HONGHUA GROUP LIMITED
宏华集团有限公司

(incorporated in the Cayman Islands with limited liability)
Stock Code: 196

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大智造

2014 ANNUAL REPORT

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Zhang Mi *(Chairman)*
Ren Jie
Liu Zhi

NON-EXECUTIVE DIRECTORS

Siegfried Meissner
Popin Su
(The alternate director to Siegfried Meissner)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Liu Xiaofeng
Qi Daqing
Tai Kwok Leung, Alexander
(Resigned with effect from 19 March 2014)
Chen Guoming
Shi Xingquan
Guo Yanjun

SECRETARY OF BOARD OF DIRECTORS

He Bin

BOARD COMMITTEES

AUDIT COMMITTEE

Qi Daqing *(Committee Chairman)*
Liu Xiaofeng
Tai Kwok Leung, Alexander
(Resigned with effect from 19 March 2014)
Chen Guoming
Shi Xingquan
Guo Yanjun

REMUNERATION COMMITTEE

Liu Xiaofeng *(Committee Chairman)*
Zhang Mi
Qi Daqing

STRATEGIC INVESTMENT AND RISK CONTROL COMMITTEE

Zhang Mi *(Committee Chairman)*
Ren Jie
Liu Zhi
Shi Xingquan
Liu Xiaofeng

JOINT COMPANY SECRETARIES

He Bin
Corinna Leung

LEGAL ADVISOR

AS TO HONG KONG LAW

King & Wood Mallesons

PRINCIPAL BANKERS

Bank of China Limited
China Construction Bank Corporation
China Merchants Bank Co., Ltd.
Industrial and Commercial Bank of China Limited
The Export-Import Bank of China
Bank of Communications Co., Ltd.
Industrial and Commercial Bank of China (Asia) Limited
The Hongkong and Shanghai Banking Corporation Limited
Industrial Bank Co. LTD

AUDITOR

KPMG
Certified Public Accountants

REGISTERED OFFICE

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

HEAD OFFICE

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

PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Appleby Trust (Cayman) Ltd.
Clifton House, 75 Fort Street
PO Box 1350
Grand Cayman, KY1-1108
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

STOCK CODE

The Stock Exchange of Hong Kong Limited: 0196

WEBSITE

http://www.hh-gltd.com

FINANCIAL HIGHLIGHTS

	2014 RMB'000	2013 RMB'000	Changes
Operating results			
Turnover	**7,812,537**	8,047,108	-2.9%
Profit from operations	**396,498**	848,366	-53.3%
Profit before taxation	**123,666**	701,000	-82.4%
Profit attributable to equity shareholders of the Company	**91,787**	537,617	-82.9%
Figures per Share			
Earnings per Share-Basic (RMB cents)	**2.89**	16.99	-83.0%
Earnings per Share-Diluted (RMB cents)	**2.87**	16.77	-82.9%
Financial position			
Total non-current assets	**5,238,168**	4,548,371	15.2%
Total current assets	**10,260,172**	9,680,684	6.0%
Total assets	**15,498,340**	14,229,055	8.9%
Total current liabilities	**8,205,237**	7,761,845	5.7%
Total non-current liabilities	**2,329,333**	1,508,564	54.4%
Total liabilities	**10,534,570**	9,270,409	13.6%
Total equity	**4,963,770**	4,958,646	0.1%
Key financial ratios*			
Gross Margin	**20.9%**	23.7%	-11.80%
Net Margin	**1.2%**	6.7%	-82.1%
Return on average assets	**0.6%**	4.5%	-86.7%
Return on average equity	**1.9%**	11.7%	-83.8%
Current ratio	**1.25**	1.25	–
Quick ratio	**0.89**	0.89	–
Total debt/Total assets	**33.1%**	33.3%	-0.6%
Total liabilities/Total assets	**68.0%**	65.2%	4.3%

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

CHAIRMAN'S STATEMENT

CHAIRMAN'S STATEMENT

DEAR SHAREHOLDERS AND INVESTORS,

2014 was a year of transition for Honghua. Our business was affected by the unstable geopolitical layout and fluctuating crude prices. We focus sharply on things we could control. With "creative manufacturing" as the guiding principle we have fully leveraged on our self-innovation and R&D capability to promote the intelligence of the products, and have made great strides in the challenging market environment.

FINANCIAL HIGHLIGHTS

During the Year, the Group's revenue amounted to approximately RMB7,813 million, representing a decrease of 2.9% as compared with Last Year; the gross profit amounted to approximately RMB1,630 million, representing a decrease of 14.5% as compared with Last Year. Profit attributable to equity shareholders amounted to RMB92 million, representing a decrease of 82.9% as compared with Last Year.

BUSINESS REVIEW

In 2014, although crude price in the second half of the year posed negative influence in our results, our overall turnover maintained stable. This is largely attributable to our long-term implementation of "localization" strategy in the global market. We adopted a diversified sales strategy to expand into new markets while consolidating the mature markets. The high proportion of overseas market in our portfolio helped the equipment business segment to minimize the impact from the turbulence in domestic market.

Technology innovation is the cornerstone for our development. During the Year, we continue to promote the R&D of new generation products. In May, our self-developed "Honghua America I" drilling rig was exhibited in Offshore Technology Conference (OTC). A number of customers expressed high interests in this drilling rig for its characteristics of smaller occupied area and high degree of mechanization and automation. As one typical example of new generation drilling rigs, "Honghua America I" will help us to expand in the unconventional oil and gas market in North America.

In 2014, we achieved periodic results in the production and manufacturing of offshore equipment. As the first deep-water drilling ship's drilling package in China, Tiger-1 has been successfully delivered and completed debugging during the Year. It has filled the vacancy of domestic core equipment in high-end deep-water offshore drilling packages in China. What is even more delighting is that this Tiger project have trained a team of passionate young R&D talents for the Group. In terms of base construction, "Honghai" Crane No. 1 has completed testing and lifting, one step further to implement the innovative concept of "onshore manufacturing of offshore equipment".

OUTLOOK FOR 2015

Looking ahead at 2015, facing the challenges in unstable market environment worldwide, "broaden revenue stream and reduce costs" becomes our principle in 2015. We will implement prudent marketing strategy in sales, continue to optimize the existing market layout, seek for new customers and dig out the potentials in existing customers. In terms of land drilling equipment, the new generation drilling rig and new components will be our highly promoted products. In terms of offshore engineering equipment, we remain bullish on the middle to deep water drilling platform market, which has relatively more market potential. We will take new and cost-effective semi-submersible drilling rig as the major product and continue to expand customer base. Besides, we believe the market demand for this type of drilling package will gradually increase after the delivered deep-water drilling package starts operation along with the drilling ship. In terms of oil and gas engineering service, we will capture the market opportunity of China's shale gas development that currently blossomed in Sichuan Province, and expand the business scale of drilling and integrated drilling and well completion turnkey in shale gas field. Meanwhile, we will reduce redundant labor and improve efficiency, implement stringent control in capital expenditures, better manage the production and operation costs, and enhance the rate of returns on investment.

In the past few years, we have completed the global layout of marketing strategy, introduced world-leading professional technologies and products into the market, and cultivated a number of production and management talents. The investment in R&D has already seen some primary and encouraging signs. We believe that based on our accumulated experience in recent years, diversified products and geographic coverage, we will grow stronger in the complicated changing global market, and will be well prepared for the market recovery.

ACKNOWLEDGEMENT

Lastly, I would like to express my deepest gratitude to our shareholders, investors, customers and friends from all walks for their long-term support to Honghua, to our directors for their contribution to the Group, and to all staff for their efforts to realize the long-term and stable development of Honghua.

Zhang Mi
Chairman
26 March 2015, Hong Kong

MANAGEMENT DISCUSSION
AND ANALYSIS

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 joint venture, EPHH successfully passed the recertification review of API Q1, Specification for Quality programs and API 4F, Specification for Drilling and Well Servicing Structures 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 Quality Evaluations, Inc. (ABS QE), further improving the Quality, Health, Safety, Environment (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 granted a total of 40,575,000 share options 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.

CORPORATE SOCIAL RESPONSIBILITY REPORT

Throughout the years, Honghua Group has always upheld its corporate social responsibility principles of "gratitude, love, education, and enlightenment" as well as its value of "giving back to society." We continue to actively take part in promoting workplace safety, environmental protection, talent cultivation, employee benefits, and social welfare. We consider these values during our corporate management and decision making processes. We wish to facilitate the development of a harmonious relationship between our Company and the society with a view to guarantee the interests of our Shareholders, partners and employees. We also hope to develop sustainable energy all over the world to ensure that economic development and environmental protection may go hand in hand.

Honghua Group's land drilling rig production base — one of the largest land drilling rig production facilities in the world.

Honghua's headquarters located at the Technology Park, Jinniu District, Chengdu

CONTINUOUS SUPPORT TO SOCIAL WELFARE

In 2014, Honghua Group' donations to various universities in China totaled RMB1,630,000, which was used for the establishment of a charity fund to help college students, students' outdoor training camp, an award fund for innovative students and Honghua Group's scholarship fund.

EXPANDING BRAND INFLUENCE AND EXPLOITING BRAND ADVANTAGE

In September 2014, the Group took part in the Most-growable Energy Companies Ranking List event hosted by the Energy magazine and Energy Business School and was honored to be ranked 3rd among the top 50 energy companies selected from hundreds of candidates.

On 19 April 2014,Honghua Group entered into a donation agreement, namely “Campus Culture Building” and “Honghua Education Fund” with China University of Petroleum (Beijing) at the Chengdu base of Honghua Group.

On 15 October 2014, Honghua Group awarded education grants to students and teachers from Ya’an Tianquan Middle School.

The 2nd “Beautiful Education Foundation”

Honghua Group’s “Future Stars Career Counseling” training camp

HEALTH, SAFETY, AND ENVIRONMENTAL PROTECTION (HSE)

As the first drilling rig manufacturer of China listed on the Stock Exchange in Hong Kong, Honghua Group fully understands that guaranteeing production safety is the Company's most important responsibility to the society, its Shareholders and employees. Therefore, the Group and its subsidiaries have implemented standard guidelines for production safety on inspection, supervision, and training. Through a standardized health, safety, and environmental protection (HSE) management system, the Group has been able to fully implement and manage production safety and raise the workplace safety awareness of all its workers.

EVENTS TO RAISE AWARENESS OF HEALTH AND SAFETY

The Group continues to carry out various promotion and educational activities, including training, drills, and tests to raise its workers' awareness of safety, occupational health, and environmental protection.

ENERGY-EFFICIENT PRODUCT R&D FOR ENVIRONMENTAL PROTECTION AND ENERGY CONSERVATION

Honghua Group believes that environmental protection is an important aspect of a company's corporate social responsibility. As the world continues to promote the development of sustainable energy and environmental protection, Honghua Group strives to research, develop and improve energy efficient and environmentally friendly product designs.

New technologies have been introduced to the "oil to electricity " project for drilling rigs, and diesel engines were replaced by the national power grip to supply electricity to drilling rig devices, thus achieving energy saving in drilling equipment;

Advantages:

- Energy costs of drilling production are greatly reduced thanks to the price advantage of grid electricity;
- Effectively reduces the noise around the well field;
- Reduced use and maintenance of diesel engines help to cut human costs;
- Independently-developed special low-noise inverter motor for oil to electricity project;
- The variable frequency drive control has been adopted, and the use of variable frequency technology helps to achieve the goal of maximum energy-conservation.

CULTIVATING A CREATIVE CULTURE AND PROMOTING BETTER PRODUCTION ATTITUDES

We realize that having an effective corporate culture can enhance our employee's sense of belonging, corporate identity and improves our competitiveness. In 2014, Honghua Group has pushed forward the creation of a corporate culture with a view of developing a better cultural atmosphere in order to take the creativity and productivity of our employees to new heights.

THE MAKING OF A ROLE MODEL AND CREATING A LEGACY

On 7 March, 2008, Honghua Group was listed on the Stock Exchange of Hong Kong. Since then, every year on 7 March we hold "The Making of a Role Model" event — a ceremony for commending excellent employees. The event has not only pooled our staff's sense of belonging, but also allows us to pass down our corporate spirit and fully demonstrate Honghua's creative culture and productive spirit.

FOCUSING ON NEW KNOWLEDGE AND ENGAGING EMPLOYEE INTERESTS

In 2014, three issues of the Company's periodical "Honghua Man" were published. While reporting on news within the Company and introducing new management know-how, the editors also set up the "Orange Club" column to plan, launch, and report employee activities as an effort to promote a variety of activities for employees at our subsidiaries.

Honghua Group 2014 Autumn Fun Games were held successfully at the Chengdu base.

Staff Basketball Game 2014

Honghua Group Fire Drill Contest 2014

Honghua 2014 Christmas Party

Honghua 2014 Financial Management Training

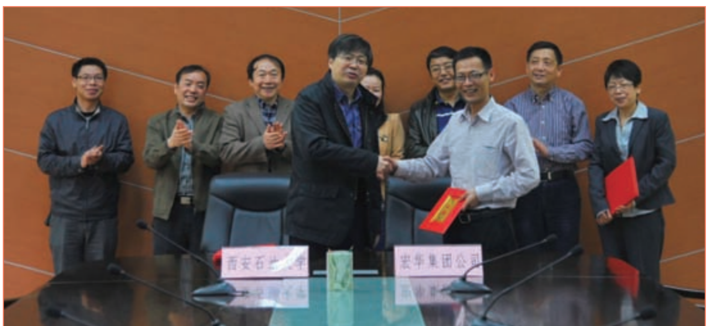
STRIVING TO CULTIVATE TALENTED EMPLOYEES

Honghua Group strongly believes that talented employees are our most important asset and insists on providing long-term, on-the-job training to its employees. Through trainings, we strive to improve our employees work capacity and aim to cultivate more talents for the industry and society. Through our optimized salary management, performance evaluation, and bonus and disciplinary mechanisms, we are able to attract and keep talented employees and continue to provide them with opportunities to further their career. These efforts cultivate positive attitudes and creativity in our employees and provide momentum for the Company towards new milestones.

In 2014, Honghua Group organized a variety of trainings, providing 941 training sessions of 7,881.6 hours with 37,075 participants in total. The training curriculum included leadership training, new employee orientations, corporate culture training, business skill enhancing training, various skills training, safety training and project management training.

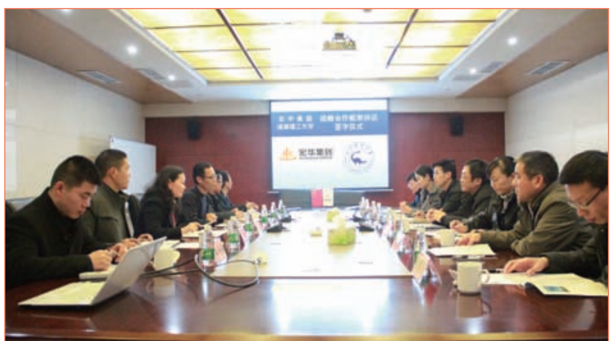
EFFECTIVELY CAPITALIZING AVAILABLE RESOURCES THROUGH UNIVERSITY-ENTERPRISE COOPERATION

Honghua Group, with its focus on talent training, also attaches high value to the effective integration of production, education and research through extensive collaboration with universities in China to deepen exchanges and cooperative relations in academic thinking, scientific research, talent training and university-enterprise cooperation. University-enterprise cooperation has always been one of the strategic cooperative development models valued by Honghua Group. In 2014, Honghua Group proactively explored more channels for university-enterprise cooperation, while enhancing its cooperation with six major petroleum universities in China — China University of Petroleum (Beijing), China University of Petroleum (East China), Southwest Petroleum University, Northeast Petroleum University, Xi'an Shiyou University and Yangtze University.



On 22 April 2014, Honghua Group and Southwest Petroleum University entered into the agreements in relation to the joint establishment of the "Engineering Practice Education Center" and the "Workstation for Joint Training of Graduate Students".

On 17 April 2014, Honghua Group and Southwest Petroleum University entered into the joint training agreement for training "excellent engineers and masters in mechanical engineering".



On 19 December 2014, the signing ceremony of the strategic cooperation framework agreement between Honghua Group and Chengdu University of Technology was held at the Chengdu base.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Zhang Mi (張弭先生), aged 58, has been Chairman and an Executive Director of the Company since June, 2007. He is also President of the Company.

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

Subsidiary	Position	Term of Office
Honghua Holdings Limited	director	Since 18 August 2006
	chairman, and chief executive officer	Since 8 September 2009
Sichuan Honghua Petroleum Equipment Co .,Ltd.	director	Since 31 December 1997
Honghua International Co., Ltd.	director	Since 13 January 2004
	chairman	Since 13 January 2004 until 20 May 2014
Honghua Offshore Oil & Gas Equipment (Jiangsu) Co., Ltd .	chairman	Since 8 June 2009
Shanghai Honghua Offshore Oil & Gas Equipment Co., Ltd.	executive director	Since 9 September 2009
Honghua (China) Investment Co., Ltd.	chairman, and general manager	Since 14 January 2010
Honghua Oil & Gas Engineering Services Co. Ltd.	director	Since 14 April 2009
Honghua America, LLC.	chairman	Since 11 October 2004
Egyptian Petroleum HH Rigs Manufacturing CO. S.A.E	director	Since 26 April 2007
Gansu Hongteng Oil & Gas Equipment Co., Ltd.	director	Since 28 December 2011

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

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

Mr. Ren Jie (任杰先生), aged 48, has been an Executive Director of the Company since 18 January 2008. He is also a Vice-president of the Company. In 1990, Mr. Ren earned a Bachelor's degree in mining machinery from Southwest Petroleum University, specializing in petroleum and natural gas. In 1995, Mr. Ren obtained an engineering qualification, granted by the China National Petroleum Corp., Sichuan Petroleum Administration. In November 2007, he also became a member of the 5th Edition Committee of the Oil Field Equipment Journal, and in 2012, he earned a Doctor's degree in Mechanical Design and Theory from Southwest Petroleum University. Mr. Ren is employed as an engineer by Honghua Company.

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

Subsidiary	Position	Term of Office
Honghua Holdings Limited	director	Since 18 August 2006
Sichuan Honghua Petroleum Equipment Co., Ltd.	director	Since 31 December 1997
	general manager	Since 1 July 2013
Honghua International Co., Ltd.	director and	Since 13 January 2004
	chairman	Since 20 May 2014
Honghua Offshore Oil & Gas Equipment (Jiangsu) Co. Ltd.	director	Since 8 June 2009
Sichuan Honghua Electric Co.,Ltd.	director	Since 1 August 2009
Honghua (China) Investment Co., Ltd.	director	Since 14 January 2010
Newco (H.K.) Limited	director	Since 22 June 2008
	chairman, and general manager	Since 22 September 2009
Egyptian Petroleum HH Rigs Manufacturing CO. S.A.E.	director	Since 7 August 2009
Honghua America, LLC.	director	Since 10 October 2008
Sichuan Honghua International (H.K.) Limited	director	Since 25 June 2010

Mr. Liu Zhi (劉智先生), aged 51, has been an Executive Director of the Company since 26 May 2008. He is also a Vice-president of the Company. Mr. Liu graduated from Southwest Petroleum University in 2003, with a Master degree in oil and gas storage and transportation. He was an engineer and a head of workshop of South-Sichuan Mining Area of Sichuan Petroleum Bureau since 1981 to 1994. Mr. Liu was the factory director of Guanghan Petroleum Machinery Main Factory of Sichuan Petroleum Administration from 1994 to 2000. Mr. Liu has contributed to the expansion of the Group's markets inside and outside of China.

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

Subsidiary	Position	Term of Office
Honghua Holdings Limited	director	Since 26 May 2008
Honghua Offshore Oil & Gas Equipment (Jiangsu) Co., Ltd.	director	Since 8 June 2009
Honghua Oil & Gas Engineering Services Co., Ltd.	director	Since 14 April 2009
	chairman	Since 21 July 2009
Bazhou Honghua Petroleum Applied Chemistry Co., Ltd.	chairman	Since 1 April 2013
Honghua (China) Investment Co., Ltd.	director	Since 14 January 2010
Honghua Oil & Gas Engineering and Technology Services (Sichuan) Co., Ltd.	chairman	Since 30 December 2010
	general manager	Since 30 December 2010 until 31 December 2014

NON-EXECUTIVE DIRECTORS

Mr. Siegfried Meissner, aged 62, has been a Non-executive Director of the Company since 26 May 2008. Mr. Meissner graduated from the Technical University of Clausthal-Zellerfeld, Germany as Dipl. Berging., specialized in drilling, reservoir and production engineering in 1982. Since 1993, Mr. Meissner joined the Nabors Group as president of Nabors Drilling International Limited. Mr. Meissner has been a director of Nabors International Management Limited since 29 December 2004.

Mr. Popin Su, aged 50, has been the alternate director to Siegfried Meissner, a Non-executive Director of the Company, since 27 December 2012. Mr. Su has been the vice president and corporate treasurer of Nabors Industries since 2008. Mr. Su acted as the vice president of Nabors Drilling International Ltd. from 1999 to 2007. Mr. Su holds a Bachelor of Science degree from National Taiwan University and a Master's degree in Business Administration from University of Texas at Austin.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Liu Xiaofeng (劉曉峰先生), aged 52, has been an Independent Non-executive Director of the Company since 18 January 2008. He is currently a managing director of China Resources Capital Holdings Company Limited, and an independent non-executive director of Kun Lun Energy Company Limited. He has years of experience in corporate finance and has worked with various international financial institutions since 1993, including NM Rothschild & Sons, JP Morgan, and DBS. Mr. Liu obtained a Master's degree and a Ph.D. from the Faculty of Economics, University of Cambridge in 1988 and 1993 respectively, a Master of Science degree in Development Studies from the University of Bath, England, in 1987, and a Bachelor of Economics degree from Southwest University of Finance and Economics in 1983.

Mr. Qi Daqing (齊大慶先生), aged 51, has been an Independent Non-executive Director of the Company since 18 January 2008. Mr. Qi is also an independent non-executive director of Sohu.com Inc., AutoNavi Holdings Ltd., Bona Film Group Ltd. and SinoMedia Holding Ltd.. Mr. Qi is currently a professor of Cheung Kong Graduate School of Business and a member of the American Accounting Association. Mr. Qi had worked for The Chinese University of Hong Kong, the Eli Broad Graduate School of Management at Michigan State University in the United States, the East-West Center in the United States and the China Features in Xinhua News Agency in the PRC. Mr. Qi graduated from Fudan University with a bachelor's degree of science in Biophysics and a bachelor's degree of arts in International Journalism. He obtained a master's degree in Management from the University of Hawaii and a doctoral degree in Accounting from the Eli Broad College of Business, Michigan State University in the United States.

Mr. Tai Kwok Leung, Alexander (戴國良先生), aged 57, has been an Independent Non-executive Director of the Company since 18 January 2008 and resigned with effect from 19 March 2014. Mr. Tai has extensive accounting, corporate finance and investment experience in Hong Kong and overseas. Mr. Tai is the managing director — corporate finance supervisor of Investec Capital Asia Limited (formerly known as "Access Capital Limited"), a licensed corporation under the SFO to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities. Mr. Tai is currently an independent non-executive director of Luk Fook Holdings (International) Limited and Anhui Conch Cement Company Limited. Mr. Tai graduated from Victoria University of Wellington in New Zealand with a degree in Bachelor of Commerce and Administration in 1982 and became an associate member of the Hong Kong Institute of Certified Public Accountants in 1983.

