a) Dividends payable to equity shareholders of the company attributable to the year:

	2014	2013
	RMB'000	*RMB'000*
Final dividend proposed after the balance sheet date of HKD Nil (2013: HKD6 cents) per Share	**–**	151,983

The final dividend proposed after the end of the reporting period has not been recognized as a liability at the end of the reporting period.

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year approved and paid during the year:

	2014	2013
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of HKD6 cents per Share (2013: HKD6 cents per Share)	**150,946**	150,102

10. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the company of RMB91,787,000 (2013: RMB537,617,000) and the weighted average number of 3,178,200,000 (2013: 3,165,015,000) ordinary shares in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2014	2013
Issued ordinary shares at 1 January	**3,239,167,000**	3,231,133,000
Effect of the share award scheme	**(62,089,000)**	(71,950,000)
Effect of share options exercised	**1,122,000**	5,832,000
Weighted average number of ordinary shares at 31 December	**3,178,200,000**	3,165,015,000

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the company of RMB91,787,000 (2013: RMB537,617,000) and the weighted average number of 3,200,070,000 (2013: 3,206,578,000) ordinary shares, calculated as follows:

Weighted average number of ordinary shares (diluted)

	2014	2013
Weighted average number of ordinary shares at 31 December	**3,178,200,000**	3,165,015,000
Effect of deemed issue of shares under the Company's share option scheme	**21,870,000**	41,563,000
Weighted average number of ordinary shares (diluted) at 31 December	**3,200,070,000**	3,206,578,000

11. INVENTORIES

(a) Inventories in the statement of financial position comprise:

	The group	
	2014	2013
	RMB'000	*RMB'000*
Raw materials	**705,123**	728,381
Work in progress	**1,096,517**	971,630
Finished goods	**991,701**	811,381
Goods in transit	**187,655**	289,915
	2,980,996	2,801,307

(b) An analysis of the amount of inventories recognised as an expense is as follows:

	The group	
	2014	2013
	RMB'000	*RMB'000*
Carrying amount of inventories sold	**5,362,430**	5,652,588
Write-down of inventories	**81,607**	49,557
	5,444,037	5,702,145

The amounts are included in the cost of sales in the consolidated statement of profit or loss.

12. TRADE AND OTHER RECEIVABLES

	The group	
	2014	2013
	RMB'000	*RMB'000*
Trade receivables	**3,639,957**	3,287,696
Bills receivable	**155,566**	35,328
Less: Allowance for doubtful debts *(note 12(b))*	**(234,287)**	(206,250)
Sub-total	**3,561,236**	3,116,774
Finance lease receivable	**199,128**	–
Value-added tax recoverable	**408,408**	275,664
Prepayments	**875,769**	899,616
Other receivables *(note (i))*	**290,389**	345,423
	5,334,930	4,637,477
Representing:		
Current portion	**4,509,485**	3,961,427
Non-current portion *(note (ii))*	**825,445**	676,050
	5,334,930	4,637,477

Notes:

(i) Included in other receivables of the Group as at 31 December 2014 is an amount of RMB32,317,000 (2013: RMB32,317,000), being the amount indemnified by certain shareholders in relation to a legal claim.

(ii) Non-current trade and other receivables represent trade receivables and bills receivable of RMB490,038,000 (2013: RMB441,908,000) arising from instalment sales which are due for payment 1 year after the end of the reporting period and are discounted at market interest rate, finance lease receivables of RMB129,215,000 (2013: RMB Nil), prepayment for acquisition of fixed assets of RMB164,113,000 (2013: RMB191,673,000) and deposits placed as security for borrowings of RMB42,079,000 (2013: RMB42,469,000).

The current trade and other receivables are expected to be recovered or recognised as expense within one year.

(a) Ageing analysis

As of the end of the reporting period, the ageing analysis of trade receivables and bill receivable, based on the invoice date (or date of revenue recognition, if earlier) and net of allowance for doubtful debts, is as follows:

	The group	
	2014	2013
	RMB'000	*RMB'000*
Within 1 month	**1,375,884**	1,570,944
1 to 2 months	**179,507**	299,679
2 to 3 months	**196,143**	181,472
3 to 12 months	**1,220,488**	719,894
Over 1 year	**589,214**	344,785
	3,561,236	3,116,774

Trade receivables and bill receivable are due within 90 days from the date of billing.

(b) Allowance for doubtful debts

Impairment losses in respect of trade receivables and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables and bills receivable directly.

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	The group	
	2014	2013
	RMB'000	*RMB'000*
At 1 January	**206,250**	167,151
Provision for impairment losses	**28,037**	43,865
Uncollectible amounts written off	**–**	(4,766)
At 31 December	**234,287**	206,250

At 31 December 2014, the Group's trade receivables and bills receivable of RMB338,125,000 (2013: RMB261,841,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of RMB234,287,000 (2013: RMB206,250,000) were recognised. The Group does not hold any collateral over these balances.

(c) Trade receivables that are not impaired

The ageing analysis of trade receivables and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

	The group	
	2014	2013
	RMB'000	*RMB'000*
Neither past due nor impaired	**2,294,103**	2,539,623
Less than 1 month past due	**14,698**	167,104
1 to 3 months past due	**85,490**	56,211
More than 3 months but less than 12 months past due	**810,815**	216,522
More than 1 year past due	**252,292**	81,723
	1,163,295	521,560

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has been no significant change in credit quality and the balances are still considered recoverable. The Group does not hold any collateral over these balances.

