宏华集团有限公司
HONGHUA GROUP LIMITED

(incorporated in the Cayman Islands with limited liability)

Stock Code: 196

Annual Report 2016

新起點 新機遇

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Chen Yajun *(Chairman, appointed with effect from 29 March 2017)*
Zhang Mi *(Vice Chairman, re-designated with effect from 29 March 2017)*
Ren Jie
Liu Zhi

NON-EXECUTIVE DIRECTORS

Siegfried Meissner *(Resigned with effect from 29 March 2017)*
Popin Su *(The alternate director to Siegfried Meissner, resigned with effect from 29 March 2017)*
Han Guangrong *(Appointed with effect from 29 March 2017)*
Chen Wenle *(Appointed with effect from 29 March 2017)*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Liu Xiaofeng
Qi Daqing
Chen Guoming
Shi Xingquan *(Resigned with effect from 29 March 2017)*
Guo Yanjun *(Resigned with effect from 29 March 2017)*
Su Mei *(Appointed with effect from 29 March 2017)*

SECRETARY OF BOARD OF DIRECTORS

He Bin

BOARD COMMITTEES

AUDIT COMMITTEE

Qi Daqing *(Committee Chairman)*
Liu Xiaofeng
Chen Guoming
Shi Xingquan *(Resigned with effect from 29 March 2017)*
Guo Yanjun *(Resigned with effect from 29 March 2017)*
Su Mei *(Appointed with effect from 29 March 2017)*

REMUNERATION COMMITTEE

Liu Xiaofeng *(Committee Chairman)*
Zhang Mi
Qi Daqing
Chen Yajun *(Appointed with effect from 29 March 2017)*
Su Mei *(Appointed with effect from 29 March 2017)*

STRATEGIC INVESTMENT AND RISK CONTROL COMMITTEE

Chen Yajun *(Committee Chairman, appointed with effect from 29 March 2017)*
Zhang Mi *(Committee Member, re-designated with effect from 29 March 2017)*
Ren Jie
Liu Zhi *(Resigned with effect from 29 March 2017)*
Shi Xingquan *(Resigned with effect from 29 March 2017)*
Liu Xiaofeng

JOINT COMPANY SECRETARIES

He Bin
Lee Mei Yi

LEGAL ADVISOR

AS TO HONG KONG LAW

King & Wood Mallesons

PRINCIPAL BANKERS

Bank of China Limited
Industrial and Commercial Bank of China Limited
Bank of Communications Co., Ltd.
Industrial Bank Co., Ltd.
China CITIC Bank Co., Ltd.
Ping An Bank Co., Ltd.
Huaxia Bank Co., Ltd.
Heng Feng Bank Co., Ltd.
China Merchants Bank Co., Ltd.
The Export-Import Bank of China
China Development Bank
Industrial and Commercial Bank of China (Asia) Limited
China CITIC Bank International
China Development Fund Co., Ltd.

AUDITOR
PricewaterhouseCoopers
Certified Public Accountants

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

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

PLACE OF BUSINESS IN HONG KONG
Room 2508, Harcourt House
39 Gloucester Road
Wan Chai
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
Estera Trust (Cayman) Limited
(Name changed from Appleby Trust (Cayman) Ltd. into Estera Trust (Cayman) Limited on 15 April 2016)
Clifton House, 75 Fort Street
PO Box 1350
Grand Cayman, KY1-1108
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
Computershare Hong Kong Investor Services Limited
Shops 1712–1716
17th Floor Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

STOCK CODE
The Stock Exchange of Hong Kong Limited: 0196

WEBSITE
http://www.hh-gltd.com

FINANCIAL HIGHLIGHTS

	2016 RMB'000	2015 RMB'000	Changes
Operating results			
Revenue	2,343,614	4,219,253	-44.5%
Operating Loss	(609,532)	(42,602)	1330.8%
Loss before income tax	(696,161)	(301,719)	130.7%
Loss attributable to owners of the Company	(609,689)	(252,207)	141.7%
Figures per Share			
Basic loss per share (RMB cents)	(19.18)	(7.93)	141.9%
Diluted loss per share (RMB cents)	(19.18)	(7.93)	141.9%
Financial position			
Total non-current assets	4,415,887	4,791,979	-7.8%
Total current assets	6,851,879	8,390,361	-18.3%
Total assets	11,267,766	13,182,340	-14.5%
Total current liabilities	5,022,637	6,001,637	-16.3%
Total non-current liabilities	2,161,677	2,406,517	-10.2%
Total liabilities	7,184,314	8,408,154	-14.6%
Total equity	4,083,452	4,774,186	-14.5%
Key financial ratios*			
Gross Margin	11.8%	22.4%	-47.2%
Net Margin	-26.0%	-6.0%	335.2%
Return on average assets	-5.0%	-1.8%	183.6%
Return on average equity	-14.4%	-5.4%	165.5%
Current ratio	1.36	1.40	-0.04
Quick ratio	0.94	1.04	-0.10
Total debt/Total assets	38.2%	35.4%	7.8%
Total liabilities/Total assets	63.8%	63.8%	0.0%

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

CHAIRMAN'S STATEMENT

CHAIRMAN'S STATEMENT

DEAR SHAREHOLDER AND INVESTOR:

In 2016, the overall unbalanced supply and demand status of oil and gas has not changed yet. The domestic and international oil and gas market environment still need time to recover and the industry is suffering the winter. As the industry indicator, the international oil prices hit the bottom of USD20 per barrel in early 2016 and significantly rebounded in the second half of 2016 along with the gradual implement of the supply cut agreement between OPEC and non-OPEC countries. However, the increase of oil supply in North America and the new US government's support to shale gas industry have brought uncertainty to resume the supply and demand balance of global oil and gas market. Facing the unclear global political and economic environment, Honghua, the leading oil and gas equipment manufacturer, never stopped the struggling in the industry downturn and achieved periodical results in the major market enhancement and LNG industrial layout.

BUSINESS REVIEW

In 2016, Honghua operated closely with the theme "strategic transformation", in order to establish the strategic foundation that takes the high-end equipment R&D manufacturing capacity and systematic service ability as our core competitiveness, as well as to expand our diversified business. We always treat technology innovation and service quality as the foundation of our development, continue to invest in Research & Development, and reserve technology to embracing the coming industry recovery. During 2016, we have always considered Cost Reduction, Efficiency Enhancement & Maintaining the Liquidity as our first priority. Except the procession of personnel and cost reduction, the Group actively expanded multiple financing channels, including obtained approval for the issuance of RMB1.5 billion short-term financing debentures in early 2016 and completed the issuance of first phase of short-term financing debentures amounted of RMB200 million in March 2017.

For our business in 2016, we continued to enhance the global market layout with the Middle East, Russia and South America as key districts, breaking the monopoly of Middle East high-end drilling rigs market by western drilling rigs manufacturer. In February 2016, our self-developed "Aurora" polar rig was successfully operated in Arctic Circle in the winter, marked that Honghua has become the world's second enterprise that had polar low-temperature drilling technology. Facing the industry downturn, we also actively adjusts the strategic focus of oil & gas services sector by reducing the domestic market and focused more on the global opportunity gained from high-end oil and gas services market. At the same time, facing the global trend of energy saving and emission reduction, the ongoing energy structure adjustment and surging demand of natural gas in China, Honghua Offshore sector adjusted the overall business strategy and enhance the layout of the LNG industrial chain. The Group entered into the first offshore LNG platform ("PLNG") construction Heads of Agreement and is expected to develop the new "Super Offshore" model with integrated construction of offshore platform, implemented the concept of "Offshore Equipment Manufactured Onshore".

OUTLOOK

Since our foundation in 1997, Honghua has 20 years history in the changing energy market and has developed into the leading high technology and manufacturing company in western China, the largest land drilling rig exporter in China as well as one of the largest land drilling rig manufacturers in the world. In the beginning, Honghua was just a private company restructuring from a state-owned enterprise facing a saturated domestic market. Under the strategy of "Overseas Development", we successfully introduced a strategic investor Nabors Industrial (Nabors) to help us quickly make breakthrough in international market, then we were successfully listed in Hong Kong. After Listing, facing the turbulence of oil industry and the changing oil price, Honghua has always taken "science and technology are No.1 productive forces" as our development idea and taken innovation as our driving force to motivate our growth. With "creative manufacturing" as the guiding principle, we have gradually expanded the business sectors to include land drilling equipment, oil and gas engineering service and offshore engineering equipment.

In 2014, Honghua is already the leader of private enterprises in China's oil and gas industry. But we suffered a rapid decline in global oil and gas market for two consecutive years since then, and faced a great challenge in our business and operations. In the past two years, we always tried to introduce strategic investors to achieve business synergies, reduce the capital cost and solve other problem. After carefully consideration, we chose the state-owned giant enterprise, China Aerospace Science and Industry Corporation ("CASIC"), as our strategic investor to achieve Honghua's future expansion.