Mr. Chen Guoming (陳國明先生), aged 52, has been an Independent Non-executive Director of the Company since 18 January 2008. He is now a Professor, a Ph.D. candidate supervisor, a member of the Academic Committee, the Chief officer of Research Centre of Security technique of the Offshore Oil & Gas Equipment, the Chief officer of Professor Committee in the Department of Mechanical and Electrical Engineering of China University of Petroleum. Currently, Mr. Chen is the Chief officer of Shandong Key Laboratory of Petroleum Mechanical Engineering; a member of the Quality & Reliability Committee of China Petroleum Society, the Offshore Engineering Committee of China Naval Architects and Marine Engineers' Society and China Mechanical Engineering Society; and a member of the Editorial Committee of the Journal of Petroleum Science, the Journal of Oil Mining Field Machinery and the Journal of China University of Petroleum (Natural Science Edition). He has been receiving special subsidies granted by the State Council of the PRC government (政府特殊津貼) since August 2005, for his significant contribution to the development of higher education in China, and was awarded the National Labor Day Medal in 2007. In 1982, Mr. Chen graduated from the Mechanical Department of the East China Petroleum Institute with a Bachelor's Degree, and then worked as an assistant engineer in the Lanzhou General Machinery Plant from 1982 to 1983. He earned his Master's degree in 1986, from the Beijing Graduate School of East China Petroleum Institute. He then worked as a teacher in this Institute and was promoted to Associate Professor and then Professor in 1992 and 1995, respectively. He was a visiting scholar at the University of California, Berkeley, from 1996 to 1997. He obtained his Ph.D. degree in 1999, and was promoted to Ph.D. candidate supervisor in 2000.

Mr. Shi Xingquan (史興全先生), aged 72, has been an Independent Non-executive Director of the Company since 14 April 2009. Mr. Shi is a senior engineer in professor level. Mr. Shi has been appointed as the vice president of Petro China Company Limited from 1999 until 2003. Mr. Shi was awarded the National Technology Advancement Award (First Prize) by the National Science and Technology Council of the PRC in 1997. In 2003, Mr. Shi was awarded the National Scientific and Technological Progress Award (First Prize) by State Council of the PRC. Mr. Shi was also granted the Middle-aged and Young Experts of the State with Outstanding Contribution by Ministry of Personnel of the PRC. Mr. Shi graduated from the Northeastern Petroleum College in 1965 and is a well-known petroleum engineering expert.

Mr. Guo Yanjun (郭燕軍先生), aged 62, has been an Independent Non-executive Director of the Company since 20 June 2011. Mr. Guo is an independent non-executive director of Mei Ah Entertainment Group Limited and Strong Petrochemical Holdings Limited. Mr. Guo has extensive entrepreneurship experiences and experience of corporate operation and management. Mr. Guo is currently the chairman of Beijing Junxinda Economic Development Co., Ltd. and CNHK Media Limited. Mr. Guo graduated with a Diploma in Law from China People's University in 1984.

SENIOR MANAGEMENT

Mr. Zhao Ping (趙平先生), aged 58, has been the Human Resources Director of the Company since 26 March 2015 and has been a Vice-president of the Company since 27 April 2008. He has been a director of Honghua Company since 18 January 2010, and has been the chairman of Honghua Company since 1 January 2012. He was the general manager of Honghua Company from 18 January 2010 to 31 December 2011. From 1972 to 1999, Mr. Zhao worked in South-Sichuan Mining Area of Sichuan Petroleum Bureau. He was the head of Quality Management Office since 1993, and the director of Workshop No.1 from 1994 to 1996, and was the deputy factory director from 1997 to 1999. Mr. Zhao graduated from Machinery Department of Southwest Petroleum University, majoring in Petroleum & Minerals Machinery and is a qualified engineer.

Mr. Zhang Cong (張聰先生), aged 59, has been a Vice-president of the Company since 27 April 2008, and has been the chairman and general manager of Sichuan Honghua Electric Co.,Ltd. (formerly known as "Chengdu Hongtian Electric Drive Engineering Co., Ltd.") since June 2001. He has been a director of Honghua International Co., Ltd. since 1 August 2009, and has been the general manager of Honghua Offshore Oil & Gas Equipment (Jiangsu) Co., Ltd. and Shanghai Honghua Offshore Oil & Gas Equipment Co., Ltd. since 26 September 2011. Mr. Zhang was one of the initial founders of Sichuan Honghua Electric Co.,Ltd.. Mr. Zhang has helped Sichuan Honghua Electric Co.,Ltd. to sell DBS digital VFD system to major oil fields in China and a large number of products to the overseas market. In December 2006, Mr. Zhang was awarded "The Fourth session Excellent Start in Undertaking Entrepreneur of Chengdu". Mr. Zhang was a cadre in South-Sichuan Mining Area of Sichuan Petroleum Bureau from September 1985 to September 1994 and was the manager and director of Luzhou Huayou Compressed Gas Co., Ltd. form September 1994 to June 2001. Mr. Zhang graduated from Sichuan Radio TV University, majoring in electronic technology and is a qualified engineer.

Mr. Feng Shangfei (馮尚飛先生), aged 41, has been the Human Resources Director of the Company and Honghua (China) Investment Co., Ltd. since 1 June 2011 to 26 March 2015, and was appointed as the general manager of Honghua Company from 1 January 2012 to 30 June 2013. Mr. Feng has over 10 years of experience in personnel, administration, corporate culture, senior management of large enterprise. For the period from October 2009 to March 2011, Mr. Feng worked for Anton Oilfield Services (Group) Ltd. as the Human Resources Director. For the period from April 2006 to September 2009, he worked for ENN Energy Holdings Limited (a holding group of a Hong Kong listed company), served as human resources director of the LNG Division, vice president of human resources of overseas business department and general manager of Vietnamese company. For the period from October 2000 to March 2005, Mr. Feng worked for Linuo Group Holdings Co., Ltd.. For the period from July 1995 to October 2000, he was a lecturer of Shandong University. Mr. Feng graduated from Shangdong University (formerly known as Shangdong Industry University) with a Bachelor's Degree of engineering in 1995, majoring in mechanical design and manufacture. He earned a Master's degree of Psychology from Beijing Normal University in 2000.

Mr. Chung Kai Cheong (鍾啓昌先生), aged 37, has been the Financial Controller of the Company since 1 June 2011 to 26 March 2015. Mr. Chung joined the Group in August 2008 as a director of financial centre of the Company. Mr. Chung has over 14 years of experience in accounting and auditing at international accounting firms and listed company. Mr. Chung also worked for KPMG from December 2003 to July 2008 with the then latest position as an audit manager. He also worked for BDO Limited (formerly known as BDO McCabe Lo & Co.) for the period from June 2000 to December 2003 with the then latest position as a senior associate. Mr. Chung obtained a Bachelor's Degree majoring in accountancy from The City University of Hong Kong in September 2000. He is currently a Fellow of the Hong Kong Institute of Certified Public Accountants.

Mr. Yuan Hai (袁海先生), aged 37, has been the Financial Controller of the Company since 26 March 2015. Mr. Yuan joined the Company in 2007. He is currently a director and chief financial officer of Honghua International Co., Ltd., an indirect non-wholly owned subsidiary of the Company. Mr. Yuan has over 14 years of experience in financial management. Mr. Yuan was engaged in PricewaterhouseCoopers from 2000 to 2004, with the then last position as senior tax consultant. From 2004 to 2007, he worked in Bayer Animal Health China with the then last position as financial controller. Mr. Yuan obtained a Bachelor's degree majoring in international trade from Southwest University of Finance and Economics in 2000.

Mr. He Bin (何斌先生), aged 41, has been the secretary of Board and a Joint Company Secretary of the Company since 27 December 2013. Mr. He joined the Group in 2008 as the director of Strategic Investment Department and assistant president of the Company. Mr. He has more than 10 years of investment and management experience, once was engaged in venture capital, investment consulting and other related work in Samsung Company. He holds a Bachelor's degree from Renmin University of China and a Master's degree in Business Administration from University of Alberta in Canada.

Ms. Corinna Leung (梁慧嫻女士), aged 47, has been a Joint Company Secretary of the Company since 21 January 2008. She is a director of the corporate services department of Tricor Services Limited. She is a fellow member with the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries. She provides corporate services to companies that are listed on the Main Board, Growth Enterprise Market of the Stock Exchange and private companies.

CORPORATE GOVERNANCE REPORT

The Board presents this Corporate Governance Report in the Group's annual report for the year ended 31 December 2014.

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

CORPORATE GOVERNANCE PRACTICES OF THE COMPANY

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

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

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

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

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

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

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

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

The Company has complied with most of the code provisions as set out in the CG Code throughout the year ended 31 December 2014, save 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 attendance 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 enhancing its corporate governance practices appropriate to the conduct and growth of its business and to reviewing its corporate governance practices from time to time to ensure that they comply with the statutory and professional standards and align with the latest developments.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted its own code of conduct regarding Directors' dealing 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 Directors have confirmed that they have complied with the Company Code and the Model Code throughout the year ended 31 December 2014.

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

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

THE BOARD OF DIRECTORS

BOARD COMPOSITION

The Board currently comprises 10 members, consisting of 3 Executive Directors, 1 Non-executive Director and his alternate and 5 Independent Non-executive Directors. The biographical details of Directors are set out under "Biographical Details of Directors and Senior Management"on pages 22 to 26.

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

CHAIRMAN AND PRESIDENT (CHIEF EXECUTIVE)

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

Mr. Zhang Mi is the Chairman and President (Chief Executive) of the Company. He is one of the founders of the Group and possesses with knowledge and experience in the industry and the related industries. The Board believes that vesting the roles of both Chairman and President (Chief Executive) in Mr. Zhang Mi provides the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies.

The Board is of the view that it is in the best interests of the Group to have the two roles performed by Mr. Zhang Mi so that the Board can have the benefit of a chairman who is knowledgeable about the business of the Group and is most capable to guide discussions and brief the Board in a timely manner on pertinent issues and developments to facilitate open dialogue between the Board and the management.

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

During the year ended 31 December 2014, the Board at all times met the requirements of the Listing Rules relating to the appointment of independent non-executive directors representing at least one-third of the Board. The Company had five Independent Non-executive Directors with two of whom possessing appropriate professional qualifications or accounting or related financial management expertise so that there is a strong independent element on the Board, which can effectively make the independent judgment. One of the Independent Non-Executive Directors possessing appropriate professional qualification or accounting or related financial management expertise resigned with effect from 19 March 2014.

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

NON-EXECUTIVE DIRECTORS AND DIRECTORS' RE-ELECTION

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

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

RESPONSIBILITIES, ACCOUNTABILITIES AND CONTRIBUTIONS OF THE BOARD AND MANAGEMENT

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance. The senior management was delegated the authority and responsibility by the Board for the day-to-day management and operations of the Group. In addition, the Board has also established Board committees and has delegated to these Board committees various responsibilities as set out in their terms of reference.

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

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

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

The Directors shall disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each Director to perform his responsibilities to the Company.

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

BOARD DIVERSITY

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

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

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

TRAINING INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

Directors keep abreast of responsibilities as a director of the Company and of the conduct, business activities and development of the Company.

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

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

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

During the year ended 31 December 2014, the following Directors attended seminars/training sessions/in-house briefing/reading materials:

Directors	Attending seminar and/or conferences and/or forums	Reading journals, updates, articles and/or materials, etc.
Executive Directors		
Zhang Mi	✓	✓
Ren Jie	✓	✓
Liu Zhi	✓	✓
Non-Executive Directors		
Siegfried Meissner	✓	✓
Popin Su (alternate director to Siegfried Meissner)	✓	✓
Independent Non-Executive Directors		
Liu Xiaofeng	✓	✓
Qi Daqing	✓	✓
Tai Kwok Leung, Alexander (resigned with effect from 19 March 2014)	✓	✓
Chen Guoming	✓	✓
Shi Xingquan	✓	✓
Guo Yanjun	✓	✓

BOARD COMMITTEES

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

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

AUDIT COMMITTEE

The Audit Committee comprises 5 Independent Non-executive Directors, namely, Qi Daqing (Chairman), Liu Xiaofeng, Chen Guoming, Shi Xingquan and Guo Yanjun. Tai Kwok Leung, Alexander resigned on 19 March 2014. There are two Independent Non-executive Directors who possess the appropriate professional qualification or accounting or related financial management expertise.

The main duties of the Audit Committee include the following:

- To review the financial statements and reports and consider any significant or unusual items raised by the staff responsible for the accounting and financial reporting function or external auditors before submission to the Board;

- To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendations to the Board on the appointment, re-appointment and removal of external auditors;

- To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures; and

- To review the compliance of the corporate governance issues, the corporate governance report and the corporate governance policy.

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

During the Year under review, the Audit Committee has reviewed the Group's annual results and annual report for the year ended 31 December 2014, the financial reporting and compliance procedures, the report from the management on the Company's internal control and risk management systems and processes, the re-appointment of the external auditors, the compliance of the corporate governance issues, the corporate governance report and the corporate policy.

The Audit Committee held two meetings during the year ended 31 December 2014 and the attendance records are set out under "Directors' Attendance Records" on page 38.

REMUNERATION COMMITTEE

The Remuneration Committee comprises 3 members, Liu Xiaofeng (Chairman), Zhang Mi and Qi Daqing, the majority of them are Independent Non-executive Directors.

The primary objectives of the Remuneration Committee include the following:

- To make recommendations on the establishment of procedures for developing remuneration policy and structure of the Directors and the senior management, such policy shall ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration;
- To make recommendations on the remuneration packages of the Non-executive Directors to the Board;
- To review and approve the remuneration packages of the Executive Directors and the senior management by reference to the performance of the individual and the Company as well as market practice and conditions; and
- To review and approve the compensation arrangements for the Executive Directors and the senior management in connection with (i) any loss or termination of their office or appointment and (ii) any dismissal or removal of directors for misconduct to ensure such arrangements are determined in accordance with contractual terms and that such compensation is reasonable and appropriate.

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

The Remuneration Committee held a meeting during the year ended 31 December 2014 and the attendance records are set out under “Directors’ Attendance Records” on page 38.

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

The basis of determining the emolument of Directors is on various considerations, including Directors’ capability, knowledge and experience, participation to the Board, job duties and responsibilities and is also made reference to the market practices and conditions. The remuneration of the Executive Directors is based on their administrative management positions. Independent Non-executive Directors are entitled to a fixed emolument package. Non-executive Directors may be entitled to a fixed remuneration under the service contract.

STRATEGIC INVESTMENT AND RISK CONTROL COMMITTEE

The Strategic Investment and Risk Control Committee was formed by Zhang Mi (Chairman), Ren Jie, Liu Zhi, Shi Xingquan and Liu Xiaofeng.

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

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

The Strategic Investment and Risk Control Committee normally meets at least once a year for reviewing the investment and risk control issues. The Strategic Investment and Risk Control Committee held two meetings during the year ended 31 December 2014 and the attendance records are set out under “Directors’ Attendance Records” on page 38.

DISMISSAL OF NOMINATION COMMITTEE

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

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

ATTENDANCE RECORD OF DIRECTORS AND COMMITTEE MEMBERS

During the year ended 31 December 2014, seven Board meetings including four regular Board meetings were held at approximately quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

The attendance record of each Director at the meetings of the Board, the Audit Committee, the Remuneration Committee and the Strategic Investment and Risk Control Committee during the year ended 31 December 2014 are set out below:

	Attendance/Number of Meetings				
Name of Director	Board	Audit Committee	Remuneration Committee	Strategic Investment and Risk Control Committee	Annual General Meeting
Zhang Mi	07/07	–	01/01	02/02	0/01
Ren Jie	07/07	–	–	02/02	01/01
Liu Zhi	07/07	–	–	02/02	0/01
Siegfried Meissner	0/07	–	–	–	0/01
Popin Su (the alternate director to Siegfried Meissner)	07/07	–	–	–	0/01
Liu Xiaofeng	06/07 01*/07	02/02	01/01	02/02	01/01
Qi Daqing	07/07	02/02	01/01	–	01/01
Tai Kwok Leung, Alexander#	01/01	01/01	–	–	–
Chen Guoming	07/07	02/02	–	–	0/01
Shi Xingquan	07/07	02/02	–	01/02	0/01
Guo Yanjun	06/07 01*/07	02/02	–	–	01/01

* Director had appointed proxy to attend meeting
\# resigned with effect from 19 March 2014

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

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2014.

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

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report on pages 65 to 66.

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

AUDITORS' REMUNERATION

During the year ended 31 December 2014, the remuneration paid to the Company's auditors, Messrs KPMG, is set out below:

Service Category	Fees (in Renminbi)
Audit Services	3,010,000
Non-audit Services	
— Reviewing interim financial statements	1,550,000
— Other	1,359,000
Total	5,919,000

The auditors' remuneration disclosed in note 6(c) to the consolidated financial statements included the remuneration paid to KPMG as detailed above and the remuneration paid to domestic auditors of the Company's subsidiaries.

INTERNAL CONTROLS

During the Year under review, the Board, through the Audit Committee, has also conducted a review of the effectiveness of the internal control system of the Group, including the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting and financial reporting function.

The Board is responsible for maintaining an adequate internal control system to safeguard Shareholder investments and Company's assets and with the support of the Audit Committee, reviewing the effectiveness of such system on an annual basis.

The internal control system of the Group is designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks and to safeguard assets of the Group.

The Group has, under the guidance and supervision of the Board and its Committees, conducted the construction of the following internal control and taken the following measures to strengthen its internal control.

FINANCIAL MANAGEMENT

The Company attaches great importance to the construction and improvement of the internal control system of financial management, proactively constructs and completes each of the internal controls of financial management system, revises and improves them as and when appropriate according to the development needs and changes of external and internal environment of the Group and ensures to effectively perform each of the internal controls of financial management system through perspective plans, procedural control and result examination.

The internal control system of the financial management of the Company mainly includes:

1. Financial organization and management: the Company has formulated the functional division organism for the financial system of the Group, proactively improved the financial management structure of the Group and ensured a scientific and clear-cut functional division of the financial management of the Group, which has ensured the efficiency and effectiveness of the financial management of the Company.

2. Financial calculation and analysis management: the Company has formulated accounting calculation methods and rules as well as other management systems for the Group, and proactively strengthened the financial calculation and analysis work of the Group, which has ensured the truthfulness, accuracy and completeness of the financial information of the Company.

3. Funds management: the Company implements an unified and centralized funds management system and proactively intensifies the risk management and control work for funds, and has on this basis formulated and improved relevant management system. As for the organizational structure, duties and responsibilities, authorization, approval and payment procedures, account management and other matters, the Company has provided detailed rules to ensure the safety of using funds and smooth turnover of fund in order to enhance the efficiency in the use of funds.

4. Budget management: the Company implements a comprehensive budget management system with unified planning and tiered administration. An annual budget of the Group will be adopted subject to the passing of approval of the Board, and then implemented and tracked for analysis on a monthly basis. The implementation of completed budget will be analyzed periodically with an analysis report to be incorporated in the result performance system of the Group for assessment and rewards or punishment.

5. Financial risk management: the Company takes the risk control very seriously, executes a prudent financial management policy and sound risk control rules to ensure that each risk be at an acceptable level for the Group, and maintains and constantly reinforces the capability of sustainable development. The Company prudently manages the status of debt balance, and through the integration of use of its own fund and other external financing to maintain the flexibility of finance, and vigorously exploits diverse financing channels.

INTERNAL AUDIT

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

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

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

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

MANAGEMENT OF PROCUREMENT AND LOGISTICS

The Company has planned and formulated a series of institutional documents for procurement and logistics regarding the supplier management, tendering and bidding management and the activities of the procurement and logistics personnel, the management of procurement, and improved the procurement procedures, all of which are helpful to enhancing the efficiency of the supply chain in the supply system.

The Company has proactively attempted the financing from the supply chain to make the payment methods more flexible, to effectively reduce pressure of the operational cash flow and to facilitate and promote the capacity of value-increasing of the supply chain.

The Company is actively exploring a set of replicated standards in line with the logistic model of the Company in order to create a sustained improvement atmosphere to provide a high efficient logistic service for production.

INFORMATION DISCLOSURE

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

During the Year, the Company had organized trainings for senior management and staff for several times regarding the information disclosure to strengthen their awareness of compliance so as to ensure that any one or more staff can timely identify, assess and report any material information of which once they are aware.

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

The Company will continue to improve and enhance the internal control of the Company, review its effectiveness and introduce practices and procedures that can help strengthening the internal risk control.

COMPANY SECRETARIES

Corinna Leung of Tricor Services Limited, an external service provider, has been engaged by the Company as one of its Joint Company Secretaries. The primary contact person at the Company is He Bin, one of the Joint Company Secretaries of the Company.

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

SHAREHOLDERS' RIGHTS

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

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

CONVENING AN EXTRAORDINARY GENERAL MEETING BY SHAREHOLDERS

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

PUTTING FORWARD PROPOSALS AT GENERAL MEETINGS

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

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

PUTTING FORWARD ENQUIRIES TO THE BOARD

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

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

CONTACT DETAILS

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

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

Email: shareholder@hhcp.com.cn

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

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

Code Provision E.1.2 of the CG Code stipulates that the Chairman of the Board should attend annual general meeting. 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.

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

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

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

The Board presents this annual report, together with the audited consolidated financial statements of the Group for the year ended 31 December 2014.

PRINCIPAL ACTIVITIES

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

RESULTS AND DISTRIBUTION

The results of the Group for the year ended 31 December 2014 are set out in the consolidated financial statements on pages 67 to 170 of this annual report.

The Board did not recommend a final dividend for the year ended 31 December 2014.

CLOSURE OF REGISTER OF THE 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 forthcoming annual general meeting. In order to be eligible to attend and vote at the forthcoming 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.

SHARE CAPITAL

Changes in the share capital of the Company during the Year are set out in Note 33 to the consolidated financial statements.

PRE-EMPTIVE RIGHT

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

PURCHASE, SALE OR BUY-BACK OF THE LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or bought back any of the Company's shares during the year ended 31 December 2014.

RESERVES

As of 31 December 2014, the Group has a total of approximately RMB4,428 million worth of reserve. Details of movements in the reserves of the Group during the Year are set out in the consolidated statement of changes in equity in the consolidated financial statements.

SUBSIDIARIES

Details of the Company's principal subsidiaries as of 31 December 2014 are set out in Note 16 to the consolidated financial statements.

SIGNIFICANT CONTRACT

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

DIRECTORS

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

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

In accordance with the Articles of Association, one third of the Director (or closest to but not less than one third if the number is not three or a multiple of three) shall retire from office by rotation at each annual general meeting and each Director is required to retire at least once every three years and any Director appointed by the Board shall hold office only until the next general meeting and shall then be eligible for re-election at the meeting. Mr. Zhang Mi, Mr. Siegfried Meissner and Mr. Shi Xingquan will retire from office by rotation at the forthcoming annual general meeting and will be eligible for re-election.

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

DIRECTORS' SERVICE CONTRACTS

Each of the Director of the Company is engaged on a service contract for a term of 3 years. The appointment may be terminated by not less than 3 months' written notice, except for Mr. Siegfried Meissner whose appointment may be terminated by not less than 1 month's written notice. The Directors shall retire by rotation and be eligible for re-election subject to the Articles of Association.

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

DIRECTORS' INTERESTS IN CONTRACTS

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

REMUNERATION FOR DIRECTORS AND SENIOR MANAGEMENT

For the year ended 31 December 2014, details of remuneration for the Directors and Senior Management of the Company are set out in Notes 8 and 36(f) to the consolidated financial statements.