13. TRADE AND OTHER PAYABLES

	The group	
	2014	2013
	RMB'000	*RMB'000*
Trade payables	**2,003,822**	1,823,918
Bills payable	**1,504,639**	937,008
Receipts in advance	**1,110,543**	1,005,880
Other payables	**636,744**	474,156
	5,255,748	4,240,962
Representing:		
Current portion	**5,246,512**	4,240,962
Non-current portion	**9,236**	–
	5,255,748	4,240,962

Bills payable as at 31 December 2014 and 2013 were secured by certain pledged bank deposits. Non-current trade and other payables represent receipts in advances from customers and are expected to be settled after one year. All of the current trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

At the end of the reporting period, the ageing analysis of the trade and bills payables (which are included in trade and other payables) based on the invoice date is as follows:

	The group	
	2014	2013
	RMB'000	*RMB'000*
Within 3 months	**1,929,161**	1,793,608
3 months to 6 months	**1,039,606**	642,406
6 months to 1 year	**168,180**	168,282
Over 1 year	**371,514**	156,630
	3,508,461	2,760,926

MANAGEMENT DISCUSSION AND ANALYSIS

In 2014, the Group's revenue recorded RMB7,813 million, representing a decrease of 2.9% as compared to RMB8,047 million in Last Year. The gross profit was approximately RMB1,630 million, representing a decrease of 14.5% as compared to RMB1,905 million in Last Year. The profit attributable to shareholders of the Company was approximately RMB92 million, representing a decrease of 82.9% as compared to RMB538 million in Last Year.

Market Review

In 2014, the overall recovery of the world economy was weaker than expected. During the Year, the International Monetary Fund (IMF) has revised downward its growth forecast for the world economy for three times, while the World Bank also tuned down its growth forecast.

In the second half of 2014, affected by political tension in Ukraine and Iraq as well as an excess inventory of the global crude oil among other, WTI and Brent crude oil prices fell by 49.6% and 50.1% respectively. As of 31 December 2014, WTI and Brent crude oil prices dropped to US$53.45 a barrel and US$55.27 a barrel respectively. The plunge of crude oil prices has forced the upstream sector in oil and gas industry to slow down its exploration and development pace.

Business Review

1. *Land Drilling Equipment and Relevant Products*

   In terms of the sales of land drilling rigs, the global market demand for drilling rigs declined in 2014 as compared with 2013 along with the continued volatility of crude oil prices. We kept on using our factories and branches established across the world as the point of sale to sell our new products and other diversified products, and to recommend various payment channels to different customers. During the Year, our accumulated newly signed agreements of land rigs worth US$360 million. In Eurasian market, we entered the land drilling rig sales agreements worth approximately US$97 million with Eriell Group and British Oil and Gas Exploration Ltd. and other companies. After our successful cooperation with the National Drilling Company (NDC), Kuwait Drilling Company (KDC) and Oman-based Abraj Energy Services LLC (Abraj) in the Middle East for several times, we renewed sales contracts of land drilling rig worth approximately US$126 million in total with KDC and Abraj. Meanwhile, we made breakthroughs in new land drilling rig markets in Africa and Malaysia. In the African market, we successfully signed new land drilling rig sales contracts worth approximately US$35 million in total. In the Asian market, we adopted the sales strategy of "diversification", including financial lease, to open new markets. We successfully signed land drilling rig sales contracts worth approximately US$85 million in total in Malaysia and other Asian countries. In 2014, in order to cope with the sharp decline in the demand from state-owned enterprises (SOE) due to SOE reform, we shifted our focus onto private enterprises. Despite the fierce market competition, we successfully signed land drilling rig sales contracts worth approximately US$34 million in total in the domestic market in 2014.

We have made significant progress in the production and sales of self-developed parts and components. Subsequent to the satisfaction with our products by clients, the sales contracts signed for our self-innovated series of direct-drive top drive products recorded 2 sets for the installation as parts of drilling rigs, 23 sets for individual contracts and 13 sets under financial leasing arrangement during the Year. Due to the strong demand from North American customers such as Nabors, 179 units mud pumps were signed into sales contracts, representing a growth of 44% as compared with Last Year. Our innovative product, the energy-efficient quintuple mud pump has further expanded in the US market, 12 sets for individual sales and 8 sets as component part of the drilling rigs, and 35 sets of direct-driven mud pump were signed into sales contracts. Moreover, we continue to make good use of our global procurement network to expand our product distribution business. In 2014, our new trading orders for parts and components amounted to approximately US$190 million.

In 2014, our business volume of after-sales service also rose by 151% as compared with 2013. Urgent repairs and maintenance services in 2014 rose by 16% as compared with 2013. In 2014, 69 sets of drilling rigs and 29 top drive units were installed and debugged.

Apart from boosting sales, we placed quality management in the first place in 2014. During the Year, we continued to implement "zero defects" policies and improvement campaign in every aspect of production process. This enabled our services and products to score the best performance in every stage from contract signing, drilling rig production to final installation and delivery to clients. During the Year, we set up a quality improvement team, improved our production and testing efficiency, and also achieved the goal of project management and product quality in one step. As a result, we reduced production costs, improved our clients' satisfaction and enhanced the value of our products and brand. As compared with the beginning of 2014, the amount of subsequent corrections made on our self-developed rigs decreased by 53% and the working hours spent on such corrections decreased by over 40% at the end of 2014. Our ongoing efforts made in this continuous campaign have significantly improved our product quality and labor efficiency, and have received recognition from our clients' supervisors several times.

2. *Oil & Gas Engineering Service Business*

Facing a relatively tight domestic market, our oil and gas engineering service business still achieved steady development in domestic and overseas markets. We acquired turnkey contracts for 4 pre-exploration wells in Russia. Moreover, we acquired approximately 16 contracts in the Yibin shale gas block, which were located in three drilling pads respectively. Currently, 7 drilling teams have successfully moved into Sichuan shale gas drilling site and started operation. In 2014, we drilled 14 wells for Sichuan's shale gas projects and the cumulative footage drilled amounted to approximately 66,746 meters. We have adopted various new techniques and equipment during the process, including oil-based mud and gas drilling process, and have made good achievements with regarding to drilling quality and drilling efficiency. For example, the average mechanical drilling rate in the horizontal section reached up to 13.5m/h and we completed the drilling of shale gas well with the longest horizontal section length of 2,005 meters.

