宏华集团有限公司
HONGHUA GROUP LIMITED

(incorporated in the Cayman Islands with limited liability)

Stock Code: 196

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大智造

ANNUAL REPORT **2015**

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
Chen Guoming
Shi Xingquan
Guo Yanjun

SECRETARY OF BOARD OF DIRECTORS

He Bin

BOARD COMMITTEES

AUDIT COMMITTEE

Qi Daqing *(Committee Chairman)*
Liu Xiaofeng
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 *(Resigned with effect from 7 July 2015)*
Lee Mei Yi *(Appointed with effect from 7 July 2015)*

LEGAL ADVISOR

AS TO HONG KONG LAW

King & Wood Mallesons

PRINCIPAL BANKERS

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

AUDITOR

KPMG
(Resigned with effect from 27 May 2015)
PricewaterhouseCoopers
(Appointed with effect from 27 May 2015)
Certified Public Accountants

REGISTERED OFFICE

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

HEAD OFFICE

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Jinniu District
Chengdu, Sichuan, PRC
Post code: 610036

PLACE OF BUSINESS IN HONG KONG

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39 Gloucester Road
Wan Chai
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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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
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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

	2015 RMB'000	2014 RMB'000	Changes
Operating results			
Turnover	**4,219,253**	7,812,537	–46.0%
Profit from operations	**(42,602)**	396,498	–110.7%
Profit before taxation	**(301,719)**	123,666	–344.0%
Profit attributable to equity shareholders of the Company	**(252,207)**	91,787	–374.8%
Figures per Share			
Earnings per Share-Basic (RMB cents)	**(7.93)**	2.89	–374.7%
Earnings per Share-Diluted (RMB cents)	**(7.93)**	2.87	–376.3%
Financial position			
Total non-current assets	**4,791,979**	5,238,168	–8.5%
Total current assets	**8,390,361**	10,260,172	–18.2%
Total assets	**13,182,340**	15,498,340	–14.9%
Total current liabilities	**6,001,637**	8,205,237	–26.9%
Total non-current liabilities	**2,406,517**	2,329,333	3.3%
Total liabilities	**8,408,154**	10,534,570	–20.2%
Total equity	**4,774,186**	4,963,770	–3.8%
Key financial ratios*			
Gross Margin	**22.4%**	20.9%	7.6%
Net Margin	**–6.0%**	1.2%	–608.8%
Return on average assets	**–1.8%**	0.6%	–384.8%
Return on average equity	**–5.4%**	1.9%	–381.0%
Current ratio	**1.40**	1.25	0.15
Quick ratio	**1.04**	0.89	0.15
Total debt/Total assets	**35.4%**	33.1%	7.0%
Total liabilities/Total assets	**63.8%**	68.0%	–6.2%

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

CHAIRMAN'S STATEMENT

CHAIRMAN'S STATEMENT

DEAR SHAREHOLDERS AND INVESTORS:

In 2015, many oil companies reduced their exploration and production cost due to the sluggish oil and gas industry and the fluctuating oil price across the world. As a result, Honghua achieved less than the expected. In recent years, the quantitative easing monetary measures continuously pursued across the world did not boost the strong economic recovery as expected. However, commodity economy was confronted with significant challenge due to the worsening imbalance between supply and demand in the context of quantitative easing monetary policy. Given the fact that the U.S. Federal Reserve will enter into a period of interest rate increase and the economy of emerging market will slow down, the international oil price will vibrate under pressure. In China, the central government endeavors to establish a clean, low-carbon, safe and efficient "Modern Energy System", with the energy structure changing steadily from coal to oil and gas, and from fossil energy to non-fossil energy. To actively response to the storm in oil and gas equipment market due to volatility of oil price, and to an increasingly important role of clean energy in energy market in the future, we strove to implement the management policy of "Broaden Sources of Income and Reduce Expenditure" and pursued the concept of "Excellence and Innovation", fully utilized our outstanding R&D capacity, optimized the product and service, explored the new market and evaded those negative factors in this challenging market environment.

FINANCIAL SUMMARY

In 2015, the Company recorded a total revenue of approximately RMB4.219 billion, representing a decrease of 46.0% as compared with last year; gross profit was approximately RMB947 million, representing a decrease of 41.9% year on year. The earnings attributable to equity shareholders was approximately RMB-252 million.

BUSINESS REVIEW

In 2015, the Company's overall business suffered a significant pressure due to the serious influences from the downside global oil price and the slowdown of economic growth in China. During the Year, we still adhered to the development strategy to enhance technical innovation and service quality. While consolidated the well-established market, we also promoted the technology-based sales and explored the new market through diversified sales models. Meanwhile, we strictly implemented the measures related to "Cost Reduction & Efficiency Enhancement" to control expenditures and to overcome the industry winter.

Technical innovation and service quality are the cornerstones of our development. During the Year, we enhanced on the development of international market with focus in Russia, Middle East and South America markets, and propelled the synergy of each strategic business sector so as to provide a great momentum to drive the Group's long-term and steady development in the future. Our self-developed "Aurora" polar rig has achieved sales after its debut in 2015. With the designed working environment under -70°C, the derrick substructure of the drilling rig uses fully enclosed structure, while the air heating system is innovatively applied to maintain the temperature of each component of the rig, so that the polar rig could fulfill the operation requirement in Russian extremely chilly areas. In February, 2016, "Aurora" started operation at an actual temperature of -50°C in Russia. In addition, our ultra-deep drilling rigs (with the designed depth of 9,000 meters) has successfully entered into Kuwait market and obtained the first order in January 2016, breaking the high-end drilling rig monopoly by western enterprises in Middle East market. Our new product, the gear and rack drilling rig, was also successfully sold in January 2016. Leverage on our brand reputation and excellent service in South America, our EPC engineering turnkey business has made a breakthrough in Venezuela. We entered into a sales agreement with Petroleo De Venezuela S.A (PDVSA) at an approximately amount of US$340 million. We will provide pipeline installation and pump replacement service in Venezuela. It was also a landmark in our oil and gas exploitation and transmission equipment and contributes to expanding our business scope from equipment production to technical service.

In 2015, we continued to explore the potential markets while some progresses achieved in the offshore engineering equipment manufacturing. In December 2015, China's first deep-sea drilling ship Tiger I successfully completed its trial voyage, which has filled in the gap in the core equipment of China's high-end deep-sea drilling package. At the same time, we actively captured the opportunity of domestic and global demands for environment-friendly energy, and obtained the high-quality orders of LNG-powered ships and tested LNG tank-containment system to guarantee the offshore engineering sector could survive the hard time. In terms of the oil and gas engineering services, we continued to promote international development strategy. During the Year, we successfully entered into Iraqi market and achieved material progress in turnkey drilling service in Russia and directional well service in Venezuela. In terms of unconventional oil and gas exploitation, our "Oil to Gas" distributed gas-powered generation oilfield engineering application project has made breakthrough in the industrial test in Sinopec's wellsite. It is the first successful application of such kind of gas-powered engine supplying electricity to drilling rig system in China, and it marked the milestone in the promotion and industrialization of Honghua's small-sized distributed gas-powered power stations.

In terms of finance, through implementing the strategy of "Cost Reduction & Efficiency Enhancement", we reduced 23.4% staff, and tightened the control over procurement and management on inventory and accounts receivable to overcome the industry winter. Furthermore, we obtained a 10-year loan from China Development Fund Co., Ltd. (CDF) with the amount of RMB105 million at the end of 2015 with interest rate of 1.2% per annum, representing our leading position in the high-end equipment manufacturing industry has been recognized by CDF. We believe that with the implement of the national strategy of "One Belt and One Road" and "High-end Manufacturing 2015", our Group, as the leading high-tech manufacturer in the western of China, will embrace better opportunity and support.

OUTLOOK

When confronted by the challenges from an uncertain market environment in China and abroad in 2016, all our staff members will endeavor to achieve the business goal of "turning loss to profit". We will care much about the introduction, growth and interaction of core talents, further boost intelligence of high-end equipment (including manufacturing and Internet+), create the radiating business cluster based on the core advantages of equipment and global client network and drive the development of new business divisions through niche markets.

We established the land equipment business sector at the end of 2015. Based on the operation by business division, we make an overall arrangement of land equipment manufacturing and service business, achieve an effective integration of technology, production, market and other resources, and enhance operating efficiency and earning capacity of each business division through technology-driven sales and market-driven R&D. In terms of drilling rig, we strive to upgrade to the one-button intelligent drilling rig by utilizing our own advantages in control system, and integrating external technological force to launch the second revolution of land drilling equipment across the world. Meanwhile, we will actively develop high value-added technical service business for drilling rig and core components, explore the product R&D, manufacturing and service of oil and gas exploitation, transport, storage and transportation, and develop the ecological environment along the whole industrial chain of our oil and gas equipment. In terms of offshore equipment, we remain optimistic about the middle- and deep-water drilling platform market, and capture the development opportunity of natural gas, new energy and other environment-friendly energy, adopt the strategy of survival and development, endeavor to seek those "fast-track approach" projects, namely with lower construction difficulty, short delivery period and high turnover rate of capital so that we can obtain continuous cash flow, maintain regular operation, respond actively to the national policy of "Green Yangtse River" by investing in the manufacturing of LNG equipment, and also enter into the manufacturing of wind power installation platforms. In terms of the oil and gas engineering service, we will continue to explore overseas market with Middle East as our highlighted region, take drilling business as the core, expand the directional well business, develop drilling fluid business, properly reduce and actively withdraw from the low-efficient or invalid market to guarantee our continuous operation.

In 2016, we will continue to utilize financial instruments like short-term financing debentures and corporate bonds at the domestic securities market to improve our financial strength and consolidate the cash flow. Over the past few years, we have accumulated the experienced teams and diversified products and services in the context of global market. Our R&D achievements have also been steadily introduced to the market. I believe that Honghua, with the national policy support of "One Belt and One Road", will continue to grow, prosper and attain its second development peak in this complex and volatile international market.

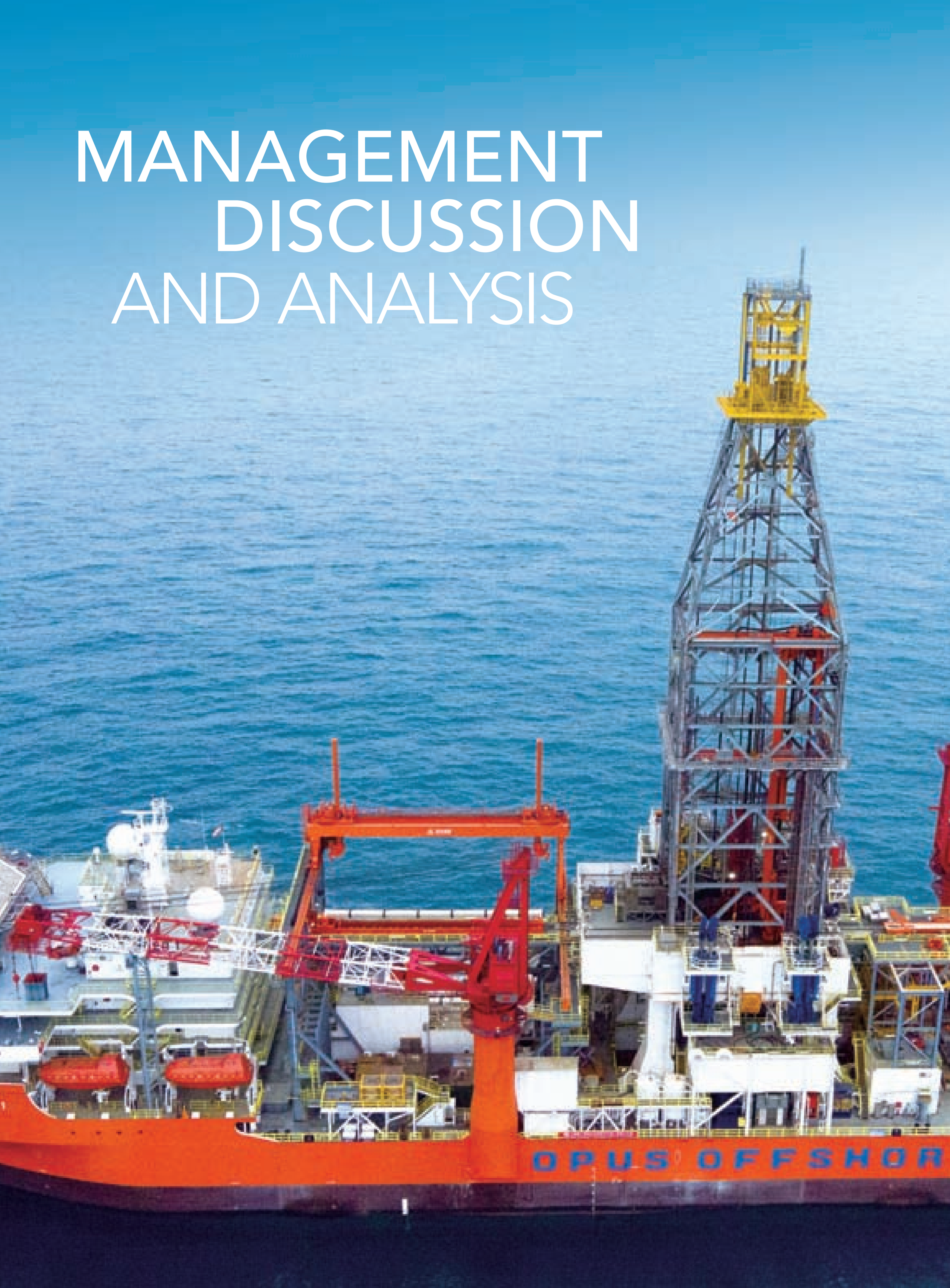
ACKNOWLEDGEMENT

Finally, I would like to express my cordial gratitude to all the Shareholders, investors, clients and all the friends for their long-term support for Honghua, to all the Directors for their contributions to Honghua, and to all the employees for their hard efforts to achieve steady development of Honghua in the long run.

Zhang Mi
Chairman

Hong Kong
March 29, 2016

MANAGEMENT DISCUSSION AND ANALYSIS



MANAGEMENT DISCUSSION AND ANALYSIS

In 2015, the Group's revenue amounted to approximately RMB4.219 billion, representing a decrease of 46.0% from RMB7.813 billion in the last year; gross profit was approximately RMB947 million, representing a decrease of 41.9% from RMB1.63 billion in the corresponding period last year; and earnings attributable to equity shareholders was approximately RMB-252 million, representing a decrease of 374.8% from RMB91.79 million in the last year.

MARKET REVIEW

In 2015, there was an obvious differentiation among the global economies. Some of the developed economic regions such as the United States and Japan adopted quantitative easing reflecting a mild recovery of economy; however, most of the emerging countries are suffering from a strong downward pressure on the economy due to its relatively weak economic foundation. It is expected that the oil prices will remain unstable before the gap between the crude oil supply and demand come closer. Apart from the global economic growth was not as expected, excess supply, softening global demand of the market, combined with the Organization of the Petroleum Exporting Countries' ("OPEC") strategy on not cutting production and geopolitics, oil prices has further plunged since the 2nd quarter of 2015 and recorded a decrease of 35% as compared with last year. The slump of oil prices had made a strong impact on the global oil industry, and forced the major international oil companies continuously and largely reduce their investment on exploration and development, leading to the downturn of the oil and gas services market.

In domestic market, resulting from the slowdown in domestic economic growth and RMB depreciation, the three state-owned oil companies continued to reduce upstream exploration spending, production costs, and overseas investment, in order to tackle with the global oil and gas market downturn, which brought severe challenges to the development of domestic oil equipment and service market. However, the Chinese government committed to strengthening the economy and adjusting the industry structure. During the Year, the government continued to implement "One Belt and One Road" strategy and proposed "Made in China 2025" strategic plan, which had brought huge opportunities to the future development of many industries, including high-end equipment manufacturing and offshore engineering equipment manufacturing. By the end of 2015, we obtained a 10-year loan support from China Development Fund Co., Ltd. in the amount of RMB105 million, with an interest rate of 1.2% per annum. It was the longest loan we ever obtained in our operation history, representing we are well recognized for our leading position in high-end equipment manufacturing industry. Relying on our leading global network, we continued to expand and develop the markets along "One Belt and One Road" in 2015, such as the Middle East and Russian areas. The market opportunity will be gradually produced along with the implement of national policies, thus laying a solid foundation for our future business expansion and regional coverage.

BUSINESS REVIEW

1. LAND DRILLING EQUIPMENT AND RELEVANT PRODUCTS

The crude oil prices remained low in 2015. According Baker Hughes, as of December 2015, the global active rig counts were 1969 sets (excluding Chinese land drilling rigs and Russian drilling rigs), representing a decrease of 44.8% as compared to 2014. Despite the fact that global demand for drilling rigs had dropped, relying on cost-effective products and excellent technique, we have promoted technology-driven sales and introduced new products and other diversified product series to major markets, including the drilling rig accessories and oil and gas field surface engineering. Meanwhile, we offered various innovative payment methods to different customers and the overall business segments had maintained a relatively stable development.

Our self-developed "Aurora" polar rig has achieved sales after its debut in 2015 and the rig was successfully operated in Russia under minus 50 degrees Celsius environment in February 2016. In January 2016, we entered a sales agreement with a drilling company in Kuwait by introducing our ultra-deep drilling rig into local market, which has broken the monopoly of the high-end drilling rig in Middle East market by western manufacturers.

During the Year, we signed sales contracts for a total of 17 sets of land drilling rigs worth approximately US$159 million. In Middle East market, we continue to consolidate and expand market share by signing sales contracts of 6 sets of land drilling rigs amounted to approximately US$67 million, among which three sets in Oman, and other 3 sets in Kuwait, Saudi Arabia and etc.. In Eurasian market, our sales team maintained close contact with our existing clients, and successfully explored new customers through various sales channels. We signed sales contracts for 3 sets and 2 sets of land drilling rigs with an existing Russian client and a new Russian client respectively, worth approximately US$40 million in total. In African market, we strived to explore new client and successfully signed a sales contract for one set of land drilling rig with a new Nigeria client worth approximately US$15 million and signed a sales contract for one set of land drilling rig with an existing Egypt client worth US$10 million. Despite the fierce competitions over the domestic market, we successfully signed sales contracts for 3 sets of land drilling rig with the state-owned and private oil companies in 2015.

In the business of parts and components, while consolidating our existing regional advantages, we actively developed new markets and new customers and expanded the sales scope of parts and components in the places where our overseas subsidiaries are located, to break inherent monopoly. During the Year, we recorded major parts and components sales of 22 sets of top drivers and 108 sets of mud pumps. Besides, we also developed our trade agent business, laying solid foundation to further expand the trade and sales of parts and components.

In 2015, we made a great breakthrough in EPC turnkey engineering business, through successfully entering into the service agreements in an aggregate amount of approximately US$340 million with PDVSA that we shall provide pipe-laying and pump renewing project. We will continue to focus on R&D, manufacturing, and trading of oil production and transportation equipment and get well prepared to capture the opportunity from this field, and to realize the expansion from equipment manufacturing to technical services.

In 2015, we not only promoted sales to cope with the industry downturn, but also improved our after-sales service to provide higher value-added services to customers. Our after-sales service team installed and debugged 55 sets of drilling rigs during the Year, and innovatively started new technology services based on the consolidation of the existing technical services for land rig equipment, such as technology services for new Triplex Pump and Solids Control System and maintenance technology services for offshore platforms. During the installation process for the high-end rig for National Drilling Company (NDC), our service team had overcome difficulties by positive thinking, as a result, we not only met NDC's high standard and stringent quality requirements, but also took only 29 days to complete the mast raising, which achieved a milestone and created a new record.

During the Year, we also actively participated in large exhibitions at home and abroad, including China International Petroleum & Petrochemical Technology and Equipment Exhibition (CIPPE), Offshore Technology Conference (OTC) in US, Canada's Global Petroleum Show (GPS), Latin America International Petroleum Show (LAPS), Moscow International Oil & Gas Exhibition (MIOGE) and Abu Dhabi International Petroleum Exhibition and Conference (ADIPEC). By attending these international exhibitions, we not only introduced our featured products like direct-drive pump and Tiger offshore drilling package model to old and new customers, but also showcased the newest products like lightweight 3NB1600 drilling pump and polar rig that can be used under minus 70 degrees Celsius. The polar rig has successfully achieved sales during the Year.

In the industry contraction, Sichuan Honghua, our main production base, upgraded its industrial chain and reorganized production line layout to achieve intelligence in part of production lines and improve the efficiency. After transformation, the production areas of Guanghan base is 1,693 mu, which increased 83% as compared with before and newly established manufacture area for shale gas, intelligent drilling rig, gas station and other ancillary equipment. And we transferred and upgraded equipment in three production areas for structural component, drilling rig assembly, and core parts & components manufacturing. We also reallocate each production line according to the production process, saving the transportation time and improving production efficiency.

Facing further challenges of global oil industry in 2016, our land drilling rig business will strengthen the internal management, focus on the standardization of design drawings, safety raw material inventory and zero defect production and strengthen 5S site management as well. Meanwhile, we will continue to promote sales by using innovative technologies and products to create greater additional value on the products and services for different markets and customers and committed to work with our clients in the industry downturn and move upward on a long-term stable development of the global oil industry. In the first half of 2016, we planned to hold a large new products release conference, based on diversified product lines and solutions to aim at the Middle East and American markets and to help oil companies overcome the pressure from saving cost and enhancing production efficiency.

2. OIL AND GAS ENGINEERING SERVICE BUSINESS

Facing a relatively sluggish environment of global oilfield service market, the oil and gas engineering service business lagged adjustment and resulted less than expected operation when the global oil price modestly rebounded in the first quarter of 2015. However, our business achieved substantial development in the international market during the Year, especially made breakthroughs in Russia and Venezuela markets. We entered into Russian market through establishing a joint venture with local companies and obtained turnkey contracts for the first time. As a result, we successfully completed two wells in Russia during the Year. Honghua oil and gas engineering service also operated directional well services in Venezuela for more than half a year, which marked a significant step of our directional drilling service in internationalization process.