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

	2014 **Number of individuals**
RMB0 to RMB1,000,000	1
RMB1,000,001 to RMB2,000,000	6
RMB2,000,001 to RMB3,000,000	1
RMB3,000,001 to RMB4,000,000	–
RMB4,000,001 to RMB5,000,000	–
RMB5,000,001 to RMB6,000,000	–

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

At 31 December 2014, the interests and short positions of each Director and Chief Executive in the Shares and underlying Shares of the Company and its associated corporations (within the meaning of the SFO), as recorded in the register required to be kept by the Company under Section 352 of Part XV of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code contained in Appendix 10 to the Listing Rules were as follows:

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

	Long/Short position	Nature of interest	Number of shares held	% of the issued share capital of the Company
Mr. Zhang Mi	Long	Personal interest, corporate interest and settlor of a discretionary trust	1,513,409,620(1)(5)	46.69%
Mr. Ren Jie	Long	Personal interest, corporate interest and settlor of a discretionary trust	1,513,409,620(2)(5)	46.69%
Mr. Liu Zhi	Long	Personal interest, corporate interest and settlor of a discretionary trust	1,513,409,620(3)(5)	46.69%
Mr. Guo Yanjun	Long	Corporate interest	2,100,000(4)	0.06%

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

Ren Jie, another member of the Concert Group and the settlor of a discretionary trust, The RJDJ Victory Trust, individually owns 1,549,000 Shares. The Trustee of The RJDJ Victory Trust owns 33,227,200 Shares. The Trustee of a discretionary trust, The LZWM Family Trust, whose settlor is Liu Zhi, another member of the Concert Group, individually owns 1,250,000. The Trustee of The LZWM Family Trust owns 25,150,000 Shares. The Trustee of a discretionary trust, The FBX Family Trust, whose settlor is Fan Bing, another member of the Concert Group, individually owns 30,000 Shares. The Trustee of The FBX Family Trust owns 18,581,000 Shares. The Trustee of a discretionary trust,The ZHH Family Trust, whose settlor is Zuo Huixian, another member of the Concert Group, individually owns 210,000 Shares. The Trustee of The ZHH Family Trust owns 18,804,400 Shares. The Trustee of a discretionary trust, The Hong Xu Family Trust, whose settlor is Zhang Xu, another member of the Concert Group, individually owns 12,686 Shares. The Trustee of The Hong Xu Family Trust owns 13,557,400 Shares. The Trustee of a discretionary trust, The LXYY Family Trust, whose settlor is Liu Xuetian (deceased), another member of the Concert Group, owns 6,052,400 Shares. The other members of the Concert Group totally own 44,251,697 Shares.

(2) Ren Jie individually owns 1,549,000 Shares. Ren Jie is a member of the Concert Group. He is the settlor of a discretionary trust, The RJDJ Victory Trust, whose trustee, through Mowbray Worldwide Limited, holds approximately 41.34% of the issued share capital of Charm Moral International Limited, which in turn is the beneficial owner of approximately 19.09% of the issued share capital of Ample Chance International Limited, which in turn is the beneficial owner of the entire issued share capital of Ally Giant Limited which holds 1,187,727,837 Shares. The Trustee of The RJDJ Victory Trust owns 33,227,200 Shares.

Zhang Mi, another member of the Concert Group and the settlor of a discretionary trust, The ZYL Family Trust, individually owns 3,050,000 Shares. The Trustee of The ZYL Family Trust owns 157,800,000 Shares. Yi Langlin, spouse of Zhang Mi owns 2,156,000 Shares. The Trustee of a discretionary trust, The LZWM Family Trust, whose settlor is Liu Zhi, another member of the Concert Group, individually owns 1,250,000 Shares. The Trustee of The LZWM Family Trust owns 25,150,000 Shares. The Trustee of a discretionary trust, The FBX Family Trust, whose settlor is Fan Bing, another member of the Concert Group, individually owns 30,000 Shares. The Trustee of The FBX Family Trust owns 18,581,000 Shares. The Trustee of a discretionary trust, The ZHH Family Trust, whose settlor is Zuo Huixian, another member of the Concert Group, individually owns 210,000 Shares. The Trustee of The ZHH Family Trust owns 18,804,400 Shares. The Trustee of a discretionary trust, The Hong Xu Family Trust, whose settlor is Zhang Xu, another member of the Concert Group, individually owns 12,686 Shares. The Trustee of The Hong Xu Family Trust owns 13,557,400 Shares. The Trustee of a discretionary trust, The LXYY Family Trust, whose settlor is Liu Xuetian (deceased), another member of the Concert Group, owns 6,052,400 Shares. The other members of the Concert Group totally own 44,251,697 Shares.

(3) Liu Zhi individually owns 1,250,000 Shares. Liu Zhi is a member of the Concert Group. He is the settlor of a discretionary trust, The LZWM Family Trust, whose trustee, through Ecotech Enterprises Corporation, holds approximately 29.33% of the issued share capital of Charm Moral International Limited, which in turn is the beneficial owner of approximately 19.09% of the issued share capital of Ample Chance International Limited, which in turn is the beneficial owner of the entire issued share capital of Ally Giant Limited which holds 1,187,727,837 Shares. The Trustee of The LZWM Family Trust owns 25,150,000 Shares.

Zhang Mi and Ren Jie, the other two members of the Concert Group, collectively hold 4,599,000 Shares. The Trustees of the two discretionary trusts, whose settlors are Zhang Mi and Ren Jie respectively, collectively own 191,027,200 Shares. Yi Langlin, spouse of Zhang Mi owns 2,156,000 Shares. The Trustee of a discretionary trust, The FBX Family Trust, whose settlor is Fan Bing, another member of the Concert Group, individually owns 30,000 Shares. The Trustee of The FBX Family Trust owns 18,581,000 Shares. The Trustee of a discretionary trust, The ZHH Family Trust, whose settlor is Zuo Huixian, another member of the Concert Group, individually owns 210,000 Shares. The Trustee of The ZHH Family Trust owns 18,804,400 Shares. The Trustee of a discretionary trust, The Hong Xu Family Trust, whose settlor is Zhang Xu, another member of the Concert Group, individually owns 12,686 Shares. The Trustee of The Hong Xu Family Trust owns 13,557,400 Shares. The Trustee of a discretionary trust, The LXYY Family Trust, whose settlor is Liu Xuetian (deceased), another member of the Concert Group, owns 6,052,400 Shares. The other members of the Concert Group totally own 44,251,697 Shares.

(4) Guo Yanjun owns 2,100,000 Shares through his directly wholly-owned company, Long Apex Limited.

(5) Concert Group is defined in the prospectus of the Company dated 25 February 2008.

(B) SHARE OPTIONS OF THE COMPANY

	Long/ Short Position	Number of options held — Personal interest	Number of options held — Interest of the Concert Group
Mr. Zhang Mi	Long	16,217,000	32,197,000
Mr. Ren Jie	Long	7,457,000	40,957,000
Mr. Liu Zhi	Long	6,623,000	41,791,000
Mr. Qi Daqing	Long	2,750,000	–
Mr. Liu Xiaofeng	Long	2,750,000	–
Mr. Tai Kwok Leung, Alexander (Resigned with effect from 19 March 2014)	Long	850,000	–
Mr. Chen Guoming	Long	2,050,000	–
Mr. Shi Xingquan	Long	2,050,000	–
Mr. Guo YanJun	Long	1,450,000	–

Saved as disclosed above, at 31 December 2014, none of the Directors and Chief Executives (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for Shares (or warrants or debentures, if applicable) of the Company and its associated corporations required to be disclosed pursuant to the SFO.

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

The register of substantial shareholders required to be kept under section 336 of Part XV of the SFO shows that, at 31 December 2014, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors and Chief Executives of the Company.

		Number of Shares held						
	Long/	Personal interest			Corporate interest and settlor of a discretionary			% of the issued share capital of
Name	Short Position	Share option	Shares Interest	Corporate interest	trust	Interest of the Concert Group	Total	the Company
Ally Giant Limited	Long	–	1,187,727,837	–	–	374,095,783	1,561,823,620[1]	48.18%
Ample Chance International Limited	Long	–	–	1,187,727,837	–	374,095,783	1,561,823,620	48.18%
Wealth Afflux Limited	Long	–	–	1,187,727,837	–	374,095,783	1,561,823,620[3]	48.18%
Ally Smooth Investments Limited	Long	–	–	1,187,727,837	–	374,095,783	1,561,823,620[3]	48.18%
Equity Trustee Limited	Long	–	–	–	1,506,558,237	–	1,506,558,237 (3) (5) (6) (9) (10) (14) (20) (22)	46.48%
Charm Moral International Limited	Long	–	–	1,187,727,837	–	374,095,783	1,561,823,620[4]	48.18%
Mowbray Worldwide Limited	Long	–	–	1,187,727,837	–	374,095,783	1,561,823,620[5]	48.18%
Ecotech Enterprises Corporation	Long	–	–	1,187,727,837	–	374,095,783	1,561,823,620[6]	48.18%
Mr. Zheng Yong	Long	2,263,000	20,020,950	1,187,727,837	–	351,811,833	1,561,823,620[7]	48.18%
Beauty Clear Holdings Limited	Long	–	–	1,187,727,837	–	374,095,783	1,561,823,620[8]	48.18%
Mr. Zuo Huixian	Long	2,264,000	210,000	–	1,206,532,237	352,817,383	1,561,823,620[9]	48.18%
Vast & Fast Corporation	Long	–	–	1,187,727,837	–	374,095,783	1,561,823,620[9]	48.18%
Mr. Zhang Xu	Long	1,899,000	12,686	–	1,201,285,237	358,626,697	1,561,823,620[10]	48.18%
Cavendish Global Corporation	Long	–	–	1,187,727,837	–	374,095,783	1,561,823,620[10]	48.18%
Elegant Scene International Limited	Long	–	–	1,187,727,837	–	374,095,783	1,561,823,620[11]	48.18%
Mr. Wang Jiangyang	Long	1,611,000	6,752,600	1,187,727,837	–	365,732,183	1,561,823,620[11]	48.18%
Mr. Chen Jun	Long	922,000	2,074,599	1,187,727,837	–	371,099,184	1,561,823,620[12]	48.18%
Believe Power International Limited	Long	–	–	1,187,727,837	–	374,095,783	1,561,823,620[13]	48.18%
Mr. Fan Bing	Long	1,744,000	30,000	–	1,206,308,837	353,740,783	1,561,823,620[14]	48.18%
Brondesbury Enterprises Limited	Long	–	–	1,187,727,837	–	374,095,783	1,561,823,620[14]	48.18%
Mr. Zhang Yanyong	Long	1,500,000	1,061,720	1,187,727,837	–	371,534,063	1,561,823,620[15]	48.18%
Mr. Ao Pei	Long	537,000	962,308	1,187,727,837	–	372,596,475	1,561,823,620[16]	48.18%
Mr. Tian Diyong	Long	608,000	260,400	1,187,727,837	–	373,227,383	1,561,823,620[17]	48.18%
Mr. Shen Dingjian	Long	304,000	1,285,720	1,187,727,837	–	372,506,063	1,561,823,620[18]	48.18%
Benefit Way International Limited	Long	–	–	1,187,727,837	–	374,095,783	1,561,823,620[19]	48.18%
Mr. Liu Xuetian (deceased)	Long	–	–	–	1,193,780,237	368,043,383	1,561,823,620[20]	48.18%
Dobson Global Inc.	Long	–	–	1,187,727,837	–	374,095,783	1,561,823,620[20]	48.18%
Ms. Qu Yihong	Long	–	–	1,193,780,237	–	368,043,383	1,561,823,620[21]	48.18%
Ms. Liu Ying	Long	–	–	1,193,780,237	–	368,043,383	1,561,823,620[21]	48.18%
Mr. Zhou Bing	Long	1,805,000	8,856,714	–	1,187,727,837	363,434,069	1,561,823,620[22]	48.18%

		Number of Shares held						
Name	Long/ Short Position	Personal interest Share option	Personal interest Shares Interest	Corporate interest	Corporate interest and settlor of a discretionary trust	Interest of the Concert Group	Total	% of the issued share capital of the Company
Darius Enterprises Limited	Long	–	–	1,187,727,837	–	374,095,783	1,561,823,620(22)	48.18%
Ms. Lv Lan	Long	883,000	250,808	1,187,727,837	–	372,961,975	1,561,823,620(23)	48.18%
Mr. Tian Yu	Long	780,000	1,508,478	1,187,727,837	–	371,807,305	1,561,823,620(24)	48.18%
Mr. Li Hanqiang	Long	281,000	511,000	1,187,727,837	–	373,303,783	1,561,823,620(25)	48.18%
Mr. Liu Yingguo	Long	242,000	240,000	1,187,727,837	–	373,613,783	1,561,823,620(26)	48.18%
Mrs. Liu Lulu	Long	474,000	466,400	1,187,727,837	–	373,155,383	1,561,823,620(27)	48.18%
Yi Langlin	Long	–	2,156,000 1,559,667,620 (family interest)	–	–	–	1,561,823,620(28)	48.18%

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

(2) Ample Chance International Limited is owned approximately 36% by Ally Smooth Investments Limited, approximately 19.09% by Charm Moral International Limited, approximately 18.51% by Beauty Clear Holdings Limited, approximately 12.71% by Believe Power International Limited, approximately 10.50% by Benefit Way International Limited and approximately 3.19% by a corporation.

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

(4) Charm Moral International Limited is owned approximately 41.34% by Mowbray Worldwide Limited, approximately 29.33% by Ecotech Enterprises Corporation and approximately 29.33% by Zheng Yong.

(5) Approximately 41.34% of the issued share capital of Charm Moral International Limited is owned by Mowbray Worldwide Limited, which in turn is held by Equity Trustee Limited as trustee of The RJDJ Victory Trust. The RJDJ Victory Trust is a discretionary trust established by Ren Jie as settlor, with Equity Trustee Limited as trustee. The beneficiaries under The RJDJ Victory Trust are Ren Jie and his family members. Ren Jie is a member of the Concert Group.

(6) Approximately 29.33% of the issued share capital of Charm Moral International Limited is held by Ecotech Enterprises Corporation, which in turn is held by Equity Trustee Limited as trustee of The LZWM Family Trust. The LZWM Family Trust is a discretionary trust, established by Liu Zhi as settlor, with Equity Trustee Limited as trustee. The beneficiaries under The LZWM Family Trust are Liu Zhi and his family members. Liu Zhi is a member of the Concert Group.

(7) Zheng Yong is the beneficial owner of approximately 29.33% of the issued share capital of Charm Moral International Limited, which is in turn the beneficial owner of approximately 19.09% of the issued share capital of Ample Chance International Limited. Zheng Yong is a member of the Concert Group.

(8) Beauty Clear Holdings Limited is owned approximately 23.63% by Vast & Fast Corporation, approximately 22.77% by Cavendish Global Corporation, approximately 5.76% by Elegant Scene International Limited, approximately 5.10% by Chen Jun, and a total of approximately 42.74% by 3 other shareholders.

(9) Approximately 23.63% of issued share capital of Beauty Clear Holdings Limited is owned by Vast & Fast Corporation, which in turn is held by Equity Trustee Limited as trustee of The ZHH Family Trust. The ZHH Family Trust is a discretionary trust, established by Zuo Huixian as settlor, with Equity Trustee Limited as trustee. The beneficiaries under The ZHH Family Trust are Zuo Huixian and his family members. Zuo Huixian is a member of the Concert Group.

(10) Approximately 22.77% of the issued share capital of Beauty Clear Holdings Limited is held by Cavendish Global Corporation, which in turn is held by Equity Trustee Limited as trustee of The Hong Xu Family Trust. The Hong Xu Family Trust is a discretionary trust, established by Zhang Xu as settlor, with Equity Trustee Limited as trustee. The beneficiaries under The Hong Xu Family Trust are Zhang Xu and his family members. Zhang Xu is a member of the Concert Group.

(11) Approximately 5.76% of the issued share capital of Beauty Clear Holdings Limited is held by Elegant Scene International Limited, which in turn is wholly-owned by Wang Jiangyang. Beauty Clear Holdings Limited is the beneficial owner of approximately 18.51% of the issued share capital of Ample Chance International Limited. Wang Jiangyang is a member of the Concert Group.

(12) Chen Jun is the beneficial owner of approximately 5.10% of the issued share capital of Beauty Clear Holdings Limited, which in turn is the beneficial owner of approximately 18.51% of the issued share capital of Ample Chance International Limited. Chen Jun is a member of the Concert Group.

(13) Believe Power International Limited is owned approximately 32.72% by Brondesbury Enterprises Limited, approximately 29.16% by Zhang Yanyong, approximately 7.30% by Ao Pei, approximately 2.85% by Tian Diyong, approximately 2.24% by Shen Dingjian, and a total of approximately 25.73% by 4 other shareholders.

(14) Approximately 32.72% of the issued share capital of Believe Power International Limited is held by Brondesbury Enterprises Limited, which in turn is held by Equity Trustee Limited as trustee of The FBX Family Trust. The FBX Family Trust is a discretionary trust, established by Fan Bing as settlor, with Equity Trustee Limited as trustee. The beneficiaries under The FBX Family Trust are Fan Bing and his family members. Fan Bing is a member of the Concert Group.

(15) Zhang Yanyong is the beneficial owner of approximately 29.16% of the issued share capital of Believe Power International Limited, which in turn is the beneficial owner of approximately 12.71% of the issued share capital of Ample Chance International Limited. Zhang Yanyong is a member of the Concert Group.

(16) Ao Pei is the beneficial owner of approximately 7.30% of the issued share capital of Believe Power International Limited, which in turn is the beneficial owner of approximately 12.71% of the issued share capital of Ample Chance International Limited. Ao Pei is a member of the Concert Group.

(17) Tian Diyong is the beneficial owner of approximately 2.85% of the issued share capital of Believe Power International Limited, which in turn is the beneficial owner of approximately 12.71% of the issued share capital of Ample Chance International Limited. Tian Diyong is a member of the Concert Group.

(18) Shen Dingjian is the beneficial owner of approximately 2.24% of the issued share capital of Believe Power International Limited, which in turn is the beneficial owner of approximately 12.71% of the issued share capital of Ample Chance International Limited. Shen Dingjian is a member of the Concert Group.

(19) Benefit Way International Limited is owned approximately 35.57% by Dobson Global Inc., approximately 19.36% by Darius Enterprises Limited, approximately 6.49% by Lv Lan, approximately 3.91% by Tian Yu, approximately 3.50% by Li Hangqiang, approximately 1.52% by Liu Yingyuo, approximately 1.22% by Liu Lulu and approximately 28.43% by 6 other shareholders.

(20) Approximately 35.57% of the issued share capital of Benefit Way International Limited is held by Dobson Global Inc., which in turn is held by Equity Trustee Limited as trustee of The LXYY Family Trust. The LXYY Family Trust is a discretionary trust, established by Liu Xuetian (deceased) as settlor, with Equity Trustee Limited as trustee. The beneficiaries under The LXYY Family Trust are Liu Xuetian (deceased) and his family members. Liu Xuetian (deceased) was a member of the Concert Group and passed away on 23 January 2008.

(21) Qu Yihong and Liu Ying, family members of Liu Xuetian (deceased), are deemed to be interested in 1,193,780,237 Shares as directors of Dobson Global Inc..

(22) Approximately 19.36% of the issued share capital of Benefit Way International Limited is held by Darius Enterprises Limited, which in turn is held by Equity Trustee Limited as trustee of The Fang Zhou Family Trust. The Fang Zhou Family Trust is a discretionary trust, established by Zhou Bing as settlor, with Equity Trustee Limited as trustee. The beneficiaries under The Fang Zhou Family Trust are Zhou Bing and his family members. Zhou Bing is a member of the Concert Group.

(23) Lv Lan is the beneficial owner of approximately 6.49% of the issued share capital of Benefit Way International Limited, which in turn is the beneficial owner of approximately 10.50% of issued share capital of Ample Chance International Limited. Lv Lan is a member of the Concert Group.

(24) Tian Yu is the beneficial owner of approximately 3.91% of the issued share capital of Benefit Way International Limited, which in turn is the beneficial owner of approximately 10.50% of issued share capital of Ample Chance International Limited. Tian Yu is a member of the Concert Group.

(25) Li Hanqiang is the beneficial owner of approximately 3.50% of the issued share capital of Benefit Way International Limited, which in turn is the beneficial owner of approximately 10.50% of issued share capital of Ample Chance International Limited. Li Hanqiang is a member of the Concert Group.

(26) Liu Yingyuo is the beneficial owner of approximately 1.52% of the issued share capital of Benefit Way International Limited, which in turn is the beneficial owner of approximately 10.50% of issued share capital of Ample Chance International Limited. Liu Yingguo is a member of the Concert Group.

(27) Liu Lulu is the beneficial owner of approximately 1.22% of the issued share capital of Benefit Way International Limited, which in turn is the beneficial owner of approximately 10.50% of issued share capital of Ample Chance International Limited. Liu Lulu is a member of the Concert Group.

(28) Yi Langlin, spouse of Zhang Mi, is deemed to be interested in 1,561,823,620 Shares.

Save as disclosed above, to the best of the Directors and the Chief Executives of the Company's knowledge, as at 31 December 2014, none of the persons, other than the Directors or the Chief Executives of the Company, had interests or short positions in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or recorded in the register as required under Section 336 of the SFO.

SHARE OPTION SCHEME

(A) PRE-IPO SHARE OPTION SCHEME

The principal terms of Pre-IPO share option scheme have been approved by resolutions in writing by all the Shareholders on 21 January 2008. As at the date of this report, a total of 270 eligible participants have been conditionally granted share options to subscribe for an aggregate of 60,000,000 Shares at an exercise price of offer price of HK$3.83 per Share. As at 31 December 2014, none of the grantees has exercised the share options granted to him under the Pre-IPO share option scheme and 4,629,000 shares options have been lapsed.

Each share option granted under the Pre-IPO share option scheme is exercisable within a period of five years commencing from 7 March 2008 (the "Listing Date") and the vesting period is ten years from the date of grant. As at 31 December 2014, the total number of the share options granted (if not cancelled) can be exercised under the Pre-IPO share option scheme.

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

(B) SHARE OPTION SCHEME AFTER LISTING

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

Purpose

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

Participants

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

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

The total number of Shares available for issue under the Share Option Scheme upon exercise of all outstanding share options granted and yet to be exercised (excluding share options lapsed in accordance with the terms of the Share Option Scheme) was 105,842,500 Shares, representing approximately 3.26% of the issued share capital of the Company as at the date of this annual report.