By the end of December 2014, we had 24 drilling service teams, and 12 teams provided directional services. We also had 24 drilling fluids service teams. The accumulated engineering team members amounted to approximately 1,460. In 2014, we drilled 58 wells, including 14 horizontal wells and 11 directional wells, and the footage drilled amounted to approximately 180,445 meters.

3. *Offshore Engineering Equipment and Related products Business*

In 2014, construction of the offshore engineering equipment base proceeded as planned. The harbor basin which is 150 meters long and 110 meters wide was constructed at the beginning of the Year and successfully passed the quality check. The construction process of "Honghai Crane", the core equipment enshrining the innovative concept of "onshore manufacturing of offshore equipment" was progressing as planned. The first "Honghai Crane" has been in operation and successfully completed the lifting-into-water test in October 2014. The main beam of the second "Honghai Crane" has been closed, and is expected to conduct overall completion acceptance by the end of September 2015.

In terms of production, as the first deep-water drilling package for drill ship in China, Tiger-1 was successfully delivered and debugged in October 2014. The production of Tiger-2 drilling package's derrick, drawworks, mud pump unit and main driller room has been completed. The rest of equipment is expected to be completed in April 2015 and to be delivered in the first half of 2015. Drilling packages for Tiger series drilling ship have broken the deep-sea drilling equipment monopoly by international leaders, and has been listed into "National High-tech Industry Development Project and Investment Schemes" by National Development and Reform Commission and Sichuan Development and Reform Commission.

In terms of contracts, we successfully renewed the Tiger-3 and Tiger-4 deep-water drilling packages for drill ship with Shanghai Shipyard Co., Ltd., worth approximately US$56 million in July 2014. In August, we entered into an oil ship construction agreement with UDIN Engineering Co., Ltd., worth over US$200 million (UDIN project). In the end of October, we successfully signed a semi-submersible drilling platform sales contract (Cobra project) with JAS Marine, worth approximately US$320 million. These contracts further deepened our close cooperation with international offshore engineering companies and once again proved the market recognition for our innovative construction model, strong self-research and development capabilities and production techniques in offshore sector.

4. *Unconventional Oil & Gas Development Business*

As stated in the Oil and Gas Engineering Service Business segment, in 2014 we acquired approximately 16 contracts in the Yibin shale gas block. Currently, 7 drilling teams started operation in the block. Our self-developed flexible water tank also sustained sales in 2014. According to the expectation from the mainstream market, we have designed and manufactured flexible water tanks with a smaller volume which also effectively reduced our costs. In addition, our two 6000HP is under field testing in the U.S.

In addition to enhancing our strengths, we actively seek cooperation opportunities with internationally renowned companies. During the Year, we entered into a memorandum of understanding (MOU) for strategic cooperation with General Electric (GE) to jointly build an efficient and energy-saving integrated shale gas solution. According to the MOU, Honghua will install GE gas power products, including aero derivative gas turbine and gas engine in its self-developed and manufactured innovative oil & gas drilling equipment, and will complete the integration in the Group's production base in China. This equipment will be developed as an integrated on-site power solution for well drilling, well completion and output production by using conventional/unconventional natural gas or associated gas in the field.

Quality Management and Research and Development

In 2014, we continued to strengthen the construction of the quality management system and improve application of various qualifications. In production of land drilling equipment business, our overseas subsidiary EPHH successfully passed the recertification review of API Q1 and API 4F in April 2014, after several month preparation. In the oil and gas engineering services segment, we got the drilling permit for the Biryuk and Mukhin blocks of Sakha (Yakutia) Republic, and passed the Grade II enterprise review for work safety standardization conducted by State Administration of Work Safety in June 2014. Currently, we have obtained the safety production license, ISO9001 quality management system certification, ISO4001 environmental management system certification, OHSAS18001 occupational health and safety management system certification and the membership of the International Association of Drilling Contractors (IADC). In terms of offshore equipment manufacture we got the ISO9001, ISO14001 and OSAHS18001 certifications issued by ABS QE, further improving the QHSE management system.

During the Year, the accumulated amount invested in research and development reached approximately RMB103 million, and the results were significant. We displayed the new generation "Honghua America No.1" rig at Offshore Technology Conference (OTC) in May. The rig features fast lifting, less transportation modules and high automation, resulting in higher operation safety, lower costs and faster installation, thus increasing its economic value. The trial production of the rack and pinion drilling rig is being tested smoothly. By the end of 2014, 259 patents were obtained.

Human Resource Management

While reviewing and improving the working environment and performance appraisal culture for our employees, we have also been considering about how to maximize the supports of the employees to the strategic development of our Group. In 2014, we organized 941 training courses for our employees, including the advanced application of SAP information system, effectively enhancing the professional skills and working efficiency of our employees. In order to further motivate the excellent employees, we sold a total of 40,575,000 shares to more than 400 major middle and senior cadres, core technical staffs and old shareholders in early July 2014. While improving the value of our existing staff, we recruited 1,150 new employees in 2014, of which most were technical professionals. As of the end of December 2014, the Group had employed a total of 7,450 employees, including 743 R&D staffs. In the coming year, we will focus on improving the per capita performance of our staff. With the support of the human resources system, especially the performance appraisal system which we have built for three years, we will further make good use of various management tools to well coordinate every aspect of human resources and enhance the Group's profitability.