By the end of December 2015, we had a total of 20 drilling service teams including 1,089 oilfield service staff. We operated drilling service for oil, tight sandstone gas and shale gas, mud and directional services in north of Yan'an, Northeast China, Xinjiang and Sichuan in China, as well as Russia, Iraq, Venezuela and other overseas areas. During the Year, we drilled 46 wells, and the footage drilled amounted to approximately 167,642 meters, representing a decrease of 7.1% as compared with 2014. And 31 wells had been completed on schedule, representing an approximately 1.5 times execution rate as compared to 2014. Besides, the "Drilling Technology for Unconventional Tight Sandstone Gas in north of Yan'an" had been approved as the technological innovation project by the government.

During the Year, we had further strengthened the production organization, equipment, drilling tools and HSE management. According to geological characteristics, we optimized drill and drilling tools selection, enhanced technology research of collapse, wells leakage prevention and leak plugging, leading to improvement in processing capability and greatly reducing the occurrence of underground accidents. The production efficiency rate of the team reached 88.26% in 2015, representing an increase of 8.49% as compared with last year, while the accident rate was down 67.9% year on year.

In 2016, Honghua oilfield service will continue to overcome difficulties, expand overseas market especially in Middle East area to get high-quality project orders and effectively identify the domestic projects. We will take the guarantee of cash flow as a priority for all projects and initiatively quit from inefficient or ineffective market to ensure that the Company can get through industry winter smoothly. In terms of business, we will ensure the healthy and continuous development of each business by keeping the focus on drilling business, striving to expand directional wells business, developing drilling fluid business rationally, examining the overall market risk and investing new equipment prudently. Besides, Honghua oilfield service will continue to enhance internal management level in 2016. Based on the highly recognition of domestic and overseas client, we will continue to build up core competitiveness with drilling service technology and project management, further optimize the personnel structure, strengthen cost control and QHSE management, to ensure safe, efficient and qualified execution of our backlogs.

3. OFFSHORE ENGINEERING EQUIPMENT AND RELATED PRODUCTS BUSINESS

In 2015, Phase I of our offshore base located in Qidong, Jiangsu Province, was completed. The construction of "Honghai Crane", a type of large lifting equipment, was also completed in the second half of 2015, and the debugging for No.1 machine was completed. No. 2 machine is scheduled to be lifted in March 2016 and debugged in June.

In terms of production, Tiger-I, the first deep-water drilling package for drillship in China we produced, successfully completed the second trial voyage in December 2015. Tiger-II has been delivered to Shanghai Shipyard. Tiger-III was 70% completed and is expected to be delivered in the first half of 2016. Tiger-IV was 60% completed. In addition, the 15 oil tankers for inland river usage ordered by an India company was completed and delivered in middle July 2015, and the debugging status was good. The high quality product of Honghua has been recognized by the ship owner again.

In addition, we entered into a shipbuilding contract with LNG Power Shipping Company Limited, with an aggregate amount of approximately RMB760 million. The construction of 200 sets of LNG power ships with certain specifications has already started and is expected to be delivered on time by the end of September 2016. The LNG power ship under the Shipbuilding Contract is a new type of environment-friendly transportation vessel, directly reflecting the concept of environment protection and energy saving. The LNG power ship, which is generally used in inland river, will greatly reduce the pollution emission during operation, that is not only being in line with the policy of "Green Yangtse River" promulgated by the PRC government, but also enable the owners to reduce the fuel cost. In the future, apart from more opportunities will be brought from the further implement of "Green Yangtse River" policy, we will also make use of our construction experience and advantages to capture more opportunity from inland river LNG power ship market in China.

To respond to the Green Energy promoted by the government and to capture the opportunity from the development of natural gas industry in China, we entered into the agreement with industry leading enterprises, such as Braemar Shipping Service PLC, in 2015 to jointly develop the new type of FSP LNG tank-containment system. At present, the tank-containment system project is conducting Welding Procedure Specification, universal joint testing, alloy aluminum material procurement etc., and the project is scheduled to complete the first FSP testing tank in the first half of 2016 and to obtain the product certification from ABS.

In 2016, offshore sector will adopt the business strategy of coexistence of survival and development. In terms of survival, Honghua Offshore will endeavor to seek and operate "Short, Steady and Quick" projects with low construction difficulty, short delivery time and quick cash turnover, in order to obtain continued cash flow in the industry contraction period and keep the operation of the Company. At the same time, to keep development of the Company amid the industry downturn, we will focus on the development trend of natural gas and new energy, and develop related offshore equipment in advance. We will actively engage in the R&D of LNG equipment and wind power installation platform, fully ensure on-time delivery of contracted LNG power ship, LNG tank and wind power installation platform. Considering the insufficient offshore construction experience, we will seek the cooperation opportunity with industry leading enterprise to explore the joint bidding and increase the winning rate. Besides, during the project execution period, we will enhance overall cost management, increase project management capability, and conduct effective coordination and monitoring for project design and production parties. We will also have comprehensive management and control on safe, technique, progress, cost and product quality, to avoid delayed delivery risk.

4. UNCONVENTIONAL OIL AND GAS DEVELOPMENT BUSINESS

Our oilfield service team has accumulated very rich experience through participating in the exploration of unconventional oil and gas resources in complex geological conditions. After implementing the shale gas project we won in Yibin, Sichuan province in 2014, the teams have owned China's leading shale gas exploration technologies and equipment manufacturing experience, as well as proficiently mastered the coordination of on-site drilling processes (referring to the shaft engineering), the directional technology and the oil-based mudding in the shale gas exploitation.

During the Year, the flexible water tank developed by us independently achieved continued sales of 8 sets; while through the cooperation with Baker Hughes, the in-house developed 6,000 horsepower fracturing pump has completed fracturing stimulation for 12 wells in California, USA and well recognized by the client. From November to December, it also joined the LNG fracturing in wellsite near Sichuan Yibin, where the fracturing pump completed the first landmark industrial test.

During the Year, we continued to implement strategic cooperation with General Electric (GE) and introduced GE's gas-powered products to utilize unconventional natural gas or oilfield-associated gas generated in the oil and gas drilling and production process to provide energy for the drilling rig to achieve energy saving and emission reduction and green production. The first batch 3 sets of gas-powered engine has been applied in the emission reduction and efficiency increase — distributed gas-powered generation oilfield engineering application project, and achieved industrial test breakthrough in Sinopec wellsite. It could save more than 50% average daily cost by using gas-powered engine set as compared with diesel engine set, which is widely recognized by the users. The application of this system in wellsite near Sichuan Deyang became the first successful application of supplying electricity to drilling rig system by gas-powered engine in China, which marks a benchmark of the market promotion of Honghua's micro distributed power generation station and product industrialization, as well as indicates the major parts of the integrated solution for Shale Gas entered into field test stage.

QUALITY MANAGEMENT AND RESEARCH AND DEVELOPMENT

As of 31 December 2015, we have obtained 347 patents, including 85 patents for invention, which further represent we have continued to improve our product R&D and technique innovation capabilities in oil and gas equipment field and keep at an international leading level.

During the Year, we continued to improve our quality management and R&D capabilities and successfully obtained application of various qualifications. Our products have successfully obtained from Norwegian Det Norske Veritas ("DNV") the approval of ISO 9001 quality system certification, HSE certification, API certification, ABB transmission system integration certification and related electrical product explosion-proof certification. In production of land drilling equipment business, we have passed the annual HSE review. In the oil and gas engineering services segment, we have obtained the membership of the International Association of Drilling Contractors ("IADC"), the safety production license, Grade II work safety standardization conducted by State Administration of Work Safety, ISO9001 quality management system certification, ISO4001 environmental management system certification, OHSAS18001 occupational health and safety management system certification.

In respect of oil field access, we have also obtained the market access to PetroChina Yumen oil field, the qualification of Sinopec Northeast Bureau, and some other qualifications such as the qualified supplier of well drilling AC directional well of Sichuan Oil Service CNOOC, and the second level contractor and SOC turnkey contractor of Hong Kong Oil Service CNOOC etc. Besides, we have even become the certified oilfield service suppliers of Halliburton in Middle East, Netherlands Royal Dutch Shell Majnoon oil field and the Exxon Mobil's Iraq Company, which are all the international famous oil and gas engineering contractors. During the Year, we also actively strove to become the oilfield engineering service suppliers of other countries in Middle East, in order to consolidate our leading position in Middle East and expand the business in local market. In terms of offshore equipment manufacturing sector, we successfully obtained the "Provincial High and New Technology Enterprise", which embodies the technological level of our offshore base, and brings tax preference for offshore sector at the same time.

In the aspect of intelligent manufacturing, we have introduced Ear-shape welding robots, Box-shape welding robots and Reinforcing Ring welding robots in 2015 and put into operation, to gradually replace labor force and enhance the precision of our technology application. In the future, with the broader application of industrial informationization and artificial intelligence, we will consider introducing more intelligent manufacturing applications into a wide range of manufacturing procedures, including manufacturing process (production) planning, production adjustment, process monitoring to realize the entire process of intelligentization.

In the development of new products, the amount invested in R&D reached approximately RMB115 million during the Year. Especially, we have obtained outstanding achievements in the R&D of new-type high-end land drilling rigs. In June 2015, Honghua's polar rig has debuted at the 13th Moscow International Oil and Gas Exhibition ("MIOGE"). We are the world's second enterprise owning the technologies applied in polar rig, which is developed for the Russia's arctic environment and is also China's first polar rig. This new type drilling rig can be used under the stormy weather, ultra-low temperature and other harsh climatic environments which can well fit the operational demand in Russia's extremely cold areas. One set of polar rig was sold during the Year.

The smart rig is under development, which integrates a number of new technologies that will enable us to produce a wide range of mechanized, automated and informational oil drilling operation, featuring safety and high operational efficiency, as well as monitoring the operation safety in real time. Meanwhile, it can also reduce the number of drilling workers and operating costs. At present, the R&D of the smart rig has entered into the prototype stage and tried to achieve sales. The new generation driller console developed to match the smart rig has been tested and praised by customers, and it with perfect function can be applied for land and offshore drilling platform. The compact structure and the operation of traditional button replaced by touch screen improve the operation conveniences of driller personnel; and it can be comprehensively adjusted to meet different bodies. In addition, the gear rack drilling rig we developed previously reported its first sale in January 2016. The gear rack drilling rig enjoys the characteristics of compact size, light weight, convenient maintenance and convenient control of drill direction, which is especially suitable for special drilling well such as directional well, horizontal well and sidetracking well etc. and well drilling under complex circumstances.

HUMAN RESOURCE MANAGEMENT

We continued to adjust and optimize our human resources management, especially the performance appraisal system, and strengthen the technological talents introduction to achieve the strategic deployment of optimizing human resources allocation and efficiency improvement. As of 31 December 2015, the total number of the Group's employees was 5,709, representing a decrease of 23.4% compared with last year, in which the number of R & D staffs reached 627, representing a decrease of 15.6%. During the Year, on top of layoff and labor costs reduction, we focused on adjusting our personnel structure, strengthening the construction of our training system and improving our efficiency. We organized a total of approximately 912 training programs, achieved people flow rate of 23,761 and accumulated 115,963 lesson hours in total. The wide range of training program covers leadership enhancement, the development of Internet +, Industry 4.0, internet of things, procurement and marketing, and innovative training. The comprehensive training program has laid a solid foundation for the future development of the Group.

In addition, with the support of the Group's innovative & entrepreneurship platform, we encouraged innovative thinking, transformed management approaches, formulated incentive mechanism, made good use of the individual advantages of employees and motivated their work enthusiasm. In 2015, under the industry trend of the "Internet + manufacturing" in intelligent manufacturing, we will actively explore new forms of human resource management mechanism to reserve human resources for the Group's innovation and transformation in the future.

Confronting the continued depressed pressure on the industry, we adopted the strategic deployment of "foundation consolidation, attention with emphasis and differentiation in different sectors" and implemented the strategies by paying attention to strategic planning and focusing on operation management, organizational structure adjustment, cadre stipulation and cultivation, innovation talents cultivation and compensation incentive system, construction of differentiated human resource system according to sector characteristics.

OUTLOOK

The year of 2016 is the opening year of China's "13th five-year plan". It is expected that the Chinese government will continue to put forward favorable policies and measures for the balanced development between economic growth and industrial structure adjustment, in order to support the medium and long term stable development of the world's second largest economy. Although, the global economy still confronts some challenges and noncommittal factors at present, along with the global political environment is also filled with uncertainty, the overall prosperity of oil and gas industry is difficult to have obvious improvement. But, it has almost become consensus that crude oil market will find out new balance point in 2016. According to the prediction from many institutions, the new balance point will come in the fourth quarter of 2016, and the global crude oil will find out reasonable price range again, among which, Morgan Stanley predicted that WTI crude oil will maintain the average price of US$32.75 per barrel in 2016. Based on the macro consideration of industry trend and the market environment, combined with the comprehensive strength of Honghua and its "strategic transformation" theme in "13th five-year plan" period, we will strive to reach the second new high of the business development, and the year of 2016 will become the critical year to consolidate foundation in order to successfully realize "strategic transformation".

In order to realize the strategic transformation target from traditional equipment manufacturer to the integrated solutions service provider combining the equipment and service, we will closely keep pace with the industry trend such as High-end Equipment and Internet + etc. in 2016, comprehensively deploy the service business layout to establish the strategic foundation that takes the high-end equipment R&D manufacturing capacity and systematic service ability as core competitiveness.

Our work will focus on "continuous product and business innovation, cost reduction and efficiency improvement, and maintain liquidity". Looking forward, the oil and gas industry is still depressed, affected by narrowing profit and the reduced expenditure in exploration and production. The global active rig counts continued to decrease in 2015, especially in North America, where the rig counts decreased at 55% as of end of December. In order to resist severe winter and seek for the strategic transformation in the next stage, we officially established the land equipment sector by the end of 2015, to manage the various businesses of the three subsidiaries in the method of sector operation to realize the effective integration of resources including technology, production and market etc., to strengthen the profitability of the sector and make more profit for the Group. In 2016, we will be aiming at establishing efficiently functioning land equipment business control system to integrate resources, improve efficiency, reduce cost, develop new products and promote the healthy and rapid development of each business.

In terms of R&D, we will establish a uniform platform within the sector, which comprehensively integrates project resource, facilities and equipment and technology talents. The R&D will be acted according to market demands and technology development trend, closely keeping pace with the high-end equipment industry plan of China and relevant policies. We will continue to upgrade the oil and gas equipment of Honghua and to improve its global market position, and to build up high-end brand. In terms of drilling rig, taking the one-button intelligent drilling rig as upgrade target, we will take advantage of our own control system and integrate external technology strengths at the same time, to lead the second global revolution in land drilling rig equipment field.

In terms of parts and components, we will continue to enhance R&D ability of the core components, increase the proportion of the self-developed core components in the whole rig, and to realize the continuous productization and marketization of parts and components products, so as to strengthen the Honghua's bargaining power in the entire land equipment industry chain. In terms of new products, we will actively explore the R&D direction of equipment used in oil and gas exploitation and transport, storage and transportation etc., mainly solving the technological difficulty of one or two kinds of equipment, and strive to establish another main product line of Honghua's oil and gas equipment.

In terms of business innovation, we will continuously carry out steady market strategy in 2016, at the same time, make good use of our innovative & entrepreneurship platform to develop new business and to realize new breakthrough. On the one hand, by capturing opportunity from "One Belt and One Road" matching policy and group project, we will strengthen traditional channels and old customer base to consolidate the existing market and to constantly gain new market breakthrough. On the other hand, we will closely track the dynamic of global emerging market, and operate new business based on the consolidation of equipment manufacturing business. Relying on the innovation & entrepreneurship platform of the Group, we have established asset-light start-ups which is in charge of exploiting the virtual reality software business in industrial application field. At present, a set of immersive systems based on helmet has been formed, which successfully achieves the real video imbedded in virtual reality environment and can be applied to industry virtual demonstration, virtual training and virtual assembly. Besides, we will absorb the successful experience from previous projects, vigorously promote the turnkey model of EPC project, and explore the oilfield surface engineering project and geophysical prospecting project, to establish the new market competitiveness which takes the equipment manufacturing as support and project management ability as core.

As for the cost reduction and efficiency enhancement and liquidity maintenance, we will strengthen budget control, finely manage inventory and procurement, and each sector will also continue to optimize human resource structure according to actual business. At the end of January 2016, we were approved to issue the Short-term Financing Debentures of an aggregate registered amount of RMB1.5 billion in the PRC. In the future, we will continue to explore various financing channels in China, so as to further enhance its financing capability and lay a solid foundation for the Group to capture the opportunity brought by the recovery of global oil and gas market and realize its long-term development.

As of 18 March, 2016, we have had land equipment section backlogs worth approximately RMB4,818 million, which including 22 sets of land drilling rig backlogs, with an aggregate amount of approximately RMB1,349 million.

As of 18 March, 2016, we have had offshore engineering equipment backlogs worth approximately RMB5,504 million.

As of 18 March, 2016, we have had oil and gas engineering service contracts worth approximately RMB219 million.

FINANCIAL REVIEW

During the Year, the Group's gross profit and loss attributable to shareholders of the Company amounted to approximately RMB947 million and RMB252 million respectively, and gross margin and net margin amounted to approximately 22.4% and -6.0% respectively; Last year, gross profit and profit attributable to shareholders of the Company amounted to approximately RMB1,630 million and RMB92 million respectively, gross margin and net margin amounted to approximately 20.9% and 1.2% respectively. During the Year, the Group's gross margin increased about 1.5 percentage point, which was attributed to the strong competitive ability of the Group's product and the Group's effective marketing strategy. However, the Group's gross profit and profit attributable to shareholders of the Company still decreased according to Last Year, which was mainly attributable to the fact that there is no significant improvement in the global oil and gas market and the oil and gas industry is under a deep adjustment, which leads to significant cut of capital expenditure of the main oil companies.

TURNOVER

During the Year, the Group's turnover amounted to approximately RMB4,219 million, representing a decrease of RMB3,594 million or 46.0% as compared to RMB7,813 million Last year. The decrease was mainly attributable to the declined demand for oil equipment due to the relating low level of the oil price, which leads to a decline of the sales volume of the Group's land drilling rigs part and the oil & gas engineering services part. Although the offshore drilling rigs part of the Group gained a substantial increase to the sales volume, it still had little impact to the Group's turnover according to its limited market scale.

(a) Revenue by Geographical Areas

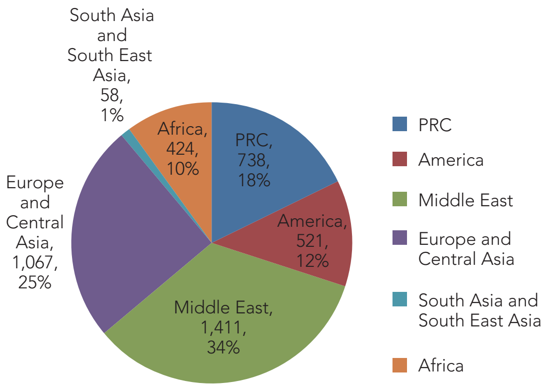
The Group's revenue by geographical segment During the Year: (1) The Group's export revenue amounted to approximately RMB3,481 million, accounting for approximately 82.5% of total revenue, representing a decrease of RMB3,401 million as compared to last year; (2) Mainland China's revenue amounted to approximately RMB738 million, accounting for approximately 17.5% of total revenue.

The revenues from different regions are affected by oil and gas exploration activities in various areas of the world. The Group actively explores markets, constantly develops new customers, and gains new purchase orders, ensuring the sustained development of the Group.

Revenue by Geographical Areas

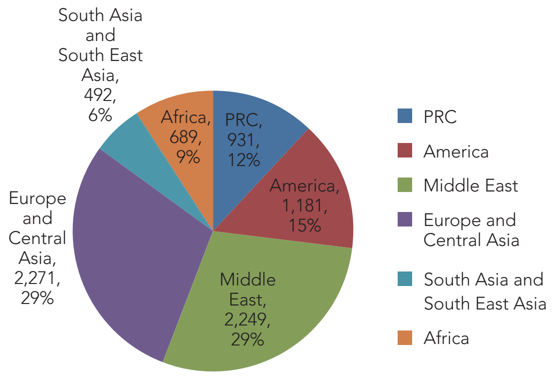
2015 revenue by Geographical Area

Expressed in RMB'million



2014 revenue by Geographical Area

Expressed in RMB'million



(b) Revenue by product categories

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

During the Year, external revenue from land drilling rigs amounted to approximately RMB2,408 million, representing a decrease of RMB2,363 million or 49.5% as compared to RMB4,771 million last year.

During the Year, external revenue from offshore drilling rigs amounted to approximately RMB204 million, representing an increase of RMB74 million or 56.9% as compared to RMB130 million last year.

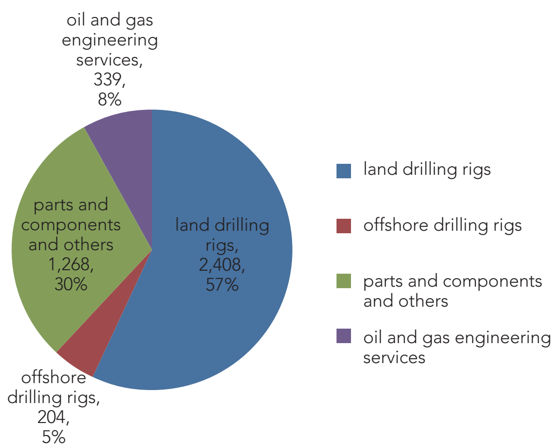
During the Year, external revenue from parts and components and others amounted to approximately RMB1,268 million, representing a decrease of RMB1,201 million or 48.6% as compared to RMB2,469 million last year.

During the Year, revenue from oil and gas engineering services amounted to approximately RMB339 million, representing a decrease of RMB104 million or 23.5% as compared to RMB 443 million in the same period last year.