CASIC has set the "development of energy equipment manufacturing and related service" as the major target in its "13th Five-Year Plan". The subscription of Honghua's shares laid a solid foundation for CASIC to enter into energy equipment manufacturing sector and build up their business layout in energy sector.

The introduction of CASIC marks the essential milestones of Honghua. It will strengthen the Group's financial state, improve liquidity. More importantly, according to the positioning of Honghua as CASIC's major platform for energy equipment development, Honghua is going to have in-depth cooperation with CASIC in advanced energy equipment manufacturing and oil & gas field services field, which is able to integrate the competitive resources, further expand the oversea market, greatly improve the competitiveness, and having tremendous synergistic effect in Research & Development, project execution and market expansion. With the introduction of CASIC, we will take the initiative to make some new financing to reduce the capital cost and optimize the debt structure. Meanwhile, on the oil service market and EPC business, we can rely on the strong resources of CASIC, to participate in domestic unconventional oil and gas resources development, and to further expand the global market, and finally make our oil service segment business stronger.

In addition, Honghua will become a mixed ownership enterprises after the introduction of CASIC. We will strengthen corporate governance, and strive to explore and build a good model of the mixed ownership reform of Chinese state-owned enterprises.

Looking forward, we will join hands with our strategic shareholders along with the recovery of oil and gas market. And we believe that Honghua with "CASIC gene" will jointly develop world-class oil and gas equipment and services and bring long-term investment value to all shareholders.

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, especially their care and trust in the industry downturn. Thanks for the companion of all the directors, management team and all staff, whose contribution and stay will witness the steady development of Honghua in the long run.

Zhang Mi
Chairman

Hong Kong
March 20, 2017

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

In 2016, the Group's revenue amounted to approximately RMB2.344 billion, representing a decrease of 44.5% from RMB4.219 billion in the Last Year. Gross profit was approximately RMB0.278 billion, representing a decrease of 70.7% from RMB0.947 billion for the same period Last Year. The loss attributable to equity shareholders was approximately RMB0.610 billion.

MARKET REVIEW

In 2016, international oil prices gradually rose after hitting the bottom in the first quarter. During the Year, concerns about the slowdown in demand for crude oil from China, combined with the devaluation of the China Yuan (CNY), the referendum in Britain and the Doha meeting of oil-producing countries that failed to reach an agreement to freeze production as well as other important events, have become the catalyst for the decline in the oil price. Until the end of the Year, the Organization of Petroleum Exporting Countries (OPEC) has, for the first time in eight years, reached an agreement to cut the oil supply, solving the oversupply of global crude oil from the supply side and stimulate the oil price to rise to its highest level in the Year. The continued situation of low oil price gradually urged to narrow the supply and demand gap of global oil, but the overall oversupply situation has not yet been fully reversed.

The global energy industry has been experiencing instability following the collapse of oil prices. The low oil price has urged oil companies continue to cut oil and gas exploration capital spending in 2016, leading to low demand of oilfield service equipment, engineering and technical services. As the world's major oil and gas production regions, the crude oil production of Middle East and Russia is relatively flexible. According to the information from the Russian Ministry of Energy, oil production amount increased by 2.5%, or approximately 550 million tons in Russian in 2016. According to the US "Oil and Gas Journal", the annual crude oil production fell 7% and 6.9% respectively in the US and PRC markets. As upstream oil companies continuing to transfer cost pressures, it is a common task for downstream oil and gas equipment manufacturers as well as oil and gas field service enterprises to maintain its liquidity and adjust the focus of its business and market layout. At the same time, the global oil and gas companies have become more focus on the adjustment of the global energy structure and the demand for clean energy market, especially the great opportunities arising from the energy adjustment and industrialization of natural gas in the Asia-Pacific region.

In the context of continued turbulence in the international energy industry, there are increasing mergers and acquisitions taking place in global energy industry, of which the merge of Baker Hughes and the US General Electric's oil and gas business sector has become a major event. In December 2016, the Group introduced China Aerospace Science and Industry Corporation ("CASIC") as our strategic investors as well as Jianhong Capital Fund I ("Jianhong") and Beijing Jianhong Capital Management Co., Ltd. ("Beijing Jianhong") as our financial investors, respectively to enhance our core competitiveness and create synergistic effect through integration of business and advantage technical resources. We believe that the introduction of CASIC will protect the Group's best interests and maximum value to shareholders while creating the important synergistic effect on the operations of the Group. Leveraged on CASIC's SOE background, it will further help the Group consolidate its position and expand its market share outside the PRC, make a breakthrough in EPC business, and further open the domestic shale gas oilfield services market. Besides, the injection of CASIC's technology will greatly enhance the computerization and artificial intelligence level of the Group's land equipment sector, which enables the Group to successfully transform from an equipment manufacturer to a provider of integrated (encompassing both equipment and services) solutions. After the industry "winter", the Group will capture new opportunities from market and the recovery of the industry and bring long-term investment value to all shareholders.

BUSINESS REVIEW

I. LAND DRILLING RIG AND RELATED PRODUCTS BUSINESS

In 2016, although international oil prices began to pick up at the end of the year, the active level of global oil and gas exploration was still low. According to Baker Hughes, as of December 2016, the global active rig counts were 1,772 sets (excluding Chinese land drilling rigs and Russian drilling rigs), representing a further decrease from 2015. The global market demand for new rigs and related products has not yet been restored, affecting Honghua's business development of land drilling equipment and related products. Facing the hard time, Honghua continued to focus on advanced drilling rigs selling opportunities in the Middle East, Russia, South America and other key markets, while exploring the rig upgrade, equipment leasing and other inch market segments, along with the worldwide promotion of Honghua's new products and other diversified product series.

In terms of land drilling rigs, we achieved sales of a total of 14 sets of land drilling rigs worth approximately RMB760 million and newly signed contract for 3 sets of land drilling rigs worth approximately US$43 million during the Year. In the business of parts and components, the total sales amount reached RMB1,158 million, including 12 sets of top drivers, 42 sets of mud pumps. During the Year, we achieved trade and sales of parts and components contracts worth US$51.15 million. We also developed our agent business, laying solid foundation to further expand the trade and sales of parts and components.

"Aurora", Honghua's first self-developed pdar rig

In the Middle East market, we maintained close cooperation with our old client Kuwait Drilling Company K.S.C. ("KDC"), and signed sales contracts for one set of 3000HP ultra-deep well drilling rig and one set of 2000HP cluster wells drilling rig respectively, breaking the monopoly of Middle East high-end drilling rigs market by western drilling rigs manufacturer. In the Russian market, our self-developed "Aurora" polar rig was successfully operated in Arctic Circle in February 2016, marked that Honghua has become the world's second enterprise that had polar low-temperature drilling technology. Till now, the number of Honghua's drilling rigs exported to Russian market ranked the No.1 of total drilling rigs imported by Russia. Our new product rack and pinion rig has also achieved sales in 2016. At the beginning of 2017, we entered into 4 drilling rig sales agreement with our existing customers in the Middle Asia/Russian Area, including offshore drilling rig and 9,000 meters DBS drilling rig (90 DBS drilling rig). After years of operation, Honghua has established long-term and friendly relationship with high-end drilling companies in major oil-producing regions such as Russia and the Middle East. We will continue to deepen our cooperation with the customers to continue to obtain new drilling equipment orders.

In terms of parts and components, our transferring system, electric pump sets and other self-developed parts and components have recorded sales for the first time in the North American market. In the Russian market, we launched the first top driver leasing business, while the drilling pipe trading project with Rosneft Oil successfully placed an order, laying the foundation for other equipment's entrance to Rosneft. In addition, we have also developed Brunei and Mongolia as two new markets during the Year. Relying on our brand awareness in the existing market, we have made great breakthrough in new market through the introduction of old clients.

In 2016, we continued the in-depth integration of our land equipment sector. Relying on our original drilling rig after-sales services, we established Sichuan Honghua Skill Engineering Technology Services Limited Company and made successful attempts and exploration in new areas such as steel engineering, downhole tools, research and development ("R&D") projects of universities/research institutes, while strengthening our operation in well completion, well washing, environmental protection operations and other engineering services. We also successfully participated in the Shell's project in Sichuan to carry out 8 engineering projects in abandoned wells treatment area. During the Year, our after-sales service team installed a total of 20 sets of rigs, commissioned and adjusted components for 22 times, provided 17 sets of equipment leasing services and emergency services for 166 times.