Financing

In 2014, we successfully seized market opportunities, and issued senior notes worth of US$200 million, with an annualized interest rate of 7.45% and will be due in five years. This way, we have attracted a number of diversified investors in global capital market and extended our average debt maturity duration. As a new channel of long-term financing, this can effectively adjust the debt maturity structure of the Group, help to improve the short-term liquidity of the Group, enhance the development of the land drilling rigs, the offshore drilling rigs and the oil and gas engineering services. This can also enhance the ability of the Group against the industry cycle fluctuation.

Outlook

Affected by the factors including the imbalance of global supply and demand, global crude oil prices are likely to remain fluctuating at low levels in 2015. According to the statistics released by Barclays in February 2015, the global oil and gas market expects that the average price of Brent crude oil will reach US$59 a barrel and the average price of WTI crude oil will be US$54.50 a barrel in 2015. The market also expects that the global capital expenditure used for oil & gas exploration and production will reach US$619.4 billion in 2015, down 8.8% compared with 2014. In the short term, the falling oil prices shrinks the investment scale of the oil and gas companies, as a result, the prosperity of the oil & gas market and the oil & gas equipment market will be affected. In the medium and long term, oil and gas will still retain their important role in the energy mix and all kinds of exploration and production activities will gradually recover along with the development of the global economy. The industry outlook remains promising.

1. *Land Oil and Gas Equipment Business*

   Against the backdrop of oil prices fluctuating at low levels, global drilling activities grow slowly due to the decline of profit and oil & gas exploration and production expenditures. In conventional oil and gas exploration regions, such as the United States and Russia, the growth in demand of rig upgrade and renovation and new rigs are obviously slowing down. In the Middle East, demand for new rig is still the main growth driver and demand of rig upgrade and renovation will also continue to increase gradually in the future. In China and other regions where oil and gas exploration activities are relatively frequent, demand for new rigs or rig upgrade and renovation will further increase in the future.

In 2015, we will launch a moderate marketing strategy. While strengthening the buildup of traditional market channels, we will actively promote the buildup of innovative trading channels in order to ensure the sustainable and stable growth of our business. At the same time, we will further optimize our global sales network layout, establish a global marketing network system which can swiftly response to clients according to their specific needs and market segments' characteristics by the provision of flexible and efficient mix of the Group's products, services, prices and channels, as well as by the provision of high cost-performance products and services, aiming to become customers' trusted partner. In the aspect of land drilling rigs, we will continue to exert our technological advantages, capitalize on the fashion of automated, intelligent, high-efficiency, safe and environment-friendly in rig technology, improve our independent R&D capability of intelligent rigs and our product conversion capabilities and realize our strategic transformation toward the high-end rig market, so that we can become a land drilling equipment manufacturer and service provider with differentiated competitive edges. In the aspect of parts and components development and manufacturing, we will focus on improving our R&D capabilities of core components, achieve sustained breakthroughs in the manufacturing of key and major components, improve the proportion of self-made core components used in the whole rig product, make use of the global sales network to expand the trading of core components and increase the proportion of parts and components in the business structure. We will adhere to using the core technology to build the core competitiveness of Honghua in the next decade, propel our drilling equipment and products's transformation from being made in China to being innovated in China and make our Company become the pioneer of the global drilling equipment industry. As of the end of February 2015, the backlog of land drilling rigs reached 40 sets, amounting up to approximately RMB2.6 billion. These rigs are expected to be delivered in 2015–2016.

2. *Offshore Oil and Gas Equipment Business*

In the short term, the upgrading demand for marine equipment is expected to increase. IHS report shows that the aging platform issue is deteriorating in the global rig fleet, the average age of semi-submersible platforms reaches 24.4 years old, that nearly half of ships are more than 30 years old, and that over 70% of self-elevating platforms (or jackups) are beyond 30 years old. These platforms will be gradually out of operation in the next few years, and will be replaced with new platforms. In the medium and long term, it is an inevitable trend that the oil and gas development transfers from onshore to offshore, and the increase of various marine exploration and development activities certainly boosts the demand for marine equipment. In addition, the overall capability of China's marine equipment manufacturing industry is gradually maturing and the transfer of the global marine equipment manufacturing to China is an inevitable trend. It will provide a valuable development opportunity for the marine equipment manufacturing enterprises in China.

In 2015, we will take the successful delivery of the drilling packages as a platform to actively expand the market with the focus on our deep-water drilling packages and semi-submersible platforms. For the order received from Cobra project, we are now planning to build the Cobra project based on the "Honghai Crane", displaying the strength of Honghua to the world with all new way of "offshore platforms manufacturing onshore". In addition, we will leverage the position of Singapore as the global marine work center to build up a marketing platform to promote the development of the high-end semi-submersible market. For the current outsourcing needs of shipbuilding enterprises, we will establish a long-term outsourcing partnership with shipbuilding enterprises in Shanghai, Jiangsu and Zhejiang provinces. We can make good use of our competitive advantages in lifting equipment and production plants, etc. to undertake hull production, preservation, venue leases and lifting businesses to expand our sources of income in the difficult time of the industry. As of the end of February 2015, we had total orders amount of about RMB3.8 billion (among these are some projects' executions are slightly delayed).

3. *Oil and Gas Engineering Services Business*

In 2015, the global oil and gas industry is expected to continuously face a downward pressure. The global oil and gas engineering services will see in-depth adjustments affected by the decline of expenditures used in the global oil and gas exploration and production, and its impact on domestic oil and gas engineering services companies will be more far-reaching. In the future, the market will be more open and competitive. The oil and gas engineering services companies with core technology and high-quality services will gradually expand their market shares and become the industry leaders; but those without differentiated competitive advantages will see their survival space and profitability gradually shrink and will be eventually forced out of the market.