Revenue by business categories

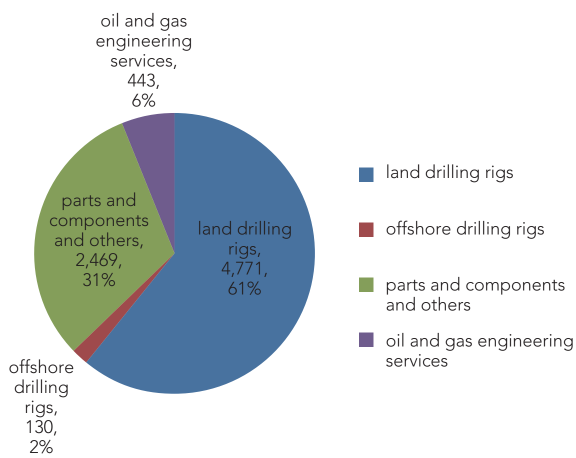
2015 Revenue by business categories

Expressed in RMB'million



2014 Revenue by business categories

Expressed in RMB'million



COST OF SALES

During the Year, the Group's cost of sales amounted to approximately RMB3,273 million, representing a decrease of approximately 47.1% or RMB2,910 million as compared to RMB6,183 million in last year, mainly due to the decrease of material consumption and employee benefit expense, etc. because of the decline in sales volume.

GROSS PROFIT AND GROSS MARGIN

During the Year, the Group's gross profit amounted to approximately RMB947 million, representing a decrease of RMB683 million or 41.9% as compared to RMB1,630 million in last year.

During the Year, the Group's overall gross margin was 22.4%, representing an increase of 1.5 percentage points as compared to 20.9% in last year. This was mainly due to the Group's production efficiency improvement, cost reduction, and the tariff reduction in some areas.

EXPENSES IN THE PERIOD

During the Year, the Group's distribution expenses amounted to approximately RMB473 million, representing a decrease of RMB165 million or 25.9% as compared to RMB638 million in last year. This was mainly attributable to decreased transportation costs and commission brought on by the declined sales revenue, the Group's cost reduction strategy, such as travelling expenses and the employee benefit expense reduction by the optimization of the personnel structure.

During the Year, the Group's administrative expenses amounted to approximately RMB584 million, representing a decrease of RMB104 million or 15.1% as compared to RMB688 million in last year. This was mainly attributable to the strict cost control such as employee benefit.

During the Year, the Group's net finance expenses amounted to approximately RMB262 million, representing a decrease of RMB11 million, or 4.0% as compared to net finance expense of RMB273 million in the last year. This was mainly attributable to the optimization of debt scale according to the Group's sales volume last year

(LOSS)/PROFIT BEFORE TAXATION

During the Year, loss before taxation of the Group amounted to approximately RMB302 million, representing a decrease of RMB426 million or 343.6% compared to profit before taxation of RMB124 million in the same period last year.

INCOME TAX EXPENSES

During the Year, the Group's income tax expense amounted to approximately RMB-36 million as compared to the income tax expense of approximately RMB13 million last year.

(LOSS)/PROFIT FOR THE YEAR

During the Year, the Group's loss amounted to approximately RMB266 million, as compared to a profit of approximately RMB110 million year. Among which, loss attributable to equity shareholders of the Company was approximately RMB252 million, while loss attributable to non-controlling interests was approximately RMB14 million. During the Year, net margin was -6.0%, as compared to a net margin of 1.2% last year, which was mainly due to the lower decreasing speed of the distribution expenses and the administrative expenses than the Group's the sales volume decreasing speed. The reason is that a number of items in the distribution expenses and the administrative expenses, such as depreciation and amortization and other fixed cost expenses, were difficult to deduct in the short run.

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

During the Year, EBITDA amounted to RMB314 million, as compared to approximately RMB711 million in last year, which was mainly attributable to the marked decrease in operating profit brought on by the decrease in revenue of the land drilling rigs and component, and the increasing loss of the offshore drilling rigs part and oil & gas engineering services part. The EBITDA margin was 7.4%, as compared to 9.1% in last year.

DIVIDENDS

For the year ended 31 December 2015, the Board does not recommend the payment of dividend.

SOURCE OF CAPITAL AND BORROWINGS

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

As at 31 December 2015, the Group's bank borrowings and senior notes amounted to approximately RMB4,664 million, representing a decrease of approximately RMB463 million as compared to 31 December 2014. Among which, borrowings repayable within one year amounted to approximately RMB2,333 million, representing a decrease of RMB474 million or 16.9%,as compared to 31 December 2014.

DEPOSITS AND CASH FLOW

As at 31 December 2015, the Group's cash and cash equivalents amounted approximately RMB1,103 million, representing a decrease of approximately RMB339 million as compared to 31 December 2014.

During the Year, the Group's net operating cash inflow from operations amounted to approximately RMB559 million; net cash outflow from investing assets, during the Year amounted to approximately RMB49 million; net cash outflow from financing activities amounted to approximately RMB857 million.

ASSETS STRUCTURE AND CHANGES THEREOF

As at 31 December 2015, the Group's total assets amounted to approximately RMB13,182 million, representing a decrease of approximately RMB2,316 million or 14.9% as compared to 31 December 2014. Among which, current assets amounted to approximately RMB8,390 million, accounting for approximately 63.6% of total assets, representing a decrease of RMB1,870 million as compared to 31 December 2014, which were mainly decrease of inventories, cash and cash equivalent. Non-current assets amounted to approximately RMB4,792 million, accounting for approximately 36.4% of total assets, representing a decrease of approximately RMB446 million as compared to 31 December 2014, and were mainly attributable to the decrease in long term trade receivables.

LIABILITIES

As at 31 December 2015, the Group's total liabilities amounted to approximately RMB8,408 million, representing a decrease of approximately RMB2,126 million as compared to 31 December 2014. Among which, current liabilities amounted to approximately RMB6,002 million, accounting for approximately 71.4% of total liabilities, representing a decrease of approximately RMB2,204 million as compared to 31 December 2014. Non-current liabilities amounted to approximately RMB2,406 million, accounting for approximately 28.6% of total liabilities, presenting an increase of approximately RMB77 million as compared to 31 December 2014. As at 31 December 2015, the Group's total liabilities/total assets ratio was approximately 63.8%, representing a decrease of 4.2 percentage points as compared to 31 December 2014.

EQUITY

As at 31 December 2015, total equity amounted to RMB4,774 million, representing a decrease of RMB190 million as compared to 31 December 2014. Total equity attributable to equity shareholders of the Company amounted to approximately RMB4,552 million, representing a decrease of RMB177 million as compared to 31 December 2014. Non-controlling interests totaled to approximately RMB222 million, representing a decrease of RMB13million as compared to 31 December 2014. During the Year, the Group's basic earnings per share were RMB-7.93 cents, and diluted earnings per share were RMB-7.93 cents.

CONTINGENT LIABILITIES

A sales agency filed lawsuits against the subsidiary of the Company, alleged that it was owed commission in excess of USD18,000,000 in relation to their services to the Group. On 24 April 2013, the United Arab Emirates ("UAE") Federal Court of First Instance ordered the termination of the agency agreement and dismissed all claims from the sales agency. On 21 October 2014, UAE Federal Court affirmed the original judgment. The sales agency and the Group filed an appeal to the UAE Federal Court of Appeal on the court's decision and On 11 November 2015, Union Supreme Court of the United Arab Emirates revoke the challenged judgment completely, and it ordered to refer the case to Abu Dhabi Federal Court of Appeals to reconsider the same again in another form, and the hearing is not yet to be made as at 31 December 2015. Having consulted the Group's legal advisors, management considered that the Group had legal and factual merit to defend in lawsuit. Accordingly, management determined that it was not probable that the outcome of the lawsuit will be unfavorable to the Group. No provision was made for the potential claims under this lawsuit.

CAPITAL EXPENDITURE, MAJOR INVESTMENT AND CAPITAL COMMITMENTS

During the Year, capital expenditure of the Group on infrastructure and technical improvements amounted to approximately RMB236 million, representing a decrease of approximately RMB542 million as compared to the same period last year.

As at 31 December 2015, the Group had capital commitments of approximately RMB286 million, which will be used for the construction of Jiangsu Qigong offshore manufacturing base and expansion of the Group's business as well as its production capacity.

CORPORATE SOCIAL RESPONSIBILITY REPORT

Throughout the years, Honghua has always upheld its corporate social responsibility principles of "Gratitude, Love, Education and Enlightenment" as well as its value of "Contribution to the society." We continue to actively take part in promoting workplace safety, environmental protection, talent cultivation, employee benefits, and social welfare. We take great consideration of these values during our corporate management and decision making processes. We aim to promote a harmonious relationship between the Company and the society and between the economic development and the environment with a view to guarantee the interests of our Shareholders, partners and employees. And we also aim to contribute to the sustainable development of global energy.

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

CONTINUOUS SUPPORT TO PUBLIC WELFARE

2015 Honghua Group Scholarship Granting Ceremony held in Ya'An Tianquan Middle School

In Dec. 2015, blood donation within Honghua Offshore staff

EXPANDING BRAND INFLUENCE AND EXPLOITING BRAND ADVANTAGE

In September 2015, the NDC3000HP drilling rig special designed for man-made island oversea environment and manufactured by Sichuan Honghua was awarded "Innovative Production of 2015" in "2015 China Equipment Innovation Pioneer List" by China Machinery & Electric Industry Magazine.

HEALTH, SAFETY, AND ENVIRONMENT

We are strongly aware that guaranteeing production safety is the Company's most important responsibility to the society, the Shareholders and the employees. Therefore, our Group and our subsidiaries have implemented standard safety guidelines for production, inspection, supervision, and training. Through the standardized health, safety, and environment (HSE) management system, we have been able to fully implement and manage production safety, raise the workplace safety awareness of all our workers, and bring the safety experience to all clients.

In Nov. 2015, Safety Production Standardization Class II
was approved in Sichuan Honghua

EVENTS TO RAISE AWARENESS OF HEALTH AND SAFETY

In 2015, we continue to carry out various promotion and educational activities, including training, exercise and tests to raise staff's awareness of safety, occupational health and environmental protection.

CULTIVATING AN INNOVATIVE CULTURE AND PROMOTING INTELLIGENT PRODUCTION ATTITUDES

We deeply realize that having an effective corporate culture can enhance our employee's sense of belonging, corporate identity and improve our competitiveness. In 2015, we have pushed forward the development of the corporate culture with a view of a better cultural atmosphere in order to bring the creativity and productivity of our employees to new heights.

In 2015, the Company's periodical "Honghua Man" was published 5 issues. While reporting on news within the Company and introducing new management skills, it also sets up columns to plan, launch and report employee activities as an effort to promote a variety of activities for employees at our subsidiaries.

Honghua Basketball Game 2015

Honghua Group 2015 Autumn Fun Games

CULTIVATE TALENTED EMPLOYEES

We strongly believe that talented employees are our most important asset, and we insist on providing long-term, on-the-job training to our 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, appraisal scheme and incentive & restraint mechanism, we are able to attract and keep talented employees and continue to provide them with opportunities to develop their career. These efforts cultivate positive attitudes and creativity in our employees and make the Company towards new milestones.

In 2015, we organized a variety of trainings, providing 912 training sessions of 115,963 hours with 23,761 participants in total. The training curriculum included internet+, industry 4.0, internet of things, innovation, HSE, operation standardization, FSP LNG, new employee orientations, English language and project management training.

COOPERATE WITH UNIVERSITIES FOR A JOINT DEVELOPMENT

We value talent training very much, and cooperate effectively with various domestic colleges and universities in the area of production, education and research, which also deepened exchanges and cooperative relations in academic theory, scientific research, and talent training between universities and enterprise. In 2015, we initiated COOP project with Chongqing University to provide intern positions for the undergraduates. Adopting the one-to-one method which helped participants learn time management and gain experience beyond campus, we also organized the periodic graduation activities.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Zhang Mi (張弭先生), aged 59, 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
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. In 2015, he was rewarded as a national model worker.

Mr. Ren Jie (任杰先生), aged 49, has been an Executive Director of the Company since 18 January 2008. He is also the Senior 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	Since 13 January 2004
	and 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 52, 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

NON-EXECUTIVE DIRECTORS

Mr. Siegfried Meissner, aged 63, 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 51, 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 53, has been an Independent Non-executive Director of the Company since 18 January 2008. He is currently an independent non-executive director of Kun Lun Energy Company Limited. He was a managing director of China Resources Capital Holdings 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 52, 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., Sino Media Holding Ltd., iKang Healthcare Group, Inc MOMO INC.,Jutal Offshore Oil Services Limited, Dalian Wanda Commercial Properties Co., Ltd. and Reorient Group Limited. 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. Chen Guoming (陳國明先生), aged 53, 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 73, 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 PetroChina 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 63, 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, Strong Petrochemical Holdings Limited and MIE Holdings Corporation. Mr. Guo has extensive entrepreneurship experiences and experience of corporate operation and management. Mr. Guo is currently the chairman of CNHK Tech Co., Ltd. (formerly known as 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 59, 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 60, 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. 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. from September 1994 to June 2001. Mr. Zhang graduated from Sichuan Radio TV University, majoring in electronic technology and is a qualified engineer.

Mr. Yuan Hai (袁海先生), aged 38, has been the Financial Controller of the Company since 26 March 2015. Mr. Yuan joined the Company in 2007. Mr. Yuan has over 14 years of experience in financial management and has been a member of Certified Management Accountant (CMA) of America since January 2016. 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 42, 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 48, has been a Joint Company Secretary of the Company since 21 January 2008 and resigned on 7 July 2015. She was 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.

Ms. Lee Mei Yi (李美儀女士), aged 48, has been a Joint Company Secretary of the Company since 7 July 2015. Ms. Lee is a director of corporate services division of Tricor Services Limited and a fellow member of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators. Ms. Lee has over 25 years' experience in company secretarial area.

The Board presents this Corporate Governance Report in the Group's annual report for the year ended 31 December 2015.

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 enhancing corporate value and accountability.

The Group strives to attain and 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 and code provisions 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 2015, save for certain deviations from the code provisions in respect of separation of roles of Chairman and President (Chief Executive) and the dismissal of the nomination committee of the Company, 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' dealings in the Company's securities (the "Company's 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's Code and the Model Code throughout the year ended 31 December 2015.

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 31 to 36.

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 2015, 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.

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 seminar and/or conferences and/or forums and/or reading materials.

During the year ended 31 December 2015, 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	✓	✓
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. 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 2015, the financial reporting and compliance procedures, the report from the management on the Company's internal control and risk management systems and processes, the issues on change 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 2015 and the attendance records are set out under "Directors' Attendance Records" on page 45.

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 2015 and the attendance records are set out under "Directors' Attendance Records" on page 45.

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 a meeting during the year ended 31 December 2015 and the attendance records are set out under "Directors' Attendance Records" on page 45.

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 2015, five Board meeting 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 2015 are set out below:

Name of Director	Board	Audit Committee	Remuneration Committee	Strategic Investment and Risk Control Committee	Annual General Meeting
	Attendance/Number of Meetings				
Zhang Mi	05/05	–	01/01	01/01	01/01
Ren Jie	04/05 01*/05	–	–	01/01	0/01
Liu Zhi	05/05	–	–	01/01	0/01
Siegfried Meissner	0/05	–	–	–	0/01
Popin Su (the alternate director to Siegfried Meissner)	05/05	–	–	–	0/01
Liu Xiaofeng	04/05	02/02	01/01	01/01	01/01
Qi Daqing	04/05	02/02	01/01	–	01/01
Chen Guoming	05/05	02/02	–	–	0/01
Shi Xingquan	04/05	01/02	–	0/01	0/01
Guo Yanjun	05/05	02/02	–	–	01/01

* Director had appointed proxy to attend meeting

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 2015.

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 72 to 73.

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 2015, the remuneration paid to the Company's former auditors, Messrs KPMG who resigned on 27 May 2015 and the Company's current auditors, PricewaterhouseCoopers who were appointed on 27 May 2015, are set out below respectively:

KPMG (RESIGNED ON 27 MAY 2015)

Service Category	Fees (in Renminbi)
Audit Services	0
Non-audit Services	
— Reviewing interim financial statements	0
— Other	79,000
Total	79,000

PRICEWATERHOUSECOOPERS (APPOINTED ON 27 MAY 2015)

Service Category	Fees (in Renminbi)
Audit Services	2,610,000
Non-audit Services	
— Reviewing interim financial statements	1,200,000
— Other	0
Total	3,810,000

The auditors' remuneration disclosed in note 8 to the consolidated financial statements included the remuneration paid to KPMG and PricewaterhouseCoopers respectively 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 appointed by the Company as one of its Joint Company Secretaries and resigned on 7 July 2015. Lee Mei Yi of Tricor Services Limited was appointed by the Company on 7 July 2015 to replace Corinna Leung as one of the Joint Company Secretaries of the Company. The primary contact person at the Company is He Bin, one of the Joint Company Secretaries of the Company.

Corinna Leung (resigned on 7 July 2015), the former Joint Company Secretary, and Lee Mei Yi (appointed on 7 July 2015) and He Bin, the current 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 Shareholder 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.

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.

REPORT OF THE DIRECTORS

The Board presents this annual report, together with the audited consolidated financial statements of the Group for the year ended 31 December 2015.

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 2015 are set out in the consolidated financial statements on pages 74 to 194 of this annual report.

The Board did not recommend a final dividend for the year ended 31 December 2015.

BUSINESS REVIEW

A business review of the Group during the Year, future business development and important events affecting the Group that have occurred during the Year are provided in Chairman's Statement on pages 6 to 8 and Management Discussion and Analysis on pages 10 to 19 of this annual report respectively. A description of the performance of the Group during the Year using financial key performance indicators is provided in Management Discussion and Analysis on pages 20 to 25 of this annual report. The Group's financial risk management objective and policy can be found in note 3 to the consolidated financial statements of this annual report. In addition, the Group's the environment policy, relationship with employees and compliance with relevant laws and regulations that have a significant impact on the Group are provided in Corporate Social Responsibility Report on page 28, the section of Human Resources Management on page 17, the Corporate Governance Report on pages 37 to 51 and note 2 to the consolidated financial statements of this annual report respectively.

CLOSURE OF REGISTER OF THE MEMBERS

The register of members of the Company will be closed from Wednesday, 18 May 2016 to Tuesday, 24 May 2016, 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 certificate 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, 17 May 2016.

SHARE CAPITAL

Changes in the share capital of the Company during the Year are set out in Note 24 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 REPURCHASE OF THE LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year ended 31 December 2015.

RESERVES

As of 31 December 2015, the Group has a total of approximately RMB42.51 million worth of other reserves and retained earnings. 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 2015 are set out in Note 11 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. Liu Zhi, Mr. Liu Xiaofeng and Mr. Chen Guoming 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.

PERMITTED INDEMNITY

Pursuant to the Company's Articles of Association, subject to the Companies Law, every Director shall be indemnified out of the assets of the Company against all costs, charges, expenses, losses and liabilities which he/she may sustain or incur in the execution of his/her office or otherwise in relation thereto. The Company has taken out insurance against the liability and costs associated with defending any proceedings which may be brought against directors of the Group.

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 2015, details of remuneration for the Directors and Senior Management of the Company are set out in Note 36(e) and Note 39 to the consolidated financial statements.

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

	2015 Number of individuals
RMB0 to RMB1,000,000	5
RMB1,000,001 to RMB2,000,000	3
RMB2,000,001 to RMB3,000,000	0
RMB3,000,001 to RMB4,000,000	0
RMB4,000,001 to RMB5,000,000	0
RMB5,000,001 to RMB6,000,000	0

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

As at 31 December 2015, the interests and short positions of each Director and Chief Executive in the Shares , underlying Shares and debentures 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	1,510,128,620[(1)(4)]	46.59%
Mr. Ren Jie	Long	Personal interest, corporate interest and settlor of a discretionary trust	1,510,128,620[(2)(4)]	46.59%
Mr. Liu Zhi	Long	Personal interest, corporate interest and settlor of a discretionary trust	1,510,128,620[(3)(4)]	46.59%

(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 Shares. The Trustee of The LZWM Family Trust owns 28,105,000 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 38,015,697 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 28,105,000 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 38,015,697 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 28,105,000 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 38,015,697 Shares.

(4) 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. Chen Guoming	Long	2,050,000	–
Mr. Shi Xingquan	Long	2,050,000	–
Mr. Guo YanJun	Long	1,450,000	–

(C) INTERESTS IN DEBENTURES OF THE COMPANY

	Nature of interest	Total amount of debentures interested
Mr. Ren Jie	Settlor of a discretionary trust[1]	USD200,000
Mr. Liu Zhi	Corporate interest[2]	USD500,000

(1) 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 debentures with amount of USD200,000.

(2) Liu Zhi owns debentures with amount of USD500, 000 through his directly 95%-owned company, Long Joy (HK) Limited.