In 2016, we actively participated in international large-scale exhibitions to carry out customer development and brand marketing. At the NEFTEGAZ, the OTC, we presented our new products such as the RuiLing (睿靈) drilling rig, polar drilling rig, iDrill Simulator drilling simulation training solutions and the LNG FSP tank model, fully representing Honghua's R&D strengths and high quality products in the fields of land, sea and unconventional oil area. Our new products, the RuiLing drilling rig with a new integrated vertical derrick base structure, an automated pipe treatment system and a full set of electric equipment, greatly improves drilling efficiency and makes it more adaptable to the complex and changeable geologies domestically, which can be widely used in shale gas exploitation. Our self-developed environmentally friendly and efficient 6,000HP fracturing pump has completed its industrial test and is undergoing marketing promotion. The launch of these key equipment for integrated production of shale gas means that our land equipment sector is well prepared for the expansion in the high-end oil and gas equipment market through our leading technology and innovative products.

2. OIL AND GAS ENGINEERING SERVICE BUSINESS

In the global oil market downturn, our oil and gas engineering services business is under capacity. As of the end of December 2016, our six teams operated in the Yan'an, North-eastern China, Sichuan, Middle East and etc., and the footage drilled amounted to 27,663 meters during the Year. Under the strategic guidance focusing on overseas market, the directional wells project began operation in the Middle East at the end of Last Year, making a key step for Honghua oil & gas service to enter the high-end market of comprehensive technical services.

Facing the industry adversity, we adjusted our market strategy focus, taking the initiative to shrink the domestic market, and to expand the Middle East, Russia and other advantageous regions. In terms of management, we reduced the size of our service team, streamlined the management, and optimized our personnel allocation according to the actual workload, with a total of 397 employees at the end of 2016, representing a decrease of 63% from 2015. While reducing the overall labor costs and management costs, we have seen significant improvement in per capita output and the capability of individual employee. We timely disposed Bazhou Honghua, a drilling fluid supplier that suffered continuous losses, ensured the survival of the core oil drilling business. In the future, the Company will continue to focus on high-end markets such as the Middle East, Russia and North Africa, aiming at maximizing the availability of existing idle equipment as the main purpose.

3. OFFSHORE ENGINEERING EQUIPMENT AND RELATED PRODUCTS BUSINESS

In 2016, Honghua Offshore fully restructured its business strategy, focusing on the national energy restructuring policy and the global clean energy trends, firmly laying out the LNG industry chain. During the Year, except the delivery of the self-developed Tiger Series drilling rig, we continued to implement the FSP LNG Trial Tank Project and LNG Power Vessel Project. In October 2016, we successfully announced the "Sino-US Integrated Solutions to LNG Industry" and entered into the first offshore LNG platform ("PLNG") construction Heads of Agreement with a total amount of approximately US$1.8 billion, which attracted unprecedented attention of the industry and laid a solid foundation for the Group to implement the layout of the LNG industrial chain.

In the PLNG project, we together with Sino-US top partners initially introduced fixed platform technology into natural gas liquefaction factory design and fully consolidated the advantages of US LNG liquefaction equipment and Honghua's EPC construction. The first set of PLNG will be delivered to clients after modular manufacture, installation and debugging under EPC model in the factory of Honghua Offshore through Honghua's self-developed mobile lifting equipment "Hong Hai" with the world's largest lifting capability.

The FSP LNG tank project started construction from 2016, and completed the major body construction of the 100 cubic meters aluminum alloy tank and water vapor experiments in March 2017. The following work will be conducted in Honghua Qidong base, including tank insulation installation, assembling and required certification tests of the maintenance system. FSP is the world's most advanced LNG storage tank technology, with advantages of light weight and high volume. In 2017, we will continue to expand the design and development of larger capacity FSP tanks and seek the wider application of FSP tanks in the LNG industry.

Regarding the Honghua Offshore's contracts for the "Construction of Ships" with UDIN signed on August 14, 2014 and the construction contract of one set of semi-submersible drilling rig (Cobra) with Jas Marine's subsidiary signed on 31st October 2014, we have decided to terminate the above two projects due to the failure to reach the conditions mentioned in the aforesaid contracts. Since only a small amount of design resources have been invested into the Cobra construction project in the early stages, we believe that the termination of the above two projects will not have a significant impact on the Company's operations.

QUALITY MANAGEMENT AND RESEARCH AND DEVELOPMENT

Facing the industry downturn, we, as always in the past, strictly adheres to our general direction of the "zero defects" and "Overall quality management", as well as improving our R&D capabilities, reserving our technology capability in preparation for the recovery of the industry. At the beginning of 2016, Honghua has been selected as the first batch of iconic industrial enterprise of intelligence property application, announced by Ministry of Industry and Information. During the Year, we obtained 64 licensing patents and 29 authorized inventions. As of December 31, 2016, the Group has applied for a total of 554 patents, including 426 authorized patents.

We have always responded to the "High-end equipment intelligent manufacturing" policy, and constantly deepens intelligent R&D of our drilling rig. During the Year, we have made a number of breakthroughs in intelligent manufacturing, including the completion and sale of the automation equipment for land rigs, the achievements of the "Anti-stick sliding vibration control system (anti-stick slip)" project successfully applied on Honghua service team's top drivers. The R&D results of the "New Generation DBS Control System Design" and "iDrillOS Rig Integrated Operating System" project have also been successfully applied on shale gas rigs.

Leading by the spirit of "Innovation and entrepreneurship", we have continued to actively explore and incubate innovative services business. Since 2015, the first batch of innovation projects we have set up, including Han Zheng Detection Technology Co., Ltd. ("Hanzheng"), Sichuan Honghua Skill Engineering Technology Services Limited ("Skill") and Sichuan XReal Technology Co., Ltd. ("XReal"), have achieved rapid growth. In 2016, Han Zheng Detection has signed more than 60 contracts and provided service to 73 customers, while expanding the business cooperation with DTC, 241,174 and other major testing service market; it is successfully shifting its business from the traditional oil equipment, metal materials industry to high-speed rail, aviation, special equipment testing and other relevant areas. Skill has established its service stations in Xinjiang, Shenzhen and Dubai, and the establishment of Egypt service station is currently in progress; and established a good relationship with new custom, such as EOG, Shell, and etc. Focused on the oil and gas industry and closely following VR technology and equipment development trends, XReal has become Honghua's pioneer in "Internet + Industry", and create a new name card for Honghua in the intelligent oil and gas industry.

In the future, we plan to continue devote the R&D efforts in automated and intelligent drilling rig, and continue optimize our existing service network and service capabilities, expanding and enriching our cross-industry service products based on our innovative services companies established on our internal innovation platform. At the same time, in order to capture the opportunities in oil and gas production and transportation and clean energy market, we continued to develop new innovative products as well as integrated solutions in the LNG and unconventional oil and gas equipment and exploitation. During the Year, we continued to carry out the R&D and manufacture of FSP LNG trial tanks and PLNG. We also did market research and prepared technical solutions for LNG power ships and LNG secondary distribution centers.

HUMAN RESOURCE MANAGEMENT

In 2016, we continued to adjust our human resources structure, improved the human resources management environment to ensure timely response to the operational requirements of the business system. As of December 31, 2016, the total number of the Group's employees was 3,891, including 466 R&D staffs or 12.0% of the total staff. We are more concerned about the performance and work efficiency of employees, and have established staff communication mechanism and enhanced the construction of training system, as well as the core staff incentives and stability, in hopes of creating a professional environment to meet the needs of high-performance staff. Meanwhile, we have incorporated the talent development system into the operation process. During the Year, the Group organized a total of approximately 518 training programs focusing on skills upgrading and qualification training etc., covering 17,669 participants and more than 78,000 training hours. The training programs placed focuses on broadening staff's thought and vision, improving their skills and ability and enhancing the perception on the Company's cultural identity and developing a sense of belonging.

With the gradual recovery of the industry, we will take an appropriate talent allocation of the key technology personnel, management talents, high-skilled staff and marketing talents in advance, and well planned for talents acquisition and internal training and cultivation. In view of the Group's strategic needs and the development of new projects, we will make more efforts in optimization of human resources management systems and processes, to enhance the per capita performance. We will also adjust the staff salary incentive policy, staff job competency standards, staff growth plan project, key job competition, project rotation, combined with the performance evaluation indicators of different business units, with an aim to provide clear staff personal performance KPI and achieve the HR strategy.

Staff at "Aurora" working site

FUTURE OUTLOOK

The oil and gas industry was hardly going forward in 2016. After experiencing the bottom at the beginning of 2016, international oil prices rebounded with vibration. OPEC and non-OPEC countries' implementation of the supply-cut agreement will provide the basis for the rise in oil prices in 2017, while the overall situation of oil and gas industry is expected to further improve. The consolidated market forecasts on the international oil prices shows the oil prices will fluctuate around $50–60 dollars per barrel. On the other hand, the pace of domestic oil and gas system reform is accelerating. In 2016, the National Energy Administration formulated the "2016 Energy Work Guidance Opinion", proposing to deepen the reform of the oil and gas system and to promote the separation of oil and gas pipelines and network, the opening of oil and gas pipeline network facilities, the improvement of oil and gas price mechanism as well as the price marketization of natural gas. In 2017, "Opinions on the deepening of oil and gas system reform" is expected to be launched to provide guidance for oil and gas industry development and reform.