Maximum entitlement of each participant

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

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

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

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

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

Amounts to be paid on acceptance of share options

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

Basis of determining the exercise price

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

Condition and Termination of the share options

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

The remaining life of the Share Option Scheme

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

Details of the grant under the Share Option Scheme ended 31 December 2014 were as follows:

Date of grant	Number of grant (shares)	Exercise price per Share (HK$)	Vesting period of share options	Valid period of the share options
15 April 2009	60,000,000	1.27	up to 30% of the share options granted to each grantee from 1 December 2009 to 14 April 2010; up to 60% of the share options granted to each grantee on or before 14 April 2011; all the remaining share options granted to each grantee on or after 15 April 2011	up to 14 April 2019
11 October 2010	2,200,000	1.05	up to 40% of the share options granted to each grantee from 25 October 2010 to 10 October 2011; up to 70% of the share options granted to each grantee on or before 10 October 2012; all the remaining share options granted to each grantee on or after 11 October 2012	up to 10 October 2020
20 June 2011	7,600,000	0.78	up to 30% of the share options granted to each grantee from 19 July 2011 to 19 June 2012; up to 60% of the share options granted to each grantee on or before 19 June 2013; all the remaining share options granted to each grantee on or after 20 June 2013	up to 19 June 2021
5 April 2012	15,400,000	1.19	up to 30% of the share options granted to each grantee from 5 April 2013 to 4 April 2014; up to 60% of the share options granted to each grantee on or before 4 April 2015; all the remaining share options granted to each grantee on or after 5 April 2015	up to 4 April 2022
24 March 2014	3,200,000	2.024	up to 30% of the share options granted to each grantee from 24 April 2014 to 23 April 2015; up to 60% of the share options granted to each grantee on or before 23 April 2016; all the remaining share options granted to each grantee on or after 24 April 2016	up to 23 March 2024

Date of grant	Number of grant (shares)	Exercise price per Share (HK$)	Vesting period of share options	Valid period of the share options
2 July 2014	40,575,000	1.96	vesting of the share options is conditional upon the achievement of corporate goals of the Company and the individual performance of the respective grantees. The share options or any portion thereof shall lapse if the relevant corporate goals cannot be achieved. Up to 30% of the share options granted to each grantee after April 2015; up to 60% of the share options granted to each grantee after April 2016; all the remaining share options granted to each grantee after April 2017.	up to 1 July 2024

Particulars and movements of share options under the Share Option Scheme during the year ended 31 December 2014 were as follows:

NUMBER OF SHARE OPTIONS

	Number of share options									
Name or category of participant	Outstanding as at 01/01/2014	Granted during the Year	Exercised during the Year	Lapsed during the Year	Cancelled during the Year	Outstanding as at 31/12/2014	Date of grant (DD/MM/YY)	Exercise period (DD/MM/YY)	Exercise price per Share HK$	Price per Share immediately preceding the grant date of share options HK$
Directors										
Mr. Zhang Mi	3,937,000	–	–	–	–	3,937,000	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
	–	2,380,000	–	–	–	2,380,000	02/07/2014	02/07/2014–01/07/2024	1.96	1.92
Mr. Liu Zhi	2,373,000	–	–	–	–	2,373,000	15/04/2009	01/12/2009–14/04/2019	1.27	1.92
	–	1,450,000	–	–	–	1,450,000	02/07/2014	02/07/2014–01/07/2024	1.96	1.29
Mr. Ren Jie	2,587,000	–	–	–	–	2,587,000	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
	–	1,770,000	–	–	–	1,770,000	02/07/2014	02/07/2014–01/07/2024	1.96	1.29
Mr. Chen Guoming	750,000	–	–	–	–	750,000	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
	750,000	–	–	–	–	750,000	20/06/2011	19/07/2011–19/06/2021	0.83	0.79
	–	550,000	–	–	–	550,000	24/03/2014	24/04/2014–23/03/2024	2.024	2.02
Mr. Liu Xiaofeng	1,000,000	–	–	–	–	1,000,000	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
	1,000,000	–	–	–	–	1,000,000	20/06/2011	19/07/2011–19/06/2021	0.83	0.79
	–	750,000	–	–	–	750,000	24/03/2014	24/04/2014–23/03/2024	2.024	2.02
Mr. Qi Daqing	1,000,000	–	–	–	–	1,000,000	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
	1,000,000	–	–	–	–	1,000,000	20/06/2011	19/07/2011–19/06/2021	0.83	0.79
	–	750,000	–	–	–	750,000	24/03/2014	24/04/2014–23/03/2024	2.024	2.02
Mr. Tai Kwok Leung, Alexander	850,000	–	850,000	–	–	0	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
	850,000	–	–	–	–	850,000	20/06/2011	19/07/2011–19/06/2021	0.83	0.79
Mr. Shi Xingquan	750,000	–	–	–	–	750,000	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
	750,000	–	–	–	–	750,000	20/06/2011	19/07/2011–19/06/2021	0.83	0.79
	–	550,000				550,000	24/03/2014	24/04/2014–23/03/2024	2.024	2.02
Mr.Guo Yanjun	850,000	–	–	–	–	850,000	20/06/2011	19/07/2011–19/06/2021	0.83	0.79
	–	600,000	–	–	–	600,000	24/03/2014	24/04/2014–23/03/2024	2.024	2.02
Sub–total	18,447,000	8,800,000	850,000	–	–	26,397,000				

Name or category of participant	Outstanding as at 01/01/2014	Granted during the Year	Exercised during the Year	Lapsed during the Year	Cancelled during the Year	Outstanding as at 31/12/2014	Date of grant (DD/MM/YY)	Exercise period (DD/MM/YY)	Exercise price per Share HK$	Price per Share immediately preceding the grant date of share options HK$
	Number of share options									
Substantial Shareholders										
Mr. Zheng Yong	695,000	–	–	–	–	695,000	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
	–	178,000	–	–	–	178,000	02/07/2014	02/07/2014–01/07/2024	1.96	1.92
Mr. Zuo Huixian	674,000	–	–	–	–	674,000	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
	–	530,000	–	–	–	530,000	02/07/2014	02/07/2014–01/07/2024	1.96	1.92
Mr. Zhang Xu	642,000	–	–	–	–	642,000	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
	–	66,000	–	–	–	66,000	02/07/2014	02/07/2014–01/07/2024	1.96	1.92
Mr. Wang Jiangyang	301,000	–	–	–	–	301,000	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
	250,000	–	–	–	–	250,000	05/04/2012	05/04/2013–04/04/2022	1.19	1.20
	–	420,000	–	–	–	420,000	02/07/2014	02/07/2014–01/07/2024	1.96	1.92
Mr. Chen Jun	332,000	–	–	–	–	332,000	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
	–	50,000	–	–	–	50,000	02/07/2014	02/07/2014–01/07/2024	1.96	1.92
Mr. Fan Bing	569,000	–	–	–	–	569,000	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
Mr. Zhang Yanyong	480,000	–	–	–	–	480,000	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
	–	20,000	–	–	–	20,000	02/07/2014	02/07/2014–01/07/2024	1.96	1.92
Mr. Tian DiYong	195,000	–	12,000	–	–	183,000	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
	–	70,000	–	–	–	70,000	02/07/2014	02/07/2014–01/07/2024	1.96	1.92
Mr. Shen Dingjian	87,000	–	–	–	–	87,000	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
	–	42,000	–	–	–	42,000	02/07/2014	02/07/2014–01/07/2024	1.96	1.92
Mr. Zhou Bing	695,000	–	–	–	–	695,000	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
	–	360,000	–	–	–	360,000	02/07/2014	02/07/2014–01/07/2024	1.96	1.92
Ms. Lv Lan	175,000	–	–	–	–	175,000	05/04/2012	05/04/2013–04/04/2022	1.19	1.20
	–	363,000	–	–	–	363,000	02/07/2014	02/07/2014–01/07/2024	1.96	1.92
Mr. Tian Yu	90,000	–	–	–	–	90,000	05/04/2012	05/04/2013–04/04/2022	1.19	1.20
	–	450,000	–	–	–	450,000	02/07/2014	02/07/2014–01/07/2024	1.96	1.92
Mr. Ao Pei	0	97,000	–	–	–	97,000	02/07/2014	02/07/2014–01/07/2024	1.96	1.92
Mr. Li Hanqiang	0	66,000	–	–	–	66,000	02/07/2014	02/07/2014–01/07/2024	1.96	1.92
Mr. Liu Yingguo	117,000	–	–	–	–	117,000	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
Ms. Liu Lulu	108,000	–	–	–	–	108,000	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
	–	231,000	–	–	–	231,000	02/07/2014	02/07/2014–01/07/2024	1.96	1.92
Sub-total	5,410,000	2,943,000	12,000	–	–	8,341,000				
Other										
Employee	25,170,200	–	883,000	143,700	–	24,143,500	15/04/2009	01/12/2009–14/04/2019	1.27	1.29
Employee	251,000	–	–	–	–	251,000	11/10/2010	25/10/2010–10/10/2020	1.05	1.01
Employee	2,093,000	–	–	–	–	2,093,000	20/06/2011	19/07/2011–19/06/2021	0.83	0.79
Employee	14,303,000	–	145,000	118,000	–	14,040,000	05/04/2012	05/04/2013–04/04/2022	1.19	1.20
Employee	–	32,032,000	–	614,000	–	31,418,000	02/07/2014	02/07/2014–01/07/2024	1.96	1.92
Sub-total	41,817,200	32,032,000	1,028,000	875,700	–	71,945,500				
Total	65,674,200	43,775,000	1,890,000	875,700	–	106,683,500				

RESTRICTED SHARE AWARD SCHEME

On 30 December 2011, the Board approved and adopted a restricted share award scheme in which Selected Participant(s) including any Employee or Director (including, without limitation, any Executive Directors, Non-executive Directors or Independent Non-executive Directors), any consultant or adviser (whether on any employment or contractual or honorary basis and whether paid or unpaid) of the Company or any member of the Group, who in the absolute opinion of the Board, have contributed to the Company or the Group. Pursuant to the Scheme Rules, existing Shares will be purchased by the Trustee from the market out of cash contributed by the Company and be held in trust for the relevant Selected Participant until such Shares are vested with the relevant Selected Participants in accordance with the Scheme Rules. The Scheme shall be effective for a term of 10 years commencing on the Adoption Date subject to any early termination as may be determined by the Board. The Board will implement the Scheme in accordance with the Scheme Rules including providing necessary funds to the Trustee to purchase for Shares up to 5% of the issued share capital of the Company from time to time. The Selected Participant is not entitled to receive any income or distribution, such as dividend derived from the Restricted Shares allocated to him, prior to the vesting of the Restricted Shares in the Selected Participants. As at 31 December 2014, the Trustee has purchased 97,817,000 of the Company's Shares, accounting for 3.01% of the issued share capital of the Company; a total of 35,917,700 Shares were granted to the Selected Participants and out of which 190,000 Shares were subsequently cancelled.

Particulars and movements of the Restricted Share Award Scheme during the year ended 31 December 2014 were as follows:

	Number of Shares					
	Outstanding as at 01/01/2014	Purchased during the Year	Granted during the Year	Vested during the Year	Cancelled during the Year	Outstanding as at 31/12/2014
Total	62,089,300	–	–	–	–	62,089,300

CONTINUING CONNECTED TRANSACTIONS

During the Year, the Group has the following continuing connected transactions which are required to be disclosed in this report in accordance with Chapter 14A of the Listing Rules. For item 1, the Purchase Framework Agreement and item 2, the Supplementary Agreement (as defined below) were disclosed by way of announcements in accordance with requirements under Chapter 14A of the Listing Rules and included in Note 36(b) to the consolidated financial statements as they constituted material related party transactions. Certain related parties transactions disclosed in Note 36(b) to the consolidated financial statements were not disclosed below as they do not fall under the definition of connected transactions or were below the de minimis thresholds under Chapter 14A of the Listing Rules.

1. PURCHASE FRAMEWORK AGREEMENT ENTERED INTO WITH HONTAI COMPANY

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

Honghua Company entered into a purchase framework agreement with Hongtai Company on 26 June 2012 to renew the Renewal Purchases Framework Agreement made on 16 December 2009 (the "Purchase Framework Agreement") for a term of three years commencing from 1 January 2013 and ending on 31 December 2015.

Pursuant to the Purchase Framework Agreement, Honghua Company shall purchase low value consumables, auxiliary accessories, tools, welding materials and work-protection items from Hongtai Company. The approved annual caps payable by Honghua Company to Hongtai Company under the Purchase Framework Agreement shall not exceed RMB26 million for each of the three financial years ending 31 December 2015 respectively.

During the Year, the total purchases made by the Group from Hongtai Company amounted to approximately RMB23,822,000.

2. PURCHASE FRAMEWORK AGREEMENT AND SUPPLEMENTARY AGREEMENT ENTERED INTO WITH SHENYUAN COMPANY

Shenyuan Company is owned as to 34% by the spouse of Mr. Zhang Mi, the Executive Director of the Company. In this connection, Shenyuan Company is a connected person of the Company under Rules 14A.07 and 14A.12 of the Listing Rules.

Honghua Oil & Gas Engineering and Shenyuan Company entered into a purchase framework agreement on 30 June 2012 (the "Purchase Framework Agreement") for a term commencing from 30 June 2012 to 31 December 2014 pursuant to which Honghua Oil & Gas Engineering shall purchase from Shenyuan Company PDC drills. The approved annual caps payable by Honghua Oil & Gas Engineering to Shenyuan Company under the Purchase Framework Agreement is RMB2.8 million for each of the three financial years ended 31 December 2012, 31 December 2013 and 31 December 2014.

The continuing connected transactions contemplated under the Purchase Framework Agreement constituted exempted continuing connected transactions for the Company as they were de minimis transactions under Chapter 14A of the Listing Rules and were therefore exempted from the reporting, announcement, annual review and independent shareholders' approval requirements.

Given that Honghua Oil & Gas Engineering has a rapid development of well drilling contracting business and an increasing demand for drilling equipments and perishable goods in the process of drilling, the annual caps determined in the Purchase Framework Agreement no longer met Honghua Oil & Gas Engineering's need for the drills. In this regard, the Board of the Company approved Honghua Oil & Gas Engineering to enter into a supplementary agreement for the Purchase Framework Agreement (the "Supplementary Agreement") with Shenyuan Company.

On 25 March 2013, the Supplementary Agreement has been entered into between Honghua Oil & Gas Engineering and Shenyuan Company for a term commencing from 25 March 2013 and expiring on 31 December 2015.

According to the Supplementary Agreement, Honghua Oil & Gas Engineering will purchase PDC drills from Shenyuan Company. The approved annual caps payable by Honghua Oil & Gas Engineering to Shenyuan Company under the Supplementary Agreement are RMB12 million, RMB15 million and RMB18 million for each of the three financial years ending 31 December 2015 respectively. According to the applicable percentage ratios calculated, the continuing connected transactions contemplated under the Supplementary Agreement are subject to reporting, announcement and annual review requirements but exempt from independent shareholders' approval requirement under Chapter 14A of the Listing Rules. Announcement was published on 25 March 2013 regarding the continuing connected transactions contemplated under the Supplementary Agreement in accordance with the Listing Rules.

During the Year, the total purchases made by the Group from Shenyuan Company amounted to RMB6,224,000.

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

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

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

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

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

(1) have not been approved by the Board of Directors of the Company;

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

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

(4) have exceeded the annual caps disclosed in previous announcements.

The Company's auditors were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have issued to the Board an unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed by the Group on pages 60 to 62 of this annual report in accordance with Rule 14A.56 of Listing Rules. A copy of the auditor's letter has also been provided to the Stock Exchange.

BANK LOANS

Details of our bank loans and other borrowings are set out in Notes 26 and 34(c) to the consolidated financial statements.

FINANCIAL SUMMARY

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

STAFF RETIREMENT AND BENEFIT SCHEME

Details of the staff retirement and benefit scheme are set out in Notes 6(b), 28 and 29 to the consolidated financial statements.

TRADE AND OTHER RECEIVABLES

At the end of the reporting period, the Group had net trade and other receivables of RMB5,335 million, representing an increase of RMB698 million or 15.1% as compared with last year, which has been disclosed in Note 21 of the financial statements. The increase was mainly due to the finance lease receivables of RMB199 million contributed by the newly established subsidiary, Honghua Financial Leasing (Shanghai) Co., Ltd., as disclosed in Note 21(d) of the financial statements. In addition, the Group’s export turnover increased by RMB661 million or 10.6% as compared with last year, which resulted in an increase in value-added tax recoverable of RMB133 million. Net trade and bills receivables also increased by RMB444 million, which was attributable to more revenue recognised on sales of drilling rigs and oil service projects during the second half of 2014.

The management has been reviewing the Group’s credit policy and monitoring its credit risks on an ongoing basis. At the end of the reporting period, average turnover days of trade and bills receivables increased to 155 days as compared with 107 days of last year, which was mainly due to the increase of the trade and bills receivables balance compared to last year. Trade receivables that are past due but not considered to be impaired amounted to RMB1,163 million, representing an increase of RMB641 million as compared with RMB522 million in last year, as disclosed in Note 21(c) of the financial statements. Receivables that were past due but not impaired relate to a number of subsidiaries of state-owned oil companies that have a good repayment track record with the Group. Due to the downturn of the oil market during the year, certain customers of the Group have delayed settlement to 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. Management has been actively communicating with these customers and closely monitoring the settlement status of the trade and bills receivables. In addition, certain trade and bills receivable balances were factored to mitigate the credit risks.

FIXED ASSETS

Details of the changes of the fixed assets of the Group are set out in Note 12 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

1. During the Year, the Group's five largest suppliers in total accounted for approximately 18.8% of total purchase, and the largest supplier accounted for approximately 5.9% of total purchase. Because there are a number of suppliers, the aggregate amount of purchase from the Group's five largest suppliers is less than the 30% of total purchase.

2. During the Year, the Group's five largest customers accounted for approximately 50.9% of total sales and the largest customer accounted for approximately 16.6% of revenue.

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

ENTRUST DEPOSITS AND ENTRUST LOANS

As at 31 December 2014, the Company has no entrust deposits or entrust loans being placed with commercial banks or non-commercial banks and other finance institutions.

TAXATION POLICY

The details of the Group's applicable income taxation policy and income tax rate are set out in Note 7 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

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

MANAGEMENT CONTRACTS

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

AUDITOR

The financial statements of the Group for the year ended 31 December 2014 have been audited by KPMG.

By the order of the Board
Honghua Group Limited
Zhang Mi
Chairman

Hong Kong, 26 March 2015

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF HONGHUA GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Honghua Group Limited (the "company") and its subsidiaries (together the "group") set out on pages 67 to 170, which comprise the consolidated and company statements of financial position as at 31 December 2014, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the company and of the group as at 31 December 2014 and of the group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

26 March 2015

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 31 December 2014 (Expressed in Renminbi)

	Note	2014 RMB'000	2013 RMB'000
Turnover	4(a)	**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	5	**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	6(a)	**(273,018)**	(139,418)
Share of profit/(losses) from joint ventures	17	**186**	(7,948)
Profit before taxation	6	**123,666**	701,000
Income tax	7(a)	**(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	11		
— Basic		**RMB2.89 cents**	RMB16.99 cents
— Diluted		**RMB2.87 cents**	RMB16.77 cents

The notes on pages 76 to 170 form part of these financial statements. Details of dividends payable to equity shareholders of the company attributable to the profit for the year are set out in note 33(b).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2014 (Expressed in Renminbi)

	2014 RMB'000	2013 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

The notes on pages 76 to 170 form part of these financial statements.

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	12	**2,837,994**	2,148,103
— Interests in leasehold land held for own use under operating leases	12	**402,784**	361,890
— Freehold land	12	**4,934**	4,916
	12	**3,245,712**	2,514,909
Payment for acquisition of leasehold land		**163,192**	147,320
Construction in progress	13	**362,312**	728,019
Intangible assets	14	**212,829**	213,637
Goodwill	15	**13,484**	13,484
Interests in joint ventures	17	**86,914**	47,924
Interest in an associate	18	**9,000**	9,000
Other investments	19	**118,091**	74,053
Trade and other receivables	21	**825,445**	676,050
Deferred tax assets	30(b)	**201,189**	123,975
Total non-current assets		**5,238,168**	4,548,371
Current assets			
Inventories	20	**2,980,996**	2,801,307
Trade and other receivables	21	**4,509,485**	3,961,427
Gross amount due from customers for contract work	22	**217,001**	176,158
Amounts due from related companies	36(c)	**154,102**	44,819
Current tax recoverable	30(a)	**8,002**	16,406
Other financial assets	23	**331,826**	804,102
Pledged bank deposits	24	**612,743**	593,337
Bank deposits maturing over three months		**4,003**	8,619
Cash and cash equivalents	25	**1,442,014**	1,274,509
Total current assets		**10,260,172**	9,680,684

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2014 (Expressed in Renminbi)

	Note	2014 RMB'000	2013 RMB'000
Current liabilities			
Interest-bearing borrowings	26	**2,806,956**	3,273,544
Trade and other payables	27	**5,246,512**	4,240,962
Amounts due to related companies	36(d)	**24,250**	27,465
Current tax payable	30(a)	**60,641**	51,453
Provisions	31	**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	26	**2,320,097**	1,457,953
Trade and other payables	27	**9,236**	–
Deferred tax liabilities	30(b)	**–**	50,611
Total non-current liabilities		**2,329,333**	1,508,564
NET ASSETS		**4,963,770**	4,958,646
CAPITAL AND RESERVES	33		
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

Approved and authorised for issue by the board of directors on 26 March 2015.

Zhang Mi
Directors

Ren Jie
Directors

The notes on pages 76 to 170 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

at 31 December 2014 (Expressed in Renminbi)

	Note	2014 RMB'000	2013 RMB'000
Non-current assets			
Intangible assets	14	120,863	153,311
Investments in subsidiaries	16	2,827,080	2,910,554
Total non-current assets		2,947,943	3,063,865
Current assets			
Other receivables		1,509	6,070
Amounts due from subsidiaries	32	760,236	505,920
Amounts due from related parties		27	27
Cash and cash equivalents	25	8,393	19,570
Total current assets		770,165	531,587
Current liabilities			
Interest-bearing borrowings	26	–	179,428
Other payables	27	25,249	3,293
Total current liabilities		25,249	182,721
Net current assets		744,916	348,866
Total assets less current liabilities		3,692,859	3,412,731
Non-current liabilities			
Interest-bearing borrowings	26	1,199,188	717,711
Total non-current liabilities		1,199,188	717,711
NET ASSETS		2,493,671	2,695,020
CAPITAL AND RESERVES	33		
Share capital		300,983	300,833
Reserves		2,192,688	2,394,187
TOTAL EQUITY		2,493,671	2,695,020

Approved and authorised for issue by the board of directors on 26 March 2015.