Saved as disclosed above, at 31 December 2015, 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, as at 31 December 2015, 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						
		Personal interest						
Name	Long/ Short Position	Share Option	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
Ally Giant Limited	Long	–	1,187,727,837	–	–	370,814,783	1,558,542,620[1]	48.08%
Ample Chance International Limited	Long	–	–	1,187,727,837	–	370,814,783	1,558,542,620[2]	48.08%
Wealth Afflux Limited	Long	–	157,800,000	1,187,727,837	–	213,014,783	1,558,542,620[3]	48.08%
Ally Smooth Investments Limited	Long	–	–	1,187,727,837	–	370,814,783	1,558,542,620[3]	48.08%
Equity Trustee Limited	Long	–	–	–	1,509,313,237	–	1,509,313,237 [3][5][6][9][10][14][20][22]	46.56%
Charm Moral International Limited	Long	–	–	1,187,727,837	–	370,814,783	1,558,542,620[4]	48.08%
Mowbray Worldwide Limited	Long	–	33,227,200	1,187,727,837	–	337,587,583	1,558,542,620[5]	48.08%
Ecotech Enterprises Corporation	Long	–	28,105,000	1,187,727,837	–	342,709,783	1,558,542,620[6]	48.08%
Mr. Zheng Yong	Long	2,263,000	20,020,950	1,187,727,837	–	348,530,833	1,558,542,620[7]	48.08%
Beauty Clear Holdings Limited	Long	–	–	1,187,727,837	–	370,814,783	1,558,542,620[8]	48.08%
Mr. Zuo Huixian	Long	2,264,000	210,000	–	1,206,532,237	349,536,383	1,558,542,620[9]	48.08%
Vast & Fast Corporation	Long	–	18,804,400	1,187,727,837	–	352,010,383	1,558,542,620[9]	48.08%
Mr. Zhang Xu	Long	1,899,000	12,686	–	1,201,285,237	355,345,697	1,558,542,620[10]	48.08%
Cavendish Global Corporation	Long	–	13,557,400	1,187,727,837	–	357,257,383	1,558,542,620[10]	48.08%
Elegant Scene International Limited	Long	–	–	1,187,727,837	–	370,814,783	1,558,542,620[11]	48.08%
Mr. Wang Jiangyang	Long	1,611,000	6,752,600	1,187,727,837	–	362,451,183	1,558,542,620[11]	48.08%
Mr. Chen Jun	Long	922,000	2,074,599	1,187,727,837	–	367,818,184	1,558,542,620[12]	48.08%
Believe Power International Limited	Long	–	–	1,187,727,837	–	370,814,783	1,558,542,620[13]	48.08%
Mr. Fan Bing	Long	1,744,000	30,000	–	1,206,308,837	350,459,783	1,558,542,620[14]	48.08%
Brondesbury Enterprises Limited	Long	–	18,581,000	1,187,727,837	–	352,233,783	1,558,542,620[14]	48.08%
Mr. Zhang Yanyong	Long	1,500,000	1,720	1,187,727,837	–	369,313,063	1,558,542,620[15]	48.08%
Mr. Ao Pei	Long	537,000	962,308	1,187,727,837	–	369,315,475	1,558,542,620[16]	48.08%
Mr. Tian Diyong	Long	608,000	260,400	1,187,727,837	–	369,946,383	1,558,542,620[17]	48.08%
Mr. Shen Dingjian	Long	304,000	1,285,720	1,187,727,837	–	369,225,063	1,558,542,620[18]	48.08%
Benefit Way International Limited	Long	–	–	1,187,727,837	–	370,814,783	1,558,542,620[19]	48.08%
Mr. Liu Xuetian(deceased)	Long	–	–	–	1,193,780,237	364,762,383	1,558,542,620[20]	48.08%
Dobson Global Inc.	Long	–	6,052,400	1,187,727,837	–	364,762,383	1,558,542,620[20]	48.08%
Ms. Qu Yihong	Long	–	–	1,193,780,237	–	364,762,383	1,558,542,620[21]	48.08%
Ms. Liu Ying	Long	–	–	1,193,780,237	–	364,762,383	1,558,542,620[21]	48.08%
Mr. Zhou Bing	Long	1,805,000	3,856,714	–	1,187,727,837	365,153,069	1,558,542,620[22]	48.08%
Darius Enterprises Limited	Long	–	–	1,187,727,837	–	370,814,783	1,558,542,620[22]	48.08%
Ms. Lv Lan	Long	883,000	250,808	1,187,727,837	–	369,680,975	1,558,542,620[23]	48.08%
Mr. Tian Yu	Long	780,000	1,508,478	1,187,727,837	–	368,526,305	1,558,542,620[24]	48.08%
Mr. Li Hanqiang	Long	281,000	311,000	1,187,727,837	–	370,222,783	1,558,542,620[25]	48.08%
Mr. Liu Yingguo	Long	242,000	264,000	1,187,727,837	–	370,308,783	1,558,542,620[26]	48.08%
Mrs. Liu Lulu	Long	474,000	466,400	1,187,727,837	–	369,874,383	1,558,542,620[27]	48.08%
Yi Langlin	Long	–	2,156,000	1,556,386,620 (family interest)	–	–	1,558,542,620[28]	48.08%

(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 1,558,542,620 Shares.

Save as disclosed above, to the best of the Directors and the Chief Executives of the Company's knowledge, as at 31 December 2015, 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 2015, none of the grantees has exercised the share options granted to him under the Pre-IPO share option scheme and 5,934,000 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 2015, 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 102,680,500 Shares, representing approximately 3.16% 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 2015 were as follows:

Date of grant	Number of grant (shares)	Exercise price per Share (HK$)	Exercise 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	0.83	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

Date of grant	Number of grant (shares)	Exercise price per Share (HK$)	Exercise period of share options	Valid period of the share options
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
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 to1 July 2024

Particulars and movements of share options under the Share Option Scheme during the year ended 31 December 2015 were as follows:

	Number of share options									
Name or category of participant	Outstanding as at 01/01/2015	Granted during the Year	Exercised during the Year	Lapsed during the Year	Cancelled during the Year	Outstanding as at 31/12/2015	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	1.29
	1,450,000	–	–	–	–	1,450,000	02/07/2014	02/07/2014-01/07/2024	1.96	1.92
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	1.92
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. 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	25,547,000	–	–	–	–	25,547,000				
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	183,000	–	–	–	–	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	97,000	–	–	–	–	97,000	02/07/2014	02/07/2014-01/07/2024	1.96	1.92
Mr. Li Hanqiang	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	8,341,000	–	–	–	–	8,341,000				

Name or category of participant	Number of share options						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$
	Outstanding as at 01/01/2015	Granted during the Year	Exercised during the Year	Lapsed during the Year	Cancelled during the Year	Outstanding as at 31/12/2015				
Other										
Employee	24,143,500	–	–	1,279,000	–	22,864,500	15/04/2009	01/12/2009-14/04/2019	1.27	1.29
Employee	251,000	–	–	251,000	–	0	11/10/2010	25/10/2010-10/10/2020	1.05	1.01
Employee	2,943,000	–	–	–	–	2,943,000	20/06/2011	19/07/2011-19/06/2021	0.83	0.79
Employee	14,040,000	–	–	179,000	–	13,861,000	05/04/2012	05/04/2013-04/04/2022	1.19	1.20
Employee	31,418,000	–	–	1,830,000	–	29,588,000	02/07/2014	02/07/2014-01/07/2024	1.96	1.92
Sub-total	72,795,500	–	–	3,539,000	–	69,256,500				
Total	106,683,500	–	–	3,539,000	–	103,144,500				

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 2015, the Trustee has purchased 97,817,000 of the Company's Shares, accounting for 3.01% of the issued share capital of the Company and total of 36,917,700 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 2015 were as follows:

	Number of Shares					
	Outstanding during 01/01/2015	Purchased during the Year	Granted during the Year	Vested during the Year	Cancelled during the Year	Outstanding as at 31/12/2015
Total	61,089,300	–	–	–	–	61,089,300

CONTINUING CONNECTED TRANSACTIONS

During the Year, the Group has the following continuing connected transaction which is required to be disclosed in this annual report in accordance with Chapter 14A of the Listing Rules. The Purchase Framework Agreement was disclosed by way of announcement in accordance with requirement under Chapter 14A of the Listing Rules and included in Note 36 to the consolidated financial statements as it constituted material related party transaction. Certain related parties transactions disclosed in Note 36 to the consolidated financial statements were not disclosed below as they fulfilled the exemption requirements in Chapter 14A of the Listing Rules.

PURCHASE FRAMEWORK AGREEMENT ENTERED INTO WITH HONTAI COMPANY

Hongtai Company is owned as to 73.125% by the spouses 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 RMB11,054,000.

Given that the expiration of the Purchase Framework Agreement, Honghua Company and Hongtai Company entered into the New Purchase Framework Agreement on 30 December 2015 for a term of three years commencing from 1 January 2016 and ending on 31 December 2018. Pursuant to the New Purchase Framework Agreement, Honghua Company shall purchase from Hongtai Company low value consumables, auxiliary accessories, tools, welding materials and work-protation items. It is expected the annual caps payable from Honghua Company to Hongtai Company under the New Purchase Framework Agreement shall not exceed RMB26 million for each of the three years ending on 31 December 2016, 31 December 2017 and 31 December 2018 respectively.

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 these 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; and

(4) have exceeded the cap 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 in pages 68–69 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 Note 28 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 9 and 36(e) to the consolidated financial statements.

FIXED ASSETS

Details of the changes of the fixed assets of the Group are set out in Note 16 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

1. During the Year, the Group's five largest suppliers in total accounted for approximately 14.1% of total purchase, and the largest supplier accounted for approximately 4.3% of total purchase. The Group's five largest suppliers in total accounted for less than 30% of the total purchase because of the large number of suppliers.

2. During the Year, the Group's five largest customers accounted for approximately 45.6% of total sales and the largest customer accounted for approximately 18.7% 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 2015, 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 13 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 annual 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

KPMG retired from the office of the auditor of the Company with effect from 27 May 2015. PricewaterhouseCoopers was appointed by the Board of the Company as the new auditor of the Company on 17 April 2015 and was approved by the Shareholders at the annual general meeting of the Company on 27 May 2015.

The financial statements of the Group for the year ended 31 December 2015 have been audited by PricewaterhouseCoopers who will retire at the forthcoming annual general meeting and being eligible, offer themselves for re-appointment. A resolution to renew the appointment of PricewaterhouseCoopers as auditor of the Company will be proposed at the forthcoming annual general meeting of the Company.

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

Hong Kong, 29 March 2015

羅兵咸永道

To the shareholders of Honghua Group Limited
(Incorporated in the Cayman Island with limited liability)

We have audited the consolidated financial statements of Honghua Group Limited (the "Company") and its subsidiaries set out on pages 74 to 194, which comprise the consolidated balance sheet as at 31 December 2015, and the consolidated statement of profit or loss, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows 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 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 and to report our opinion 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 judgment, 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 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 financial position of the Company and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 29 March 2016

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2015
(All amounts in RMB unless otherwise stated)

		Year ended 31 December	
	Note	**2015 RMB'000**	2014 RMB'000
Revenue	5	**4,219,253**	7,812,537
Cost of sales	8	**(3,272,716)**	(6,182,994)
Gross profit		**946,537**	1,629,543
Distribution expenses	8	**(472,764)**	(637,567)
Administrative expenses	8	**(584,016)**	(688,464)
Other losses, net	7	**(9,863)**	(7,326)
Other income	6	**77,504**	100,312
Operating (loss)/profit		**(42,602)**	396,498
Finance income	10	**83,145**	100,777
Finance expenses	10	**(344,980)**	(373,795)
Finance expenses-net		**(261,835)**	(273,018)
Share of profit of associates	12	**925**	–
Share of profit of joint ventures	12	**1,793**	186
(Loss)/Profit before income tax		**(301,719)**	123,666
Income tax expense	13	**35,853**	(13,499)
(Loss)/Profit for the year		**(265,866)**	110,167

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2015
(All amounts in RMB unless otherwise stated)

	Note	Year ended 31 December 2015 RMB'000	2014 RMB'000
(Loss)/Profit attributable to:			
— Owners of the Company		**(252,207)**	91,787
— Non-controlling interests		**(13,659)**	18,380
		(265,866)	110,167
(Loss)/Earnings per share for profit attributable to owners of the Company (expressed in RMB cents per share)			
Basic (loss)/earnings per share	14(a)	**(7.93)**	2.89
Diluted (loss)/earnings per share	14(b)	**(7.93)**	2.87

The notes on pages 84 to 194 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2015
(All amounts in RMB unless otherwise stated)

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
(Loss)/Profit for the year	**(265,866)**	110,167
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Change in value of available-for-sale financial assets, net of tax	**(827)**	225
Currency translation differences	**70,978**	15,562
Other comprehensive income for the year, net of tax	**70,151**	15,787
Total comprehensive income for the year	**(195,715)**	125,954
Total comprehensive income attributable to:		
— Owners of the Company	**(183,079)**	106,388
— Non-controlling interests	**(12,636)**	19,566
	(195,715)	125,954

The notes on pages 84 to 194 form an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2015
(All amounts in RMB unless otherwise stated)

		As at 31 December	
		2015	2014
	Note	**RMB'000**	RMB'000
ASSETS			
Non-current assets			
Lease prepayments	15	**405,732**	402,784
Property, plant and equipment	16	**3,139,093**	3,205,240
Payment for acquisition of leasehold prepayment		**163,192**	163,192
Intangible assets	17	**234,261**	226,313
Investments in associates	12	**52,161**	9,000
Investments in joint ventures	12	**48,239**	86,914
Deferred income tax assets	29	**318,263**	201,189
Available-for-sale financial assets	18	**74,053**	74,053
Held-to-maturity financial assets	21	**–**	44,038
Trade and other receivables	19	**356,985**	825,445
Total non-current assets		**4,791,979**	5,238,168
Current assets			
Inventories	22	**2,164,432**	2,980,996
Trade and other receivables	19	**4,537,569**	4,663,587
Amount due from customers for contract work	20	**20,778**	217,001
Current tax recoverable		**9,592**	8,002
Available-for-sale financial assets	18	**39,203**	331,826
Held-to-maturity financial assets	21	**46,734**	–
Pledged bank deposits	23	**368,884**	612,743
Bank deposits maturing over three months		**100,518**	4,003
Cash and cash equivalents	23	**1,102,651**	1,442,014
Total current assets		**8,390,361**	10,260,172
Total assets		**13,182,340**	15,498,340

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2015
(All amounts in RMB unless otherwise stated)

		As at 31 December	
		2015	2014
	Note	**RMB'000**	RMB'000
EQUITY			
Equity attributable to owners of the Company			
Share capital	24	**300,983**	300,983
Other reserves	26	**3,046,576**	2,954,593
Retained earnings		**1,204,470**	1,473,401
		4,552,029	4,728,977
Non-controlling interests		**222,157**	234,793
Total equity		**4,774,186**	4,963,770
LIABILITIES			
Non-current liabilities			
Deferred income	31	**51,376**	–
Borrowings	28	**2,331,886**	2,320,097
Trade and other payables	27	**23,255**	9,236
Total non-current liabilities		**2,406,517**	2,329,333

AS AT 31 DECEMBER 2015
(All amounts in RMB unless otherwise stated)

		As at 31 December	
	Note	2015 RMB'000	2014 RMB'000
Current liabilities			
Deferred income	31	**4,923**	–
Trade and other payables	27	**3,556,059**	5,270,762
Current income tax liabilities		**54,130**	60,641
Borrowings	28	**2,332,545**	2,806,956
Provisions for other liabilities and charges	30	**53,980**	66,878
Total current liabilities		**6,001,637**	8,205,237
Total liabilities		**8,408,154**	10,534,570
Total equity and liabilities		**13,182,340**	15,498,340

The notes on pages 84 to 194 form an integral part of these consolidated financial statements.

The consolidated financial statements on pages 74 to 83 were approved by the Board of Directors on 29 March 2016 and were signed on its behalf.

Zhang Mi
Director

Ren Jie
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2015
(All amounts in RMB unless otherwise stated)

	Attributable to owners of the Company											
	Share capital RMB'000	Share premium RMB'000 (Note 26)	Other reserve RMB'000 (Note 26)	Capital reserve RMB'000 (Note 26)	Surplus reserve RMB'000 (Note 26)	Exchange reserve RMB'000 (Note 26)	Fair value reserve RMB'000 (Note 26)	Shares held for share award scheme RMB'000	Retained earnings RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total Equity RMB'000
Balance 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
Comprehensive income												
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
Transactions with owners												
Capital contribution to a newly established subsidiary	–	–	–	–	–	–	–	–	–	–	26,681	26,681
Equity-settled share-based transactions	–	–	–	8,292	–	–	–	–	–	8,292	–	8,292
Shares issued under share option schemes	150	2,539	–	(797)	–	–	–	–	–	1,892	–	1,892
Options lapsed under s hare option schemes	–	–	–	(1,641)	–	–	–	–	1,641	–	–	–
Dividends approved in respect of the previous financial year	–	(150,946)	–	–	–	–	–	–	–	(150,946)	–	(150,946)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	(6,749)	(6,749)
Appropriation to surplus reserve	–	–	–	–	44,842	–	–	–	(44,842)	–	–	–
Total transactions with owners, recognised directly in equity	150	(148,407)	–	5,854	44,842	–	–	–	(43,201)	(140,762)	19,932	(120,830)
Balance 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 84 to 194 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2015
(All amounts in RMB unless otherwise stated)

	Attributable to owners of the Company											
	Share capital RMB'000	Share premium RMB'000 (Note 26)	Other reserve RMB'000 (Note 26)	Capital reserve RMB'000 (Note 26)	Surplus reserve RMB'000 (Note 26)	Exchange reserve RMB'000 (Note 26)	Fair value reserve RMB'000 (Note 26)	Shares held for share award scheme RMB'000	Retained earnings RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total Equity RMB'000
Balance at 1 January 2015	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
Comprehensive income												
Loss for the year	–	–	–	–	–	–	–	–	(252,207)	(252,207)	(13,659)	(265,866)
Other comprehensive income	–	–	–	–	–	69,867	(739)	–	–	69,128	1,023	70,151
Total comprehensive income	–	–	–	–	–	69,867	(739)	–	(252,207)	(183,079)	(12,636)	(195,715)
Transactions with owners												
Equity-settled share-based transactions	–	–	–	6,131	–	–	–	–	–	6,131	–	6,131
Options lapsed under share option schemes	–	–	–	(2,046)	–	–	–	–	2,046	–	–	–
Appropriation to surplus reserve	–	–	–	–	18,770	–	–	–	(18,770)	–	–	–
Total transactions with owners, recognised directly in equity	–	–	–	4,085	18,770	–	–	–	(16,724)	6,131	–	6,131
Balance at 31 December 2015	300,983	2,349,292	51,210	531,049	413,360	(173,717)	–	(124,618)	1,204,470	4,552,029	222,157	4,774,186

The notes on pages 84 to 194 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2015
(All amounts in RMB unless otherwise stated)

	Note	Year ended 31 December 2015 RMB'000	2014 RMB'000
Cash flows from operating activities			
Cash generated from operations	33	**648,982**	443,223
Income tax paid		**(90,341)**	(124,425)
Net cash generated from operating activities		**558,641**	318,798
Cash flows from investing activities			
Payment for addition of property, plant and equipment and construction in progress		**(250,921)**	(522,188)
Increase in lease prepayment		**(11,616)**	(10,000)
Proceeds on disposal of property, plant and equipment		**25,631**	4,486
Purchase of available-for-sale financial assets		**(890,735)**	(3,287,394)
Net loans granted to related companies		**(22,188)**	–
Proceeds from government grants related to assets		**13,521**	–
Proceeds from sales of available-for-sale financial assets		**1,182,531**	3,725,133
Interest received		**53,923**	47,045
Expenditure on development project and other intangible assets		**(52,845)**	(37,454)
Capital contribution to joint ventures		**–**	(40,000)
Decrease/(increase) in bank deposits maturing over three months		**(96,515)**	4,616
Net cash used in investing activities		**(49,214)**	(115,756)

FOR THE YEAR ENDED 31 DECEMBER 2015
(All amounts in RMB unless otherwise stated)

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Cash flows from financing activities		
Proceeds from borrowings	**3,263,571**	4,966,091
Repayments of borrowings	**(3,837,180)**	(5,773,278)
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
Dividends paid to non-controlling interests	**–**	(6,749)
Dividends paid to equity shareholders of the company	**–**	(150,946)
Interest and bank charges paid	**(283,513)**	(262,970)
Net cash (used in)/generated from financing activities	**(857,122)**	213
Net (decrease)/increase in cash and cash equivalents	**(347,695)**	203,255
Cash and cash equivalents at the beginning of year	**1,442,014**	1,274,509
Exchange gains/(losses) on cash and cash equivalents	**8,332**	(35,750)
Cash and cash equivalents at end of the year	**1,102,651**	1,442,014

The notes on pages 84 to 194 form an integral part of these consolidated financial statements.

1 GENERAL INFORMATION

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

The Company was incorporated in the Cayman Islands on 15 June 2007 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The Company has its listing on The Stock Exchange of Hong Kong Limited.

These financial statements are presented in Chinese Renminbi ("RMB"), unless otherwise stated, and was approved for issue on 29 March 2016.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 BASIS OF PREPARATION

The consolidated financial statements of Honghua Group Limited have been prepared in accordance all applicable International Financial Reporting Standards ("IFRS"). The consolidated financial statements have been prepared under the historical cost convention, except that available-for-sale financial assets are carried at fair value, and certain financial assets and liabilities are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 BASIS OF PREPARATION (continued)

2.1.1 Changes in accounting policy, accounting estimates and disclosures

(a) New and amended standards adopted by the Group

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2015:

Amendment to IAS 19 on contributions from employees or third parties to defined benefit plans. The amendment distinguishes between contributions that are linked to service only in the period in which they arise and those linked to service in more than one period. The amendment allows contributions that are linked to service, and do not vary with the length of employee service, to be deducted from the cost of benefits earned in the period that the service is provided. Contributions that are linked to service, and vary according to the length of employee service, must be spread over the service period using the same attribution method that is applied to the benefits.

Amendments from annual improvements to IFRSs — 2010 — 2012 Cycle, on IFRS 8, 'Operating segments', IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets' and IAS 24, 'Related party disclosures'.

Amendments from annual improvements to IFRSs — 2011 — 2013 Cycle, on IFRS 3, 'Business combinations', IFRS 13, 'Fair value measurement' and IAS 40, 'Investment property'.

The adoption of the improvements made in the 2010-2012 Cycle has required additional disclosures in the segment note. Other than that, the remaining amendments are not material to the Group.

(b) New Hong Kong Companies Ordinance (Cap.622)

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation during the financial year, as a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 BASIS OF PREPARATION (continued)

2.1.1 Changes in accounting policy, accounting estimates and disclosures (continued)

(c) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015 and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes.

Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group is yet to assess IFRS 9's full impact.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 BASIS OF PREPARATION (continued)

2.1.1 Changes in accounting policy, accounting estimates and disclosures (continued)

(c) New standards and interpretations not yet adopted (continued)

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. IFRS 15 is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Group is assessing the impact of IFRS 15.

IFRS 16, 'Leases' addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on balance sheet for lessees. The standard replaces IAS 17 'Leases', and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted subject to the entity adopting IFRS 15 'Revenue from contracts with customers' at the same time. The Group is currently assessing the impact of IFRS 16.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 BASIS OF PREPARATION (continued)

2.1.1 Changes in accounting policy, accounting estimates and disclosures (continued)

(d) Changes in accounting estimates

According to the actual situation of drilling rigs used for oil and gas engineering services and the relevant provisions of the accounting standards, and refer to the depreciation of other comparable oil and gas engineering services companies, the Group decided to adjust the depreciation method of those drilling rigs included in Plant and machinery of Property, plant and equipment to units-of-production method from 1 July 2015 onward.

	Before Adjustment Estimated		After Adjustment Estimated		
	Depreciation method	Useful life		Depreciation method	Depreciation period
Drilling rigs included in Plant and machinery	straight-line method	5-10 years	For each day a rig is operating	units-of-production method	5,000~6,000 days

The Group applied prospective application to account for the changes in the accounting estimate. After measurement based on the scope of the existing consolidated financial statements, the change in accounting estimate is expected to increase the total consolidated profit by approximately RMB22,320,000 for year 2015 and expected to increase certain amount of the total consolidated profit for year 2016 and subsequent years.