In 2017, the major strategic task of the Group should be "Introducing ASIC as the largest shareholder, business integration & realizing synergies, transformation to an integrated solutions service provider combining light equipment manufacturing and services". After the introduction of CASIC as strategic shareholder, it will rely on Honghua leading position to build up its energy equipment manufacturing and service sector, to develop a sound overall strategic planning based on oil and gas industrial chain, and to establish an integrated business model promoting synergetic development of regional resources (overseas) exploitation, integrated service solutions, oil and gas energy trading, equipment service and engineering, and the downstream market. We expect that the subscriptions will strengthen the Group's cash position, improve liquidity and greatly promote the existing business development of each section, we will also achieve synergy with CASIC in market and technology research and development, via our respective channels and business resources. The two parties will form a joint player in the global regional market to secure more major new orders. Simultaneously, regarding the major oil and gas equipment and technology R&D topics, such as the underground tool products involved in rotation steerable technology, we will make every efforts to develop key technology and launch new products, in order to the capture the opportunity raising from the recovery of the oil and gas industry and to bring the greatest return for shareholders.

For land equipment sector, the Group targets to focus on the Middle East, Russia as well as the North and South American market in 2017, with land drilling rigs and parts and components as a strategic basis to speed up the reasonable layout of the diversified business. We also plan to achieve several major changes namely shifting from large land drilling equipment to the precisely controlled underground equipment market; from an equipment manufacturer to an engineering project contractor to provide facilities for oil and gas field development and downstream applications and from an equipment provider to an equipment-based integrated services provider. Honghua will improve customer satisfaction and brand influence through provision of quality service and enhancing customer value through systematic and intelligent services and driving secondary sales. We hope to join hands with customers to welcome the recovery of the industry.

For oilfield engineering services sector, we will adjust the overseas market development strategy with the core focus on the well-established Middle East and Russia as well as actively expanding into new markets. We will continue to strengthen market development and investment. With the help of the Group's new development opportunities and strategic shareholders of CASIC, we will break through the two bottlenecks of "qualification" and "funding", striving to obtain the turnkey project contract and seeking to increase the quantity of work. Despite of all challenges laid ahead, Honghua oil and gas engineering service will ensure the safe and efficient high-quality execution of orders, and make full use of the energy cooperation opportunities brought by the "Belt and the Road" policy to promote the mode of EPC's turnkey projects and trade businesses.

For offshore sector, based on the prospects for the development of natural gas industry and the core advantages of the ocean, we will continue to adhere to the concept of "creative manufacturing" with the overall layout of the "LNG industry chain in the mid-and-down-streams" as the focus of the super marine industry. In the golden development period of the LNG industry, Honghua will grasp more opportunities for LNG high-end equipment manufacturing, and continue to integrate the global advantages of technology, engineering, capital and downstream application market resources with PLNG projects, continuing to explore the Group's diversified development including PLNG, LNG storage tanks, inland river vessels as well as power generation barges.

As of March 28, 2017, we have had land drilling equipment backlogs worth approximately RMB4.080 billion, which includes 14 sets of land drilling rig backlogs, with an aggregate amount of approximately RMB909 million.

As of March 28, 2017, we have had offshore engineering equipment backlogs worthing approximately RMB1.155 billion.

As of March 28, 2017, we have had oil and gas engineering service contracts worthing approximately RMB113 million.

FINANCIAL REVIEW

During the Year, the Group's gross profit and loss attributable to shareholders of the Company amounted to approximately RMB278 million and RMB610 million respectively, and gross margin and net margin amounted to approximately 11.8% and -26.0% respectively. Last Year, gross profit and loss attributable to shareholders of the Company amounted to approximately RMB947 million and RMB252 million respectively, gross margin and net margin amounted to approximately 22.4% and -6.0% respectively. During the Year, loss attributable to shareholders of the Company increased substantially, which was attributed to the downturn of the global oil and gas market along with a significant cut of capital expenditure of the main oil companies, resulting a significant decrease in the Group's revenue.

TURNOVER

During the Year, the Group's turnover amounted to approximately RMB2,344 million, representing a decrease of RMB1,875 million or 44.5% as compared to RMB4,219 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 an 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

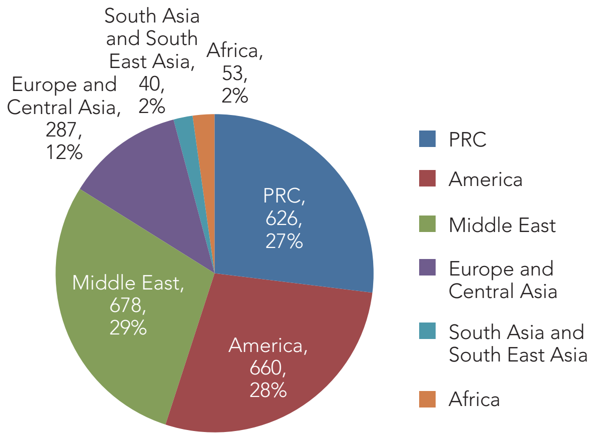
The Group's revenue by geographical segment during the Year: (1) The Group's export revenue amounted to approximately RMB1,718 million, accounting for approximately 73.3% of total revenue, representing a decrease of RMB1,763 million as compared to Last Year; (2) Mainland China's revenue amounted to approximately RMB626 million, accounting for approximately 26.7% of total revenue, representing a decrease of RMB112 million as compared to Last Year.

The revenues from different regions are affected by oil and gas exploration activities in various areas of the world. The Group actively explores the international business, constantly insists on improving the quality of products and services, coping the severe operating conditions under the low oil price.

Revenue by Geographical Areas

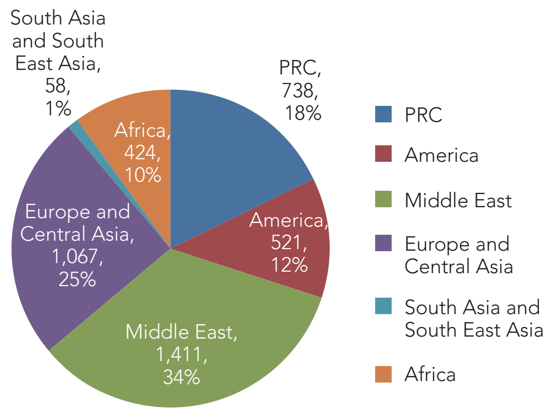
Year ended 31 December 2016

Expressed in RMB'million



Year ended 31 December 2015

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 RMB760 million, representing a decrease of RMB1,648 million or 68.4% as compared to RMB2,408 million Last Year.

During the Year, external revenue from offshore drilling rigs amounted to approximately RMB273 million, representing an increase of RMB69 million or 33.8% as compared to RMB204 million Last Year.

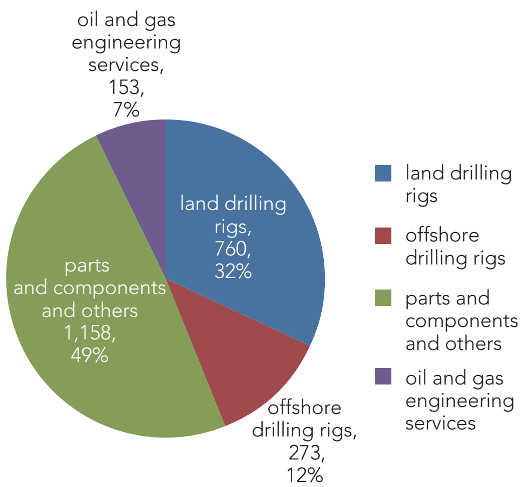
During the Year, external revenue from parts and components and others amounted to approximately RMB1, 158 million, representing a decrease of RMB110 million or 8.7% as compared to RMB1, 268 million Last Year.

During the Year, revenue from oil and gas engineering services amounted to approximately RMB153 million, representing a decrease of RMB186 million or 54.9% as compared to RMB339 million Last Year.