Under various downward pressure of the industry caused by the reform of state-owned enterprises (SOE), oil and gas services industry was faced with significant crash. We will take fully advantage of the Group's global layout in the oil and gas services segment in the future, and strengthen our expansion in the overseas markets. For the oil & gas engineering services segment, challenges and opportunities will co-exist in 2015. On one hand, we will improve our operational efficiency and service quality through technological and management innovation against the downward pressure of the industry environment; on the other hand, the oil & gas field engineering services segment currently has a stable drilling crew, greatly improve on-site infrastructure management and integrated drilling capability as well as lay a solid foundation for further development by continuous refinement, development and experience accumulation for the past three years. At the same time, leveraging our competitive edges in R&D, manufacturing and maintenance support in land drilling rig, and our rigs in use with better performance and high safety coefficient, we have absolute advantages in drilling equipment sector with a high degree of market recognition compared with domestic counterparts and even state-run drilling teams. Our drilling rigs provide safe production to a great extent. In 2014, the quality of our drilling services has been recognized by customers in the PRC and abroad, and the "Honghua" brand in oil & gas engineering services is gradually being shaped. This will help us to further develop domestic and overseas markets and obtain more opportunities. In 2015, our oil and gas engineering services segment will continue to adhere to the "one center and two wings" business layout, that is, taking the drilling business as the core and directional drilling and mud businesses as two wings, and increase efforts to expand overseas markets while striving to improve the management level of our internal business operation. We will shift our focus from the scale expansion to the operational quality improvement and achieve sustained improvements in drilling technical support, logistic support, operation management, QHSE management and other aspects.

4. *Unconventional Oil & Gas Development Business*

Natural gas now accounts for nearly 5% of China's energy consumption mix. In the future, the demand for clean energy will be stronger. The decline of oil prices will not influence the growing pace of China's shale gas development. As the world's largest energy consumer, China plans to increase its annual production of shale gas from 1.3 billion cubic meters per year now up to 30 billion cubic meters per year in 2020. Sichuan province will become the main battlefield of shale gas exploration and development in China. The top three oil giants in China plan to increase their combined shale gas production capacity to 8.1 billion cubic meters per year by 2015, representing a significant increase as compared with 1.5 billion cubic meters in 2014. The time for the large-scale exploitation and utilization of shale gas in China is approaching. Driven by the demand generated from the large-scale development of shale gas, land drilling rigs, fracturing equipment and engineering services used for shale gas development will be exposed to a new stage of rapid development.

As China's first private oilfield services company entering into large-scale shale gas development, Honghua had 7 drilling rigs to operate at domestic shale gas fields in the past year, and has accumulated a wealth of experience in aspects of drilling technology, oil-based mud technology, cementing technology, long-section horizontal well technology, anti-collision & assurance technology and equipment support, logistical support, operation management, underground accident prevention and cost control. In 2015, in the field of shale gas equipment, we will continue to expand the sales of flexible water tanks, 6000 HP fracturing pumps and other core equipment; in the field of oilfield engineering services, we will focus on the completion of the shale gas projects and adhere to continuing to enhance our technical and management capabilities to lay a foundation for our in-depth development in the shale gas field.

2015 will be a year with both challenges and opportunities for us. We will continue to actively expand overseas markets for each business segment and adjust their earnings structure, introduce new income sources and reduce costs, and be well prepared for market changes and a new round of development opportunities in the process of industry transformation. Meanwhile, on the basis of remaining the steady growth of our businesses, we will focus on strengthening technological innovation and improving operational levels, promote the synergetic development of our major strategic business segments and enhance our core competitive strengths to lay a solid foundation for our future development and to provide greater returns for the shareholders.

FINANCIAL REVIEW

During the Year, the Group's gross profit and profit attributable to shareholders of the Company amounted to RMB1,630 million and RMB92 million respectively, gross profit margin and net profit margin amounted to approximately 20.9% and 1.2% respectively. While gross profit and profit attributable to shareholders of the Company in the Last Year amounted to approximately RMB1,905 million and RMB538 million respectively, gross profit margin and net profit margin in the Last Year amounted to approximately 23.7% and 6.7% respectively. During the Year, the decrease in the Group's gross profit and profit attributable to shareholders of the Company was mainly attributable to the relating low level of the oil prices, which led to the declined global market demand for petroleum equipment and the declined domestic demand. The Group suffered a great exchange loss due to the Russia rubles which got down to a relating low level. The performance of the offshore drilling rigs segment had not been contained in the 2014 financial report due to the long construction cycle, although we had got a number of confirmed orders.

Turnover

During the Year, the Group's turnover amounted to approximately RMB7,813 million, while it was approximately RMB8,047 million during the Last Year, representing an decrease of 2.9%. The decrease was mainly attributable to the declined demand for oil equipment due to the relating low level of the oil price. The number of drilling rigs sold during the Year decreased to 69 units from 74 units of the Last Year. The sales of self-manufactured parts increased due to the increasingly market demand.

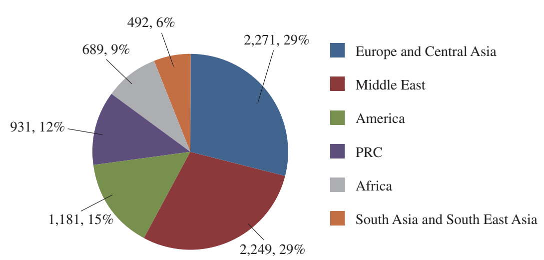
(1) Revenue by Geographical Areas

The Group's revenue by geographical segment areas during the Year was as follows: (1) the revenue from export amounted to approximately RMB6,882 million, accounting for approximately 88.1% of total revenue, representing an increase of approximately RMB661 million or 10.6% as compared to those of the Last Year. Among which, the revenue from South Asia and Southeast Asia market amounted to approximately RMB492 million, representing an increase of approximately RMB138 million or 39.0%.The revenue from European and Central Asia market amounted to approximately RMB2,271 million, representing an increase of approximately RMB605 million or 36.3%. The revenue from the American market amounted to approximately RMB1,181 million, representing an decrease of approximately RMB10 million or 0.8%. The revenue from the Middle East market amounted to approximately RMB2,249 million, representing a decrease of approximately RMB672 million or 23.0%. The revenue from Africa amounted to approximately RMB689 million, almost all increased during this year, and (2) the revenue from PRC market amounted to approximately RMB931 million, accounting for approximately 11.9% of total revenue, representing an decrease of RMB895 million or 49.0% as compared to those in the Last Year.