2.2 SUBSIDIARIES

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, 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. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 SUBSIDIARIES (CONTINUED)

2.2.1 Consolidation (continued)

(a) *Business combinations*

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by IFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss (Note 2.9).

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 SUBSIDIARIES (CONTINUED)

2.2.1 Consolidation (continued)

(b) *Changes in ownership interests in subsidiaries without change of control*

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions — that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) *Disposal of subsidiaries*

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 ASSOCIATES

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in associates include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profits of associates' in profit or loss.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gains or losses on dilution of equity interest in associates are recognised in profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 JOINT ARRANGEMENTS

The Group has applied IFRS 11 to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. The Group's investments in joint ventures include goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.5 SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the senior executive management that makes strategic decisions.

2.6 FOREIGN CURRENCY TRANSLATION

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Renminbi ("RMB"), which is the Group's and Company's presentation currency. The Company's functional currency is Hong Kong Dollar ("HKD").

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 FOREIGN CURRENCY TRANSLATION (CONTINUED)

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in profit or loss within 'finance income or expenses'.

Changes in the fair value of debt securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

(c) Group companies

The results and financial position of the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(b) income and expenses for each profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(c) all resulting currency translation differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 FOREIGN CURRENCY TRANSLATION (continued)

(d) *Disposal of foreign operation and partial disposal*

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the owners of the company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated currency translation differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or joint ventures that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

2.7 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

For the drilling rigs used for oil and gas engineering services included in Plant and machinery, the depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives before 1 July 2015. The Group applied accounting estimates change on the depreciation method to units-of-production method from 1 July 2015 onward (Note 2.1.1(d)). For each day a rig is operating, it is depreciated over an approximate of 5,000~6,000-day period, after provision for residual values.

Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

— Freehold land	Not depreciated
— 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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 PROPERTY, PLANT AND EQUIPMENT (continued)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.10).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other gains — net' in profit or loss.

Construction-in-progress ("CIP") represents buildings under construction and plant and equipment pending for installation, and are stated at cost. Costs include construction and acquisition costs. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

2.8 LEASE PREPAYMENTS

Lease prepayments represent upfront prepayments made for the land use rights. Lease prepayments are stated at costs and are amortised on a straight-line basis over the remaining period of the land use rights, net of any impairment losses.

2.9 INTANGIBLE ASSETS

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 INTANGIBLE ASSETS (continued)

(b) *Technical know-how*

Separately acquired technical know-how is shown at historical cost. Technical know-how acquired in a business combination is recognised at fair value at the acquisition date. Technical know-how has a finite useful life and is carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of technical know-how over its estimated useful life of 10 years.

(c) *Capitalised development costs*

Capitalised development costs that are directly attributable to the design and testing of new of improved products when met relevant criteria sheet (Notes 2.32). Amortisation is calculated using the straight-line method over its estimated useful life of 10 years.

2.10 IMPAIRMENT OF NON-FINANCIAL ASSETS

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 FINANCIAL ASSETS

2.11.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, available for sale financial assets and held to maturity financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables" and 'cash and cash equivalents' in the balance sheet (Notes 2.16 and 2.17).

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

(d) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available for sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the end of the reporting period, which are classified as current assets.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 FINANCIAL ASSETS (CONTINUED)

2.11.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in profit or loss within 'Other (losses)/gains — net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in profit or loss as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in profit or loss as "gains and losses from investment securities".

Interest on available-for-sale securities calculated using the effective interest method is recognised in profit or loss as part of other income. Dividends on available-for-sale equity instruments are recognised in profit or loss as part of other income when the Group's right to receive payments is established.

2.12 OFFSETTING FINANCIAL INSTRUMENTS

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 IMPAIRMENT OF FINANCIAL ASSETS

(a) *Assets carried at amortised cost*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised profit or loss. If a loan or held- to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

(b) *Assets classified as available for sale*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, if any such evidence exists the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — is removed from equity and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — is removed from equity and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group does not have any derivative instruments that qualifying for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in profit or loss.

2.15 INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.16 TRADE AND OTHER RECEIVABLES

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

2.17 CASH AND CASH EQUIVALENTS

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

2.18 SHARE CAPITAL

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 TRADE AND OTHER PAYABLES

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.20 BORROWINGS

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

An initial recognition the derivative component of senior notes under borrowings is measured at fair value and presented as part of derivative financial instruments. 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 2.14. 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 BORROWING COSTS

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Borrowing costs include interest expense, finance charges in respect of finance lease and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. The exchange gains and losses that are an adjustment to interest costs include the interest rate differential between borrowing costs that would be incurred if the entity had borrowed funds in its functional currency, and the borrowing costs actually incurred on foreign currency borrowings. Such amounts are estimated based on interest rates on similar borrowings in the entity's functional currency.

When the construction of the qualifying assets takes more than one accounting period, the amount of foreign exchange differences eligible for capitalisation is determined for each annual period and are limited to the difference between the hypothetical interest amount for the functional currency borrowings and the actual interest incurred for foreign currency borrowings. Foreign exchange differences that did not meet the criteria for capitalisation in previous years should not be capitalised in subsequent years.

2.22 CURRENT AND DEFERRED INCOME TAX

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22 CURRENT AND DEFERRED INCOME TAX (continued)

(b) *Deferred income tax*

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) *Offsetting*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 EMPLOYEE BENEFITS

(a) *Pension obligations*

Pursuant to the relevant labour rules and regulations in the People's Republic of China (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% (2014: 20% to 22%) of the standard wages determined by the relevant authorities in the PRC for the year ended 31 December 2015. The local government authority is responsible for the entire pension obligations payable to retired employees. The contributions to the schemes are charged to profit or loss as and when incurred.

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 (HKD25,000 prior to June 2014). Contributions to the scheme vest immediately.

(b) *Housing fund and other benefits*

All full-time employees of the Group's subsidiaries in the PRC are entitled to participate in various government-sponsored housing and other benefits funds. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees. The Group's liability in respect of these funds is limited to the contributions payable in each period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.24 SHARE-BASED PAYMENTS

(a) *Equity-settled share-based payment transactions*

The Group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specified period of time).

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (and share premium).

(b) *Share-based payment transactions among group entities*

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.25 CONSTRUCTION CONTRACTS

A construction contract is defined by IAS 11, 'Construction contracts', as a contract specifically negotiated for the construction of an asset.

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract by reference to the stage of completion. Contract costs are recognised as expenses by reference to the stage of completion of the contract activity 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 revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

Variations in contract work, claims and incentive payments are included in contract revenue to the extent that may have been agreed with the customer and are capable of being reliably measured.

The Group uses the 'percentage-of-completion method' to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion.

On the balance sheet, the Group reports the net contract position for each contract as either an asset or a liability. A contract represents an asset where costs incurred plus recognised profits (less recognised losses) exceed progress billings; a contract represents a liability where the opposite is the case.

2.26 PROVISIONS

Provisions for warranty costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.27 REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

(a) Sales of goods

Revenue from the sales of goods is recognised when significant risks and rewards of ownership of the goods are transferred to the ultimate customers or dealers, as appropriate (normally in the form of delivery of goods to ultimate customers, dealers or parties designated by the dealers), and the ultimate customers, dealers or parties designated by the dealers have accepted the products and collectability of the related receivables is reasonably assured.

Instalment sales, under which the consideration is receivable in instalments. Revenue attributable to the sales price, exclusive of interest, is recognised at the date of sale. The sales price is the present value of the consideration, determined by discounting the instalments receivable at the imputed rate of interest. The interest element is recognised as revenue as it is earned, using the effective interest method.

(b) Sales of services

For sales of services, revenue is recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction and assessed on the basis of actual services provided as a proportion of the total service to be provided.

(c) Revenue from construction contracts

Revenue from construction contracts is recognised in accordance with the accounting policy set out in Note 2.25.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.27 REVENUE RECOGNITION (continued)

(d) Interest income

Interest income from financial lease service is recorded in revenue; interest income from other parts is recorded in finance income. At the financial leasing commencement date, the minimum lease payments from the lessee is recognized as finance lease receivable and unguaranteed residual value is recognized at the same time. The difference between the sum of minimum lease payments and unguaranteed residual value and its present value is accounted for as unearned finance income charge.

The unearned finance income is amortized using the effective interest method over the period of the lease.

2.28 INTEREST INCOME

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognised using the original effective interest rate.

2.29 DIVIDEND INCOME

Dividend income is recognised when the right to receive payment is established.

2.30 LEASES

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.30 LEASES (continued)

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income.

The method for allocating gross earnings to accounting periods is referred to a as the 'actuarial method'. The actuarial method allocates rentals between finance income and repayment of capital in each accounting period in such a way that finance income will emerge as a constant rate of return on the lessor's net investment in the lease.

When assets are leased out under an operating lease, the asset is included in the balance sheet based on the nature of the asset.

Lease income on operating leases is recognised over the term of the lease on a straight-line basis.

2.31 DIVIDEND DISTRIBUTION

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

2.32 RESEARCH AND DEVELOPMENT

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

(a) it is technically feasible to complete the intangible asset so that it will be available for use or sale;

(b) management intends to complete the intangible asset and use or sell it;

(c) there is an ability to use or sell the intangible asset;

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.32 RESEARCH AND DEVELOPMENT (continued)

(d) it can be demonstrated how the intangible asset will generate probable future economic benefits;

(e) adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and

(f) the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life.

2.33 GOVERNMENT GRANTS

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of assets are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

3 FINANCIAL RISK MANAGEMENT

3.1 FINANCIAL RISK FACTORS

The Group's activities expose to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 FINANCIAL RISK FACTORS (continued)

Risk management is carried out by the senior executive management of the Group under policies approved by the board of directors. The senior executive management of the Group identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

(a) Market risk

(i) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar ("USD") Euros ("EUR") and RMB. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency. Management has set up a policy to require the Group companies to manage their foreign exchange risk against their functional currency.

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 and EUR.

RMB is not freely convertible into foreign currencies. All foreign exchange transactions involving RMB must take place through the People's Bank of China 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 and determined largely by supply and demand.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 FINANCIAL RISK FACTORS (continued)

(a) *Market risk* (continued)

(i) Foreign exchange risk (continued)

The following table details the Group's exposure at 31 December 2015 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. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate at 31 December 2015.

	Exposure to foreign currency		
	USD items (RMB'000)	**EUR items (RMB'000)**	**RMB items (RMB'000)**
At 31 December 2015			
Cash and cash equivalents	**274,266**	**673**	**–**
Trade and other receivables	**3,579,766**	**18,650**	**–**
Amount due from related parties	**–**	**–**	**–**
Borrowings	**(697,294)**	**–**	**–**
Trade and other payables	**(2,307,511)**	**–**	**–**
Amount due to related parties	**–**	**–**	**–**
Overall net exposure	**849,227**	**19,323**	**–**

	Exposure to foreign currency		
	USD items (RMB'000)	EUR items (RMB'000)	RMB items (RMB'000)
At 31 December 2014			
Cash and cash equivalents	249,138	1,333	20,240
Trade and other receivables	4,166,432	14,642	–
Amount due from related parties	98,065	–	–
Borrowings	(722,864)	–	–
Trade and other payables	(4,066,377)	–	(1,467)
Amount due to related parties	(3,915)	–	–
Overall net exposure	(279,521)	15,975	18,773

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 FINANCIAL RISK FACTORS (continued)

(a) *Market risk* (continued)

(i) Foreign exchange risk (continued)

As at 31 December 2015, the Group has no forward exchange contracts used as economic hedges against trade and receivables. As at 31 December 2014, the Group had forward exchange contracts used as economic hedges against trade and receivables denominated in USD with notional amounts of approximately RMB477,282,000.

As at 31 December 2015, if RMB had weakened/strengthened by 5% (2014: 5%) against the USD with all other variables held constant, the Group's post-tax profit for the year then ended would have been approximately RMB26,898,000 (2014:RMB34,185,000 lower/higher) higher/lower, mainly as a result of foreign exchange losses/gains on translation of USD-denominated cash and cash equivalents, trade and other receivables, borrowings and trade and other payables.

As at 31 December 2015, if RMB had weakened/strengthened by 5% (2014: 5%) against the EUR with all other variables held constant, the Group's post-tax profit for the year then ended would have been approximately RMB762,000 (2014:RMB655,000) higher/lower, mainly as a result of foreign exchange losses/gains on translation of EUR-denominated trade and other receivables and cash and cash equivalents.

The sensitivity analysis above represents an aggregation of the instantaneous effects on each of the Group entities' profit or loss after tax measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of the reporting period for presentation purposes.

(ii) Cash flow and fair value interest rate risk

The Group's interest rate risk arises primarily from bank borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk. 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 variable rate debt obligations. Most of the borrowings of the Group as at 31 December 2015 are variable rate instruments.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 FINANCIAL RISK FACTORS (continued)

(a) *Market risk* (continued)

(ii) Cash flow and fair value interest rate risk (continued)

As at 31 December 2015, 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 by approximately RMB9,390,000 (2014: RMB12,514,000).

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax that would arise assuming that the change in interest rates had occurred as at 31 December 2015 and 2014, the impact on the Group's profit after tax is estimated as annualised impact on interest expense of such a change in interest rates. The analysis is performed on the same basis for 2014.

(b) *Credit risk*

The Group's credit risk is primarily attributable to trade and other receivables, cash and cash equivalents and deposits with banks. 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.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 FINANCIAL RISK FACTORS (continued)

(b) 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. As at 31 December 2015, 16% (2014: 20%) and 28% (2014: 54%) of the total trade and other receivables was due from the Group's largest customer 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 19.

(c) 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 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.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 FINANCIAL RISK FACTORS (continued)

(c) Liquidity risk (continued)

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total contractual cash flows RMB'000
At 31 December 2015					
Trade and other payables (i)	**2,775,198**	**23,255**	**–**	**–**	**2,798,453**
Senior notes	**96,755**	**96,755**	**1,492,229**	**–**	**1,685,739**
Borrowings (excluding senior notes)	**2,444,376**	**586,307**	**525,781**	**16,447**	**3,572,911**
Total financial liabilities	**5,316,329**	**706,317**	**2,018,010**	**16,447**	**8,057,103**
At 31 December 2014					
Trade and other payables (i)	4,160,219	–	9,236	–	4,169,455
Senior notes	91,173	91,173	1,497,319	–	1,679,665
Borrowings (excluding senior notes)	3,136,629	282,672	687,273	–	4,106,574
Total financial liabilities	7,388,021	373,845	2,193,828	–	9,955,694

(i) Trade and other payables include trade payables, bills payable, amounts due to related companies and other payables.

3 FINANCIAL RISK MANAGEMENT (continued)

3.2 CAPITAL MANAGEMENT

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as ageing 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 others in the industry, the Group monitors capital risk on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including "current and non-current borrowings" as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as "equity" as shown in the consolidated balance sheet plus net debt. The Group aims to maintain the gearing ratio at a reasonable level.

For the year ended 31 December 2015, the Group's strategy, which was unchanged from 2014, 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 gearing ratios as at 31 December 2015 and 2014 were as follows:

	As at 31 December	
	2015 **RMB'000**	2014 RMB'000
Total borrowings (Note 28)	**4,664,431**	5,127,053
Less: cash and cash equivalents (Note 23)	**(1,102,651)**	(1,442,014)
Net debt	**3,561,780**	3,685,039
Total equity	**4,774,186**	4,963,770
Total capital	**8,335,966**	8,648,809
Gearing ratio	**43%**	43%

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 FAIR VALUE ESTIMATION

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2015 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

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.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Available-for-sale financial assets				
— equity investment	–	–	74,053	74,053
— debt investment	–	–	39,203	39,203
Total assets	–	–	113,256	113,256
Liabilities				
Forward exchange contracts	–	28	–	28
Total liabilities	–	28	–	28

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 FAIR VALUE ESTIMATION (CONTINUED)

The following table presents the Group's financial assets and liabilities that are measured at fair value at 31 December 2014.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Available-for-sale financial assets				
— equity investment	–	–	74,053	74,053
— debt investment	–	–	331,826	331,826
Derivative financial instruments	–	–	324	324
Forward exchange contracts	–	284	–	284
Total assets	–	284	406,203	406,487
Liabilities				
Forward exchange contracts	–	9,695	–	9,695
Total liabilities	–	9,695	–	9,695

There were no transfers among levels 1, 2 and 3 during the year 2015 and 2014. There were no other changes in valuation techniques during the year 2015 and 2014.

(a) *Financial instruments in level 1*

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily equity investments classified as trading securities or available-for-sale.

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 FAIR VALUE ESTIMATION (CONTINUED)

(b) *Financial instruments in level 2*

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

(c) *Financial instruments in level 3*

The following table presents the changes in level 3 instruments for the year ended 31 December 2014 and 2015.

	Year ended 31 December	
Available-for-sale financial assets — equity investment	**2015 RMB'000**	2014 RMB'000
Opening balance at 1 January	**74,053**	74,053
Changes in fair value	**–**	–
Closing balance at 31 December	**74,053**	74,053

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 FAIR VALUE ESTIMATION (CONTINUED)

(c) *Financial instruments in level 3* (continued)

Available-for-sale financial assets — debt investment	Year ended 31 December 2015 RMB'000	2014 RMB'000
Opening balance at 1 January	331,826	804,102
Net disposal	(292,623)	(473,103)
Net unrealised gains recognised in other comprehensive income during the period	–	827
Closing balance at 31 December	39,203	331,826

Derivative financial instruments	Year ended 31 December 2015 RMB'000	2014 RMB'000
Opening balance at 1 January	324	–
Additions	–	3,432
Changes in fair value recognised in profit or loss during the period	(344)	(3,108)
Currency translation differences	20	–
Closing balance at 31 December	–	324

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 FAIR VALUE ESTIMATION (CONTINUED)

(c) *Financial instruments in level 3* (continued)

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

The carrying amounts of the Group's financial assets and liabilities including cash and cash equivalents, pledged bank deposits, trade and other receivables, trade and other payables and current borrowings, approximate their fair values due to their short maturities. The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments. The fair value of the non-current borrowings is disclosed in Note 28.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

4.1 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(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.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

4.1 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

(a) *Impairments* (continued)

(ii) *Impairment of non-financial assets*

If circumstances indicate that the carrying value of non-financial assets 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 fair value less costs to sell and the value in use. 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, gross margin and pre-tax discount rate. 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.

(c) *Warranty provision*

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

4.1 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

(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) Income taxes

The Group is subject to various taxes in the places which the Group has operations. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and income tax expense in the period in which such estimate is changed.

Deferred tax liabilities are generally recognised for all taxable temporary differences, except that the temporary differences arise from the initial recognition of goodwill, or arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss.

(f) Construction contracts

As explained in the accounting policy Note 2.25, 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.

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 2015, 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.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

4.1 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

(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 Note 30.

5 SEGMENT INFORMATION

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

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

The senior executive management assesses the performance of the operating segments based on a measure of segment profit or loss. This measurement basis excludes the share of post-tax profit or loss of joint ventures and associates, other losses, net and other income. Finance income and expenses are not allocated to segments, as this type of activity is driven by the central treasury function, which manages the cash position of the Group. Other information provided, except as noted below, to the senior executive management is measured in a manner consistent with that in the financial statements.

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

5 SEGMENT INFORMATION (continued)

The following table presents revenue and profit information regarding the Group's operating segments for the years ended 31 December 2015 and 2014 respectively.

	Land drilling rigs Year ended 31 December		Offshore drilling rigs Year ended 31 December		Parts and components and others Year ended 31 December		Oil and gas engineering services Year ended 31 December		Total Year ended 31 December	
	2015 RMB'000	2014 RMB'000	2015 RMB'000	2014 RMB'000	2015 RMB'000	2014 RMB'000	2015 RMB'000	2014 RMB'000	2015 RMB'000	2014 RMB'000
Revenue from external customers	2,408,514	4,770,926	203,833	129,577	1,268,393	2,468,947	338,513	443,087	4,219,253	7,812,537
Inter-segment revenue	48,848	–	143,575	299	530,249	1,605,833	10,263	26,291	732,935	1,632,423
Reportable segment revenue	2,457,362	4,770,926	347,408	129,876	1,798,642	4,074,780	348,776	469,378	4,952,188	9,444,960
Reportable segment (loss)/profit	164,045	637,870	(136,956)	(150,382)	63,566	64,762	(163,738)	(215,400)	(73,083)	336,850
Depreciation and amortisation for the year	73,246	49,850	75,666	85,695	93,116	44,600	112,122	133,194	354,150	313,339
Impairment on trade and other receivables	19,629	25,164	–	–	9,606	2,873	419	–	29,654	28,037
Write-down of inventories	2,070	6,845	–	–	3,843	3,592	–	71,170	5,913	81,607

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 2015, such information was not reviewed by the Group's chief operating decision maker. Accordingly, no segment assets and liabilities are presented.

5 SEGMENT INFORMATION (continued)

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

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Segment (loss)/profit		
— for reportable segments	**(73,083)**	336,850
Elimination of inter-segment profits	**397**	11,843
Segment profit derived from Group's external customers	**(72,686)**	348,693
Share of profit of joint ventures	**1,793**	186
Share of profit of associates	**925**	–
Other income and other gains, net	**67,641**	92,986
Finance income	**83,145**	100,777
Finance expenses	**(344,980)**	(373,795)
Unallocated head office and corporate expenses	**(37,557)**	(45,181)
(Loss)/Profit before income tax	**(301,719)**	123,666

5 SEGMENT INFORMATION (continued)

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

	Year ended 31 December	
	2015 RMB'000	2014 RMB'000
PRC (country of domicile)	737,596	930,615
Americas	521,097	1,180,887
Middle East	1,411,344	2,248,781
Europe and Central Asia	1,067,011	2,271,007
South Asia and South East	58,420	491,853
Africa	423,785	689,394
	4,219,253	7,812,537

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

	Year ended 31 December	
	2015 RMB'000	2014 RMB'000
PRC (country of domicile)	3,955,942	4,082,384
Americas	54,203	78,663
Middle East	184,269	200,981
Europe and Central Asia	158,658	511,756
South Asia and South East	–	–
Africa	46,591	45,104
	4,399,663	4,918,888

For the year ended 31 December 2015, the Group's revenues of approximately RMB1,214 million (2014: RMB2,488 million) are derived from two external customers (2014: two external customers). These revenues are attributable to the sales of land drilling rigs and related parts and components in the Middle East and Europe and Central Asia (2014: Middle East and Europe and Central Asia).