Revenue by business categories

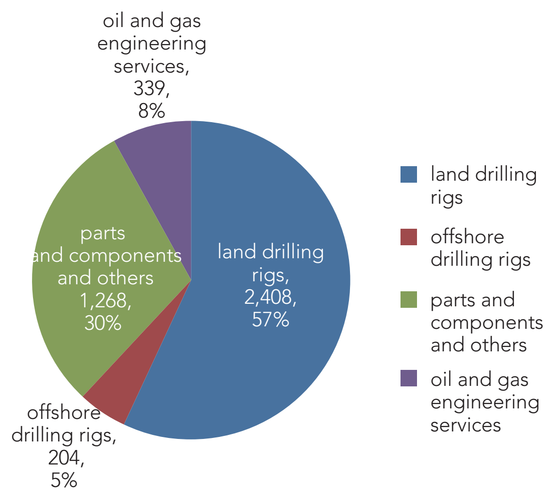
Year ended 31 December 2016

Expressed in RMB'million



Year ended 31 December 2015

Expressed in RMB'million



COST OF SALES

During the Year, the Group's cost of sales amounted to approximately RMB2,066 million, representing a decrease of approximately 36.9% or RMB1,207 million as compared to RMB3,273 million Last Year, mainly due to the decline in sales volume and the Group's relentless focus on reducing costs and improving efficiency ,such as the decrease of material consumption and employee benefit expense, etc. The decline of the sales cost was lower than the decline of the sales revenue which was mainly affected by the substantial impairment provision of the inventory and fixed assets, amounting to approximately RMB86 million, the idle time cost of the Group's offshore drilling rigs, and oil and gas engineering services part amounting to approximately RMB 130 million.

GROSS PROFIT AND GROSS MARGIN

During the Year, the Group's gross profit amounted to approximately RMB278 million, representing a decrease of RMB669 million or 70.7% as compared to RMB947 million Last Year.

During the Year, the Group's overall gross margin was 11.8%, representing a decrease of 10.6 percentage points as compared to 22.4% Last Year. This was mainly affected by the decline of the gross profit per unit and the impairment of the Group's inventories and fixed asset. The reason of the decline of gross profit was that the fixed cost decreased at a lower percentage than the revenue's decreasing, especially affected by the Group's offshore drilling rigs, and oil and gas engineering services part.

EXPENSES IN THE YEAR

During the Year, the Group's distribution expenses amounted to approximately RMB372 million, representing a decrease of RMB101 million or 21.4% as compared to RMB473 million Last Year. The decreasing rate was higher compared to Last Year, amounting to 34.7%, if the rig insurance premium, enjoying government subsidy, amounting to approximately RMB64 million, was deducted. 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 RMB654 million, representing an increase of RMB70 million or 12.0% as compared to RMB584 million Last Year. The decreasing rate was 14.0% compared to Last Year, if the increased impairment losses on trade and other receivables, amounting to approximately RMB152 million, was deducted. 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 RMB86 million, representing a decrease of RMB176 million, or 67.2% as compared to net finance expense of RMB262 million Last Year. This was mainly attributable to the net foreign exchange gain, amounting to 144 million. During the Year, compared to the net foreign exchange loss, amounting to 91 million Last Year due to the impact of the devaluation of the RMB. The Group also optimized debt scale according to the Group's sales volume and the increasing net foreign exchange profit during the Year.

LOSS BEFORE INCOME TAX

During the Year, loss before income tax of the Group amounted to approximately RMB696 million, representing an increase of RMB394 million or 130.7% compared to loss before income tax of RMB302 million Last Year.

INCOME TAX EXPENSE

During the Year, the Group's income tax expense amounted to approximately RMB-69 million as compared to the income tax expense of approximately RMB-36 million Last Year.

LOSS FOR THE YEAR

During the Year, the Group's loss amounted to approximately RMB627 million, as compared to a loss of approximately RMB266 million Last Year. Among which, loss attributable to equity shareholders of the Company was approximately RMB610 million, while loss attributable to non-controlling interests was approximately RMB17 million. During the Year, net margin was -26.0%, as compared to a net margin of -6.0% Last Year.

EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION ("EBITDA") AND EBITDA MARGIN

During the Year, EBITDA amounted to RMB-315 million, as compared to approximately RMB314 million 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 -13.4%, as compared to 7.4% Last Year.

DIVIDENDS

As at 31 December 2016, the Board does not recommend 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 2016, the Group's bank borrowings and senior notes amounted to approximately RMB4, 299 million, representing a decrease of approximately RMB365 million as compared to 31 December 2015. Among which, borrowings repayable within one year amounted to approximately RMB2,213 million, representing a decrease of RMB120 million or 5.1%, as compared to 31 December 2015.

DEPOSITS AND CASH FLOW

As at 31 December 2016, the Group's cash and cash equivalents amounted approximately RMB544 million, representing a decrease of approximately RMB558 million as compared to 31 December 2015.

During the Year, the Group's net operating cash inflow from operations amounted to approximately RMB61 million, net cash inflow from investing assets, during the Year amounted to approximately RMB43 million; net cash outflow from financing activities amounted to approximately RMB684 million.

ASSETS STRUCTURE AND CHANGES THEREOF

As at 31 December 2016, the Group's total assets amounted to approximately RMB11,268 million, representing a decrease of approximately RMB1,915 million or 14.5% as compared to 31 December 2015. Among which, current assets amounted to approximately RMB6,852 million, accounting for approximately 60.8% of total assets, representing a decrease of RMB1,538 million as compared to 31 December 2015, which were mainly decrease of receivables, cash and cash equivalent. Non-current assets amounted to approximately RMB4,416 million, accounting for approximately 39.2% of total assets, representing a decrease of approximately RMB377 million as compared to 31 December 2015, and were mainly attributable to the decrease in long term trade receivables.

LIABILITIES

As at 31 December 2016, the Group's total liabilities amounted to approximately RMB7,184 million, representing a decrease of approximately RMB1,224 million as compared to 31 December 2015. Among which, current liabilities amounted to approximately RMB5,023 million, accounting for approximately 69.9% of total liabilities, representing a decrease of approximately RMB979 million as compared to 31 December 2015. Non-current liabilities amounted to approximately RMB2,161 million, accounting for approximately 30.1% of total liabilities, representing a decrease of approximately RMB245 million as compared to 31 December 2015. As at 31 December 2016, the Group's total liabilities/total assets ratio was approximately 63.8%, the same as 31 December 2015.

EQUITY

As at 31 December 2016, total equity amounted to RMB4,083 million, representing a decrease of RMB691 million as compared to 31 December 2015. Total equity attributable to equity shareholders of the Company amounted to approximately RMB3,899 million, representing a decrease of RMB653 million as compared to 31 December 2015. Non-controlling interests totaled to approximately RMB184 million, representing a decrease of RMB39 million as compared to 31 December 2015. During the Year, the Group's basic loss per share were RMB19.18 cents, and diluted loss per share were RMB19.18 cents.

CONTINGENT LIABILITIES

A sales agency filed lawsuits against the subsidiaries of the Company, alleged that it was owed commission in excess of US$18, 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 revoked 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 2016.

Having consulted the Group's legal advisors, management considered that the Group had legal and factual merit to defend in the lawsuit. Accordingly, management determined that it was not probable that the outcome of the lawsuit will be 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 RMB176 million, representing a decrease of approximately RMB60 million as compared to Last Year.

As at 31 December 2016, the Group had capital commitments of approximately RMB280 million, which will be used for the construction of Jiangsu Qidong offshore manufacturing base and expansion of the Group's business as well as its production capacity.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Chen Yajun (陳亞軍先生), aged 54, has been an Executive Director of the Company and Chairman of the Board since 29 March 2017. Mr. Chen is currently a director, general manager and the vice secretary of the Party committee of China Aerospace Automotive Co., Ltd. Mr. Chen joined in CASIC Group since 1988 and had leaderships in the second institute, the forth research institute of CASIC Group and China Aerospace Automotive Co., Ltd. respectively. Mr. Chen obtained Bachelor's degree and Master's degree from Beijing Institute of Technology in 1985 and 1988 respectively.

Mr. Zhang Mi (張弭先生), aged 60, has been an Executive Director of the Company since June 2007, the Chairman of the Company from June 2007 to March 2017 and the vice Chairman of the Company since March 2017. 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
Sichuan 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	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 50, has been an Executive Director of the Company since 18 January 2008. He has been the senior vice-president of the Company since 1 January 2016. In 1990, Mr. Ren earned a Bachelor's degree in mining machinery from Southwest Petroleum University, located in Sichuan Province, 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 Sichuan Honghua Petroleum Equipment Co., Ltd.

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
Sichuan Honghua International Co., Ltd.	director	Since 13 January 2004
	and chairman	Since 20 May 2014
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
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 53, 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 Honghua 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
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 64, has been a Non-executive Director of the Company since 26 May 2008 and resigned with effect from 29 March 2017. 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 52, has been the alternate director to Siegfried Meissner，a Non-executive director of the Company, since 27 December 2012 and terminated the term of office with effect from 29 March 2017. 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.

Mr. Han Guangrong (韓廣榮先生), aged 55, has been a Non-executive Director of the Company since 29 March 2017. Mr. Han is currently the deputy director of the international-business department of CASIC and the vice chairman of Aerospace Hi-tech Holding Group Co., Ltd. Mr. Han joined in CASIC Group since 1984 and had leaderships in the third institute of CASIC Group and CASIC. Mr. Han obtained Bachelor of engineering degree from Harbin Institute of Technology and Master of engineering degree from Beihang University in 1984 and 1997 respectively.