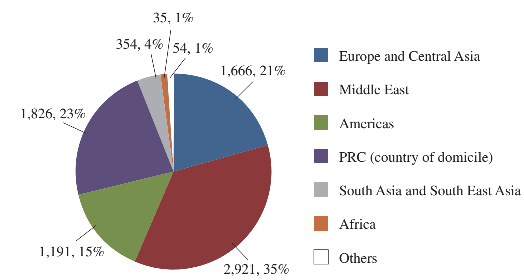
The Group's sales revenues from different regions are affected by the local oil and gas exploration activities. The Group actively explores markets in different regions to develop new customers, to get new orders, to ensure sustained growth in sales revenue.

Revenue by geographical areas in 2014 and 2013 were as follows (in RMB million).

2014 revenue by Geographical Areas



2013 revenue by Geographical Areas



(2) *Revenue by Business Categories*

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

During the Year, revenue from land drilling rigs were amounted to approximately RMB4,771 million while it was approximately RMB5,665 million during the Last Year, representing an decrease of RMB894 million or 15.8% as compared to the Last Year. The decrease in land drilling rig sales revenue was mainly attributable to the decrease in the number of sales volume from 74 units to 69 units.

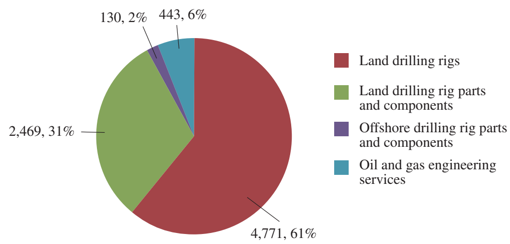
During the Year, sales revenue from the land drilling rig parts and components amounted to approximately RMB2,469 million, while it was approximately RMB1,777 million during the Last Year, representing an increase of RMB692 million or 38.9%. The revenue growth is mainly attributable to the Group's effort in proactive market development and breakthrough in sales of new products. Among which, 8 direct-drive top drives were sold alone during the Year, generating revenue amounted to approximately RMB77million; drilling rig modification and parts processing generating revenue amounted to approximately RMB345 million; 194 mud pumps were sold, generating revenue amounted to approximately RMB285 million; 22 electric drive systems were sold, generating revenue amounted to approximately RMB105 million; 3 fracturing cementing trucks were sold, generating revenue amounted to approximately RMB11 million.

During the Year, revenue from offshore drilling rig parts and components were amounted to approximately RMB130 million, while it was approximately RMB197 million in the Last Year.

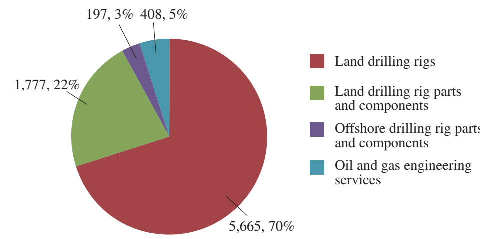
During the Year, revenue from oil and gas engineering services amounted to approximately RMB443 million, mainly attributable to the Group's proactive development of oil and gas drilling service market, providing oil and gas engineering services to 58 well fields located in Xinjiang and northeast China, Iraq and Kazakhstan.

Revenue by business categories was as follows (in RMB million):

2014 Revenue by business categories



2013 Revenue by business categories



Cost of Sales

During the Year, the Group's cost of sales amounted to approximately RMB6,183 million, while it was approximately RMB6,142 million in the Last Year, representing an increase of approximately 0.7%.

Gross profit and gross margin

During the Year, the Group's gross profit amounted to approximately RMB1,630 million, representing a decrease of RMB276 million or 14.5% as compared to that of Last Year.

During the Year, the Group's overall gross profit margin was 20.9%, representing a decrease of 2.8 percentage points as compared to that of Last Year. This was mainly attributable to the plate performance of the Group's segments of oil and gas engineering services and offshore drilling rigs to the expectation.

Expenses in the year

During the Year, the Group's selling expenses amounted to approximately RMB638 million, representing an increase of RMB114 million or 21.8% as compared to RMB524 million in the Last Year. This was mainly attributable to increased transportation costs brought on by the increased sales revenue and an increase in costs related to the Group's active market exploration.

During the Year, the Group's general & administration expense amounted to approximately RMB688 million, representing an increase of RMB92 million or 15.4% as compared to RMB596 million in the Last Year. This was mainly attributable to increased staff costs and depreciation and amortization brought on by the increased sales revenue and an increase in costs related to the Group's active market exploration.

During the Year, the Group's net financing expense amounted to approximately RMB273 million as compared to net financing expenses of RMB139 million in the Last Year. The increase in net finance expense was mainly attributable to the increase of interest by approximately RMB70 million, compared to 180 million in the last year.

Share of profit/(loss) from joint ventures

During the Year, the Group's share of profit from joint ventures amounted to approximately RMB0.2 million, as compared to approximately RMB7.9 million loss in the Last Year, mainly attributable to improved operating performance of joint ventures during the Year.

Profit before taxation

During the Year, profit before taxation of the Group amounted to approximately RMB124 million, representing an decrease of RMB577 million or 82.3% as compared to RMB701 million in the Last Year. The decrease was mainly attributable to the substantial decrease in gross profit and increase in the ratio of selling and administrative expenses to sales revenue.