6 OTHER INCOME

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Government grants	**45,676**	42,805
Sales of scrap materials	**9,266**	22,224
Rental income	**9,528**	15,848
Repair services income	**12,593**	13,531
Others	**441**	5,904
	77,504	100,312

7 OTHER LOSSES, NET

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Changes in fair value recognised in profit or loss	**(344)**	–
Gain/(loss) on disposals of property, plant and equipment	**1,992**	(1,044)
Donations	**(4,110)**	(3,329)
Others	**(7,401)**	(2,953)
	(9,863)	(7,326)

8 EXPENSES BY NATURE

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Amortisation and depreciation		
— Lease prepayment (Note 15)	8,668	7,142
— Property, plant and equipment (Note 16)	292,889	268,296
— Intangible assets (Note 17)	52,593	38,920
Employee benefit expense (Note 9)	735,954	877,504
Changes in inventories of finished goods and work in progress	739,231	(239,359)
Raw materials and consumables used	1,745,044	5,183,794
Transportation	220,243	583,129
Commission	75,516	165,165
Service fee	76,632	158,014
Utilities	47,316	49,131
Travelling expenses	45,301	64,057
Business and other tax	47,057	69,636
Repairs and maintenance expenditure on property, plant and equipment	13,513	13,852
Operating lease charges	40,111	19,843
Provision for inventory write-down (Note 22)	5,913	81,607
Impairment losses on trade and other receivables (Note 19)	29,654	28,037
Provision for warranty (Note 30)	3,666	12,025
Auditors' remuneration		
— Audit services	3,810	4,275
— Other services	–	2,804
Research and development costs (i)	58,072	58,450
Less: amount capitalised into intangible assets	(52,845)	(37,454)
Other expenses	141,158	100,157
Total cost of sales, distribution expenses and administrative expenses	4,329,496	7,509,025

(i) The amounts do not include staff costs of the research and development department of approximately RMB42,665,000 (2014: RMB40,714,000) and relevant amortisation and depreciation of approximately RMB14,431,000 (2014: RMB3,547,000), which are included in the total staff costs as disclosed in Note 9 and total amortisation and depreciation.

9 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Contributions to defined contribution retirement schemes	**86,905**	134,626
Equity-settled share-based payment expenses (Note 25)	**6,131**	8,292
Salaries, wages and other benefits	**642,918**	734,586
	735,954	877,504

(a) FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose emoluments were highest in the Group for the year ended 31 December 2015 included three (2014: two) directors. Their emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2014: three) individuals for the years ended 31 December 2015 and 2014 are as follows:

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Basic salaries, allowances and other benefits in kind	**968**	2,780
Discretionary bonuses	**1,013**	580
Contributions to defined contribution retirement schemes	**98**	113
Share-based payments	**–**	518
	2,079	3,991

The emoluments of the above individual fell within the following bands:

	Number of individuals Year ended 31 December	
	2015	2014
HKD1,000,001 to HKD1,500,000	**2**	–
HKD1,500,001 to HKD2,000,000	**–**	3

10 FINANCE EXPENSES — NET

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Finance expenses		
Interest on borrowings wholly repayable within five years	**291,777**	320,825
Net foreign exchange loss	**90,522**	82,880
Changes in fair value of derivative financial instruments	**–**	3,108
Others	**1,735**	3,474
Less: interest expense capitalised into assets under construction (Note 16)	**(39,054)**	(36,492)
	344,980	373,795
Finance income		
Interest income on bank deposits	**(55,095)**	(46,316)
Interest income from long-term receivables	**(25,545)**	(44,688)
Gain on settlement of available-for-sale financial assets	**(2,505)**	(9,773)
	(83,145)	(100,777)
	261,835	273,018

11 SUBSIDIARIES

The following is a list of the principal subsidiaries as at 31 December 2015:

Name of company	Place of incorporation/ establishment and operation	Particulars of issued and paid-up capital	Attributable equity interest		Principal activities
			Direct	Indirect	
Honghua Holdings Limited ("Honghua Holdings")	Hong Kong	1 ordinary share	100%	–	Investment holding
Sichuan Honghua Petroleum Equipment Co., Ltd. ("Honghua Company") ((i), (ii) and (iii))	The PRC	Registered capital RMB1,600,000,000	–	100%	Manufacturing of petroleum equipment
Sichuan Honghua Electric Co., Ltd. ("Honghua Electric") ((i) and (iii))	The PRC	Registered capital RMB100,000,000	–	80%	Manufacturing of panel of drilling rigs
Honghua International Co., Ltd. ("Honghua International") ((i) and (iii))	The PRC	Registered capital RMB51,200,000	–	85%	Trading of drilling rigs and related parts
Honghua (China) Investment Co., Ltd.((i), (ii) and (iii))	The PRC	Registered capital USD320,000,000	–	100%	Investment holding
Honghua Offshore Oil and Gas Equipment(Jiangsu) Co., Ltd.((i) and (iii))	The PRC	Registered capital RMB874,992,609	–	100%	Manufacturing of offshore drilling platform and related products

11 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
Newco (H.K.) Limited	Hong Kong	1,000 ordinary shares	–	100%	Trading of drilling rigs and related parts
Russia Honghua Co., Ltd.	Russia Federation	Registered capital Russian Ruble ("RUB")10,000	–	100%	Trading of drilling rigs and related parts
Honghua America, LLC	United States of America	Registered capital USD3,414,407	–	85%	Trading of drilling rigs and related parts
Gansu Hongteng Oil & Gas Equipment Co., Ltd. ("Gansu Hongteng")	The PRC	Registered capital RMB120,000,000	–	70%	Manufacturing of related parts l of drilling rigs
Russia Touhey Motor Drilling Service Limited ("TNG")	Russia Federation	Registered capital RUB489,297,344	–	51%	Oil&Gas drilling service

(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.

MATERIAL NON-CONTROLLING INTERESTS

The total non-controlling interests for the period is approximately RMB222,157,000 (2014: RMB234,793,000), of which approximately RMB125,058,000 (2014: RMB 127,129,000) is attributed to Honghua Electric, approximately RMB48,970,000 (2014: RMB39,245,000) is attributed to Honghua International, approximately RMB18,939,000 (2014: RMB24,910,000) is attributed to Gansu Hongteng, and approximately RMB14,456,000 (2014: RMB26,062,000) is attributed to TNG. The non-controlling interests in respect of other subsidiaries are not material.

11 SUBSIDIARIES (continued)

SUMMARISED FINANCIAL INFORMATION ON SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

Set out below are the summarised financial information for each subsidiary that has non-controlling interests that are material to the Group.

SUMMARISED BALANCE SHEET

	Honghua Electric As at 31 December		Honghua International As at 31 December		Gansu Hongteng As at 31 December		TNG As at 31 December	
	2015 RMB'000	2014 RMB'000	2015 RMB'000	2014 RMB'000	2015 RMB'000	2014 RMB'000	2015 RMB'000	2014 RMB'000
Current								
Assets	815,215	1,097,927	2,049,794	2,777,558	160,364	188,096	99,446	41,548
Liabilities	(390,450)	(626,538)	(1,598,439)	(2,555,738)	(178,638)	(192,629)	(92,909)	(21,511)
Total current net assets/(liabilities)	424,765	471,389	451,355	221,820	(18,274)	(4,533)	6,537	20,037
Non-current								
Assets	329,447	293,722	37,378	25,128	83,751	89,813	74,383	33,151
Liabilities	(33,147)	(36,830)	(196,000)	(16,456)	–	–	(58,581)	–
Total non-current net assets/ (liabilities)	296,300	256,892	(158,622)	8,672	83,751	89,813	15,802	33,151
Net assets	721,065	728,281	292,733	230,492	65,477	85,280	22,339	53,188

11 SUBSIDIARIES (continued)

SUMMARISED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Honghua Electric Year ended 31 December		Honghua International Year ended 31 December		Gansu Hongteng Year ended 31 December		TNG Year ended 31 December	
	2015 RMB'000	2014 RMB'000	2015 RMB'000	2014 RMB'000	2015 RMB'000	2014 RMB'000	2015 RMB'000	2014 RMB'000
Revenue	380,799	897,205	842,074	2,620,801	17,501	32,624	99,317	–
(Loss)/profit before income tax	(17,379)	90,893	88,880	130,585	(21,387)	(68)	(26,175)	(1,263)
Income tax expense	7,026	(14,009)	(24,049)	(48,660)	1,483	(4,184)	2,490	–
(Loss)/profit for the year	(10,353)	76,884	64,831	81,925	(19,904)	(4,252)	(23,685)	(1,263)
Other comprehensive income for the year	–	–	–	–	–	–	–	–
Total comprehensive income	(10,353)	76,884	64,831	81,925	(19,904)	(4,252)	(23,685)	(1,263)
Total comprehensive income allocated to non-controlling interests	(2,071)	15,377	9,725	12,289	(5,971)	(1,276)	(11,606)	(619)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–

11 SUBSIDIARIES (continued)

SUMMARISED CASH FLOWS

	Honghua Electric Year ended 31 December		Honghua International Year ended 31 December		Gansu Hongteng Year ended 31 December		TNG Year ended 31 December	
	2015 RMB'000	2014 RMB'000	2015 RMB'000	2014 RMB'000	2015 RMB'000	2014 RMB'000	2015 RMB'000	2014 RMB'000
Cash flows from operating activities								
Cash generated from/(used in) operations	184,654	182,511	(96,839)	151,815	10,315	9,485	54,285	(2,648)
Interest paid	(13,534)	(9,846)	(21,350)	(12,363)	(4,594)	(4,658)	–	–
Income tax paid	(3,904)	(14,009)	(29,670)	(48,660)	(1)	(4,184)	(8,109)	–
Net cash generated from/(used in) operating activities	167,216	158,656	(147,859)	90,792	5,720	643	46,176	(2,648)
Net cash (used in)/generated from investing activities	(121,076)	(176,901)	206,867	45,443	13,788	8,542	(49,153)	6,673
Net cash generated from/(used in) financing activities	83,000	18,000	(28,188)	(7,715)	(18,000)	(10,000)	(72)	72
Net increase/(decrease) in cash and cash equivalents	129,140	(245)	30,820	128,520	1,508	(815)	(3,049)	4,097
Cash and cash equivalents at beginning of year	14,603	14,848	216,626	88,106	2,206	3,021	4,097	–
Cash and cash equivalents at end of year	143,743	14,603	247,446	216,626	3,714	2,206	1,048	4,097

The information above is the amount before inter-company eliminations.

12 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The amounts recognised in the consolidated balance sheet are as follows:

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Associates	**52,161**	9,000
Joint ventures	**48,239**	86,914
	100,400	95,914

The amounts recognised in profit or loss are as follows:

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Associates	**925**	–
Joint ventures	**1,793**	186
	2,718	186

	Associates	**Join ventures**
	RMB'000	**RMB'000**
At 1 January 2015	**9,000**	**86,914**
Share of profit	**925**	**1,793**
Currency translation differences	**2,207**	**(439)**
Transfer from joint venture to associate	**40,029**	**(40,029)**
At 31 December 2015	**52,161**	**48,239**

12 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (continued)

INVESTMENT IN ASSOCIATES

Set out below is the associates of the Group as at 31 December 2015, which is held directly by the Group.

Nature of investment in associates as at 31 December 2015

Name of company	Place of establishment	% of ownership interest	Nature of the relationship	Measurement method
Hongdaojianyuan Marine Science and Technology Co., (Sansha) Ltd. ("Sansha Hongdao")	The PRC	30%	(i)	Equity
Honghua Financial Leasing (Shenzhen) Co., Ltd. ("Honghua (Shenzhen)")	The PRC	40%	(ii)	Equity
Prime FSP, LLC ("Prime FSP", formerly known as Tank Tek, LLC)	United States of America	30%	(iii)	Equity

(i) Sansha Hongdao was incorporated in 2013 and mainly engages in the designing and manufacturing of offshore equipment.

(ii) Honghua (Shenzhen) was incorporated in 2014 and mainly engages in providing leasing services.

During 2015, the Group's investment in Honghua (Shenzhen) has been changed from a joint venture to an associate as a result of the change in Group's voting rights in board of directors from 50% to 40%. As at 31 December 2015, the Group's interest in Honghua (Shenzhen) is approximately RMB43,067,000 (2014: RMB39,971,000).

(iii) Prime FSP (formerly known as Tank Tek, LLC) was incorporated in 2015 and mainly engages in the designing and manufacturing of offshore equipment.

The associates are unlisted companies and there is no quoted market price available for its equity.

There are no contingent liabilities relating to the Group's interest in the associates.

Honghua (Shenzhen) is an associate of the Group as at 31 December 2015, which, in the opinion of the directors, is material to the Group.

12 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (continued)

INVESTMENT IN ASSOCIATES (CONTINUED)

Summarised financial information for the associates

Set out below are the summarised financial information for Honghua (Shenzhen) which is accounted for using the equity method.

Summarised balance sheet

	As at 31 December	
	2015 RMB'000	2014 RMB'000
Current		
Assets	75,195	73,832
Liabilities	(56,719)	(23,380)
Total current net assets	18,476	50,452
Non-current		
Assets	90,433	16,493
Liabilities	(12,026)	(257)
Total non-current net assets	78,407	16,236
Net assets	96,883	66,688

12 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (continued)

INVESTMENT IN ASSOCIATES (continued)

Summarised financial information for the associates (continued)

Summarised statement of comprehensive income

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Revenue	**8,458**	257
Post-tax profit for the year	**6,835**	48
Total comprehensive income	**6,835**	48

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of its interest in the associate.

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Opening net assets 1 January	**66,688**	–
Capital injection	**23,360**	66,640
Profit for the year	**6,835**	48
Closing net assets	**96,883**	66,688
Interest in joint venture (2014: 50%)	**–**	40,029
Interest in associate (2015: 40%)	**43,067**	–
Carrying value	**43,067**	40,029

12 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (continued)

INVESTMENT IN JOINT VENTURES

	Year ended 31 December	
	2015 RMB'000	2014 RMB'000
At 1 January	**86,914**	47,924
Capital injection	–	40,000
Changed from a joint venture to an associate	**(40,029)**	–
Share of profit	**1,793**	186
Currency translation differences	**(439)**	(1,196)
At 31 December	**48,239**	86,914

Nature of investment in joint ventures as at 31 December 2015

Name of company	Place of establishment	% of ownership interest	Nature of the relationship	Measurement method
Egyptian Petroleum HH Rigs Manufacturing Co. S.A.E. (" HH Egyptian Company")	Egypt	50%	(i)	Equity
Honghua Oil Equipment Trading Co., Ltd ("Honghua Oil Equipment")	Hong Kong	50%	(ii)	Equity

(i) HH Egyptian Company mainly engages in the manufacturing and sale of drilling rigs, parts and components.

(ii) Honghua Oil Equipment mainly engages trading drilling rigs, parts and components.

The joint ventures are unlisted companies and there is no quoted market price available for its equity.

There are no contingent liabilities relating to the Group's interest in the joint ventures.

HH Egyptian Company is a joint venture of the Group as at 31 December 2015, which, in the opinion of the directors, is material to the Group.

12 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (continued)

INVESTMENT IN JOINT VENTURES (continued)

Summarised financial information for the joint ventures

Set out below are the summarised financial information for HH Egyptian Company which is accounted for using the equity method.

Summarised balance sheet

	As at 31 December	
	2015	2014
	RMB '000	RMB '000
Current		
Assets	**50,719**	93,687
Liabilities	**(54,403)**	(97,772)
Total current net liabilities	**(3,684)**	(4,085)
Non-current		
Assets	**96,867**	92,907
Liabilities	**–**	–
Total non-current net assets	**96,867**	92,907
Net assets	**93,183**	88,822

12 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (continued)

INVESTMENT IN JOINT VENTURES (continued)

Summarised financial information for the joint ventures (continued)

Summarised statement of comprehensive income

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Revenue	**39,386**	131,061
Post-tax loss for the year	**(4,851)**	(5,488)
Total comprehensive income	**(4,851)**	(5,488)

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of its interest in the joint venture.

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Opening net assets 1 January	**88,822**	96,537
Post-tax loss for the year	**(4,851)**	(5,488)
Currency translation differences	**9,212**	(2,227)
Closing net assets	**93,183**	88,822
Interest in joint venture (50%)	**46,591**	44,411
Carrying value	**46,591**	44,411

13 INCOME TAX EXPENSE

Taxation in the consolidated statement of profit or loss represents:

	Year ended 31 December	
	2015 RMB'000	2014 RMB'000
Current income tax — Hong Kong Profits Tax (i)		
Provision for the year	3,265	7,882
Current income tax — PRC (ii)		
Provision for the year	74,107	115,631
(Over)/Under provision in respect of prior years	(3,030)	5,378
	71,077	121,009
Current income tax — Other jurisdictions (iii)		
Provision for the year	7,898	13,624
	7,898	13,624
Total current income tax	82,240	142,515
Deferred income tax	(118,093)	(129,016)
Income tax expense	(35,853)	13,499

13 INCOME TAX EXPENSE (continued)

(i) Hong Kong

The provision for Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits of the subsidiaries of the Group incorporated in Hong Kong for the years ended 31 December 2015 and 2014.

(ii) PRC

Pursuant to the income tax rules and regulations of the PRC, the subsidiaries of the Group in the PRC are subject to PRC enterprise income tax at a rate of 25% for the years ended 31 December 2015 and 2014, except for the following companies:

(a) Honghua Company

Corporate income tax ("CIT") of Honghua Company is accrued at a tax rate of 15% applicable for Hi-tech enterprises pursuant to the relevant PRC tax rules and regulations for the years ended 31 December 2015 and 2014.

(b) Honghua Electric

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

(iii) Others

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

Income tax expense is recognised based on management's estimate of the weighted average annual income tax rate expected for the full financial year.

(iv) Withholding tax

Under the PRC tax law and its Implementation Rules, dividends receivable by non-PRC resident enterprises from PRC enterprises are subject to withholding tax at a rate of 10%, unless reduced by tax treaties or arrangements, for profits earned since 1 January 2008. Pursuant to a tax arrangement between the PRC and Hong Kong, a qualified Hong Kong tax resident will be liable for withholding tax at a reduced rate of 5% for dividend income derived from the PRC.

The Company's directors revisited the dividend policy of the Group in 2015 and 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.

13 INCOME TAX EXPENSE (continued)

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

	Year ended 31 December	
	2015 **RMB'000**	2014 RMB'000
(Loss)/Profit before income tax	**(301,719)**	123,666
Tax calculated at statutory tax rates applicable to each group entities	**(57,843)**	42,779
Tax effect of non-deductible expenses	**20,958**	12,601
Tax effect of non-taxable income	**(9,812)**	(11,408)
Tax losses for which no deferred income tax asset was recognised	**7,253**	2,069
Reversal of withholding tax provision on expected profits distribution from PRC subsidiaries	**–**	(37,920)
Write off of previously recognised tax losses	**6,621**	–
(Over)/Under-provision in respect of prior years	**(3,030)**	5,378
Income tax expense	**(35,853)**	13,499

14 (LOSS)/EARNINGS PER SHARE

(a) BASIC (LOSS)/EARNINGS PER SHARE

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

	Year ended 31 December	
	2015	2014
(Loss)/profit attributable to owners of the Company (RMB'000)	**(252,207)**	91,787
Issued ordinary shares at 1 January (thousands)	**3,241,057**	3,239,167
Effect of the share award scheme (thousands)	**(62,089)**	(62,089)
Effect of share options exercised (thousands)	**–**	1,122
Weighted average number of ordinary shares at 31 December (thousands)	**3,178,968**	3,178,200
Basic (loss)/earnings per share (RMB cents per share)	**(7.93)**	2.89

14 (LOSS)/EARNINGS PER SHARE (continued)

(b) DILUTED (LOSS)/EARNINGS PER SHARE

The calculation of diluted (loss)/earnings per share is based on adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares: share options. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	Year ended 31 December	
	2015	2014
(Loss)/profit attributable to owners of the Company (RMB'000)	**(252,207)**	91,787
Weighted average number of ordinary shares at 31 December (thousands)	**3,178,968**	3,178,200
Effect of deemed issue of shares under the share option scheme (thousands)	**–**	21,870
Weighted average number of ordinary shares (diluted) at 31 December (thousands)	**3,178,968**	3,200,070
Diluted (loss)/earnings per share (RMB cents per share)	**(7.93)**	2.87

15 LEASE PREPAYMENTS

The Group's interests in land use rights represent prepaid operating lease payments for land most located in the PRC, the net book values of which are analysed as follows:

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
At 1 January	**402,784**	361,890
Additions	**11,616**	24
Transfer from construction in progress (Note 16)	**–**	48,012
Amortisation (Note 8)	**(8,668)**	(7,142)
At 31 December	**405,732**	402,784

(a) All the amortisation of the Group's land use rights was charged to administrative expenses.

(b) Bank borrowings are secured on land use rights for the carrying amount of approximately RMB186,953,000 (2014: RMB227,002,000) (Note 28).