Zhang Mi
Directors

Ren Jie
Directors

The notes on pages 76 to 170 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2014 (Expressed in Renminbi)

	Note	Attributable to equity shareholders of the company											
		Share capital (note 33(c))	Share premium (note 33(d)(i))	Other reserve (note 33(d)(ii))	Capital reserve (note 33(d)(iii))	Surplus reserve (note 33(d)(iv))	Exchange reserve (note 33(d)(v))	Fair value reserve (note 33(d)(vi))	Shares held for share award scheme (note 29(d))	Retained profits	Sub-total	Non-controlling interests	Total equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2013		300,192	2,486,988	51,592	522,535	311,481	(204,141)	–	(49,973)	1,037,337	4,456,011	132,716	4,588,727
Changes in equity for 2013:													
Profit for the year		–	–	–	–	–	–	–	–	537,617	537,617	37,633	575,250
Other comprehensive income		–	–	–	–	–	(53,860)	555	–	–	(53,305)	368	(52,937)
Total comprehensive income		–	–	–	–	–	(53,860)	555	–	537,617	484,312	38,001	522,313
Acquisition of subsidiaries		–	–	–	–	–	–	–	–	–	–	31,432	31,432
Disposal of a subsidiary		–	–	(382)	–	–	–	–	–	–	(382)	1,399	1,017
Liquidation of a subsidiary		–	–	–	–	–	–	–	–	–	–	(1,903)	(1,903)
Shares purchased under share award scheme	29(d)	–	–	–	–	–	–	–	(146,233)	–	(146,233)	–	(146,233)
Amortisation arising from share award scheme	29(d)	–	–	–	73,466	–	–	–	–	–	73,466	–	73,466
Vested shares transferred from share award scheme	29(d)	–	–	–	(73,466)	–	–	–	71,588	37,722	35,844	–	35,844
Equity-settled share-based transactions arising from share option schemes	29	–	–	–	2,430	–	–	–	–	–	2,430	–	2,430
Shares issued under share option schemes	29	641	10,711	–	(3,347)	–	–	–	–	–	8,005	–	8,005
Options lapsed under share option schemes	29	–	–	–	(508)	–	–	–	–	508	–	–	–
Dividends approved in respect of the previous financial year	33(b)	–	–	–	–	–	–	–	–	(150,102)	(150,102)	–	(150,102)
Dividends paid to non-controlling interests		–	–	–	–	–	–	–	–	–	–	(6,350)	(6,350)
Appropriation to surplus reserve		–	–	–	–	38,267	–	–	–	(38,267)	–	–	–
At 31 December 2013		300,833	2,497,699	51,210	521,110	349,748	(258,001)	555	(124,618)	1,424,815	4,763,351	195,295	4,958,646

The notes on pages 76 to 170 form part of these financial statements.

for the year ended 31 December 2014 (Expressed in Renminbi)

		Attributable to equity shareholders of the company											
	Note	Share capital (note 33(c)) RMB'000	Share premium (note 33(d)(i)) RMB'000	Other reserve (note 33(d)(ii)) RMB'000	Capital reserve (note 33(d)(iii)) RMB'000	Surplus reserve (note 33(d)(iv)) RMB'000	Exchange reserve (note 33(d)(v)) RMB'000	Fair value reserve (note 33(d)(vi)) RMB'000	Shares held for share award scheme (note 29(d)) RMB'000	Retained profits RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2014		300,833	2,497,699	51,210	521,110	349,748	(258,001)	555	(124,618)	1,424,815	4,763,351	195,295	4,958,646
Changes in equity for 2014:													
Profit for the year		–	–	–	–	–	–	–	–	91,787	91,787	18,380	110,167
Other comprehensive income		–	–	–	–	–	14,417	184	–	–	14,601	1,186	15,787
Total comprehensive income		–	–	–	–	–	14,417	184	–	91,787	106,388	19,566	125,954
Capital contribution to a newly established subsidiary		–	–	–	–	–	–	–	–	–	–	26,681	26,681
Equity-settled share-based transactions arising from share option schemes	29	–	–	–	8,292	–	–	–	–	–	8,292	–	8,292
Shares issued under share option schemes	29	150	2,539	–	(797)	–	–	–	–	–	1,892	–	1,892
Options lapsed under share option schemes	29	–	–	–	(1,641)	–	–	–	–	1,641	–	–	–
Dividends approved in respect of the previous financial year	33(b)	–	(150,946)	–	–	–	–	–	–	–	(150,946)	–	(150,946)
Dividends paid to non-controlling interests		–	–	–	–	–	–	–	–	–	–	(6,749)	(6,749)
Appropriation to surplus reserve		–	–	–	–	44,842	–	–	–	(44,842)	–	–	–
At 31 December 2014		300,983	2,349,292	51,210	526,964	394,590	(243,584)	739	(124,618)	1,473,401	4,728,977	234,793	4,963,770

The notes on pages 76 to 170 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2014 (Expressed in Renminbi)

	Note	2014 RMB'000	2013 RMB'000
Operating activities			
Profit before taxation		123,666	701,000
Adjustments for:			
Amortisation and depreciation			
— intangible assets	6(c)	38,920	35,731
— leasehold land held for own use under operating leases	6(c)	7,142	12,127
— other fixed assets	6(c)	268,296	193,535
Changes in fair value of other financial assets	6(a)	(9,773)	(6,345)
Changes in fair value of derivative financial instruments	6(a)	3,108	–
Interest income		(91,004)	(60,343)
Interest expenses and bank charges		256,191	148,440
Share of (profit)/losses from joint ventures		(186)	7,948
Loss on disposals of fixed assets		5,084	899
Net loss on disposal/liquidation of subsidiaries		–	1,000
Equity-settled share-based payment expenses arising from share option schemes and share award scheme		8,292	75,896
Foreign exchange loss		73,848	25,513
Changes in working capital:			
Increase in inventories		(282,997)	(60,616)
Increase in trade and other receivables		(757,152)	(2,223,993)
(Increase)/decrease in amounts due from related companies		(109,272)	11,151
Increase in pledged bank deposits		(19,406)	(168,745)
Increase in trade and other payables		1,033,224	1,015,080
(Decrease)/increase in amounts due to related companies		(3,215)	21,872
(Decrease)/increase in provisions		(101,543)	110,689
Cash generated from/(used in) operations		443,223	(159,161)
Income tax paid		(124,425)	(164,991)
Net cash generated from/(used in) operating activities		318,798	(324,152)

for the year ended 31 December 2014 (Expressed in Renminbi)

	Note	2014 RMB'000	2013 RMB'000
Investing activities			
Payment for addition of fixed assets and construction in progress (excluding interests in leasehold land)		(522,188)	(1,176,791)
Proceeds from disposals of fixed assets		4,486	1,748
Payment for acquisition of subsidiaries		–	(48,099)
Payment for development project costs		(37,454)	(31,697)
Payment for acquisition of leasehold land		(10,000)	–
Interest received		47,045	57,504
Net proceeds/(payment) from sales and purchase of other financial assets and other investment		437,739	(483,563)
Capital contribution to joint ventures		(40,000)	–
Proceeds from bank deposits maturing over three months		19,072	30,511
Payment for bank deposits maturing over three months		(14,456)	(39,130)
Net cash used in investing activities		(115,756)	(1,689,517)
Financing activities			
Proceeds from new bank loans		4,966,091	4,002,401
Repayment of bank loans		(5,773,278)	(1,253,923)
Net proceeds from insurance of senior notes		1,199,492	–
Capital contribution by a non-controlling interest		26,681	–
Proceeds from shares issued under share option schemes		1,892	8,005
Proceeds from shares granted under share award scheme		–	35,844
Payment for purchase of shares under share award scheme	29(d)	–	(146,233)
Interest and bank charges paid		(262,970)	(176,760)
Dividends paid to non-controlling interests		(6,749)	(6,350)
Dividends paid to equity shareholders of the company	33(b)	(150,946)	(150,102)
Net cash generated from financing activities		213	2,312,882
Net increase in cash and cash equivalents		203,255	299,213
Cash and cash equivalents at 1 January		1,274,509	984,131
Effect of foreign exchange rate changes		(35,750)	(8,835)
Cash and cash equivalents at 31 December	25	1,442,014	1,274,509

The notes on pages 76 to 170 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

1 GENERAL INFORMATION

Honghua Group Limited (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 consolidated financial statements for the year ended 31 December 2014 comprise the company and its subsidiaries (together referred to as the "group") and the group's interests in an associate and joint ventures.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) 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 2(c) 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.

(b) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements are presented in Renminbi ("RMB"), rounded to the nearest thousand yuan. Items included in the financial statements of each entity in the group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("functional currency"). The company has its functional currency in Hong Kong dollars ("HKD"). Most of the companies comprising the group are operating in The People's Republic of China ("PRC") and their functional currency is RMB, hence, RMB is used as the presentation currency of the group.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that other financial assets and derivative financial instruments are stated at their fair value as explained in the accounting policies set out in notes 2(g) and (h).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (continued)

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 3.

(c) 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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) CHANGES IN ACCOUNTING POLICIES (continued)

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.

(d) SUBSIDIARIES AND NON-CONTROLLING INTERESTS

Subsidiaries are entities controlled by the group. The group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the group has power, only substantive rights (held by the group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) SUBSIDIARIES AND NON-CONTROLLING INTERESTS (continued)

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the company, and in respect of which the group has not agreed any additional terms with the holders of those interests which would result in the group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the company. Non-controlling interests in the results of the group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the company.

Changes in the group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(g)) or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (see note 2(e)).

In the company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2(m)).

(e) ASSOCIATES AND JOINT VENTURES

An associate is an entity in which the group or company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the group or company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) ASSOCIATES AND JOINT VENTURES (continued)

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost, adjusted for any excess of the group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the group's share of the investee's net assets and any impairment loss relating to the investment (see note 2(m)). Any acquisition-date excess over cost, the group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the group's share of losses exceeds its interest in the associate or the joint venture, the group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the group's interest is the carrying amount of the investment under the equity method together with the group's long-term interests that in substance form part of the group's net investment in the associate or the joint venture.

Unrealised profits and losses resulting from transactions between the group and its associates and joint ventures are eliminated to the extent of the group's interest in the associate or joint venture, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(g)).

In the company's statement of financial position, investments in associates and joint venture are stated at cost less impairment losses (see note 2(m)), unless classified as held for sale (or included in a disposal group that is classified as held for sale).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) GOODWILL

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 2(m)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(g) OTHER INVESTMENTS IN DEBT AND EQUITY SECURITIES

The group's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and joint ventures, are as follows:

Investments in debt and equity securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At the end of the reporting period the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any dividends or interest earned on these investments as these are recognised in accordance with the policies set out in notes 2(x)(vii) and 2(x)(iii).

Dated debt securities that the group has the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated at amortised cost less impairment losses (see note 2(m)).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) OTHER INVESTMENTS IN DEBT AND EQUITY SECURITIES (continued)

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. As an exception to this, investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 2(m)). Dividend income from equity securities and interest income from debt securities calculated using the effective interest method are recognised in profit or loss in accordance with the policies set out in notes 2(x)(vii) and 2(x)(iii), respectively. Foreign exchange gains and losses resulting from changes in the amortised cost of debt securities are also recognised in profit or loss.

When the investments are derecognised or impaired (see note 2(m)), the cumulative gain or loss recognised in equity is reclassified to profit or loss. Investments are recognised/derecognised on the date the group commits to purchase/sell the investments or they expire.

(h) DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

(i) FIXED ASSETS AND DEPRECIATION

Items of fixed assets are stated in the statement of financial position at cost less accumulated depreciation and impairment losses (see note 2(m)).

The cost of self-constructed items of fixed assets includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 2(z)).

Gains or losses arising from the retirement or disposal of an item of fixed asset are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss on the date of retirement or disposal.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) FIXED ASSETS AND DEPRECIATION (continued)

Depreciation is calculated to write off the cost of items of fixed assets, less their estimated residual values, if any, using the straight-line method over their estimated useful lives as follows:

— Freehold land	Not depreciated
— Leasehold land	Over the respective periods of the rights
— Buildings held for own use	20–35 years
— Plant and machinery	5–10 years
— Fixtures, fittings and equipment	5–10 years
— Motor vehicles	5–6 years

Where parts of an item of fixed asset have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(j) CONSTRUCTION IN PROGRESS

Construction in progress represents fixed assets under construction and equipment pending installation, and is stated at cost less impairment losses (see note 2(m)). Cost comprises direct costs of construction. Capitalisation of these costs ceases and the construction in progress is transferred to fixed assets when substantially all of the activities necessary to prepare the assets for their intended use are complete.

No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use.

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable (see note 2(z)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 2(m)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets represent the technology licences acquired from business combination granted by the holding company and are stated in the statement of financial position initially at fair value and subsequently at cost less accumulated amortisation and impairment losses (see note 2(m)).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) INTANGIBLE ASSETS (OTHER THAN GOODWILL)

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

—	Capitalised development costs	10 years
—	Technical know-how	10 years

Both the period and method of amortisation are reviewed annually.

(l) OPERATING LEASE CHARGES

Leases which do not transfer substantially all the risks and rewards of ownership of assets to the group are accounted for as operating leases.

Where the group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease terms, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made.

(m) IMPAIRMENT OF ASSETS

(i) Impairment of investments in debt and equity securities and other receivables

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) IMPAIRMENT OF ASSETS (continued)

(i) Impairment of investments in debt and equity securities and other receivables (continued)

If any such evidence exists, any impairment loss is determined and recognised as follows:

— For investments in associates and joint ventures accounted for under the equity method in the consolidated financial statements (see note 2(e)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 2(m)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2(m)(ii).

— For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

— For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) IMPAIRMENT OF ASSETS (continued)

(i) Impairment of investments in debt and equity securities and other receivables (continued)

— For available-for-sale securities, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bill receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) IMPAIRMENT OF ASSETS (continued)

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

— fixed assets;

— construction in progress;

— intangible assets;

— goodwill;

— deposits paid for acquisition of leasehold land; and

— investments in subsidiaries.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill and intangible assets that are not yet available for use, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) IMPAIRMENT OF ASSETS (continued)

(ii) Impairment of other assets (continued)

— Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the group is required to prepare an interim financial report in compliance with IAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 2(m)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill, available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not profit or loss.

(n) INVENTORIES

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) INVENTORIES (continued)

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(o) CONSTRUCTION CONTRACTS

Construction contracts are contracts specifically negotiated with a customer for the construction of an asset or a group of assets, where the customer is able to specify the major structural elements of the design. The accounting policy for contract revenue is set out in note 2(x)(ii). When the outcome of a construction contract can be estimated reliably, contract costs are recognised as an expense by reference to the stage of completion of the contract at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Construction contracts in progress at the end of the reporting period are recorded at the net amount of costs incurred plus recognised profit less recognised losses and progress billings, and are presented in the statement of financial position as the "Gross amount due from customers for contract work" (as an asset) or the "Gross amount due to customers for contract work" (as a liability), as applicable. Progress billings not yet paid by the customer are included under "Trade and other receivables". Amounts received before the related work is performed are presented as "Receipts in advance" under "Trade and other payables".

(p) TRADE AND OTHER RECEIVABLES

Trade and other receivables (including amounts due from related companies) are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 2(m)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) SENIOR NOTES

Senior notes which do not contain an equity component are accounted for as follows:

An initial recognition the derivative component of the senior notes is measured at fair value and presented as part of derivative financial instruments (see note 2(h)). Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs that relate to issue of the senior note are allocated to the liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to derivative component is recognised immediately in profit or loss.

The derivative component is subsequently remeasured in accordance with note 2(h). The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method.

(r) INTEREST-BEARING BORROWINGS

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(s) TRADE AND OTHER PAYABLES

Trade and other payables (including amounts due from related companies) are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(t) CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) EMPLOYEE BENEFITS

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share-based payments

The fair value of share options/share awards granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value of share options is measured at grant date using the binomial option price model, taking into account the terms and conditions under which the options were granted. The fair value of share awards is measured with reference to the share price on the grant date. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options/share awards, the total estimated fair value of the options/share awards is spread over the vesting period, taking into account the probability that the options/share awards will vest.

During the vesting period, the number of share options/share awards that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On the vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options/share awards that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the company's shares. The equity amount is recognised in the capital reserve until either the option is exercised/the share award is vested (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

Share-based payment transactions in which the company grants share options/share awards to subsidiaries' employees are accounted for as an increase in value of investment in subsidiary in the company's statement of financial position which is eliminated on consolidation.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) INCOME TAX

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purpose, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) INCOME TAX (continued)

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(w) PROVISIONS AND CONTINGENT LIABILITIES

Provisions are recognised for liabilities of uncertain timing or amount when the group or the company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the group and the revenue and costs for each separate company within a transaction, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue from the sale of goods is recognised when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value-added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Contract revenue

When the outcome of a construction contract can be estimated reliably:

— revenue from a fixed price contract is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimated total contract costs for the contract; and

— revenue from a cost plus contract is recognised by reference to the recoverable costs incurred during the period plus an appropriate proportion of the total fee, measured by reference to the proportion that costs incurred to date bear to the estimated total costs of the contract.

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

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iv) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the group will comply with the conditions attaching to them. Grants that compensate the group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) REVENUE RECOGNITION (continued)

(v) Rendering of oil and gas engineering services

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion at the end of the reporting period. The stage of completion is assessed by reference to surveys of work performed.

(vi) Rendering of repairing services

Revenue is recognised when the service has been rendered.

(vii) Dividend income

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(y) TRANSLATION OF FOREIGN CURRENCIES

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

The results of operations outside the PRC are translated into the presentation currency at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, including goodwill arising on consolidation of foreign operations acquired, are translated into the presentation currency at the closing foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of an operation outside the PRC, the cumulative amount of the exchange differences relating to that operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(z) BORROWING COSTS

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(aa) WARRANTY COSTS

A provision for warranties is recognised when the underlying products are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

(bb) RELATED PARTIES

(a) A person, or a close member of that person's family, is related to the group if that person:

(i) has control or joint control over the group;

(ii) has significant influence over the group; or

(iii) is a member of the key management personnel of the group or the group's parent.

(b) An entity is related to the group if any of the following conditions applies:

(i) The entity and the group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(bb) RELATED PARTIES (continued)

(b) An entity is related to the group if any of the following conditions applies: (continued)

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the group or an entity related to the group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(cc) SEGMENT REPORTING

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regularly environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

KEY SOURCES OF ESTIMATION UNCERTAINTY

Notes 29 and 34(e)(vi) contain information about the assumptions relating to the determination of fair values of share options granted and derivatives financial instruments. Other sources of estimation uncertainties are as follows:

(a) Impairments

(i) Impairment of trade and other receivables

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

(ii) Impairment of intangible assets, goodwill, fixed assets and construction in progress

If circumstances indicate that the carrying value of intangible assets, goodwill, fixed assets and construction in progress may not be recoverable, these assets may be considered impaired, and an impairment loss may be recognised in accordance with IAS 36, *Impairment of assets*. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the net selling prices and the value in use. It is difficult to estimate precisely selling prices because quoted market prices for the group's assets are not readily available. In determining that value in use, expected cash flows generated by the assets are discounted to their present value, which requires significant judgement relating to revenue and amount of operating costs. The group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and amount of operating costs.

(b) Write down of inventories

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

3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

(c) Warranty provision

The group makes provisions under the warranties it gives on sale of its drilling rigs taking into account the group's recent claim experience. Any increase or decrease in the provision would affect profit or loss in future years.

(d) Depreciation and amortisation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. Intangible assets are amortised on a straight-line basis over the estimated useful lives. The group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation and amortisation expenses to be recorded during any reporting period. The useful lives are based on the group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation and amortisation expenses for future periods are adjusted if there are significant changes from previous estimates.

(e) Provision for deferred tax

Determining income tax provisions involves judgement on the future tax consequence of certain transactions. The management evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets for tax losses not yet used and temporary deductible differences can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered. Further details are disclosed in Notes 7 and 30.

(f) Construction contracts

As explained in the accounting policy notes 2(o) and 2(x)(ii), revenue and profit recognition on an incomplete project is dependent on estimating the total outcome of the construction contract, as well as the work done to date. Based on the group's recent experience and the nature of the construction activity undertaken by the group, the group makes estimates of the point at which it considers the work is sufficiently advanced such that the costs to complete and revenue can be reliably estimated.

3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

(f) Construction contracts (continued)

Based on the latest information available in respect of the market environment, the group prepares budgets for construction contracts individually and the budget, which is used in the group's financial reporting, is reviewed regularly. Foreseeable losses are provided when identified. In preparing the financial statements for the year ended 31 December 2014, the directors of the company have reviewed the construction contracts and consider that no provision is required. Material adjustments to the budgeted costs may occur in future if there is a significant change in the market environment.

(g) Litigation provision

The group has been involved in several legal proceedings. The group has recognised provisions or disclosed as contingent liabilities based on its legal assessment. Further development of the proceedings or decisions made by the court may result in different assessments of the financial consequences in subsequent years and require an increase or decrease in the recorded liabilities. Further details of the proceedings are disclosed in notes 31(a), 31(b) and 38.

4 TURNOVER AND SEGMENT REPORTING

(a) 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. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2014 RMB'000	2013 RMB'000
Sales of rigs, parts and components	7,239,873	7,441,796
Provision of oil and gas engineering services	443,087	408,703
Revenue from construction contracts	129,577	196,609
	7,812,537	8,047,108

For the year ended 31 December 2014, the group's customer base includes two customers (2013: two customers) with whom transactions have exceeded 10% of the group's revenue. In 2014, revenue from sales of land drilling rigs and related parts and components to two customers (2013: two customers), amounted to approximately RMB2,488 million (2013: RMB3,027 million) and arose in the Middle East and Europe and Central Asia (2013: Middle East and Americas).

4 TURNOVER AND SEGMENT REPORTING (continued)

(b) SEGMENT REPORTING

The group manages its business by divisions, which are organised 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.

(i) 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.

4 TURNOVER AND SEGMENT REPORTING (continued)

(b) SEGMENT REPORTING (continued)

(i) *Segment revenue and results (continued)*

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 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 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.

4 TURNOVER AND SEGMENT REPORTING (continued)

(b) SEGMENT REPORTING (continued)

(ii) Reconciliation of reportable segment profit or loss

	2014 RMB'000	2013 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

4 TURNOVER AND SEGMENT REPORTING (continued)

(b) SEGMENT REPORTING (continued)

(iii) 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, deposits paid 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 OTHER REVENUE

	2014 RMB'000	2013 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, 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.

6 PROFIT BEFORE TAXATION

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

	2014 RMB'000	2013 RMB'000
(a) Net finance expenses		
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%).

	2014 RMB'000	2013 RMB'000
(b) Staff costs		
Contributions to defined contribution retirement schemes	**134,626**	91,474
Equity-settled share-based payment expenses (note 29)	**8,292**	75,896
Salaries, wages and other benefits	**734,586**	633,262
	877,504	800,632

6 PROFIT BEFORE TAXATION (continued)

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

	2014 RMB'000	2013 RMB'000
(c) Other items		
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	2,783	808
	7,079	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 6(b).

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) TAXATION IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS REPRESENTS:

	2014 RMB'000	2013 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 (note 30(b))	(129,016)	17,764
	13,499	125,750

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS (continued)

(a) TAXATION IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS REPRESENTS: (continued)

(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.

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS (continued)

(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 recognised 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 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.

(c) RECONCILIATION BETWEEN TAX EXPENSES AND ACCOUNTING PROFIT AT APPLICABLE TAX RATES:

	2014 RMB'000	2013 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

8 DIRECTORS' REMUNERATION

Details of directors' remuneration are set out below:

	2014					
	Fees RMB'000	Basic salaries, allowances and other benefits in kind RMB'000	Contributions to defined contribution retirement scheme RMB'000	Discretionary bonuses RMB'000	Equity-settled share-based payment expenses RMB'000	Total RMB'000
Chairman and Executive Director						
Zhang Mi	–	1,295	47	750	399	2,491
Executive Directors						
Ren Jie	–	1,050	50	304	297	1,701
Liu Zhi	–	950	49	–	243	1,242
Non-executive Directors						
Siegfried Meissner	–	–	–	–	–	–
Popin Su (the alternate director to Siegfried Meissner)	–	–	–	–	–	–
Independent Non-executive Directors						
Qi Daqing	158	–	–	–	222	380
Liu Xiaofeng	158	–	–	–	222	380
Chen Guoming	79	–	–	–	163	242
Tai Kwok Leung, Alexander (resigned on 19 March 2014)	–	–	–	–	–	–
Shi Xingquan	79	–	–	–	163	242
Guo Yanjun	118	–	–	–	178	296
Total	592	3,295	146	1,054	1,887	6,974

8 DIRECTORS' REMUNERATION (continued)

	2013					
	Fees RMB'000	Basic salaries, allowances and other benefits in kind RMB'000	Contributions to defined contribution retirement scheme RMB'000	Discretionary bonuses RMB'000	Equity-settled share-based payment expenses RMB'000	Total RMB'000
Chairman and Executive Director						
Zhang Mi	–	1,230	42	1,543	4,433	7,248
Executive Directors						
Ren Jie	–	1,008	35	664	2,845	4,552
Liu Zhi	–	1,056	35	506	2,577	4,174
Non-executive Directors						
Siegfried Meissner	–	–	–	–	–	–
Huang Dongyang (resigned on 19 March 2013)	–	–	–	–	–	–
Popin Su (the alternate director to Siegfried Meissner)	–	–	–	–	–	–
Independent Non-executive Directors						
Qi Daqing	160	–	–	–	209	369
Liu Xiaofeng	160	–	–	–	209	369
Chen Guoming	80	–	–	–	146	226
Tai Kwok Leung, Alexander	120	–	–	–	178	298
Shi Xingquan	80	–	–	–	157	237
Guo Yanjun	120	–	–	–	157	277
Total	720	3,294	112	2,713	10,911	17,750

During the year, no amount was paid or payable by the group to the directors or any of the five highest paid individuals set out in note 9 below as an inducement to join or upon joining the group or as compensation for loss of office. Except for Siegfried Meissner who has waived to receive his remuneration amounting to RMB59,000 (2013: RMB122,000), there was no arrangement under which a director waived or agreed to waive any remuneration during the year (2013: RMB Nil).