Mr. Chen Wenle (陳文樂先生), aged 37, has been the Non-executive Director of the Company since 29 March 2017. Mr. Chen is currently the director of corporate plan and development department of Shenzhen Aerospace Industry Technology Research Institute Co., Ltd. and chairman of Zhuhai Aerospace Science and Technology Innovation Industrial Co., Ltd. Mr. Chen has worked in Shum Yip Group Limited and joined in CASIC Group in 2011. Mr. Chen obtained Bachelor of finance degree from Shandong University in 2003 and Master of economics degree from Shanghai University of Finance and Economics in 2006.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Liu Xiaofeng (劉曉峰先生), aged 54, 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 and Cinda International Holdings 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 53, 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 and Yunfeng Financial 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 54, 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 74, has been an Independent Non-executive Director of the Company since 14 April 2009 and resigned with effect from 29 March 2017. 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 64, has been an Independent Non-executive Director of the Company since 20 June 2011 and resigned with effect from 29 March 2017. 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. and CNHK Media Limited. Mr. Guo graduated with a Diploma in Law from China People's University in 1984.

Ms. Su Mei (蘇梅女士), aged 48, has been an Independent Non-executive Director of the Company since 29 March 2017. Ms. Su is currently the chief executive officer of Beijing YaMeiHeZhong Consultanting Co., Ltd. Ms. Su once had leaderships in Discipline Inspection Commission of Sichuan Province and Sichuan Development and Reform Commission and State-owned Assets Supervision and Administration Commission of State Council, worked as the vice-president in Sichuan Provincial Investment Group, the chairman of Sichuan Chuantou Water Group and vice-president of Joneson Group. Ms. Su obtained Doctor's degree in finance and Master's degree in securities investment from Sichuan University in 2013 and 1999 respectively, and obtained Bachelor's degree of Chinese from Shandong University in 1991.

SENIOR MANAGEMENT

Mr. Zhao Ping (趙平先生), aged 60, has been the Human Resources Director of the Company from 26 March 2015 to 7 December 2016 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.

Ms. Xu Chuan (徐川女士), aged 51，has been the Human Resources Director of the Company since 7 December 2016. Ms. Xu joined in the Company in 2001 and has been the vice general manager of Honghua Company, the vice general manager of Sichuan Honghua International Co., Ltd. and the general manager of Egyptian Petroleum HH Rigs Manufacturing CO. S.A.E.. Ms. Xu obtained the EMBA degree in Southwest Jiaotong University and bachelor's degree in Southwest Petroleum University in 2005 and 1987 respectively.

Mr. Zhang Cong (張聰先生), aged 61, has been a Vice-president of the Company from 27 April 2008 to 29 March 2017, 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. Dang Nan (黨楠先生), aged 52, has been the Vice-president of the Company since 29 March 2017. Mr. Dang is currently the vice-president, member of the party committee and the chief information officer of China Volant Industry Co. Ltd. (CPMIEC). Mr. Dang graduated from Beihang University and has a Master's degree of Technology.

Mr. Yuan Hai (袁海先生), aged 39, 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.

Ms. Xu Xiufang (許秀芳女士), aged 45, has been the Chief Financial Officer of the Company since 29 March 2017. Ms. Xu worked in CASIC Group since 1994 and was engaged in accounting and financing. Ms. Xu currently is the chief accountant of the First Research Institute of CASIC Group. Ms. Xu obtained the Master's degree of management in Huazhong University of Science and Technology in 2005 and Bachelor's degree of economics in Beijing Forestry University in 1994.

Mr. He Bin (何斌先生), aged 43, 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. Lee Mei Yi (李美儀女士), aged 49, has been a Joint Company Secretaries 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.

CORPORATE GOVERNANCE REPORT

The Board presents this Corporate Governance Report in the Group's annual report for the year ended 31 December 2016.

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 set 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 2016, save for certain deviations from the code provision 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 2016.

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

The Board oversees the Group's businesses, strategic decisions and performance and should take decisions objectively in the best interests of the Company.

The Board should regularly review the contribution required from a Director to perform his responsibilities to the Company, and whether the Director is spending sufficient time performing them.

BOARD COMPOSITION

The Board currently comprises 10 Directors, consisting of 4 Executive Directors, 2 Non-executive Directors and 4 Independent Non-executive Directors. The biographical details of Directors are set out under "Biographical Details of Directors and Senior Management"on pages 24 to 29.

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.

During the year ended 31 December 2016, Mr. Zhang Mi was the Chairman and President (Chief Executive) of the Company. He was one of the founders of the Group and possesses with knowledge and experience in the industry and the related industries. The Board believed that vesting the roles of both Chairman and President (Chief Executive) in Mr. Zhang Mi provided the Company with strong and consistent leadership and allowed for effective and efficient planning and implementation of business decisions and strategies. The Board was of the view that it was in the best interests of the Group to have the two roles performed by Mr. Zhang Mi so that the Board could have the benefit of a chairman who is knowledgeable about the business of the Group and was 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.

On 29 March 2017, Mr. Zhang Mi stepped down from the position as Chairman of the Board and was re-designated as the Vice-Chairman of the Board. Mr. Chen Yajun has been appointed as Chairman of the Board with effect from 29 March 2017.

The positions of Chairman and President are held by Mr. Chen Yajun and Mr. Zhang Mi respectively with effect from 29 March 2017. The Company has complied the code provision A.2.1 of the CG Code on the roles of chairman and chief executive that should be separate and should not be performed by the same individual with effect from 29 March 2017.

INDEPENDENT NON-EXECUTIVE DIRECTORS

During the year ended 31 December 2016, the Board at all times met the requirements of the Listing Rules relating to the appointment of independent non-executive directors representing 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.

On 29 March 2017, Mr. Shi Xingquan and Mr. Guo Yanjun resigned as the Independent Non-executive Directors while Ms. Su Mei was appointed as the Independent Non-executive Director. Ms. Su Mei will retire by rotation and being eligible, offer herself for re-election at 2017 annual general meeting.

The Board currently comprises four Independent Non-executive Directors with two of whom possessing appropriate professional qualifications or accounting or related financial management expertise, which meets the requirements of the Listing Rules relating to the appointment of independent non-executive directors representing one-third of the Board.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

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 DIRECTORS

The Board is responsible for leadership and control of the Company; is collectively responsible for directing and supervising the Company's affairs; 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 directly, and indirectly through its committees, leads and provides direction to management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place. The Board 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.

The Independent Non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgement on corporate actions and operations.

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.

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 shall keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that their contribution to the Board remains informed and relevant.

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 would 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 2016, 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 specific written terms of reference which deal clearly with their authority and duties. 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

During the Year, the Audit Committee comprised 5 Independent Non-executive Directors, namely, Mr. Qi Daqing (Chairman), Mr. Liu Xiaofeng, Mr. Chen Guoming, Mr. Shi Xingquan and Mr. Guo Yanjun. Following the resignation of Mr. Shi Xingquan and Mr. Guo Yanjun as members of the Audit Committee on 29 March 2017, Ms. Su Mei, who has been appointed as Independent Non-executive Director with effect from 29 March 2017, has been appointed as a member of the Audit Committee.

There are currently 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 internal audit function; 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 2016, 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 2016 and the attendance records are set out under "Directors' Attendance Records" on page 40.

REMUNERATION COMMITTEE

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

On 29 March 2017, Mr. Chen Yajun and Ms. Su Mei, who have been appointed as Executive Director and Independent Non-executive Director respectively with effect from 29 March 2017, have been appointed as members of the Remuneration Committee.

The primary objectives of the Remuneration Committee include the following:

- To make recommendations to the Board on the remuneration policy and structure of the Directors and the senior management, the incentive mechanism, and the establishment of procedures for developing the remuneration policy and the incentive mechanism;

- 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 2016 and the attendance records are set out under "Directors' Attendance Records" on page 40.

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 Mr. Zhang Mi (Chairman), Mr. Ren Jie, Mr. Liu Zhi, Mr. Shi Xingquan and Mr. Liu Xiaofeng during the year ended 31 December 2016. Following the re-designation of Mr. Zhang Mi from the Chairman of the Strategic Investment and Risk Control Committee as member of the Strategic Investment and Risk Control Committee and the resignation of Mr. Liu Zhi and Mr. Shi Xingquan as members of the Strategic Investment and Risk Control Committee on 29 March 2017, Mr. Chen Yajun, who has been appointed as Executive Director with effect from 29 March 2017, has been appointed as the Chairman of the Strategic Investment and Risk Control Committee.

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

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

The Strategic Investment and Risk Control Committee normally meets at least once a year for reviewing the investment and risk control issues. The Strategic Investment and Risk Control Committee held two meetings during the year ended 31 December 2016 and the attendance records are set out under "Directors' Attendance Records" on page 40.