16 PROPERTY, PLANT AND EQUIPMENT

	Freehold land RMB'000	Buildings held for own use RMB'000	Plant and machinery RMB'000	Furniture, fittings and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2014							
Cost	4,916	971,172	1,303,650	323,623	77,191	728,019	3,408,571
Accumulated depreciation and impairment	–	(117,742)	(237,342)	(136,680)	(35,769)	–	(527,533)
Net book amount	4,916	853,430	1,066,308	186,943	41,422	728,019	2,881,038
Year ended 31 December 2014							
Opening net book amount	4,916	853,430	1,066,308	186,943	41,422	728,019	2,881,038
Additions	–	5,672	178,552	34,119	7,958	340,570	566,871
Transfer from construction in progress	–	616,893	41,372	–	–	(658,265)	–
Transfer to lease prepayment (Note 15)	–	–	–	–	–	(48,012)	(48,012)
Transfer from inventories	–	–	96,070	–	–	–	96,070
Disposals (Note 33)	–	(9)	(3,816)	(1,401)	(304)	–	(5,530)
Depreciation charge (Note 8)	–	(51,348)	(150,305)	(54,967)	(11,676)	–	(268,296)
Currency translation difference	18	214	(15,231)	(609)	(1,293)	–	(16,901)
Closing net amount	4,934	1,424,852	1,212,950	164,085	36,107	362,312	3,205,240
At 31 December 2014							
Cost	4,934	1,593,972	1,594,520	354,636	80,108	362,312	3,990,482
Accumulated depreciation impairment	–	(169,120)	(381,570)	(190,551)	(44,001)	–	(785,242)
Net book amount	4,934	1,424,852	1,212,950	164,085	36,107	362,312	3,205,240
Year ended 31 December 2015							
Opening net book amount	4,934	1,424,852	1,212,950	164,085	36,107	362,312	3,205,240
Additions	759	4,277	94,426	16,615	2,698	104,210	222,985
Transfer from construction in progress	–	30,022	17,304	710	–	(48,036)	–
Transfer from inventories	–	–	3,143	19,932	–	–	23,075
Disposals (Note 33)	–	(1,436)	(15,922)	(5,317)	(964)	–	(23,639)
Reclassification	–	(381,715)	–	–	–	381,715	–
Depreciation charge (Note 8)	–	(54,897)	(179,154)	(49,171)	(9,667)	–	(292,889)
Currency translation difference	302	1,755	3,672	446	(1,845)	(9)	4,321
Closing net amount	5,995	1,022,858	1,136,419	147,300	26,329	800,192	3,139,093
At 31 December 2015							
Cost	5,995	1,246,875	1,697,143	387,022	79,997	800,192	4,217,224
Accumulated depreciation and impairment	–	(224,017)	(560,724)	(239,722)	(53,668)	–	(1,078,131)
Net book amount	5,995	1,022,858	1,136,419	147,300	26,329	800,192	3,139,093

16 PROPERTY, PLANT AND EQUIPMENT (continued)

(a) Depreciation expense of approximately RMB205,791,000 (2014: RMB175,956,000) has been charged in cost of sales, RMB11,068,000 (2014: RMB5,127,000) in distribution expenses and RMB76,030,000 (2014: RMB87,213,000) in administrative expenses.

(b) As at 31 December 2015, the construction in progress mainly comprises the harbour basion being constructed in the PRC.

(c) As at 31 December 2015, the Group was in the process of obtaining the legal title of buildings with carrying amount of approximately RMB152,564,000 (2014: RMB801,786,000).

(d) Bank borrowings were secured by certain buildings and machineries of the Group with a net book value of approximately RMB455,650,000 as at 31 December 2015 (2014: RMB507,241,000) (Note 28).

(e) The Group has capitalised borrowing costs amounting to RMB39,054,000 (2014: RMB36,492,000) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings at 6.72% (2014: 6.69%).

(f) Net rental income amounting to RMB9,528,000 (2014: RMB15,848,000) relating to the lease of plant and machinery are included in profit or loss (Note 6).

The category of plant and machinery leased by the Group to third parties under operating leases with the following carrying amounts:

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Cost	**53,236**	49,973
Accumulated depreciation at 1 January	**(14,499)**	(8,343)
Depreciation charge for the year	**(9,358)**	(6,157)
Net book amount	**29,379**	35,473

17 INTANGIBLE ASSETS

	Goodwill RMB'000	Technical know-how RMB'000	Development cost RMB'000	Total RMB'000
At 1 January 2014				
Cost	13,484	349,725	42,337	405,546
Accumulated amortisation and impairment	–	(176,804)	(1,621)	(178,425)
Net book amount	13,484	172,921	40,716	227,121
Year ended 31 December 2014				
Opening net book amount	13,484	172,921	40,716	227,121
Additions	–	–	37,454	37,454
Amortisation charge (Note 8)	–	(37,863)	(1,057)	(38,920)
Currency translation difference	–	653	5	658
Closing net amount	13,484	135,711	77,118	226,313
At 31 December 2014				
Cost	13,484	350,378	79,796	443,658
Accumulated amortisation and impairment	–	(214,667)	(2,678)	(217,345)
Net book amount	13,484	135,711	77,118	226,313
Year ended 31 December 2015				
Opening net book amount	**13,484**	**135,711**	**77,118**	**226,313**
Additions	**–**	**–**	**52,845**	**52,845**
Amortisation charge (Note 8)	**–**	**(38,691)**	**(13,902)**	**(52,593)**
Currency translation difference	**–**	**7,551**	**145**	**7,696**
Closing net amount	**13,484**	**104,571**	**116,206**	**234,261**
At 1 January 2015				
Cost	**13,484**	**357,929**	**132,786**	**504,199**
Accumulated amortisation and impairment	**–**	**(253,358)**	**(16,580)**	**(269,938)**
Net book amount	**13,484**	**104,571**	**116,206**	**234,261**

17 INTANGIBLE ASSETS (continued)

(a) All the amortisation of the Group's intangible assets was charged to administrative expenses.

(b) IMPAIRMENT TESTS FOR GOODWILL

As set out in IAS 36 "Impairment of Assets", a cash-generating unit is the smallest identifiable group of assets that generate cash inflows from continuing use that are largely independent of cash flows from other assets or groups of assets. For the purpose of impairment testing of goodwill, goodwill is allocated to the Group's cash-generating unit (CGU), Bazhou Honghua Petroleum Applied Chemistry Co., Ltd ("Bazhou Honghhua"), identified according to the business acquired. The amounts allocated to CGU are as follows:

	As at 31 December	
	2015 RMB'000	2014 RMB'000
Bazhou Honghua	13,484	13,484

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the oil and gas engineering service segment in which the CGU operates.

The key assumptions used for value-in-use calculations in 2015 and 2014 are as follows:

	Year ended 31 December	
	2015	2014
Revenue (% average annual growth rate)	35%	31%
Gross margin (% of revenue)	24%	30%
Long term growth rate	3%	3%
Pre-tax discount rate	13.25%	18%

17 INTANGIBLE ASSETS (continued)

(b) IMPAIRMENT TESTS FOR GOODWILL (continued)

These assumptions have been used for the analysis of the CGU within the operating segment.

Revenue is the average annual growth rate over the five-year forecast period. It is based on current industry trends, the past performance and management's expectations of market development.

Gross margin is the average margin as a percentage of revenue over the five-year forecast period. It is based on the current sales margin levels.

The long term growth rate is based on management's best estimates with consideration of both internal and external factors relating to the CGUs.

The discount rate used is pre-tax and reflect specific risks relating to the CGU.

According to the test results, assuming average annual revenue growth rate decreased by 15% or gross margin decreased by 15% or discount rate increased by 15%, there is still adequate headroom and no impairment charge is required.

18 AVAILABLE-FOR-SALE FINANCIAL ASSETS

(a) Movements of the Group's available-for-sale financial assets are set out as follows:

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
At 1 January	**405,879**	878,155
Additions	**890,735**	3,252,857
Disposals	**(1,183,358)**	(3,725,133)
At 31 December	**113,256**	405,879
Less: non-current portion	**(74,053)**	(74,053)
Current portion	**39,203**	331,826

18 AVAILABLE-FOR-SALE FINANCIAL ASSETS (continued)

(b) Available-for-sale financial assets include the following:

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Investment in an unlisted company	**74,053**	74,053
Structured deposit (i)	**39,203**	331,826
	113,256	405,879

(i) As at 31 December 2015 and 2014, structured deposit consisted of principal-protected structure deposit placed in several commercial banks in the PRC.

The fair values of the investment on unlisted company and structured deposits are measured by the discounted cash flow model with key assumptions including counter-parties' credit risk and market interest rate.

The maximum exposure of the structured deposits to credit risk at the reporting date is the carrying value of the structured deposits classified as available-for-sale.

None of these financial assets is either past due or impaired.

19 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Trade receivables (a)	**3,618,306**	3,631,330
Bills receivable	**102,143**	155,566
Less: provision for impairment of trade receivables	**(247,151)**	(225,660)
	3,473,298	3,561,236
Amount due from related parties		
— Trade	**77,683**	121,494
— Non-trade	**54,796**	32,608
Finance lease receivable	**207,920**	199,128
Less: provision for impairment of finance lease receivable	**(7,734)**	–
Value-added tax recoverable	**273,163**	408,408
Prepayments	**442,666**	875,769
Other receivables (b)	**381,818**	299,016
Less: provision for impairment of other receivables	**(9,056)**	(8,627)
	4,894,554	5,489,032
Representing:		
Current portion (c)	**4,537,569**	4,663,587
Non-current portion (d)	**356,985**	825,445
Total	**4,894,554**	5,489,032

19 TRADE AND OTHER RECEIVABLES (continued)

(a) As at 31 December 2015 and 31 December 2014, the ageing analysis of net amount of trade receivables and bills receivable (including amounts due from related parties of trading in nature), based on the invoice date is as follows:

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Within 3 months	**1,906,084**	1,857,583
3 to 12 months	**750,856**	1,223,358
Over 1 year	**894,041**	601,789
	3,550,981	3,682,730

The Group maintains different billing policies for different customers based on the negotiated terms with each of the customers. The Group issues progress billing at different stages such as upon the signing of contracts and upon the delivery of products. The exact percentage of each part of payment varies from contract to contract. Trade receivables are generally due for payment within 90 days from the date of billing.

At 31 December 2015, the Group's trade receivables and bills receivable of approximately RMB421,881,000 (2014: RMB338,125,000) 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 approximately RMB247,151,000 (2014: RMB234,287,000) were recognised. The Group does not hold any collateral over these balances.

19 TRADE AND OTHER RECEIVABLES (continued)

(a) (continued)

At 31 December 2015, trade receivables of approximately RMB1,261,670,000 (2014: RMB1,163,295,000) were past due but not impaired. These 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. The ageing of these receivables is as follows:

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Less than 1 month past due	**269,582**	14,698
1 to 3 months past due	**48,915**	85,490
More than 3 months but less than 12 months past due	**756,372**	810,815
More than 1 year past due	**186,801**	252,292
	1,261,670	1,163,295

(b) Included in other receivables of the Group as at 31 December 2015 is an amount of approximately RMB32,317,000 (2014: RMB32,317,000) to be indemnified by some beneficiary owners of the Company in relation to a legal claim (Note 30).

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

(d) Non-current trade and other receivables as at 31 December 2015 include receivables of approximately RMB100,292,000 (2014: RMB490,038,000) 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 approximately RMB37,192,000 (2014: RMB129,215,000), prepayment for acquisition property, plant and equipment of approximately RMB177,422,000 (2014: RMB164,113,000) and deposit placed as security for borrowings of approximately RMB42,079,000 (2014: RMB42,079,000).

19 TRADE AND OTHER RECEIVABLES (continued)

(e) Movement on the provision for impairment of trade and other receivables is as follows:

	Year ended 31 December	
	2015 RMB'000	2014 RMB'000
At 1 January	234,287	206,250
Provision for impairment of receivables	29,654	28,037
At 31 December	263,941	234,287

The other classes within trade and other receivables do not contain impaired assets.

(f) As at 31 December 2015 and 2014, the Group's maximum exposure to credit risk was the carrying value of each class of receivables mentioned above.

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

(h) As at 31 December 2015, Group's trade and bills receivables of approximately RMB17,464,000 (2014: RMB794,072,000) were secured for the Group's borrowings (Note 28).

(i) The creation and release of provision for impaired receivables have been included in "administrative expenses" in profit or loss.

19 TRADE AND OTHER RECEIVABLES (continued)

(j) As at 31 December 2015, the Group had receivables under finance lease as follows:

	2015 RMB'000	2014 RMB'000
Non-current receivables		
Finance leases — gross receivables	40,406	142,429
Unearned finance income	(3,214)	(13,214)
	37,192	129,215
Current receivables		
Finance leases — gross receivables	190,467	80,877
Unearned finance income	(19,739)	(10,964)
	170,728	69,913
Gross receivables from finance leases:		
– No later than 1 year	190,467	80,877
– Later than 1 year and no later than 5 years	40,406	142,429
	230,873	223,306
Unearned future finance income on finance leases	(22,953)	(24,178)
Net investment in finance leases	207,920	199,128
The net investment in finance leases may be analysed as follows:		
No later than 1 year	170,728	69,913
Later than 1 year and no later than 5 years	37,192	129,215
Total	207,920	199,128

20 CONTRACT WORK-IN-PROGRESS

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Contract cost incurred plus recognised profit less recognised losses	**439,350**	235,517
Less: progress billings	**(418,572)**	(18,516)
Contract work-in-progress	**20,778**	217,001
Representing:		
Amount due from customers for contract work	**20,778**	217,001

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Contract revenue recognised as revenue	**332,667**	129,577

21 HELD-TO-MATURITY FINANCIAL ASSETS

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Held-to-maturity debt investment	**46,734**	44,038

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.

22 INVENTORIES

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Raw materials	**601,058**	705,123
Work in progress	**810,027**	1,096,517
Finished goods	**733,213**	991,701
Goods in transit	**20,134**	187,655
	2,164,432	2,980,996

For the year ended 31 December 2015, the cost of inventories recognised as the Group's expense and included in 'cost of sales' amounted to approximately RMB2,484,275,000 (2014: RMB4,944,435,000).

As at 31 December 2015, the provision for inventory write-down was approximately RMB14,001,000 (2014: RMB81,607,000).

As at 31 December 2015, the carrying value of provision was approximately RMB79,609,000 (2014: RMB106,340,000). For the year ended 31 December 2015, a write-back of provision approximately RMB32,644,000 was made due to the sales of the inventories. A reversal of approximately RMB8,088,000 was made to the inventories due to the increase in the recoverable amount of the inventories.

23 CASH AND CASH EQUIVALENTS

(a) CASH AND CASH EQUIVALENTS

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Cash on hand	**3,600**	11,424
Cash at bank	**1,079,051**	1,410,590
Short-term bank deposits (i)	**20,000**	20,000
Cash and cash equivalents	**1,102,651**	1,442,014

(i) Short-term bank deposits can be withdrawn at the discretion of the Group without any restriction or significant compensation to the bank.

(b) PLEDGED BANK DEPOSITS

The deposits are pledged to banks as security against borrowings (Note 28) and bills payable (Note 27).

24 SHARE CAPITAL

Ordinary shares, issued and fully paid:

	Number of shares (thousands)	Amount RMB'000
At 1 January 2014	3,239,167	300,833
Shares issued under share option scheme (i)	1,890	150
At 31 December 2014	3,241,057	300,983
At 1 January 2015	**3,241,057**	**300,983**
Shares issued under share option scheme (i)	–	–
At 31 December 2015	**3,241,057**	**300,983**

(j) Employee share option scheme: no options were exercised during the year ended 31 December 2015 resulted in no shares being issued (2014: 1,890,000 shares). During the year ended 31 December 2014, exercise proceeds was approximately RMB1,892,000. The related weighted average price at the time of exercise during the period was HKD1.79 per share.

The total authorised number of ordinary shares is 10,000,000,000 shares (2014: 10,000,000,000 shares) with a par value of HKD0.01 per share (2014: HKD0.01 per share).

25 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.

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

	Year ended 31 December			
	2015		2014	
	Average exercise price in HKD per share option	Number of share options (thousands)	Average exercise price in HKD per share option	Number of share options (thousands)
At 1 January	HKD3.83	55,371	HKD3.83	56,684
Granted	–	–	–	–
Exercised	–	–	–	–
Forfeited	–	–	–	–
Lapsed	HKD3.83	(1,305)	HKD3.83	(1,313)
At 31 December	HKD3.83	54,066	HKD3.83	55,371

The options outstanding at 31 December 2015 had a weighted average remaining contractual life of 2.08 years (2014: 3.08 years).

25 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 share options (thousands)	Vesting conditions	Contractual life of options
Options granted:			
— on 15 April 2009	60,000	(i) 30% on 1 December 2009 (ii) 30% on 14 April 2010 (iii) 40% on 15 April 2011	10 years
— on 11 October 2010	2,200	(i) 40% on 25 October 2010 (ii) 30% on 11 October 2011 (iii) 30% on 11 October 2012	10 years
— on 20 June 2011	7,600 (a)	(i) 30% on 19 July 2011 (ii) 30% on 19 June 2012 (iii) 40% on 20 June 2013	10 years
— on 5 April 2012	15,400	(i) 30% on 5 April 2013 (ii) 30% on 5 April 2014 (iii) 40% on 5 April 2015	
— on 24 March 2014	3,200 (b)	(i) 30% on 24 April 2014 (ii) 30% on 24 April 2015 (iii) 40% on 24 April 2016	10 years
— on 2 July 2014	40,575 (c)	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 .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		

25 SHARE-BASED PAYMENTS (continued)

(b) SHARE OPTION SCHEME (continued)

(i) (continued)

(a) 5,200,000 shares are granted to the directors of the Group.

(b) 3,200,000 shares are granted to the directors of the Group.

(c) 4,577,000 shares are granted to the directors of the Group.

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

	Year ended 31 December			
	2015		2014	
	Weighted average exercise price	Number of share options (thousands)	Weighted average exercise price	Number of share options (thousands)
At 1 January	HKD1.51	106,684	HKD1.20	65,675
Granted	–	–	HKD1.96	43,775
Exercised	–	–	HKD1.26	(1,890)
Forfeited	HKD 1.96	(1,687)	HKD1.88	(690)
Lapsed	HKD 1.29	(1,852)	HKD1.25	(186)
At 31 December	HKD 1.51	103,145	HKD1.51	106,684

The options outstanding at 31 December 2015 had an exercise price in the range of HKD0.83 to HKD2.02 (2014: HKD0.83 to HKD2.02) and a weighted average remaining contractual life of 6.27 years (2014: 6.95 years).

For the year ended 31 December 2015, there's no share option exercised. For the year ended 31 December 2014, the weighted average share price at the date of exercise for share options exercised was HKD1.79.

25 SHARE-BASED PAYMENTS (continued)

(c) SHARE AWARD SCHEME

On 31 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 2012, 47,817,000 shares were acquired by the Trustee through purchases from the open market, at a total cost of approximately RMB49,973,000 (equivalent to HKD61,518,000).

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.

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 HKD1.27 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.

No shares were acquired by the Trustee under the Scheme for the years ended 31 December 2015 and 2014. As at 31 December 2015, 62,089,300 shares were held by the Trustee under the Scheme (2014: 62,089,300 shares).

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.

26 OTHER RESERVES

(a) SHARE PREMIUM

The application of the share premium account is governed by the Companies Law (Revised) of the Cayman Islands. The balance 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.

(b) 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.

(c) CAPITAL RESERVE

Capital reserve represents the value of employee services in respect of the equity-settled share-based payment as set out in Note 25, waiver of debts by the immediate holding company and capital contribution arising on shareholders' indemnity.

(d) 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.

(e) 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 2.6.

(f) FAIR VALUE RESERVE

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets held at the end of the reporting period and is dealt with in accordance with the accounting policies in Note 2.11.

27 TRADE AND OTHER PAYABLES

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Trade payables	**1,386,017**	2,003,822
Amounts due to related companies		
— Trade	**16,451**	24,250
— Non-trade	**65**	–
Bills payable	**857,472**	1,504,639
Receipts in advance	**780,861**	1,110,543
Other payables	**538,448**	636,744
	3,579,314	5,279,998
Representing:		
Current portion	**3,556,059**	5,270,762
Non-current portion	**23,255**	9,236
Total	**3,579,314**	5,279,998

27 TRADE AND OTHER PAYABLES (continued)

At 31 December 2015 and 2014, the ageing analysis of the trade payables and bills (including amounts due to related parties of trading in nature) based on invoice date is as follows:

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Within 3 months	**1,004,615**	1,953,411
3 to 6 months	**371,021**	1,039,606
6 to 12 months	**260,563**	168,180
Over 1 year	**623,741**	371,514
	2,259,940	3,532,711

As at 31 December 2015 and 2014, all the trade payables and the current portion of other payables of the Group were non-interest bearing and their fair value approximated their carrying amounts due to their short maturities.

Bills payable as at 31 December 2015 and 2014 were secured by certain pledged bank deposits as disclosed in Note 23. 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.

28 BORROWINGS

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
(a) Bank loans		
Secured (i)		
— Current portion	**391,333**	1,078,964
— Non-current portion	**257,961**	466,602
	649,294	1,545,566
Unsecured		
— Current portion	**1,941,212**	1,727,992
— Non-current portion	**796,000**	652,490
	2,737,212	2,380,482
(b) Others- Non-current		
Unsecured loan from other financial institution	**–**	1,817
Senior notes (ii)	**1,277,925**	1,199,188
	1,277,925	1,201,005
Current borrowings	**2,332,545**	2,806,956
Non-current borrowings	**2,331,886**	2,320,097
Total borrowings	**4,664,431**	5,127,053

28 BORROWINGS (continued)

(i) As at 31 December 2015, the bank loans were secured by interest in land use rights of approximately RMB186,953,000 (2014: RMB227,002,000), property, plant and equipment of approximately RMB455,650,000 (2014: RMB507,241,000), bank deposits of approximately RMB10,778,000 (2014: RMB71,615,000) and trade and other receivables of approximately RMB17,464,000 (2014: RMB794,072,000).

(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.

The borrowings at 31 December 2015 bear annual interest ranging from 1.78%–7.45% annually (2014: 1.44%–7.45% annually).

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

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Within 1 year	**2,332,545**	2,806,956
Between 1 and 2 years	**537,971**	429,046
Between 2 and 5 years	**1,777,713**	1,891,051
Over 5 years	**16,202**	–
	4,664,431	5,127,053

28 BORROWINGS (continued)

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

	As at 31 December	
	2015 RMB'000	2014 RMB'000
Carrying amount		
Bank borrowings	**3,386,506**	3,927,865
Senior notes	**1,277,925**	1,199,188
Fair value		
Bank borrowings	**3,459,931**	3,976,159
Senior notes	**570,212**	788,626

The fair value of non-current borrowings are estimated based on discounted cash flow approach using the prevailing market rates of interest available to the Group for financial instruments with substantially the same terms and characteristics, which were 4.35%-39.51% as at 31 December 2015 (2014: 5.60%–22.38%) and is within level 2 of the fair value hierarchy.