Income tax expenses

During the Year, the Group's income tax expense amounted to approximately RMB13 million as compared to RMB126 million in the Last Year. The decrease was mainly attributable to the substantial reduction in the Group's profit before taxation.

Profit for the Year

During the Year, the Group's profit amounted to approximately RMB110 million, representing an decrease of RMB465 million or 80.9% as compared to RMB575 million in the Last Year. Among which, profit attributable to equity shareholders of the Company was amounted to approximately RMB92 million, representing an decrease of RMB446 million or 82.9% as compared to that in the Last Year, while earnings attributable to non-controlling interests was approximately RMB18 million. During the Year, net profit margin was 1.2%, representing an decrease of 5.5% as compared to 6.7% in the Last Year, which was mainly attributable to the significant decrease in gross profit and increase in expense ratio.

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

During the Year, EBITDA amounted to RMB711 million, as compared to approximately RMB1,082 million in the Last Year, which was mainly attributable to the marked decrease in operating profit brought by the significant decrease in revenue and the increase in cost. The EBITDA margin was 9.1%, as compared to 13.4% in the Last Year, which was mainly attributable to the decrease of gross margin brought by the significant decrease in sales revenue and a marked increase of the selling expense, general and administrative expenses ratio.

Dividend

For the year ended at 31 December 2014, the Directors do not recommend the payment of final dividend.

Source of Capital and Borrowings

The Group's principal sources of capital include listing proceeds, cash from operations, senior note and bank borrowings.

As at 31 December 2014, the Group's interest-bearing borrowings amounted to approximately RMB5,127 million, representing an increase of approximately RMB396 million as compared to that at 31 December 2013. Among which, borrowings repayable within one year amounted to approximately RMB2,807 million, representing an decrease of RMB467 million as compared to 31 December 2013. The decrease in banking borrowings was mainly attributable to the optimization of the debt structure, and the issuing of the senior notes of five years especially.

Deposit and Cash Flow

As at 31 December 2014, the Group's cash and cash equivalents amounted to approximately RMB1,442 million, representing an increase of approximately RMB167 million as compared to that at 31 December 2013. During the Year, net operating cash inflow amounted to approximately RMB319 million, mainly because the Group had enhanced the cash flow management ; net cash outflow from investing activities amounted to approximately RMB116 million, which was mainly due to investment of fixed assets and construction in progress for offshore manufacturing base project; net cash inflow from financing activities amounted to approximately RMB0.2 million, which was due to the optimization of the debt structure, lower proportion of the bank loans because of the repayment of the bank loans.

Assets Structure and Changes Thereof

As at 31 December 2014, the Group's total assets amounted to approximately RMB15,498 million, representing an increase of approximately RMB1,270 million or 8.9% as compared to 31 December 2013. Among which, current assets amounted to approximately RMB10,260 million, accounting for approximately 66.2% of total assets, representing an increase of approximately RMB580 million as compared to that at 31 December 2013, mainly due to an increase of cash and cash equivalents, trade and other receivables and inventories; non-current assets amounted to approximately RMB5,238 million, accounting for approximately 33.8% of total assets, represent an increase of approximately RMB690 million as compared to that at 31 December 2013, which were mainly due to an increase of fixed assets, construction in progress and long-term receivables.

Liabilities

As at 31 December 2014, the Group's total liabilities amounted to approximately RMB10,534 million, representing an increase of approximately RMB1,264 million as compared to that at 31 December 2013. Among which, current liabilities amounted to approximately RMB8,205 million, accounting for approximately 77.9% of total liabilities, representing an increase of approximately RMB444 million as compared to that at 31 December 2013; non-current liabilities amounted to approximately RMB2,329 million, accounting for approximately 22.1% of total liabilities, representing an increase of approximately RMB820 million as compared to that at 31 December 2013. As at 31 December 2014, the Group's gearing ratio was approximately 68.0%.

Equity

As at 31 December 2014, total equity amounted to RMB4,964 million, representing an increase of RMB6 million as compared to that at 31 December 2013. Total equity attributable to equity shareholders of the Company amounted to approximately RMB4,729 million, representing an decrease of RMB34 million as compared to 31 December 2013. Non-controlling interests totaled to approximately RMB235 million, representing an increase of RMB40 million as compared to that at 31 December 2013. Net asset value reached approximately RMB1.46 per Share. The Group's basic earnings per Share was approximately RMB2.89 cents, and diluted earnings per Share was approximately RMB2.87 cents.

Contingent Liabilities and Pledge

(a) Contingent liabilities

Lawsuits with a sales agency

A sales agency filed lawsuit against the subsidiaries of the company, alleged that they were owed commissions in excess of USD18,000,000 in relation to their services to the Group.

On 24 April 2013, the United Arab Emirates ("UAE") Federal Court of First Instance ordered the termination of the agency agreement and dismissed all claims from the sales agency. The sales agency filed an appeal to the UAE Federal Court of Appeal on the court's decision and hearing was made on 21 October 2013. The appeal was dismissed and the judgement was upheld. The sales agency further filed an appeal to the UAE Court of Cessation on the Court's decision and hearing is yet to be made as at 31 December 2014.

Having consulted the Group's legal advisors, management considered that the Group had legal and factual merit to defend in the lawsuits. Accordingly, management determined that it was not probable that the outcome of the lawsuit will be unfavourable to the Group. No provision was made for the potential claim under this lawsuit.

(b) Pledge

As 31 December 2014, the bank loans were secured by land use rights at original cost of RMB227,002,000 (2013: RMB227,002,000) and fixed assets of RMB507,241,000 (2013: RMB462,933,000) and trade and other receivables of RMB794,072,000 (2013: RMB184,678,000).

At 31 December 2014, deposits of RMB612,743,000 (2013: RMB593,337,000) were pledged to banks as security against interest bearing borrowings and bills payable.