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 2016, 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 2016 are set out below:

	Attendance/Number of Meetings				
Name of Director	**Board**	**Audit Committee**	**Remuneration Committee**	**Strategic Investment and Risk Control Committee**	**Annual General Meeting**
Zhang Mi	04/04	–	01/01	02/02	01/01
Ren Jie	04/04	–	–	02/02	01/01
Liu Zhi	03/04	–	–	01/02	0/01
Siegfried Meissner	0/04	–	–	–	0/01
Popin Su (the alternate director to Siegfried Meissner)	04/04	–	–	–	0/01
Liu Xiaofeng	03/04 01*/04	02/02	01/01	02/02	01/01
Qi Daqing	04/04	02/02	01/01	–	01/01
Chen Guoming	04/04	02/02	–	–	0/01
Shi Xingquan	02/04	01/02	–	01/02	0/01
Guo Yanjun	04/04	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 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 2016.

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 74 to 80.

Where appropriate, a statement from 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 2016, the remuneration paid to the Company's external auditors, Messrs PricewaterhouseCoopers, is set out below:

Service Category	Fees (in Renminbi)
Audit Services	3,178,000
Non-audit Services	
– Reviewing interim financial statements	1,200,000
– Other	0
Total	4,378,000

The auditors' remuneration disclosed in note 8 to the consolidated financial statements included the remuneration paid to PricewaterhouseCoopers as detailed above and the remuneration paid to domestic auditors of the Company's subsidiaries.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems.

The Audit Committee assists the Board in leading the management and overseeing their design, implementation and monitoring of the risk management and internal control systems.

The Company's risk management and internal control systems have been developed with the following principles, features and processes:

The Company's functional departments including finance, investment, law, audit and human recourse and the business departments of the subsidiaries assume primary responsibilities in the risk management and internal control system.

All departments conducted internal control assessment regularly to identify risks that potentially impact the business of the Group and various aspects including key operational and financial processes, regulatory compliance and information security. Self-evaluation has been conducted annually to confirm that control policies are properly complied with by each department.

The management, in coordination with division/department heads, assessed the likelihood of risk occurrence, provide treatment plans, and monitor the risk management progress, and reported to the Audit Committee and the Board on all findings and the effectiveness of the systems.

The management has reported to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems for the year ended 31 December 2016.

The Internal Audit Department is responsible for performing independent review of the adequacy and effectiveness of the risk management and internal control systems. The Internal Audit Department examined key issues in relation to the accounting practices and all material controls and provided its findings and recommendations for improvement to the Audit Committee.

The Board, as supported by the Audit Committee as well as the management report and the internal audit findings, reviewed the risk management and internal control systems, including the financial, operational and compliance controls, for the year ended 31 December 2016, and considered that such systems are effective and adequate. The annual review also covered the financial reporting and internal audit function and staff qualifications, experiences and relevant resources.

Whistleblowing procedures are in place to facilitate employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

The Company has developed its disclosure policy which provides a general guide to the Company's Directors, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries.

Control procedures have been implemented to ensure that unauthorized access and use of inside information are strictly prohibited.

FINANCIAL MANAGEMENT

The Company attaches great importance to the construction and improvement of the risk management and the internal control system of finance, proactively constructs and completes each of the risk management and the internal controls of finance 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.

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 SECRETARY

Lee Mei Yi of Tricor Services Limited, an external service provider, has been appointed by the Company as one of its Joint Company Secretaries since 7 July 2015. The primary contact person at the Company is He Bin, one of the Joint Company Secretaries of the Company.

All Directors have access to the advice and services of the Joint Company Secretaries on corporate governance and board practices matters.

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

SHAREHOLDERS' RIGHTS

To safeguard 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, Sichuan, 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.

The Group hereby publishes its first Environmental, Social and Governance Report of the Group for the year ended 31 December 2016, the purpose of which is to inform our stakeholders that we continue to engage in a variety of activities with respect to protecting the environment, improving the standards of employment and labor services, and making contributions to the community.

I. ENVIRONMENTAL

REDUCING EMISSIONS OF POLLUTANTS

The Group has been trying all forms of means to protect the environment and minimize the impacts brought by our operations on the environment. Our important production-based subsidiaries formulated pollution control and management procedures with respect to wastewater, waste gas, noise, and solid waste, and appointed professional inspection companies to conduct inspections over the emission level of wastewater, waste gas, and noise on an annual basis, the findings of which are in compliance with national and local standards.

For example, Honghua Company manages pollutants as below:

1. Wastewater: We separate sewage from rainwater by discharging the sewage into the municipal sewage pipeline under our sewage permit.

2. Waste gas: To meet the emission standards, spray exhaust is treated by the spray treatment system, and sandblasting exhaust is treated by the dust removal system. Currently, the Company is in possession of various spray booths, including three mobile plasma spray booths, one mobile activated carbon spray booths, and two fixed activated carbon spray booths.

3. Noise: Low-noise equipment will be purchased or production processes will be improved.

4. Solid waste: General solid waste is stored separately from hazardous waste and recycled by the Guanghan Urban Environmental Sanitation Administration. Duly disposal of hazardous waste will be handed over to the qualified institutions.

Environmental factors	Inspection results	Pollution factors	Measures
Wastewater	Passed	SS and petroleum	It is connected to the municipal sewage pipeline;
Waste gas	Passed	Particles	Dust removal and spray treatment equipment is subject to daily inspection; Dust removal and spray treatment equipment is subject to regular maintenance and repair; Waste gas is treated to meet the emission standards.
Noise	Passed	Noise at factory premises	Equipment is subject to regular maintenance and repair; Strong noise operations are cancelled. For example, commissioning the power generation room is shifted to alternating current from a diesel engine.

ENERGY

As energy provides the power for operating equipment and production activities, and reasonable use of energy plays an important role in reducing product costs, the Group has been promoting energy conservation and emission reduction.

Take Honghua Offshore sector for example, following years of energy exploration and research, designated department competent in energy management formulated energy control documents and strengthened on-site inspection and control, thus gradually minimizing on-site energy loss. Upon the issuance of "Management Measures and Assessment Rules for Equipment and Energy" and other related documents, amendments were made to the management measures with respect to operations driven by dynamic energy, and assessment rules were incorporated, effectively improving energy and equipment management. The specific management measures include:

1. As the source of gas supply is the gas station, we mainly track the gas flow at the gas station by calculating the liquid level in both the morning and evening every day, as well as extrapolating the daily consumption volume. Based on the analysis over energy consumption by region, we will identify the source of leakage;

2. To track pressure, we shut down the master gas valves at modular plants at night and inspect the conditions of pressure relief within the pipeline. Based on the pressure level, we focus on identifying any point of leakage;

3. We inspect the use of energy in our daily production and offices, and maintain a statistics record of any issue identified. In addition, any issue identified will be immediately rectified;

4. We conduct special weekly inspections over energy safety, and request the relevant department to rectify their problems through our office automation software. The rectification results will be verified to ensure the safe operation of dynamic energy and reduce the waste of dynamic energy

Since its establishment, Honghua Offshore sector has never been subject to any administrative penalties imposed by the environmental authorities.

HEALTH AND SAFETY

The Group always stresses the importance of occupational health and safety management, and its important production-based subsidiaries have a set of safety production management system in place.

By constantly persisting in the policy of "pursuing occupational health and production safety, minimizing environmental pollution, and continuing to improve the performance" under the principles of "people orientation and safety first", Honghua Company manages various issues relating to safety, environment, and occupational health. In accordance with the requirements under the "Work Safety Law", the Safety and Environmental Protection Office was established under our Safety and Environmental Protection Commission to manage daily affairs. Currently, the Safety and Environmental Protection Office is comprised of a total of eight members, three of which obtained the national registered safety engineering qualifications. In 2011, Honghua Company established the occupational health and safety management system and the environmental management system, and obtained the ISO14001:2004 certificate and the OHSAS18001:2007 certificate issued by DNV GL. In 2012, the Secondary Work Safety Standardization Enterprise Qualification was obtained. In 2016, no safety accidents involving serious injury or above was found.

Sichuan Honghua Electric Co., Ltd. ("Honghua Electric") persists in the work safety policy of "people orientation, prevention first, legal compliance, and advancement in harmony", as well as the supervision and management principles of "all employees, all process, all dimensions, and all weather". By maximally pursuing zero accidents, zero harm against physical health, and zero damages to the environment under these policy and principles, Honghua Electric fully implements the Health, Safety and Environment (HSE) management system to deliver an international first-rate HSE performance. In November 2011, Honghua Electric obtained the relevant certificates with respect to OHSAS 18001 "Occupational Health and Safety Management" and ISO14001 "Environmental Management System — Requirements with Guidance for Use" issued by DNV GL upon approval.