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

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

	As at 31 December	
	2015 RMB'000	2014 RMB'000
RMB	**2,271,123**	2,496,928
USD	**2,393,308**	2,629,940
Other currencies	**–**	185
	4,664,431	5,127,053

28 BORROWINGS (continued)

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

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Fixed rate		
Expiring within 1 year (bank loans and bill facility)	**4,940,570**	10,530,632
Expiring beyond 1 year (bank loans)	**462,560**	1,459,177
	5,403,130	11,989,809

These facilities have been arranged to help finance ongoing cash for daily operations.

29 DEFERRED INCOME TAX

(a) The analysis of deferred income tax assets/(liabilities) is as follows:

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Deferred income tax assets		
Deferred income tax assets to be recovered within 12 months	**47,051**	27,178
Deferred income tax assets to be recovered after more than 12 months	**283,967**	187,310
	331,018	214,488
Deferred income tax liabilities		
Deferred income tax liabilities to be recovered within 12 months	**(544)**	(544)
Deferred income tax liabilities to be recovered after more than 12 months	**(12,211)**	(12,755)
	(12,755)	(13,299)
Deferred tax assets (net)	**318,263**	201,189

29 DEFERRED INCOME TAX (continued)

(b) The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets	Write down of inventories RMB'000	Provision for product warranties RMB'000	Unrealised profit on inventories RMB'000	Allowance for doubtful debts SRMB'000	Accruals RMB'000	Government grants RMB'000	Tax losses RMB'000	Depreciation difference RMB'000	Total RMB'000
At 1 January 2014	11,580	5,554	13,931	33,525	23,942	–	36,595	–	125,127
Recognised in profit or loss	9,415	(370)	1,193	5,275	(16,528)	–	91,567	–	90,552
Exchange difference	36	–	–	(7)	–	–	(1,220)	–	(1,191)
At 31 December 2014	21,031	5,184	15,124	38,793	7,414	–	126,942	–	214,488
Recognised in profit or loss	(8,333)	(1,935)	(7,478)	6,281	28,939	3,287	94,296	2,492	117,549
Exchange difference	82	–	–	65	–	–	(1,166)	–	(1,019)
At 31 December 2015	12,780	3,249	7,646	45,139	36,353	3,287	220,072	2,492	331,018

Deferred income tax liabilities	Withholding tax on dividends RMB'000	Intangible assets RMB'000	Interest capitalisation RMB'000	Total RMB'000
At 1 January 2014	(37,920)	(3,180)	(10,663)	(51,763)
Credited to profit or loss	37,920	544	–	38,464
Exchange difference	–	–	–	–
At 31 December 2014	–	(2,636)	(10,663)	(13,299)
Credited to profit or loss	–	544	–	544
Exchange difference	–	–	–	–
At 31 December 2015	–	(2,092)	(10,663)	(12,755)

29 DEFERRED INCOME TAX (continued)

(b) (continued)

The Group has not recognised deferred income tax assets in respect of tax losses of approximately RMB134,861,000 as at 31 December 2015 (2014: RMB90, 907,000) 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 approximately RMB134,861,000 (2014: RMB90,907,000) would be expired in 5 to 20 years.

At 31 December 2015, temporary differences relating to the undistributed profits of subsidiaries amounted to approximately RMB2,173,483,000 (2014: RMB2,459,097,000). Deferred income tax liabilities of approximately RMB108,674,000 (2014: RMB122,955,000) have not been recognised in respect of the tax that would be payable on the distribution of these retained earnings 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.

30 PROVISIONS FOR OTHER LIABILITIES AND CHARGES

	Legal claims with former shareholders RMB'000	Product warranties RMB'000	Total RMB'000
At 1 January 2014	32,317	37,026	69,343
Additional provisions (Note 8)	–	12,025	12,025
Utilised during the year	–	(14,490)	(14,490)
At 31 December 2014	32,317	34,561	66,878
At 1 January 2015	**32,317**	**34,561**	**66,878**
Additional provisions (Note 8)	**–**	**3,666**	**3,666**
Utilised during the year	**–**	**(16,564)**	**(16,564)**
At 31 December 2015	**32,317**	**21,663**	**53,980**

30 PROVISIONS FOR OTHER LIABILITIES AND CHARGES (continued)

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. 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 cash flow of the Group.

30 PROVISIONS FOR OTHER LIABILITIES AND CHARGES (continued)

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. On 24 December 2015, Honghua Company received the judgment ((2014) Cheng Min Chu Zi No. 1058 from Chengdu Intermediate Court as follows: (1) within 30 days from the effective date of the judgment, Honghua Company shall pay to the plaintiffs' the economic loss of RMB22,410,740 and dividend of RMB296,125 together with their respective interests thereon; (2) within 30 days from the effective date of the judgment, Honghua Company shall pay to the plaintiffs' other economic loss of RMB130,000; and (3) the plaintiffs' other claims were dismissed. For the court proceeding fee of RMB1,790,273, RMB300,000 of which shall be borne by the plaintiffs, and RMB1,490,273 of which shall be borne by Honghua Company.

The Company takes the view that Honghua Company's repurchase of the equity interest and capital reduction were conducted in accordance with the applicable PRC law. Therefore, Honghua Company will file an appeal pursuant to the applicable law.

31 DEFERRED INCOME

As at 31 December 2015, the deferred income is the government grants related to assets, amount of RMB51,375,000 and RMB4,923,000 are included in non-current liability and current liability respectively. During the year ended 31 December 2015, government grants of approximately RMB8,194,000 are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

32 DIVIDENDS

No dividend was approved or paid in respect of the previous financial year for the year ended 31 December 2015 and 2014 .

No dividend was proposed for the year ended 31 December 2015.

33 CASH GENERATED FROM OPERATIONS

(a) RECONCILIATION OF PROFIT BEFORE INCOME TAX TO CASH GENERATED FROM OPERATIONS

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
(Loss)/profit before income tax	**(301,719)**	123,666
Adjustments for:		
— Depreciation of property, plant and equipment	**292,889**	268,296
— Amortisation of intangible assets and lease prepayments	**61,261**	46,062
— Changes in fair value of available-for-sale financial assets	**–**	(9,773)
— Changes in fair value of derivative financial instruments	**–**	3,108
— Interest income	**(80,640)**	(91,004)
— Interest expenses and bank charges	**252,723**	256,191
— Share of profit from joint ventures	**(1,793)**	(186)
— Share of profit from associates	**(925)**	–
— Gain/(loss) on disposals of property, plant and equipment	**(1,992)**	1,044
— Foreign exchange loss	**93,442**	77,888
— Equity-settled share-based payment expenses arising from share option schemes and share award scheme	**6,131**	8,292
	319,378	683,584
Changes in working capital:		
— Decrease/(increase) in inventories	**803,998**	(242,154)
— Decrease/(increase) in amount due from customers for contract work	**196,223**	(40,843)
— Decrease/(increase) in trade and other receivables	**720,423**	(866,424)
— Decrease/(increase) in pledged bank deposits	**243,859**	(19,406)
— (Decrease)/increase in trade and other payables	**(1,622,001)**	1,030,009
— Decrease in provisions	**(12,898)**	(101,543)
Cash generated from operations	**648,982**	443,223

33 CASH GENERATED FROM OPERATIONS (continued)

(b) PROCEEDS FROM DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT

In the consolidated statements of cash flows, proceeds from disposal of property, plant and equipment comprise:

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Net book amount	**23,639**	5,530
Gains/(losses) on disposal of property, plant and equipment	**1,992**	(1,044)
Proceeds from disposal of property, plant and equipment	**25,631**	4,486

(c) NON-CASH TRANSACTIONS:

During the year ended 31 December 2015, inventories of approximately RMB23,075,000 (2014: RMB96,070,000) were transferred to fixed assets for the provision of oil and gas services.

34 CONTINGENT LIABILITIES

A sales agency filed lawsuits against the subsidiaries of the Company, alleged that it was owed commission in excess of USD18,000,000 in relation to their services to the Group.

On 24 April 2013, the United Arab Emirates ("UAE") Federal Court of First Instance ordered the termination of the agency agreement and dismissed all claims from the sales agency. On 21 October 2014, UAE Federal Court affirmed the original judgement. The sales agency and the Group filed an appeal to the UAE Federal Court of Appeal on the court's decision and on 11 November 2015, Union Supreme Court of the United Arab Emirates revoke the challenged judgment completely, and it ordered to refer the case to Abu Dhabi Federal Court of Appeals to reconsider the same again in another form, and the hearing is not yet to be made as at 31 December 2015.

Having consulted the Group's legal advisors, management considered that the Group had legal and factual merit to defend in 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 claims under this lawsuit.

35 COMMITMENTS

(a) CAPITAL COMMITMENTS

Capital expenditure contracted for or authorised but not contracted for at the balance sheet date but not yet incurred is as follows:

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Contracted for	**283,049**	1,366,231
Authorised but not contracted for	**3,310**	293,825
	286,359	1,660,056

(b) OPERATING LEASE COMMITMENTS

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Within 1 year	**12,707**	9,685
After 1 year but within 5 years	**7,329**	12,043
After 5 years	**–**	5,516
	20,036	27,244

The Group is the lessee in respect of a number of properties held under operating leases. None of the leases includes contingent rentals.

36 RELATED-PARTY TRANSACTIONS

Related parties are those parties that have the ability to control the other party or exercise significant influence in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the years ended 31 December 2015 and 2014, and balances arising from related party transactions as at 31 December 2015 and 2014.

Name of party	Relationship
Guanghan Hongtai Business Trading Co., Ltd. （廣漢市宏泰商貿有限公司）("Hongtai")	Hongtai is a party over which spouses of certain directors and management have equity interests
Luzhou City Jianming Decorating Design Company （瀘州市劍鳴裝飾設計公司） ("Luzhou Jianming")	Luzhou Jianming is a party of which the brother of the spouse of a subsidiary's director is its legal representative
Chengdu Juzhong Technology Co., Ltd. （成都巨中科技有限公司） ("Chengdu Juzhong")	Chengdu Juzhong is a party over which the sister and the sister's husband of a subsidiary's director has equity interests
Sichuan Deep & Fast Oil Drilling Tools Co., Ltd. （四川深遠石油鑽井工具有限公司） ("Sichuan Shenyuan")	Sichuan Shenyuan is a party of which spouse of a director has equity interests
HH Egyptian Company	Joint venture
Honghua Oil Equipment	Joint venture
Honghua (Shenzhen)	Associate
Prime FSP	Associate
Mr. Li Ming （黎明）	Director of a Group's subsidiary

36 RELATED-PARTY TRANSACTIONS (continued)

(a) SIGNIFICANT RELATED PARTY TRANSACTIONS

	Year ended 31 December	
	2015 RMB'000	2014 RMB'000
Purchases of parts and components		
— Hongtai	11,054	23,822
— Sichuan Shenyuan	4,248	6,224
— Other related companies	–	932
	15,302	30,978
Sale of drilling rigs, parts and components		
— HH Egyptian Company	14,620	113,880
— Honghua (Shenzhen)	48,085	20,447
	62,705	134,327
Decoration service received		
— Luzhou Jianming	207	926
Consulting service provided		
— Honghua (Shenzhen)	1,207	–

36 RELATED-PARTY TRANSACTIONS (continued)

(a) SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Loan to		
— Prime FSP	**7,143**	–
— Honghua (Shenzhen)	**15,400**	–
— Li Ming	**1,114**	6,016
	23,657	6,016

The loans to related parties have no fixed repayment terms and is carrying interest range from 5% to 7.5% (2014: 7%) annually. No provision was made against the amounts due from related companies at 31 December 2015 and 2014.

36 RELATED-PARTY TRANSACTIONS (continued)

(b) AMOUNTS DUE FROM RELATED COMPANIES

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Trade		
— Joint ventures	**44,482**	121,189
— Other related companies	**33,201**	305
	77,683	121,494
Non-trade		
— Director of a Group's subsidiary and his controlled entity	**27,753**	26,401
— Joint ventures	**1,583**	612
— Other related companies	**25,460**	5,595
	54,796	32,608

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 2015 and 2014.

36 RELATED-PARTY TRANSACTIONS (continued)

(c) AMOUNTS DUE TO RELATED COMPANIES

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Trade		
— Joint ventures	**2,196**	808
— Other related companies	**14,255**	23,442
	16,451	24,250
Non-trade		
— Joint ventures	**65**	–

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

36 RELATED-PARTY TRANSACTIONS (continued)

(d) AMOUNTS DUE FROM CERTAIN SHAREHOLDERS

The amounts due from certain shareholders as at 31 December 2015 is an amount of approximately RMB32,317,000 (2014: RMB32,317,000), being the amount indemnified by certain shareholders in relation to a legal claim.

(e) KEY MANAGEMENT COMPENSATION

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Basic salaries, allowances and other benefits in kind	**5,868**	7,159
Contributions to defined contribution retirement schemes	**378**	320
Discretionary bonus	**1,490**	2,339
Share-based payments	**–**	2,755
	7,736	12,573

37 EVENT AFTER THE REPORTING PERIOD

On 17 February 2016, Honghua Company received a "Notice of Admission for Registration" ("Notice") from the National Association of Financial Market Institutional Investors ("NAFMII"), whereby the NAFMII confirmed the acceptance of the application of Honghua Company for the issuance of the short-term financing debentures of an aggregate registered amount of RMB1.5 billion (the "Short-term Financing Debentures") in the PRC. The registered amount of Honghua Company's Short-term Financing Debentures shall be valid for a period of 2 years commencing from 29 January 2016. As at 29 March 2016, Honghua Company does not issue Short-term Financing Debentures.

38 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

BALANCE SHEET OF THE COMPANY

	Note	As at 31 December 2015 RMB'000	2014 RMB'000
ASSETS			
Non-current assets			
Intangible assets		**93,353**	120,863
Investments in subsidiaries		**3,039,607**	2,827,080
Total non-current assets		**3,132,960**	2,947,943
Current assets			
Other receivables		**1,510**	1,536
Amounts due from subsidiaries		**699,932**	760,236
Cash and cash equivalents		**1,293**	8,393
Total current assets		**702,735**	770,165
Total assets		**3,835,695**	3,718,108
EQUITY			
Equity attributable to owners of the Company			
Share capital		**300,983**	300,983
Other reserves	(a)	**2,414,606**	2,261,099
Accumulated losses	(a)	**(193,390)**	(68,411)
Total equity		**2,522,199**	2,493,671
LIABILITIES			
Non-current liabilities			
Borrowings		**1,277,925**	1,199,188
Current liabilities			
Other payables		**35,571**	25,249
Total liabilities		**1,313,496**	1,224,437
Total equity and liabilities		**3,835,695**	3,718,108

38 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (continued)

(a) RESERVE MOVEMENT OF THE COMPANY

	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000	Capital reserve RMB'000	Exchange reserve RMB'000	Shares held for share award scheme RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2014	300,833	2,497,699	389,691	94,931	(463,486)	(124,618)	(30)	2,695,020
Loss for the year	–	–	–	–	–	–	(70,022)	(70,022)
Other comprehensive income	–	–	–	–	9,435	–	–	9,435
Total comprehensive income	–	–	–	–	9,435	–	(70,022)	(60,587)
Equity-settled share-based transactions	–	–	–	8,292	–	–	–	8,292
Shares issued under share option schemes	150	2,539	–	(797)	–	–	–	1,892
Options lapsed under share option schemes	–	–	–	(1,641)	–	–	1,641	–
Dividends approved in respect of the previous financial year	–	(150,946)	–	–	–	–	–	(150,946)
Balance at 31 December 2014	300,983	2,349,292	389,691	100,785	(454,051)	(124,618)	(68,411)	2,493,671
Balance at 1 January 2015	300,983	2,349,292	389,691	100,785	(454,051)	(124,618)	(68,411)	2,493,671
Loss for the year	–	–	–	–	–	–	(127,025)	(127,025)
Other comprehensive income	–	–	–	–	154,867	–	–	154,867
Total comprehensive income	300,983	2,349,292	389,691	100,785	(299,184)	(124,618)	(195,436)	2,521,513
Equity-settled share-based transactions	–	–	–	686	–	–	–	686
Options lapsed under share option scheme	–	–	–	(2,046)	–	–	2,046	–
Balance at 31 December 2015	300,983	2,349,292	389,691	99,425	(299,184)	(124,618)	(193,390)	2,522,199

39 BENEFITS AND INTERESTS OF DIRECTORS

(a) DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

The remuneration of every director and the chief executive is set out below:

For the year ended 31 December 2015:

Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking:

Name	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 (President)	–	997	54	304	–	1,355
Executive Directors						
Ren Jie	–	944	55	134	–	1,133
Liu Zhi	–	835	54	–	–	889
Non-executive Directors						
Siegfried Meissner	–	–	–	–	–	–
Popin Su (the alternate director to Siegfried Meissner)	–	–	–	–	–	–
Independent Non-executive Directors						
Qi Daqing	168	–	–	–	–	168
Liu Xiaofeng	168	–	–	–	–	168
Chen Guoming	84	–	–	–	–	84
Shi Xingquan	84	–	–	–	–	84
Guo Yanjun	126	–	–	–	–	126
Total	630	2,776	163	438	–	4,007

39 BENEFITS AND INTERESTS OF DIRECTORS (continued)

(a) DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

The remuneration of every director and the chief executive is set out below:

For the year ended 31 December 2014:

Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking:

Name	Fees	Basic salaries, allowances and other benefits in kind	Contributions to defined contribution retirement scheme	Discretionary bonuses	Equity-settled share-based payment expenses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	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

39 BENEFITS AND INTERESTS OF DIRECTORS (continued)

(b) DIRECTORS' RETIREMENT BENEFITS AND TERMINATION BENEFITS

For the years ended 31 December 2015 and 2014, no special retirement and termination benefits plans to the directors for the year except for the plans to all the Group's employees mentioned in Note 9. No other retirement and termination benefits were paid to or receivable by those directors in respect of their other services in connection with the management of the affairs of the Company or its subsidiary undertaking.

(c) DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save for contracts amongst group companies and the interests in transactions, arrangements or contracts mentioned in Note 36, no other significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

FIVE-YEAR FINANCIAL HIGHLIGHTS

	2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000	2011 RMB'000
Consolidated Income Statement					
Turnover	**4,219,253**	7,812,537	8,047,108	5,068,447	3,485,046
Cost of sales	**(3,272,716)**	(6,182,994)	(6,141,643)	(3,321,440)	(2,514,942)
Gross profit	**946,537**	1,629,543	1,905,465	1,747,007	970,104
Other revenue	**(77,504)**	100,312	55,027	3,787	8,149
Other net income/(expenses)	**(9,863)**	(7,326)	7,435	2,084	60,012
Selling expenses	**(472,764)**	(637,567)	(524,053)	(553,623)	(385,532)
General and administrative expenses	**(584,016)**	(688,464)	(595,508)	(526,562)	(408,877)
Profit/(loss)from operations	**(42,602)**	396,498	848,366	672,693	243,856
Net finance (expenses)/income	**(261,835)**	(273,018)	(139,418)	29,259	(50,335)
Share of profit/(loss) from joint ventures	**1,793**	186	(7,948)	(156)	293
Share of profit from an associate	**925**	–	–	7,662	5,398
Profit/(loss)before taxation	**(301,719)**	123,666	701,000	709,458	199,212
Income tax	**35,853**	(13,499)	(125,750)	(167,683)	(27,769)
Profit/(loss) for the year	**(265,866)**	110,167	575,250	541,775	171,443
Attributable to:					
Equity shareholders of the company	**(252,207)**	91,787	537,617	529,458	167,984
Non-controlling interests	**(13,659)**	18,380	37,633	12,317	3,459
Figures per share					
Earnings/(loss) per share(RMB cents)					
— Basic	**(7.93)**	2.89	16.99	16.58	5.21
— Diluted	**(7.93)**	2.87	16.77	16.54	5.21
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	**–**	–	HKD0.06	HKD0.06	HKD0.04

	2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000	2011 RMB'000
Consolidated Balance Sheet					
Total non-current assets	**4,791,979**	5,238,168	4,548,371	3,227,901	1,882,332
Total current assets	**8,390,361**	10,260,172	9,680,684	6,617,975	4,810,368
Total assets	**13,182,340**	15,498,340	14,229,055	9,845,876	6,692,700
Total current liabilities	**6,001,637**	8,205,237	7,761,845	4,517,478	2,119,137
Total non-current liabilities	**2,406,517**	2,329,333	1,508,564	739,671	398,705
Total liabilities	**8,408,154**	10,534,570	9,270,409	5,257,149	2,517,842
Total equity	**4,774,186**	4,963,770	4,958,646	4,588,727	4,174,858

Key financial ratios	**2015**	2014	2013	2012	2011
Profitability					
Gross margin	**22.4%**	20.9%	23.7%	34.5%	27.8%
EBITDA margin	**7.4%**	9.1%	13.4%	16.3%	10.2%
Net margin	**–6.0%**	1.2%	6.7%	10.4%	4.8%
Return					
Return on average equity	**–5.4%**	1.9%	11.7%	12.4%	4.2%
Return on average assets	**–1.8%**	0.6%	4.5%	6.4%	2.6%
Liquidity					
Current ratio	**1.40**	1.25	1.25	1.46	2.27
Quick ratio	**1.04**	0.89	0.89	0.86	1.54
Turnover					
Turnover of average trade and bills receivable	**304**	155	107	95	104
Turnover of average trade and bills payable	**321**	184	120	119	113
Turnover of average inventory	**287**	170	165	235	247
Gearing					
Total debts/Total assets	**35.4%**	33.1%	33.3%	20.1%	13.1%
Total liabilities/Total assets	**63.8%**	68.0%	65.2%	53.4%	37.6%
EBIT/Interest expenses	**(0.16)**	1.57	3.98	8.77	4.6

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/or 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" or "Honghua"	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 (范兵), 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 February 17, 2006
"Controlling Shareholder(s)"	has the meaning ascribed thereto under the Listing Rules, 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 (范兵), 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 2015
"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" or "HKD"	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. (宏華油汽工程技術服務(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 2014
"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
"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$0.10 each
"Shareholder(s)"	holder(s) of our Share(s)
"Stock Exchange" or "HKSE"	The Stock Exchange of Hong Kong Limited
"Substantial Shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"UAE"	the United Arab Emirates
"United States", "USA" or "U.S."	the United States of America, including its territories and possessions
"US$" 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