9 INDIVIDUAL WITH HIGHEST EMOLUMENTS

The five highest paid individuals of the group include two directors during the year ended 31 December 2014 (2013: three) whose emoluments are disclosed in note 8. Details of remuneration paid to the remaining three (2013: two) highest individuals of the group are as follows:

	2014 RMB'000	2013 RMB'000
Basic salaries, allowances and other benefits in kind	2,780	1,512
Discretionary bonuses	580	1,682
Contributions to defined contribution retirement schemes	113	77
Share-based payments	518	4,902
	3,991	8,173

The emoluments of these three (2013: two) individuals with highest emoluments are within the following bands:

	2014	2013
HKD1,500,001 to HKD2,000,000	3	–
HKD4,500,001 to HKD5,000,000	–	1
HKD5,000,001 to HKD5,500,000	–	1

10 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the company includes a loss of RMB70,022,000 (2013: loss of RMB78,345,000) which has been dealt with in the financial statements of the company.

Reconciliation of the above amount to the company's losses for the year:

	2014 RMB'000	2013 RMB'000
Amount of consolidated loss attributable to equity shareholders dealt with in the company's financial statements	(70,022)	(78,345)
Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	–	246,671
Company's (loss)/profit for the year (note 33(a))	(70,022)	168,326

Details of dividends paid and payable to equity shareholders of the company are set out in note 33(b).

(Expressed in Renminbi unless otherwise indicated)

11 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

12 FIXED ASSETS

(a) THE GROUP

	Freehold land RMB'000	Interests in leasehold land held for own use under operating leases RMB'000	Buildings held for own use RMB'000	Plant and machinery RMB'000	Fixtures, fitting and equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost:							
At 1 January 2013	5,068	319,535	433,752	763,135	224,520	61,908	1,807,918
Additions	–	60,895	22,749	127,567	100,222	17,612	329,045
Acquisition of subsidiaries	–	9,712	25,121	9,641	1,255	2,624	48,353
Transfer from construction in progress (note 13)	–	–	491,545	359,735	1,778	–	853,058
Transfer from inventories	–	–	–	55,854	–	–	55,854
Disposals	–	–	–	(1,115)	(2,746)	(4,076)	(7,937)
Exchange difference	(152)	–	(1,995)	(11,167)	(1,406)	(877)	(15,597)
At 31 December 2013	4,916	390,142	971,172	1,303,650	323,623	77,191	3,070,694
Accumulated amortisation and depreciation:							
At 1 January 2013	–	16,125	84,222	125,142	101,013	30,816	357,318
Charge for the year	–	12,127	33,851	114,104	37,276	8,304	205,662
Written back on disposals	–	–	–	(977)	(1,160)	(3,153)	(5,290)
Exchange difference	–	–	(331)	(927)	(449)	(198)	(1,905)
At 31 December 2013	–	28,252	117,742	237,342	136,680	35,769	555,785
Net book value:							
At 31 December 2013	4,916	361,890	853,430	1,066,308	186,943	41,422	2,514,909

12 FIXED ASSETS (continued)

(a) THE GROUP (continued)

	Freehold land RMB'000	Interests in leasehold land held for own use under operating leases RMB'000	Buildings held for own use RMB'000	Plant and machinery RMB'000	Fixtures, fitting and equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost:							
At 1 January 2014	4,916	390,142	971,172	1,303,650	323,623	77,191	3,070,694
Additions	–	24	5,672	178,552	34,119	7,958	226,325
Transfer from construction in progress (note 13)	–	48,012	616,893	41,372	–	–	706,277
Transfer from inventories	–	–	–	96,070	–	–	96,070
Disposals	–	–	(10)	(6,912)	(2,183)	(3,592)	(12,697)
Exchange difference	18	–	245	(18,212)	(923)	(1,449)	(20,321)
At 31 December 2014	4,934	438,178	1,593,972	1,594,520	354,636	80,108	4,066,348
Accumulated amortisation and depreciation:							
At 1 January 2014	–	28,252	117,742	237,342	136,680	35,769	555,785
Charge for the year	–	7,142	51,348	150,305	54,967	11,676	275,438
Written back on disposals	–	–	(1)	(3,096)	(782)	(3,288)	(7,167)
Exchange difference	–	–	31	(2,981)	(314)	(156)	(3,420)
At 31 December 2014	–	35,394	169,120	381,570	190,551	44,001	820,636
Net book value:							
At 31 December 2014	4,934	402,784	1,424,852	1,212,950	164,085	36,107	3,245,712

12 FIXED ASSETS (continued)

(b) THE ANALYSIS OF NET BOOK VALUE OF PROPERTIES IS AS FOLLOWS:

	The group	
	2014 RMB'000	2013 RMB'000
Outside Hong Kong		
— freehold	4,934	4,916
— medium-term leases	1,827,636	1,215,320
	1,832,570	1,220,236
Representing:		
Freehold land	4,934	4,916
Interests in leasehold land held for own use under operating leases	402,784	361,890
Buildings held for own use	1,424,852	853,430
	1,832,570	1,220,236

13 CONSTRUCTION IN PROGRESS

	The group	
	2014 RMB'000	2013 RMB'000
At 1 January	728,019	827,290
Additions	340,570	711,966
Acquisition of subsidiaries	–	41,911
Transfer to fixed assets (note 12)	(706,277)	(853,058)
Exchange difference	–	(90)
At 31 December	362,312	728,019

14 INTANGIBLE ASSETS

	The group			The company
	Technical know-how RMB'000	Development cost RMB'000	Total RMB'000	Technical know-how RMB'000
Cost:				
At 1 January 2013	338,833	10,640	349,473	338,833
Addition through internal development	–	31,697	31,697	–
Acquisition of subsidiaries	21,200	–	21,200	–
Exchange difference	(10,308)	–	(10,308)	(10,308)
At 31 December 2013	349,725	42,337	392,062	328,525
At 1 January 2014	349,725	42,337	392,062	328,525
Addition through internal development	–	37,454	37,454	–
Exchange difference	1,102	5	1,107	1,102
At 31 December 2014	350,827	79,796	430,623	329,627
Accumulated amortisation:				
At 1 January 2013	146,828	839	147,667	146,828
Charge for the year	34,949	782	35,731	33,359
Exchange difference	(4,973)	–	(4,973)	(4,973)
At 31 December 2013	176,804	1,621	178,425	175,214
At 1 January 2014	176,804	1,621	178,425	175,214
Charge for the year	37,863	1,057	38,920	33,101
Exchange difference	449	–	449	449
At 31 December 2014	215,116	2,678	217,794	208,764
Net book value:				
At 31 December 2014	135,711	77,118	212,829	120,863
At 31 December 2013	172,921	40,716	213,637	153,311

The amortisation charge for the year is included in "general and administrative expenses" in the consolidated statement of profit or loss.

15 GOODWILL

	The group	
	2014	2013
	RMB'000	RMB'000
Cost	**13,484**	13,484

IMPAIRMENT TEST FOR CASH-GENERATING UNIT CONTAINING GOODWILL

Goodwill is allocated to the oil and gas engineering services segment.

The recoverable amount of the CGU is determined based on value-in-use calculation. This calculation uses cash flow projection based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated rate stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

Key assumptions used for value-in-use calculation:

	The group	
	2014	2013
	RMB'000	RMB'000
— Gross margin	**30%**	25%
— Growth rate	**3%**	3%
— Discount rate	**18%**	16%

16 INVESTMENTS IN SUBSIDIARIES

	The company	
	2014 RMB'000	2013 RMB'000
Unlisted equities, at cost	197,218	196,550
Cumulative fair value of share options granted to employees of subsidiaries	87,599	86,267
Long-term receivables from subsidiaries	2,542,263	2,627,737
	2,827,080	2,910,554

The long-term receivables from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The company has given undertaking not to demand for repayment within one year from the end of the reporting period.

Details of the principal subsidiaries at 31 December 2014 are set out below:

Name of company	Place of incorporation/ establishment and operation	Particulars of issued and paid-up capital	Attributable equity interest Direct	Attributable equity interest Indirect	Principal activities
Honghua Holdings Limited ("Honghua Holdings")	Hong Kong	1 ordinary share	100%	–	Investment holding
Honghua Company (notes (i), (ii) and (iii))	The PRC	Registered capital RMB1,600,000,000	–	100%	Manufacturing of petroleum equipment
Honghua Electric (notes (i) and (iii))	The PRC	Registered capital RMB100,000,000	–	80%	Manufacturing of panel of drilling rigs
Honghua International Co., Ltd (四川宏華國際科貿有限公司) (notes (i) and (iii))	The PRC	Registered capital RMB51,200,000	–	85%	Trading of drilling rigs and related parts

(Expressed in Renminbi unless otherwise indicated)

16 INVESTMENTS IN SUBSIDIARIES (continued)

Name of company	Place of incorporation/ establishment and operation	Particulars of issued and paid-up capital	Attributable equity interest Direct	Attributable equity interest Indirect	Principal activities
Honghua (China) Investment Co., Ltd. 宏華(中國)投資有公司 (notes (i), (ii) and (iii))	The PRC	Registered capital USD320,000,000	–	100%	Investment holding
Honghua Offshore Oil and Gas Equipment (Jiangsu) Co., Ltd. (宏華海洋油氣裝備(江蘇)有限公司) (notes (i) and (iii))	The PRC	Registered capital RMB874,992,609	–	100%	Manufacturing of offshore drilling platform and related products
Newco (H.K.) Limited	Hong Kong	1,000 ordinary shares	–	100%	Trading of drilling rigs and related parts Russia
Russia Honghua Co., Ltd.	Russia Federation	Registered capital RUB10,000	–	100%	Trading of drilling rigs and related parts
Honghua America, LLC ("Honghua America")	United States of America ("US")	Registered capital USD3,414,407	–	85%	Trading of drilling rigs and related parts

Notes:

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

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

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

17 INTERESTS IN JOINT VENTURES

	The group	
	2014 RMB'000	2013 RMB'000
Share of net assets	**86,914**	47,924

Details of the group's interests in joint ventures, which is accounted for using the equity method in the consolidated financial statements, are as follows:

Name of company	Place of establishment	Particulars of issued capital	Paid up capital	Group's effective interest held by a subsidiary	Principal activities
Egyptian Petroleum HH Rigs Manufacturing Co. S.A.E. ("HH Egyptian Company")	Egypt	180,000 ordinary shares of USD100 each	USD18,000,000	50%	Manufacturing and sale of drilling rigs, parts and components
Honghua Financial Leasing (Shenzhen) Co., Ltd. ("Honghua (Shenzhen)") (note)	The PRC	Registered capital RMB200,000,000	RMB80,000,000	50%	Provision of leasing services

The joint ventures in which the group participates are unlisted corporate entities whose market price is not available.

Note: During the year ended 31 December 2014, the group newly set up an equity joint venture of Honghua (Shenzhen) with a business partner in the PRC for the provision of leasing services.

17 INTERESTS IN JOINT VENTURES (continued)

Each individual joint venture does not have a significant financial impact on the group's results of operations and financial position. Aggregate financial information of joint ventures that are individually immaterial is as follows:

	The group	
	2014 RMB'000	2013 RMB'000
Carrying amount in the consolidated financial statements	86,914	47,924
THE GROUP'S EFFECTIVE SHARE OF THE JOINT VENTURES		
Profit/(losses) for the year	186	(7,948)
Other comprehensive income for the year	(1,196)	(1,309)
Loss and total comprehensive income for the year	(1,010)	(9,257)

18 INTEREST IN AN ASSOCIATE

	The group	
	2014 RMB'000	2013 RMB'000
Share of net assets	9,000	9,000

Particulars of the associate as at 31 December 2014, which is an unlisted corporate entity, was as follows:

Name of company	Place of establishment	Particulars of issued capital	Paid up capital	Group's effective interest held by a subsidiary	Principal activities
Hongdaojianyuan Marine Science and Technology Co., (Sansha) Ltd. (三沙宏道建遠海洋科技有限公司) ("Sansha Hongdao") (notes (i) and (ii))	The PRC	Registered capital RMB30,000,000	Nil	30%	Designing and manufacturing of offshore equipment

18 INTEREST IN AN ASSOCIATE (continued)

Notes:

(i) The company is a domestic limited liability company established in the PRC.

(ii) The official name of the company is in Chinese. The English translation of the company name is for reference only.

The above associate is accounted for using the equity method in the consolidated financial statements. Sansha Hongdao has not commenced business during the year 31 December 2014.

The associate does not have a significant financial impact on the group's results of operations and financial position. Financial information of the associate is as follows:

	2014 RMB'000	2013 RMB'000
Carrying amount in the consolidated financial statements	**9,000**	9,000
THE GROUP'S EFFECTIVE SHARE OF THE ASSOCIATE		
Profit and total comprehensive income for the year	**–**	–

19 OTHER INVESTMENTS

	The group	
	2014 RMB'000	2013 RMB'000
Available-for-sale equity securities (note(i))	**74,053**	74,053
Held-to-maturity debt investment (note(ii))	**44,038**	–
	118,091	74,053

Notes:

(i) The equity securities do not have a quoted price in an active market whose fair value cannot be reliably measured, accordingly, they are stated at cost less impairment losses.

(ii) The group has the positive ability and intention to hold the debt investment to maturity, accordingly, it is stated at amortised cost less impairment losses. The debt investment bears interest at 12.5% per annum and dues in 2016.

20 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 "cost of sales" in the consolidated statement of profit or loss.

21 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 21(b))	(234,287)	(206,250)
Sub-total	3,561,236	3,116,774
Finance lease receivable (note 21(d))	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, details of which are set in note 31(a).

(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:$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.

21 TRADE AND OTHER RECEIVABLES (continued)

(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. Further details on the group's credit policy are set out in note 34(a).

(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 (see note 2(m)).

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

21 TRADE AND OTHER RECEIVABLES (continued)

(b) ALLOWANCE FOR DOUBTFUL DEBTS (continued)

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 RMB'000	2013 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.

(Expressed in Renminbi unless otherwise indicated)

21 TRADE AND OTHER RECEIVABLES (continued)

(d) FINANCE LEASE RECEIVABLES

At 31 December 2014, the company had receivables under finance lease as follows:

	2014		2013	
	Present value of the minimum lease receipts	Total minimum lease receipts	Present value of the minimum lease receipts	Total minimum lease receipts
Within 1 year	69,913	80,877	–	–
After 1 year but within 2 years	93,324	103,612	–	–
After 2 years but within 5 years	35,891	38,817	–	–
	129,215	142,429	–	–
	199,128	223,306	–	–
Less: total future interest income		(24,178)		–
Present value of lease receivables		199,128		–

22 CONSTRUCTION CONTRACTS

The revenue from contract work performed recognised during the year ended 31 December 2014 is RMB129,577,000 (2013: RMB196,609,000). The aggregate amount of costs incurred plus recognised profits less recognised losses to date, included in gross amount due from customers for contract work at 31 December 2014 is RMB235,517,000 (2013: RMB196,609,000). Advances received from customers under open construction contracts amounted to RMB34,790,000 (2013: RMB20,451,000).

23 OTHER FINANCIAL ASSETS

As at 31 December 2014, other financial assets consisted of principal-protected structural deposits placed in several commercial banks in the PRC.

24 PLEDGED BANK DEPOSITS

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

25 CASH AND CASH EQUIVALENTS

	The group		The company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and in hand	**1,442,014**	1,274,509	**8,393**	19,570

As at 31 December 2014, deposits that were placed with banks in the PRC and Russia and included in the cash and cash equivalents above of RMB894,769,000 (2013: RMB796,834,000) and RMB98,794,000 (2013: RMB65,656,000) respectively. Remittance of funds out of the PRC and Russia is subject to the exchange restrictions imposed by the PRC and Russian government.

NON-CASH TRANSACTIONS:

During the year ended 31 December 2014, inventories of RMB96,070,000 (2013: RMB55,854,000) were transferred to fixed assets for the provision of oil and gas services.

26 INTEREST-BEARING BORROWINGS

At 31 December 2014, the interest-bearing borrowings of the group and the company were secured as follows:

	The group		The company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Bank loans				
— secured (note(i))	**1,545,566**	1,294,961	**–**	–
— unsecured	**2,380,482**	3,436,536	**–**	897,139
	3,926,048	4,731,497	**–**	897,139
Unsecured loan from other financial institution	**1,817**	–	**–**	–
Senior notes (note(ii))	**1,199,188**	–	**1,199,188**	–
	5,127,053	4,731,497	**1,199,188**	897,139

Notes:

(i) As at 31 December 2014, the bank loans were secured by land use rights of RMB227,002,000 (2013: RMB227,002,000), fixed assets of RMB507,241,000 (2013: RMB462,933,000), bank deposits of RMB71,615,000 (2013: RMB230,811,000) and trade and other receivables of RMB794,072,000 (2013: RMB184,678,000).

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

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

26 INTEREST-BEARING BORROWINGS (continued)

At 31 December 2014, the interest-bearing borrowings of the group and the company were repayable as follows:

	The group		The company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year or on demand	**2,806,956**	3,273,544	**–**	179,428
After 1 year but within 2 years	**429,046**	1,142,648	**–**	454,746
After 2 years but within 5 years	**1,891,051**	315,305	**1,199,188**	262,965
	2,320,097	1,457,953	**1,199,188**	717,711
	5,127,053	4,731,497	**1,199,188**	897,139

Certain banking facilities of the group are subject to the fulfilment of covenants as are commonly found in lending arrangements with financial institutions. If the group were to breach the covenants, the drawn down facilities would become payable on demand. The Senior Notes are subject to the fulfilment of covenants relating to limitations on indebtedness and certain transactions of the group, as one commonly found in issue of corporate bonds. The group regularly monitors its compliance with these covenants. Further details of the group's management of liquidity risk are set out in note 34(b). As at 31 December 2014 and 2013, none of the covenants had been breached.

27 TRADE AND OTHER PAYABLES

	The group		The company	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 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	25,249	3,293
	5,255,748	4,240,962	25,249	3,293
Representing:				
Current portion	5,246,512	4,240,962	25,249	3,293
Non-current portion	9,236	–	–	–
	5,255,748	4,240,962	25,249	3,293

Bills payable as at 31 December 2014 and 2013 were secured by certain pledged bank deposits as disclosed in note 24. 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 RMB'000	2013 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

28 EMPLOYEE RETIREMENT BENEFITS

DEFINED CONTRIBUTION SCHEMES

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiaries now comprising the group participates in defined contribution retirement benefit schemes (the “Schemes”) organised by the PRC municipal government authorities whereby the group is required to make contributions to the Schemes at the rate of 20% to 22% (2013: 20% to 22%) of the standard wages determined by the relevant authorities in the PRC during the year ended 31 December 2014. The local government authority is responsible for the entire pension obligations payable to retired employees.

The group operates a Mandatory Provident Fund Scheme (“the MPF scheme”) under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF Scheme, the group and its employees are each required to make contributions to the scheme at 5% of the employees’ relevant income, subject to a cap of monthly relevant income of HKD30,000 (HK$25,000 prior to June 2014). Contributions to the scheme vest immediately.

The group has no other material obligation for the payment of pension benefits associated with the Schemes and the MPF scheme beyond the annual contributions described above. The group has no material obligation for the payment of overseas pension benefits.

29 EQUITY-SETTLED SHARE-BASED PAYMENTS

(a) PRE-IPO SHARE OPTION SCHEME

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

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

29 EQUITY-SETTLED SHARE-BASED PAYMENTS (continued)

(a) PRE-IPO SHARE OPTION SCHEME (continued)

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

	2014		2013	
	Exercise price	**Number of options ('000 shares)**	Exercise price	Number of options ('000 shares)
Outstanding at the beginning of the year	**HKD3.83**	**56,684**	HKD3.83	57,089
Lapsed during the year	**HKD3.83**	**(1,313)**	HKD3.83	(405)
Outstanding at the end of the year	**HKD3.83**	**55,371**	HKD3.83	56,684
Exercisable at the end of the year	**HKD3.83**	**55,371**	HKD3.83	56,684

The options outstanding at 31 December 2014 had a weighted average remaining contractual life of 3.08 years (2013: 4.08 years).

29 EQUITY-SETTLED SHARE-BASED PAYMENTS (continued)

(b) SHARE OPTION SCHEME

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

	Number of options ('000 shares)		Vesting conditions	Contractual life of options
Options granted:				
— on 15 April 2009	60,000	(i)	30% on 1 December 2009	10 years
		(ii)	30% on 14 April 2010	
		(iii)	40% on 15 April 2011	
— on 11 October 2010	2,200	(i)	40% on 25 October 2010	10 years
		(ii)	30% on 11 October 2011	
		(iii)	30% on 11 October 2012	
— on 20 June 2011	7,600*	(i)	30% on 19 July 2011	10 years
		(ii)	30% on 19 June 2012	
		(iii)	40% on 20 June 2013	
— on 5 April 2012	15,400	(i)	30% on 5 April 2013	10 years
		(ii)	30% on 5 April 2014	
		(iii)	40% on 5 April 2015	
— on 24 March 2014	3,200#	(i)	30% on 24 April 2014	10 years
		(ii)	30% on 24 April 2015	
		(iii)	40% on 24 April 2016	
— on 2 July 2014	40,575^		Vesting of the share options is conditional upon the achievement of corporate goals of the company and the individual performance of the respective grantees. The share options of any portion thereof shall lapse if the relevant corporate goals cannot be achieved (note 29(c)). Up to 30% of the share options granted to each grantee after April 2015; up to 60% of the share options granted to each grantee after April 2016; all the remaining share options granted to each grantee after April 2017	10 years
Total share options	128,975			

* 5,200,000 shares are granted to the directors of the group.

\# 3,200,000 shares are granted to the directors of the group.

^ 4,577,000 shares are granted to the directors of the group.