Capital Expenditure, Major Investment and Capital Commitments

During the Year, capital expenditure of the Group on infrastructure and technical improvements amounted to approximately RMB778 million, representing an decrease of approximately RMB489 million as compared to Last Year. This was mainly attributable to the almost completion in the infrastructure construction of offshore projects.

As at 31 December 2014, the Group had capital commitments of approximately RMB1,660 million, which will be used for the construction of Jiangsu Qidong offshore manufacturing base and expansion of the Group's business as well as the production capacity and Sichuan Honghua Petroleum Equipment (H.K.) Limited, an indirect wholly-owned subsidiary of the company, which entered into a limited partnership agreement.

Foreign Currency Risk

The Group has certain foreign currency deposits. As at 31 December 2014, the Group's foreign currency deposits were equivalent to approximately RMB271 million, trade and other receivables denominated in foreign currency were equivalent to approximately RMB4,181 million. Exports and foreign currencies settled business exposed the Group to exchange risk. The Group has managed to mitigate the exchange risk through entering into forward exchange rate swap contracts and price adjustment during contract negotiation in consideration of future exchange rate circumstances.

Employee Remuneration and Benefits

During the Year, the Group has an average number of staff of 7,450 and incurred staff salary and welfare of RMB878,000,000. The amount increased by RMB77,000,000 or 9.6% comparing with Last Year. The Group's human resource department aims to improve the average productivity of each staff by integrating the global intelligence resource, establishing appraisal system among each hierarchy, setting up managing framework, improving training program and introducing new appraisal target, which reinforce the strategic support to the Group's operations. The Group has continuously introduced new management tools and human resources management methodology, optimized organization structure and defining clear responsibilities. In respect of land drilling rigs segment, organization structure would be adjusted and strengthened, appraisal target would be well defined, training program for production, sales, technology, logistics would be provided to middle and senior level of management and production rate of production staff would be improved by training program. In respect of oil and gas service segment, management of well teams would be strengthened, operational structure would be optimised and qualified teams would be established. In respect of off shore segment, team building would be the main focus, appropriate talent would be recruited and tailored incentive compensation would be studied and established. The Group would adjust the staff management strategy according to the operational plans in order to ensure adequate human resources availability and development.

PURCHASE, SALE OR REDEMPTION OF COMPANY'S LISTED SECURITIES

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

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 20 May 2015 to Wednesday, 27 May 2015, 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 Tuesday, 19 May 2015.

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 financial reporting process and internal control systems 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 2014 and the accounting principles and practices adopted by the Group during the Year.

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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has complied with most of the code provisions as set out in the Corporate Governance Code in Appendix 14 to the Listing Rules ("CG Code") throughout the year ended 31 December 2014, saving for certain deviations from the code provisions in respect of separation of roles of Chairman and President (Chief Executive Officer), the dismissal of the nomination committee of the Company and the absence of the Chairman of the Board in the annual general meeting, details of which will be explained below.

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

The Company is committed to 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.

Based on the Code Provision A.2.1 of CG Code, the roles of Chairman and President (Chief Executive Officer) should be separated and should not be performed by the same individual. Mr. Zhang Mi is the Chairman of the Board and President (Chief Executive Officer) of the Company. Mr. Zhang Mi is the main founder of the Group and has extensive experience in the industry and related industries. In the opinion of the Board, the vesting of duties of Chairman of the Board and President (Chief Executive Officer) of the Company to Mr. Zhang Mi would provide a strong and consistent leadership and allow effective planning and execution of business decisions and strategies, as well as ensure the interests of the shareholders of the Company as a whole. On the other hand, the balance between powers and duties could be ensured through the operation of the Board and the committees under it.

The Company will continue to review the effectiveness of the corporate governance framework of the Group, and consider whether to make any changes, including the separation of the roles of the Chairman and President (Chief Executive).

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.

Code Provision E.1.2 of the CG Code stipulates that the Chairman of the Board should attend annual general meetings. Mr. Zhang Mi, the Chairman of the Board, was absent from the last annual general meeting of the Company held in May 2014 due to his important business trip at the relevant time.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

Specific enquiry has been made of all the Directors and all the Directors have confirmed that they have complied with the Company Code and the Model Code throughout the year ended 31 December 2014.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT FOR 2014

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 2014 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, 27 May 2015
"Audit Committee"	:	the audit committee of the Company
"Board"	:	the Board of Directors of the Company
"Company"	:	Honghua Group Limited
"Directors"	:	directors of the Company
"During the Year"	:	for the year ended 31 December 2014
"Group" or "Honghua" or "We"	:	the Company and its subsidiaries, its associate and its jointly controlled entities
"HK$" or "HK dollars"	:	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	:	the Hong Kong Special Administrative Region of the PRC
"Last Year"	:	for the year ended 31 December 2013
"Listing Rules"	:	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
"PRC" or "China"	:	the People's Republic of China, unless the context requires otherwise, reference in this announcement of the PRC or China excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"RMB"	:	Renminbi, the lawful currency of the PRC
"Share(s)"	:	ordinary shares issued by the Company, with a nominal value of HK$0.10 each

"Stock Exchange"	:	The Stock Exchange of Hong Kong Limited
"US"	:	the United States of America, including its territories and possessions
"US$"	:	United States dollars, the lawful currency of the US

On behalf of the Board of
Honghua Group Limited
Zhang Mi
Chairman

Hong Kong, 26 March 2015

As at the date of this announcement, the Executive Directors of the Company are Mr. Zhang Mi (Chairman), Mr. Ren Jie and Mr. Liu Zhi; the Non-executive Director of the Company is Mr. Siegfried Meissner (Mr. Popin Su as his alternate); and the Independent Non-executive Directors of the Company are Mr. Liu Xiaofeng, Mr. Qi Daqing, Mr. Chen Guoming, Mr. Shi Xingquan and Mr. Guo Yanjun.