29 EQUITY-SETTLED SHARE-BASED PAYMENTS (continued)

(b) SHARE OPTION SCHEME (continued)

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

	2014		2013	
	Weighted average exercise price	Number of options ('000 shares)	Weighted average exercise price	Number of options ('000 shares)
Outstanding at the beginning of the year	HKD1.20	65,675	HKD1.21	73,876
Granted during the year	HKD1.96	43,775	–	–
Exercised during the year	HKD1.26	(1,890)	HKD1.25	(8,034)
Forfeited during the year	HKD1.88	(690)	HKD1.19	(119)
Lapsed during the year	HKD1.25	(186)	HKD1.27	(48)
Outstanding at the end of the year	HKD1.51	106,684	HKD1.20	65,675
Exercisable at the end of the year	HKD1.11	58,467	HKD1.20	55,013

The options outstanding at 31 December 2014 had an exercise price in the range of HKD0.83 to HKD2.02 (2013: HKD0.83 to HKD1.27) and a weighted average remaining contractual life of 6.95 years (2013: 6.23 years).

The weighted average share price at the date of exercise for share options exercised during the year ended 31 December 2014 was HKD1.79 (2013: HKD3.70).

(c) FAIR VALUE OF SHARE OPTIONS AND ASSUMPTIONS

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial lattice model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial lattice model.

(Expressed in Renminbi unless otherwise indicated)

29 EQUITY-SETTLED SHARE-BASED PAYMENTS (continued)

(c) FAIR VALUE OF SHARE OPTIONS AND ASSUMPTIONS (continued)

Fair value of share options granted in 2014 and assumptions

	Options granted on	
	24 March 2014	**2 July 2014**
Fair value at measurement date	HKD 0.92	HKD 0.27–HKD 0.81
Share price	HKD 2.00	HKD 0.99–HKD 1.96
Exercise price	HKD 2.02	HKD 1.96
Expected volatility (expressed as weighted average volatility used in the modelling under binomial lattice model)	56.47%	54.41%–55.68%
Option life (expressed as weighted average life used in the modelling under binomial lattice model)	10 years	10 years
Expected dividends	2.61%	2.61%–3.17%
Risk-free interest rate (based on Exchange Fund Notes)	2.34%	1.90%–2.11%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

The share options granted on 2 July 2014 are subject to the achievement of performance-based vetting condition. The Group recognises the cost of services received from the grantees based on the estimation on the number of options expected to vest and the timing of which the performance-based condition expected to achieve. The share-based payment expense for future periods is adjusted if subsequent information indicates that the number of options expected to vest and vesting period different from previous estimates.

29 EQUITY-SETTLED SHARE-BASED PAYMENTS (continued)

(d) SHARE AWARD SCHEME

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

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

During the year ended 31 December 2013, the Trustee acquired 50,000,000 shares of the company through purchase from the open market according to the instructions of the board of directors, at a total cost of approximately RMB146,233,000. No shares were acquired by the Trustee under the Scheme during the year ended 31 December 2014. As at 31 December 2014, 62,089,300 shares were held by the Trustee under the Scheme (31 December 2013: 62,089,300 shares).

During the year ended 31 December 2013, the company granted restricted shares in respect of a total of 35,917,700 ordinary shares of the company to selected participants at a price of HK$1.27 each, of which 190,000 restricted shares granted were subsequently cancelled. 17,428,850 of the restricted shares were vested on 20 May 2013 and 18,298,850 of the restricted shares were vested on 20 December 2013.

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

30 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

(a) CURRENT TAXATION IN THE STATEMENT OF FINANCIAL POSITION REPRESENTS:

	The group	
	2014	2013
	RMB'000	RMB'000
Current tax recoverable	**(8,002)**	(16,406)
Current tax payable	**60,641**	51,453
	52,639	35,047

30 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION (continued)

(b) DEFERRED TAX ASSETS AND LIABILITIES RECOGNISED

The components of deferred tax assets/(liabilities) recognised in the group's statement of financial position and the movements during the year are as follows:

	Write-down of inventories RMB'000	Provision for product warranties RMB'000	Unrealised profit on inventories RMB'000	Allowance for doubtful debts RMB'000	Accruals RMB'000	Tax losses RMB'000	Withholding tax on dividends RMB'000	Insurance premium paid RMB'000	Intangible assets RMB'000	Interest capitalisation RMB'000	Total RMB'000
Deferred tax arising from:											
At 1 January 2013	19,402	3,063	47,259	23,487	29,280	29,224	(53,476)	(3,989)	–	–	94,250
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	(3,180)	–	(3,180)
(Charged)/credited to profit or loss (note 7(a))	(7,822)	2,491	(33,328)	10,038	(5,338)	7,371	15,556	3,931	–	(10,663)	(17,764)
Exchange difference	–	–	–	–	–	–	–	58	–	–	58
At 31 December 2013	11,580	5,554	13,931	33,525	23,942	36,595	(37,920)	–	(3,180)	(10,663)	73,364
At 1 January 2014	**11,580**	**5,554**	**13,931**	**33,525**	**23,942**	**36,595**	**(37,920)**	**–**	**(3,180)**	**(10,663)**	**73,364**
Credited/(charged) to profit or loss (note 7(a))	**9,415**	**(370)**	**1,193**	**5,275**	**(16,528)**	**91,567**	**37,920**	**–**	**544**	**–**	**129,016**
Exchange difference	**36**	**–**	**–**	**(7)**	**–**	**(1,220)**	**–**	**–**	**–**	**–**	**(1,191)**
At 31 December 2014	**21,031**	**5,184**	**15,124**	**38,793**	**7,414**	**126,942**	**–**	**–**	**(2,636)**	**(10,663)**	**201,189**

	The group	
	2014 RMB'000	2013 RMB'000
Deferred tax assets recognised on the statement of financial position	**201,189**	123,975
Deferred tax liabilities recognised on the statement of financial position	**–**	(50,611)
	201,189	73,364

30 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION (continued)

(c) DEFERRED TAX ASSETS NOT RECOGNISED

In accordance with the accounting policy set out in note 2(v), the group has not recognised deferred tax assets in respect of tax losses of RMB90,907,000 as at 31 December 2014 (2013: RMB92,377,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdictions and entities. The tax losses of RMB90,907,000 (2013: RMB87,975,000) would be expired in 5 to 20 years.

(d) DEFERRED TAX LIABILITIES NOT RECOGNISED

At 31 December 2014, temporary differences relating to the undistributed profits of subsidiaries amounted to RMB2,459,097,000 (2013: RMB2,166,857,000). Deferred tax liabilities of RMB122,955,000 (2013: RMB70,423,000) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the company controls the dividend policy of these subsidiaries and it has been determined that it is probable that profits will not be distributed in the foreseeable future.

31 PROVISIONS

	The group	
	2014 **RMB'000**	2013 RMB'000
Provision for a legal claim with former shareholders (note (a))	**32,317**	32,317
Provision for a legal claim with a former sales agency (note (b))	**–**	99,078
Provision for product warranties (note (c))	**34,561**	37,026
	66,878	168,421

31 PROVISIONS (continued)

(a) PROVISION FOR A LEGAL CLAIM WITH FORMER SHAREHOLDERS

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

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

On 11 December 2007, 57 out of the 64 original investors initiated legal proceedings at the Intermediate Peoples’ Court of Chengdu City, Sichuan Province (“Chengdu Intermediate Court”).

A deed of indemnity in respect of the dispute and risk dated 15 February 2008 was entered into between some beneficiary owners of the company (herein as defined “Indemnifiers”) in favour of the group pursuant to which each of the Indemnifiers jointly and severally provide an indemnity to any members of the group for potential damages that the company may suffer as result of the legal proceedings initiated by the 57 plaintiffs or the dispute with the 64 individuals.

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

The management take the view that Honghua Company’s repurchase of the equity interest and capital reduction were conducted under the PRC law. Honghua Company has therefore filed an appeal to the Sichuan Higher People’s Court on 3 May 2012.

31 PROVISIONS (continued)

(a) PROVISION FOR A LEGAL CLAIM WITH FORMER SHAREHOLDERS (CONTINUED)

As a result of the unfavourable judgement made by the court, a provision for the above legal claim of RMB32,317,000 has been made during 2012. Pursuant to the deed of indemnity, the group has the right to claim from the Indemnifiers the same amount of loss suffered from the legal claim. Accordingly, receivables from the Indemnifiers of the same amount and the corresponding credit to capital reserve (net of tax) have been recognised in the financial statements. There is no impact on both the net assets and cashflow of the group.

During the year ended 31 December 2014, Sichuan Higher People's Court issued an order (the "Order") ((2012) Chua Ming Zhong Zi No. 442) that the judgement made by Chengdu Intermediate Court of ((2008) Cheng Min Chu Zi No. 53) is set aside and retrial is ordered. The retrial by the court was held in February 2015. The result of the retrial is expected to be issued in 2015.

(b) PROVISION FOR A LEGAL CLAIM WITH A FORMER SALES AGENCY

A sales agency filed lawsuits against Honghua Company and Honghua America on 22 September 2011. The court ordered the parties to arbitrate the dispute at the International Centre for Dispute Resolution of the American Arbitration Association ("ICDR").

On 27 November 2013, the Company received the final arbitration award from the ICDR. ICDR made an award against Honghua Company and Honghua America ordering Honghua Company and Honghua America to compensate the sales agency an aggregate sum of commissions, attorney's fees and other related fees in a sum of approximately USD16,000,000 (equivalent to RMB99,078,000). The arbitration award was confirmed by the U.S. court on 7 March 2014.

As a result of the judgement made by the ICDR and the subsequent confirmation of the U.S. court, a provision for the above legal claim of RMB99,078,000 has been made during the year ended 31 December 2013.

During the year ended 31 December 2014, Honghua Company and Honghua America LLC, the subsidiaries of the Group and the former sales agency (the "Claimant") reached a Full Settlement and Release Agreement on the claim at a consideration of USD10,750,000. In view of the final settlement with the Claimant, a reversal of provision of USD5,250,000 (equivalent to RMB33,241,000) was credited to "other operating expenses" in the consolidated statement of profit or loss under this lawsuit.

31 PROVISIONS (continued)

(c) PROVISION FOR PRODUCT WARRANTIES

	The group	
	2014	2013
	RMB'000	RMB'000
At 1 January	**37,026**	25,415
Provision made	**12,025**	31,809
Utilised during the year	**(14,490)**	(20,198)
At 31 December	**34,561**	37,026

Under the terms of the group's sales arrangements, the group will rectify any product defects arising within the period specified in the respective sales contracts. The provision is based on estimates made from historical warranty data associated with similar products. The group expects to incur most of the liability over the next year.

32 AMOUNTS DUE FROM SUBSIDIARIES

The amounts due from subsidiaries are unsecured, interest-free and repayable on demand.

33 CAPITAL, RESERVES AND DIVIDENDS

(a) MOVEMENTS IN COMPONENTS OF EQUITY

The reconciliation between the opening and closing balances of each component of the group's consolidated equity is set out in the consolidated statement of changes in equity. Details of changes in the company's individual components of equity between the beginning and the end of the year are set out below:

The company

	Note	Share capital (note 33(c)) RMB'000	Share premium (note 33(d)(i)) RMB'000	Other reserve (note 33(d)(ii)) RMB'000	Capital reserve (note 33(d)(iii)) RMB'000	Exchange reserve (note 33(d)(v)) RMB'000	Shares held for share award scheme (note 29(d)) RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2013		300,192	2,486,988	389,691	96,356	(378,272)	(49,973)	(56,484)	2,788,498
Changes in equity for 2013:									
Profit for the year		–	–	–	–	–	–	168,326	168,326
Comprehensive income for the year		–	–	–	–	(85,214)	–	–	(85,214)
Total comprehensive income for the year		–	–	–	–	(85,214)	–	168,326	83,112
Shares purchased under share award scheme	29(d)	–	–	–	–	–	(146,233)	–	(146,233)
Amortisation arising from share award scheme	29(d)	–	–	–	73,466	–	–	–	73,466
Vested shares transferred from share award scheme	29(d)	–	–	–	(73,466)	–	71,588	37,722	35,844
Equity-settled share-based transactions arising from share option schemes	29	–	–	–	2,430	–	–	–	2,430
Shares issued under share option schemes	29	641	10,711	–	(3,347)	–	–	–	8,005
Options lapsed under share option schemes	29	–	–	–	(508)	–	–	508	–
Dividends approved in respect of the previous year	33(b)	–	–	–	–	–	–	(150,102)	(150,102)
At 31 December 2013		300,833	2,497,699	389,691	94,931	(463,486)	(124,618)	(30)	2,695,020

33 CAPITAL, RESERVES AND DIVIDENDS (continued)

(a) MOVEMENTS IN COMPONENTS OF EQUITY (continued)

***The company** (continued)*

	Note	Share capital (note 33(c)) RMB'000	Share premium (note 33(d)(i)) RMB'000	Other reserve (note 33(d)(ii)) RMB'000	Capital reserve (note 33(d)(iii)) RMB'000	Exchange reserve (note 33(d)(v)) RMB'000	Shares held for share award scheme (note 29(d)) RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2014		300,833	2,497,699	389,691	94,931	(463,486)	(124,618)	(30)	2,695,020
Changes in equity for 2014:									
Loss for the year		–	–	–	–	–	–	(70,022)	(70,022)
Comprehensive income for the year		–	–	–	–	9,435	–	–	9,435
Total comprehensive income for the year		–	–	–	–	9,435	–	(70,022)	(60,587)
Equity-settled share-based transactions arising from share option schemes	29	–	–	–	8,292	–	–	–	8,292
Shares issued under share option schemes	29	150	2,539	–	(797)	–	–	–	1,892
Options lapsed under share option schemes	29	–	–	–	(1,641)	–	–	1,641	–
Dividends approved in respect of the previous year	33(b)	–	(150,946)	–	–	–	–	–	(150,946)
At 31 December 2014		300,983	2,349,292	389,691	100,785	(454,051)	(124,618)	(68,411)	2,493,671

(b) DIVIDENDS

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

	2014 RMB'000	2013 RMB'000
Final dividend proposed after the end of the reporting period of HKD0 (2013: HKD0.06) per ordinary share	**–**	151,983

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

33 CAPITAL, RESERVES AND DIVIDENDS (continued)

(b) DIVIDENDS (continued)

(ii) Dividends payable to equity shareholders of the company attributable to the previous financial year, approved and paid during the year:

	2014 RMB'000	2013 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HKD0.06 per share (2013: HKD0.06 per share)	150,946	150,102

(c) SHARE CAPITAL

Authorised and issued share capital

	2014 Number of shares	2014 Amount '000	2013 Number of shares	2013 Amount '000
Authorised:				
Ordinary shares of HKD0.1 each	10,000,000,000	HKD 1,000,000	10,000,000,000	HKD 1,000,000
Equivalent to:		RMB 968,739		RMB 968,739

33 CAPITAL, RESERVES AND DIVIDENDS (continued)

(c) SHARE CAPITAL (continued)

***Authorised and issued share capital** (continued)*

	2014		2013	
	Number of shares	Amount RMB'000	Number of shares	Amount RMB'000
Ordinary shares, issued and fully paid:				
At 1 January	3,239,167,000	300,833	3,231,133,000	300,192
Shares issued under share option schemes (note 29(b)(ii))	1,890,000	150	8,034,000	641
At 31 December	3,241,057,000	300,983	3,239,167,000	300,833

(d) NATURE AND PURPOSE OF RESERVES

(i) Share premium

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

(ii) Other reserve

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

(iii) Capital reserve

Capital reserve represents the value of employee services in respect of the equity-settled share-based payment as set out in note 29, waiver of debts by the immediate holding company and capital contribution arising on shareholders' indemnity.

33 CAPITAL, RESERVES AND DIVIDENDS (continued)

(d) NATURE AND PURPOSE OF RESERVES (continued)

(iv) Surplus reserve

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

(v) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside the PRC which are dealt with in accordance with the accounting policies as set out in note 2(y).

(vi) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the end of the reporting period and is dealt with in accordance with the accounting policies in notes 2(g) and 2(m)(i).

(e) DISTRIBUTABILITY OF RESERVES

The company's reserves available for distribution to its shareholders amounted to RMB2,317,306,000 as at 31 December 2014 (2013: RMB2,518,805,000). Under the Companies Law (Revised) of the Cayman Islands, the share premium of the company is available for paying distributions or dividends to shareholders subject to the provisions of its memorandum and articles of association and provided that immediately following the payment of distribution or dividends, the company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the company's articles of association, distributions shall be payable out of the profits or other reserves, including the share premium account, of the company.

33 CAPITAL, RESERVES AND DIVIDENDS (continued)

(f) CAPITAL MANAGEMENT

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

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

Consistent with the industry practice, the group's capital structure is monitored on the basis of a net debt-to-capital ratio. For this purpose, net debt is defined as interest-bearing borrowings, trade and other payables and amounts due to related parties. The total capital is referred as shareholders' equity in the consolidated statement of financial position.

During 2014, the group's strategy, which was unchanged from 2013, was to maintain sufficient capital to cover any net debt position by adjusting the amount of dividends paid to shareholders or issue new shares. The net debt-to-equity ratios as at 31 December 2014 and 2013 are 2.20 and 1.89 respectively.

Neither the company nor any of its subsidiaries is subject to externally imposed capital requirements.

34 FINANCIAL RISK MANAGEMENT AND FAIR VALUE

Exposure to credit, liquidity, interest rate, currency and business risks arises in the normal course of the group's business. The group's exposure to these risks and financial risk management policies and practices used by the group to manage these risks are described below.

(a) CREDIT RISK

The group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an on-going basis.

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

34 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(a) CREDIT RISK (continued)

The group's exposure to credit risk is influenced mainly by the individual characteristics of each customer and the industry in which the customers operate. Significant concentration of credit risk primarily arises when the group has significant exposure to individual customers. At the end of the reporting period, 20% (2013: 19%) and 54% (2013: 44%) of the total trade and other receivables was due from the group's largest customers and the five largest customers respectively. The group also has significant concentration of credit risk on customers in the oil drilling industry and the volatility in global oil prices may affect the financial results and ability of customers to make payments.

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

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

Further quantitative disclosures in respect of the group's exposure to credit risk arising from trade and other receivables are set out in note 21.

(b) LIQUIDITY RISK

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

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

The group had a net current asset of RMB2,054,935,000 (2013: RMB1,918,839,000) as at 31 December 2014. The group's trade and bills receivables and inventories balances amounted to RMB3,561,236,000 and RMB2,980,996,000 respectively as at 31 December 2014 (2013: RMB3,116,774,000 and RMB2,801,307,000 respectively).

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

34 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(b) LIQUIDITY RISK (continued)

The contractual undiscounted cash flows of the interest-bearing borrowings (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and earliest date the group and the company can be required to pay are as follows:

The group and the company

	The group		The company	
	2014 RMB'000	2013 RMB'000	**2014 RMB'000**	2013 RMB'000
Within 1 year	**3,227,802**	3,412,655	**91,161**	214,322
More than 1 year but less than 2 years	**373,845**	1,167,896	**91,161**	469,581
More than 2 years but less than 5 years	**2,184,592**	331,290	**1,448,695**	271,867
Total contractual undiscounted cash outflow	**5,786,239**	4,911,841	**1,631,017**	955,770
Carrying value	**5,127,053**	4,731,497	**1,199,188**	897,139

Save as above, the group's and the company's other financial liabilities are required to be settled within one year or on demand, and the non-current trade and other payables are expected to be settled after one year, and the total contractual undiscounted cash flows of these financial liabilities approximate to their carrying amounts on the statements of financial position.

34 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(c) INTEREST RATE RISK

The group's interest rate risk arises primarily from bank borrowings. The group's policy is to manage its interest rate risk to ensure there are no undue exposures to significant interest rate movements. The group does not use derivative financial instruments to hedge its fixed and floating rate debt obligations. Most of the interest-bearing borrowings of the group as of 31 December 2014 are variable rate instruments.

(i) Interest rate profile

The following table details the interest rate profile of the group's and the company's interest-bearing liabilities at the end of the reporting period.

	The group			
	2014 Effective interest rate %	Amount RMB'000	2013 Effective interest rate %	Amount RMB'000
Fixed rate borrowings:				
Senior notes	7.92%	1,199,188	–	–
Other interest-bearing borrowings	1.05%–7.80%	374,893	1.05%–6.65%	1,252,036
Variable rate borrowings:				
Interest-bearing borrowings	1.44%–6.88%	3,552,972	1.17%–7.22%	3,479,461
Total borrowings:		5,127,053		4,731,497
Fixed rate borrowings as a percentage of total borrowings		31%		26%

34 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(c) INTEREST RATE RISK (continued)

(i) *Interest rate profile (continued)*

	The company			
	2014		2013	
	Effective interest rate	**Amount**	Effective interest rate	Amount
	%	**RMB'000**	%	RMB'000
Fixed rate borrowings:				
Senior notes	**7.92%**	**1,199,188**	–	–
Variable rate borrowings:				
Interest-bearing borrowings	**–**	**–**	4.10%	897,139

(ii) *Sensitivity analysis*

At 31 December 2014, it is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would have decreased/increased the group's profit after tax and retained profits by approximately RMB12,514,000 (2013: RMB12,497,000).

The sensitivity analysis above indicates the instantaneous change in the group's profit after tax (and retained profits) that would arise assuming that the change in interest rates had occurred at the end of the reporting period, the impact on the group's profit after tax (and retained profits) is estimated as an annualised impact on interest expense of such a change in interest rates. The analysis is performed on the same basis for 2013.

(d) CURRENCY RISK

The group is exposed to currency risk primarily through sales and purchases that are denominated in United States dollars ("USD"), Euros ("EUR") and RMB. The movements between USD, EUR and RMB will affect the revenue and costs of some production materials, spare parts and equipment purchases. The group minimises the currency risk by requesting deposits from customers and converting most of these deposits into RMB.

The group's investments in certain companies incorporated outside the PRC also expose the group to foreign currency risk mainly resulting from fluctuation of USD.

34 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(d) CURRENCY RISK (continued)

An appreciation of RMB against USD or EUR may have the effect of rendering exports from the group in the PRC more expensive and less competitive than products from other countries.

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

The following table details the group's exposure at the end of the period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. The functional currency of the group's subsidiary in Russia is RUB. Subsidiaries in Russia are exposed to currency risk mainly arising from recognised assets and liabilities denominated in USD. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate at the year-end date.

The group

	2014 Exposure to foreign currencies (expressed in RMB'000)		
	USD	EUR	RMB
Cash and cash equivalents	249,138	1,333	20,240
Trade and other receivables	4,166,432	14,642	–
Amounts due from related companies	98,065	–	–
Interest-bearing borrowings	(722,864)	–	–
Trade and other payables	(4,066,377)	–	(1,467)
Amounts due to related companies	(3,915)	–	–
Overall net exposure	(279,521)	15,975	18,773

34 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(d) CURRENCY RISK (continued)

The group

	2013 Exposure to foreign currencies (expressed in RMB'000)		
	USD	EUR	RMB
Cash and cash equivalents	253,375	–	4,382
Trade and other receivables	2,046,656	21,047	76,726
Interest-bearing borrowings	(1,162,234)	–	–
Trade and other payables	(841,890)	–	(215,381)
Overall net exposure	295,907	21,047	(134,273)

As at 31 December 2014, the Group has forward exchange contracts used as economic hedges against trade and receivables denominated in USD with notional amounts of RMB477,282,000 (2013: RMB589,615,000).

Sensitivity analysis

The following table indicates the instantaneous change in the group's profit after tax (and retained profits) and other components of consolidated equity that would arise if foreign exchange rates to which the group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies.

34 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(d) CURRENCY RISK (continued)

***Sensitivity analysis** (continued)*

	The group					
	2014			2013		
	Weakening/ (strengthening) of functional currency against these currencies	Increase/ (decrease) on profit after tax RMB'000	Increase/ (decrease) on retained profits RMB'000	Weakening/ (strengthening) of functional currency against these currencies	Increase/ (decrease) on profit after tax RMB'000	Increase/ (decrease) on retained profits RMB'000
USD	5%	(34,185)	(34,185)	5%	9,094	9,094
	(5)%	34,185	34,185	(5)%	(9,094)	(9,094)
EUR	5%	655	655	5%	852	852
	(5)%	(655)	(655)	(5)%	(852)	(852)
RMB	5%	713	713	5%	(4,946)	(4,946)
	(5)%	(713)	(713)	(5)%	4,946	4,946

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the group entities' profit/loss after tax and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the group which expose the group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the group's presentation currency. The analysis is performed on the same basis for 2013.

34 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(e) FAIR VALUES

The following methods and assumptions were used to estimate the fair value for each of the following classes of financial assets and liabilities:

(i) Cash and cash equivalents, bank deposits maturing over three months, pledged bank deposits, trade and other receivables and trade and other payables

The carrying values of these financial assets and liabilities approximate their fair value because of their short maturities.

(ii) Interest-bearing borrowings

The carrying amounts of interest-bearing borrowings approximate their fair value because the borrowing rates were similar to rates currently available for bank loans with similar terms and maturity.

(iii) Amounts due from/to related companies

The amounts due from/to related companies are interest-free and have no fixed repayment terms. Given these terms, it is not meaningful to disclose fair values.

(iv) Other financial assets

The fair value of other financial assets is estimated as being the present value of future cash flows, discounted at interest rates based on the expected/realised rates of return of the underlying principal-protected structural deposits.

(v) Derivative financial instrument

The fair value of the derivative financial instruments embedded in the senior notes and the derivative financial instruments embedded in the held-to-maturity debt investment are estimated using the binomial model based on the expected volatility.

34 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(e) FAIR VALUES (continued)

(vi) Fair value hierarchy and valuation process

The following table presents the fair value of the group's derivatives financial instruments, and other financial assets measured at the end of the reporting period, categorised in to the three-level fair value hierarchy as defined in IFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

Level 3 valuations: Fair value measured using significant unobservable inputs.

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

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

34 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(e) FAIR VALUES (continued)

(vi) Fair value hierarchy and valuation process (continued)

	Fair value at 31 December 2014 RMB'000	Fair value measurements as at 31 December 2014 categorised into Level 2 RMB'000	Fair value measurements as at 31 December 2014 categorised into Level 3 RMB'000	Fair value at 31 December 2013 RMB'000	Fair value measurements as at 31 December 2013 categorised into Level 2 RMB'000	Fair value measurements as at 31 December 2013 categorised into Level 3 RMB'000
Group						
Recurring fair value measurements						
Assets:						
Derivative financial instruments embedded in senior notes	–	–	–	–	–	–
Derivative financial instruments embedded in held-to-maturity debt investments	324	–	324	–	–	–
Forward exchange contracts	284	284	–	8,731	8,731	–
Liabilities:						
Forward exchange contracts	9,695	9,695	–	121	121	–

During the years ended 31 December 2013 and 2014, there were no transfer into or out of Level 3. The group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of forward exchange contracts in Level 2 is determined by discounting the contractual forward price and deducting the current spot rate. The discount rate used is derived from the relevant government yield curve as at the end of the reporting period plus an adequate constant credit spread.

(Expressed in Renminbi unless otherwise indicated)

34 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(e) FAIR VALUES (continued)

(vi) *Fair value hierarchy and valuation process (continued)*

Information about Level 3 fair value measurements

	Valuation techniques	Significant unobservable inputs	Expected volatility
Derivative financial instruments embedded in senior notes	Binomial model	Expected volatility	22%
Derivative financial instruments embedded in held-to-maturity debt investment	Binomial model	Expected volatility	33%

The fair value of derivative financial instruments embedded in senior notes is determined using binomial lattice model and the significant unobservable input used in the fair value measurement is expected volatility. The fair value measurement is positively correlated to the expected volatility. As at 31 December 2014, it is estimated that with all other variables held constant, an increase/decrease in the expected volatility by 5% would have increased/decreased the group's profit by RMB6,000 (2013: RMB Nil).

The fair value of derivative financial instruments embedded in the held-to-maturity debt investment is determined using binomial lattice model and the significant unobservable input used in the fair value measurement is expected volatility. The fair value measurement is positively correlated to the expected volatility. As at 31 December 2014, it is estimated that with all other variables held constant, an increase/decrease in the expected volatility by 5% would have increased/decreased the group's profit by RMB245,000 (2013: RMB Nil).

Given the short-term nature of the other financial assets (with remaining maturity ranged from 7 days to 3 months), an increase/decrease in expected rates of return would not have a significant impact on the fair value and hence the group's other comprehensive income.

The fair value of the other financial assets is determined by using the expected effective rate of return of the short-term principal-protected structural deposits.

34 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(e) FAIR VALUES (continued)

(vi) Fair value hierarchy and valuation process (continued)

The movements during the period in the balance of these Level 3 fair value measurements are as follows:

	2014 RMB'000	2013 RMB'000
Other financial assets:		
At 1 January	804,102	315,036
Net (proceeds)/payment from purchases or sales	(473,103)	488,464
Net unrealised gains recognised in other comprehensive income during the period	827	602
At 31 December	331,826	804,102
Derivative financial instruments		
At 1 January	–	–
Issuance of senior notes and purchases of held-to-maturity debt investment	3,432	–
Changes in fair value recognised in profit or loss during the period	(3,108)	–
At 31 December	324	–

The gain arising from the disposal of the other financial assets are presented in "net finance expenses" in the consolidated statement of profit or loss.

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

34 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(f) BUSINESS RISK

The group's revenue is generated mainly from the sale of drilling rigs and related parts and components. The revenue from the sale of drilling rigs and related parts and components used in the oil exploration and production industry is dependent on the exploration and development capital expenditures of oil producers and drilling services providers, which in turn is largely dependent on current prices of, and future trends in, global oil prices. The demand for oil exploration and development related services and the number of worldwide active rigs increase and decrease with fluctuations in the price of oil. Given the group's heavy reliance on customers in the oil drilling industry, the group's revenue could be highly sensitive to fluctuations in global oil prices.

35 COMMITMENTS

(a) CAPITAL COMMITMENTS

Capital commitments outstanding at 31 December 2014 not provided for in the financial statements were as follows:

	The group	
	2014	2013
	RMB'000	RMB'000
Contracted for	**1,366,231**	640,927
Authorised but not contracted for	**293,825**	736,617
	1,660,056	1,377,544

On 13 November 2014, Sichuan Honghua Petroleum Equipment (H.K.) Limited, an indirect wholly-owned subsidiary of the company, entered into a Limited Partnership Agreement to make an investment of USD150 million (equivalent to RMB918 million) ("Committed Amount") in an energy-related fund (the "Fund"). The total capital of the Fund is USD5 billion and the first phase of the investment is USD1 billion. The Committed Amount represents 15% of the first phase of total capital of the Fund which can be increased as needed subject to the need and consent of all partners of the fund. The Fund shall mainly invest in energy infrastructure projects, exploration and production of oil and natural gas in Mexico and other investment activities approved by the investment committee of the Fund. The group shall make capital contributions to the Fund upon the approval of investment projects by the investment committee of the Fund. The group's initial capital contribution to the Fund shall not be greater than 5% of the Committed Amount and further capital contributions shall be made by the group upon the approval of the investment committee pursuant to the Limited Partnership Agreement.

35 COMMITMENTS (CONTINUED)

(a) CAPITAL COMMITMENTS (continued)

On 26 March 2015, the board of directors of the company resolved that Sichuan Honghua Petroleum Equipment (H.K.) Limited withdraw from the Fund. The group has not made any capital contributions to the Fund up to the date of this report.

(b) OPERATING LEASE COMMITMENTS

At 31 December 2014, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The group	
	2014	2013
	RMB'000	RMB'000
Within 1 year	**9,685**	8,054
After 1 year but within 5 years	**12,043**	11,314
After 5 years	**5,516**	6,014
	27,244	25,382

The group is the lessee in respect of a number of properties held under operating leases. The leases typically run for an initial period of one to fifteen years. None of the leases includes contingent rentals.

36 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the related party information disclosed elsewhere in the financial statements, the group entered into the following material related party transactions.

(a) DURING THE YEAR, THE DIRECTORS ARE OF THE VIEW THAT THE FOLLOWING PARTIES ARE MATERIAL RELATED PARTIES OF THE GROUP:

Name of party	Relationship
Guanghan Hongtai Business Trading Co. Ltd (廣漢市宏泰商貿有限公司) ("Hongtai Company")	Hongtai Company is a party which spouses of certain directors and management have equity interest
NCE Management, LLC ("NCE Management")	NCE Management is a party which certain management of Honghua America have equity interest
Sichuan Shenyuan Drilling Rig Equipment Company (四川深遠石油鑽井工具有限公司) ("Sichuan Shenyuan Company")	Sichuan Shenyuan Company is a party which the spouse of the director has equity interest
HH Egyptian Company	Joint venture
Honghua CIS Ltd.	Joint venture
Honghua (Shenzhen)	Joint venture
Mr. Li Ming (黎明)	Director of a group's subsidiary
Kashi Tongbai Property Development Limited (喀什通百房地 開發有限公司) ("Kashi Company")	Mr. Li Ming's controlled entity

36 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(b) PARTICULARS OF SIGNIFICANT TRANSACTIONS BETWEEN THE GROUP AND THE ABOVE RELATED PARTIES DURING THE RELEVANT PERIOD ARE AS FOLLOWS:

	The group	
	2014 RMB'000	2013 RMB'000
Purchases of parts and components		
Related companies	31,904	31,443
Sale of drilling rigs, parts and components		
Joint ventures	134,327	5,341

(c) AMOUNTS DUE FROM RELATED COMPANIES

	The group	
	2014 RMB'000	2013 RMB'000
Trade		
Joint ventures	121,189	12,801
Other related company	305	–
	121,494	12,801
Non-trade		
Director of a group's subsidiary and his controlled entity	26,401	28,958
Joint ventures	612	337
Immediate holding company	16	16
Ultimate holding company	11	11
Other related companies	5,568	2,696
	32,608	32,018
	154,102	44,819

The amounts due from related companies are unsecured, interest-free and repayable on demand. No provision was made against the amounts due from related companies at 31 December 2014 (2013: RMB Nil).

36 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(d) AMOUNTS DUE TO RELATED COMPANIES

	The group	
	2014 RMB'000	2013 RMB'000
Trade		
Joint ventures	808	11,697
Other related companies	23,442	15,768
	24,250	27,465

The amounts due to related companies are unsecured, interest-free and have no fixed repayment terms.

(e) AMOUNTS DUE FROM CERTAIN SHAREHOLDERS

The amounts due from certain shareholders 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, details of which are set in note 31(a).

(f) KEY MANAGEMENT PERSONNEL REMUNERATION

Remuneration for key management personnel of the group, including amounts paid to the company's directors as disclosed in note 8 and certain of the key management personnel as disclosed in note 9, is as follows:

	The group	
	2014 RMB'000	2013 RMB'000
Basic salaries, allowances and other benefits in kind	7,159	6,237
Contributions to defined contribution retirement schemes	320	259
Discretionary bonus	2,339	5,596
Share-based payments	2,755	20,016
	12,573	32,108

Total remuneration is included in "staff costs" (see note 6(b)).

37 IMMEDIATE AND ULTIMATE HOLDING COMPANY

The directors consider the immediate holding company and the ultimate holding company as at 31 December 2014 are Ally Giant Limited and Ample Chance International Limited respectively, which are incorporated in the British Virgin Islands. These entities do not produce financial statements available for public use.

38 CONTINGENT LIABILITIES

CONTINGENT LIABILITIES IN RESPECT OF LEGAL CLAIM

Lawsuits with a sales agency

A sales agency filed lawsuit against the subsidiary of the company, alleged that it was owed commissions in excess of USD18,000,000 in relation to its 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 Cassation 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 lawsuit. 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.

(Expressed in Renminbi unless otherwise indicated)

39 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2014

Up to the date of issue of these financial statements, the IASB has issued a few amendments and new standards which are not yet effective for the year ended 31 December 2014 and which have not been adopted in these financial statements. These include the following which may be relevant to the group.

	Effective for accounting periods beginning on or after
Annual improvements to IFRSs 2010–2012 cycle	1 July 2014
Annual improvements to IFRSs 2011–2013 cycle	1 July 2014
Amendments to IFRS 11, Accounting for acquisitions of interests in joint operations	1 January 2016
Amendments to IAS 16 and IAS 38, Clarification of acceptable methods of depreciation and amortisation	1 January 2016
IFRS 15, Revenue from contracts with customers	1 January 2017
IFRS 9, Financial instruments	1 January 2018

The group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them, with the exception of IFRS 15, is unlikely to have a significant impact on the consolidated financial statements. The group has not completed its assessment of the full impact of adopting IFRS 15 and therefore its possible impact on the group's consolidated financial statements has not been quantified.

FIVE-YEAR FINANCIAL HIGHLIGHTS

	2014 RMB'000	2013 RMB'000	2012 RMB'000	2011 RMB'000	2010 RMB'000
Consolidated Income Statement					
Turnover	**7,812,537**	8,047,108	5,068,447	3,485,046	1,877,931
Cost of sales	**(6,182,994)**	(6,141,643)	(3,321,440)	(2,514,942)	(1,497,453)
Gross profit	**1,629,543**	1,905,465	1,747,007	970,104	380,478
Other revenue	**113,120**	176,469	63,333	27,444	29,900
Other net income/(expenses)	**(7,326)**	7,435	2,084	60,012	(5,274)
Selling expenses	**(637,567)**	(524,053)	(553,623)	(385,532)	(180,642)
General and administrative expenses	**(688,464)**	(595,508)	(526,562)	(408,877)	(340,360)
Other operating expenses	**(12,808)**	(121,442)	(59,546)	(19,295)	(3,905)
Profit/(loss)from operations	**396,498**	848,366	672,693	243,856	(119,803)
Net finance (expenses)/income	**(273,018)**	(139,418)	29,259	(50,335)	(59,441)
Share of profit/(loss) from joint ventures	**186**	(7,948)	(156)	293	2,801
Share of profit from an associate	**–**	–	7,662	5,398	–
Profit/(loss)before taxation	**123,666**	701,000	709,458	199,212	(176,443)
Income tax	**(13,499)**	(125,750)	(167,683)	(27,769)	4,372
Profit/(loss) for the year	**110,167**	575,250	541,775	171,443	(172,071)
Attributable to:					
Equity shareholders of the company	**91,787**	537,617	529,458	167,984	(184,165)
Non-controlling interests	**18,380**	37,633	12,317	3,459	12,094
Figures per share					
Earnings/(loss) per share (RMB cents)					
— Basic	**2.89**	16.99	16.58	5.21	(5.71)
— Diluted	**2.87**	16.77	16.54	5.21	(5.71)
Dividend					
Dividends declared and paid	**–**	–	–	–	–
Dividends declared and paid per share	**–**	–	–	–	–
Dividend proposed after balance sheet date	**–**	151,983	150,102	104,700	–
Dividend proposed after balance sheet date per share	**–**	HKD 0.06	HKD 0.06	HKD 0.04	–

FIVE-YEAR FINANCIAL HIGHLIGHTS

	2014 RMB'000	2013 RMB'000	2012 RMB'000	2011 RMB'000	2010 RMB'000
Consolidated Balance Sheet					
Total non-current assets	**5,238,168**	4,548,371	3,227,901	1,882,332	1,354,893
Total current assets	**10,260,172**	9,680,684	6,617,975	4,810,368	4,639,753
Total assets	**15,498,340**	14,229,055	9,845,876	6,692,700	5,994,646
Total current liabilities	**8,205,237**	7,761,845	4,517,478	2,119,137	1,729,051
Total non-current liabilities	**2,329,333**	1,508,564	739,671	398,705	194,804
Total liabilities	**10,534,570**	9,270,409	5,257,149	2,517,842	1,923,855
Total equity	**4,963,770**	4,958,646	4,588,727	4,174,858	4,070,791

Key financial ratios	**2014**	2013	2012	2011	2010
Profitability					
Gross margin	**20.9%**	23.7%	34.5%	27.8%	20.3%
EBITDA margin	**9.1%**	13.4%	16.3%	10.2%	(1.5%)
Net margin	**1.2%**	6.7%	10.4%	4.8%	(9.8%)
Return					
Return on average equity	**1.9%**	11.7%	12.4%	4.2%	(4.5%)
Return on average assets	**0.6%**	4.5%	6.4%	2.6%	(2.9%)
Liquidity					
Current ratio	**1.25**	1.25	1.46	2.27	2.68
Quick ratio	**0.89**	0.89	0.86	1.54	1.61
Turnover					
Turnover of average trade and bills receivable	**155**	107	95	104	163
Turnover of average trade and bills payable	**184**	120	119	113	145
Turnover of average inventory	**170**	165	235	247	458
Gearing					
Total debts/Total assets	**33.1%**	33.3%	20.1%	13.1%	10.4%
Total liabilities/Total assets	**68.0%**	65.2%	53.4%	37.6%	32.1%
EBIT/Interest expenses	**1.57**	3.98	8.77	4.6	(2.5)

Note:

Profitability

Gross margin	=	Gross profit/Turnover
EBITDA	=	(Loss)/profit from operations + Share of (loss)/profit from jointly controlled entities + share of Profit from an associate + Depreciation + Amortization
EBITDA margin	=	EBITDA/Turnover
Net margin	=	(Loss)/profit attributable to equity shareholders of the Company/Turnover

Return

Return on average assets	=	(Loss)/profit attributable to equity shareholders of the Company/Average assets
Return on average equity	=	(Loss)/profit attributable to equity shareholders of the Company/Average equity attributable to equity shareholders of the Company

Liquidity

Current ratio	=	Current assets/Current liabilities
Quick ratio	=	(Current assets-Inventory)/Current liabilities

Turnover

Turnover of average trade and bills receivable	=	365.25* Average trade and bills receivable/Turnover
Turnover of average trade and bills payable	=	365.25* Average trade and bills payable/Cost of sales
Turnover of average inventory	=	365.25* Average inventory/Cost of sales

Gearing

Total debts/Total assets	=	(Long term interest-bearing borrowings + Short term interest-bearing borrowings)/Total assets
Total liabilities/Total assets	=	Total liabilities/Total assets
EBIT/Interest expenses	=	((Loss)/profit from operations + Share of (loss)/profit from jointly controlled entities + share of profit from

DEFINITIONS

"Articles of Association"	the Articles of Association of the Company, approved at extraordinary shareholders' meetings of the Company on 21January 2008, revised and approved at annual general meeting of the Company on 3 June 2009
"Board of Directors" or "Board"	the Board of Directors of the Company
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as the case may be
"Company" or "our Company"	Honghua Group Limited, (宏華集團有限公司) an exempted company incorporated in the Cayman Islands with limited liability on 15 June 2007
"Concert Group"	several shareholders of Honghua Company forming a concert group as set out in the "Company History and Reorganisation-Ownership Continuity and Control" section of the prospectus of the Company dated 25 February, 2008, namely, Zhang Mi (張弭), Ren Jie (任杰), Liu Zhi (劉智), Zheng Yong (鄭勇), Zuo Huixian (左輝先), Zhang Xu (張旭), Wang Jiangyang (王江陽), Chen Jun (陳俊), Fan Bing (範兵), Zhang Yanyong (張彥永), Ao Pei (敖沛), Tian Diyong (田弟勇), Shen Dingjian (沈定建), Liu Xuetian (劉學田) (deceased), Zhou Bing (周兵), Lv Lan (呂蘭), Tian Yu (田雨), Li Hanqiang (李漢強), Liu Yingguo (劉映國), Liu Lulu (劉露璐), He Guangfu (何光福), Zhang Zongyou (張宗友) and Chen Zongliang (陳宗良), out of which He Guangfu (何光福), Zhang Zongyou (張宗友) and Chen Zongliang (陳宗良) transferred an aggregate of approximately 9.1325% equity interests in Honghua Company to the other members of the Concert Group. The transfers were completed on 17 February 2006
"Controlling Shareholder(s)"	has the meaning ascribed thereto under the Listing Rules being, for the time being, Ally Giant Limited, Ample Chance International Limited, Ally Smooth Investments Limited, Charm Moral International Limited, Beauty Clear Holdings Limited, Believe Power International Limited, Benefit Way International Limited, Wealth Afflux Limited, Mowbray Worldwide Limited, Ecotech Enterprises Corporation, Vast & Fast Corporation, Cavendish Global Corporation, Brondesbury Enterprises Limited, Dobson Global Inc, Darius Enterprises Limited, Zhang Mi (張弭), Ren Jie (任杰), Liu Zhi (劉智), Zheng Yong (鄭勇), Zuo Huixian (左輝先), Zhang Xu (張旭), Wang Jiangyang (王江陽), Chen Jun (陳俊), Fan Bing (範兵), Zhang Yanyong (張彥永), Ao Pei (敖沛), Tian Diyong (田弟勇), Shen Dingjian (沈定建), Liu Xuetian (劉學田) (deceased), Zhou Bing (周兵), Lv Lan (呂蘭), Tian Yu (田雨), Li Hanqiang (李漢強), Liu Yingguo (劉映國) and Liu Lulu (劉露璐). Contracts executed by the Controlling Shareholders after Liu Xuetian's death were executed by his legal successors

"Director(s)"	member(s) of the Board of Directors of the Company
"During the Year"	for the year ended 31 December 2014
"EPHH"	Egyptian Petroleum HH Rigs Manufacturing Co. S.A.E., a joint venture of the Company
"Group" or "we" or "us"	the Company and its subsidiaries, and, for the period before the Company became the holding company for such subsidiaries, the entities which carried on the business of the Group
"HK$" or "HK dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Honghua Company"	Sichuan Honghua Petroleum Equipment Co., Ltd. (四川宏華石油設備有限公司), formerly known as Chuanyou Guanghan Honghua Co., Ltd. (川油廣漢宏華有限公司), a limited liability company established in the PRC on 31 December 1997, and a wholly-owned subsidiary of Honghua Holdings Limited
"Honghua Oil & Gas Engineering"	Honghua Oil & Gas Engineering and Technology Services (Sichuan) Co., Ltd. (宏華油氣工程技術服務(四川)有限公司), an indirect wholly-owned subsidiary of the Company
"Hongtai Company"	Guanghan Hongtai Business Trading Co., Ltd. (廣漢市宏泰商貿有限公司), a limited liability company established in the PRC on June 21, 2002
"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 and, except where the context requires and only for the purpose of this Annual Report, references in this Annual Report to the PRC or China do not apply to Taiwan or Hong Kong and Macau Special Administrative Regions
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"Russia"	the Russian Federation

DEFINITIONS

"Securities and Futures Commission" or "SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary shares issued by the Company, with a nominal value of HK$0.10 each
"Shareholder(s)"	holder(s) of our Share(s)
"Shenyuan Company"	Sichuan Shenyuan Drilling Rig Equipment Company (四川深遠石油鑽井工具有限公司), a limited liability company established in Chengdu City, PRC
"Stock Exchange" or "HKSE"	the Stock Exchange of Hong Kong Limited
"Substantial Shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"UAE"	the United Arab Emirates
"United States", "USA" or "U.S."	the United States of America, including its territories and possessions
"US$" or "U.S. dollars" or "USD"	United States dollars, the lawful currency of the United States

夢圓更精彩

宏华集团有限公司
HONGHUA GROUP LIMITED