During the Year, 66 employees of Honghua Electric completed the corporate safety education training programs in accordance with the relevant requirements. These training programs included occupational health management certification, work safety personnel and manager certification, certification of internal auditor under ISO14001: 2015 "Environmental Management System — Requirements with Guidance for Use", and specialty operator certification. Among which, three employees completed the occupational health management certification; two completed work safety personnel certification (one at the local level and one at Sinopec); five employees completed work safety manager certification; 34 employees completed specialty operator certification; 22 employees completed internal auditor certification. During the Year, two events were held, namely, the "Work Safety Month" in June and the "Cherish Lives and Care for Health" seminar in July. The former one aimed to mainly identify safety hazards by motivating all employees to participate in the elimination of safety hazards, while the latter one focused on promoting knowledge about personal health and first aid.

II. SOCIAL

EMPLOYEE RIGHTS

The Group insists on treating employees equally, regardless of their nationality, ethnicity, race, sex, religious belief, and cultural background, resolutely prohibits the employment and use of child labor, and rejects all forms of forced and compulsory labor.

Female and male employees of the Company enjoy the same rights. The Group stresses the importance to the rights and interests of female employees by implementing the same salary package for all employees, whether female or male, to achieve equal pay. By implementing the relevant laws and regulations promulgated and formulated by the PRC government concerning the rights and interests of women, the Group ensures that female employees enjoy legitimate maternity leave, and activities organized by labor union for female employees or a half-day leave on the Women's Day on 8 March.

LABOUR STANDARDS

The Group strictly complies with the Labor Law of the PRC, the Labor Contract Law of the PRC and the relevant laws and regulations promulgated by the place where our shares are listed. The Group is a multinational conglomerate that follows the relevant international conventions approved by the PRC government and the relevant laws and regulations of the place where our business operates. We have established comparatively well-developed employment management systems that cover various areas, including labor contract management, payment, insurance and welfare, performance assessment, staff development training, and leave and holidays.

By valuing the vital interests of our employees, the Group maximally protects the legitimate rights and interests of our employees and retired employees for the purposes of striving to build an interest-sharing mechanism among the Company and employees and amicable employment relationship.

TRAINING AND DEVELOPMENT

In 2016, the Group organized a total of 518 training programs with an aggregate of 78,000 training hours for 17,669 trainees. The major training programs included corporate culture training, middle and senior management training, English language training, skills upgrading training, new technology and knowledge training, new employee training, QHSE training, equipment and standardization training, qualification training, cross-border innovation training, and the Group's special seminars on the planning and fine-tuning of our strategy segment, top-level design, human resources innovation. These programs, focus on broadening the thinking and vision of our employees, enhancing their skills and ability, and their performance quality, safety and innovation awareness, and continuously enhancing the Company's cultural identity and sense of belonging.

Besides employee training, the Group improved the skills and occupational level of our employees by developing internal systems, platforms and institutional mechanisms. First, we streamlined and optimized the professional titles evaluation system and clarified job standards and requirements, the purposes of which are to encourage our employees to improve their own skills and professional performance. Second, we actively worked with all levels of government departments on developing talents cultivation platforms. During the Year, the Group's Chengdu and Guanghan offices were approved to establish the "Chengdu Trainee Training Base" and "Deyang High-skilled Personnel Training Base", respectively. Third, we motivated our employees' active involvement by launching "minor reforms".

WORKING ENVIRONMENT

The Group always provides our employees with a fair working environment under the principles of trust, openness and respect, and ensures a healthy, safe and comfortable workplace. In addition, the Group promotes a simple and happy working atmosphere, encourages our employees to value the quality of life and maintain a good balance of work and life.

To enhance the health of our employees, the Group invites medical or regimen experts from time to time to carry out lectures or physical examinations at the Company to improve their awareness of and attention to physical health.

ANTI-CORRUPTION

To encourage loyalty, diligence, discipline, positivity, and righteousness amongst our employees, the Group has established a duty-induced crime prevention system.

The Group's "Management Guidelines for Workplace Integrity" standardizes the professional conduct of our major management members and clarifies the penalties and treatments based on initiative and guidance. The internal audit department of the Company organizes four major special training sessions, including workplace integrity, compliance and governance, system development, and bidding management, and establishes an alliance mechanism named "Enterprise-Police Alliance" with the local public security authorities.

The Group has also formulated the Anti-Corruption and Whistleblowing Regulations, under which, internal employees and external cooperation units may report corrupt actions and clues found during the course of our business operations via telephone, e-mail, letter and other means of communications to the internal audit department of the Company. Our internal audit department will undertake investigations and evidence collection, and provide the findings of the investigations to the whistleblower. Criminal cases will be transferred to the judiciary, and non-criminal cases will be submitted to the management for internal discussion and settlements.

The Group had no corruption cases and illegal activities involving our employees in 2016.

CONTRIBUTION TO THE COMMUNITY

In October 2016, the Group granted "Honghua" scholarship to 49 outstanding students and 15 outstanding teachers from Tianquan Middle School in Ya'an, Sichuan Province. Under concerted efforts of all teachers and students of the school and extensive support from the community, Tianquan Middle School has become a prominent school across Ya'an in recent years, and ranks amongst top three for consecutive years in term of college entrance examination results in Ya'an.

At the end of the year, the Group attended and made on-spot donations at the caring donation ceremony for the underprivileged held by the Sichuan Provincial Commission of Economy and Informatization in Shuangdian Villiage and Qibaosi Town in, Nanchong City (Sichuan Province).

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 2016.

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 2016 are set out in the consolidated financial statements on pages 81 to 206 of this annual report.

The Board did not recommend a final dividend for the year ended 31 December 2016.

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 and Management Discussion and Analysis 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 18 to 23 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, employee rights, anti-corruption, contribution to the community, etc. and compliance with relevant laws and regulations that have a significant impact on the Group are provided in first ESG report, the Corporate Governance Report 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 Thursday, 8 June 2017 to Wednesday, 14 June 2017, both days inclusive, for the purpose of ascertaining shareholders' entitlement to attend and vote at the Annual General Meeting. In order to be eligible to attend and vote at the Annual General Meeting, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Hong Kong branch share registrar and transfer office of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 7 June 2017.

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 2016.

RESERVES

As of 31 December 2016, the Group has a total of approximately RMB35.98 million worth of reserve. Details of movements in the reserves of the Group during the Year are set out in the consolidated statement of changes in equity in the consolidated financial statements.

SUBSIDIARIES

Details of the Company's principal subsidiaries as of 31 December 2016 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. Zhang Mi, Mr. Qi Daqing, Mr. Ren Jie, Mr. Chen Yajun, Mr. Han Guangrong, Mr. Chen Wenle and Ms. Su Mei 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 2016, details of remuneration for the Directors and Senior Management of the Company are set out in Notes 37(f) and 41 to the consolidated financial statements.

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

	2016 Number of individuals
RMB0 to RMB1,000,000	3
RMB1,000,001 to RMB2,000,000	5
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 2016, 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	1,510,258,620[(1)(5)]	46.59%
Mr. Ren Jie	Long	Personal interest, corporate interest and settlor of a discretionary trust	1,510,258,620[(2)(5)]	46.59%
Mr. Liu Zhi	Long	Personal interest, corporate interest and settlor of a discretionary trust	1,510,258,620[(3)(5)]	46.59%
Mr. Guo Yanjun	Long	Corporate interest	10,300,000[(4)]	0.31%

(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 38,145,697 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 38,145,697 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 38,145,697 Shares.

(4) Guo Yanjun owns 1,300,000 Shares through his directly wholly-owned company, Long Apex Limited, and owns 9,000,000 Shares through his directly 80%-owned company, CNHK Media Limited.

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

(B) SHARE OPTIONS OF THE COMPANY

	Long/Short Position	Number of options held — Personal interest	Number of options held — Interest of the Concert Group
Mr. Zhang Mi	Long	16,217,000	37,547,000
Mr. Ren Jie	Long	9,457,000	44,307,000
Mr. Liu Zhi	Long	6,623,000	47,141,000
Mr. Qi Daqing	Long	3,450,000	–
Mr. Liu Xiaofeng	Long	3,450,000	–
Mr. Chen Guoming	Long	2,550,000	–
Mr. Shi Xingquan	Long	2,550,000	–
Mr. Guo YanJun	Long	2,150,000	–

(C) INTERESTS IN DEBENTURES OF THE COMPANY

	Nature of interest	Total amount of debentures interested
Mr. Liu Zhi	Corporate interest (1)	USD500,000

(1) 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 2016, 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 2016, 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						
Name	Long/ Short Position	Personal interest Share Option	Personal interest Shares Interest	Corporate Interest	Corporate Interest and Settlor of a discretionary Trust	Interest of the Concert Group	Total	% of the Issued Share Capital of the Company
Ally Giant Limited	Long	–	1,187,727,837	–	–	376,294,783	1,564,022,620[1]	48.25%
Ample Chance International Limited	Long	–	–	1,187,727,837	–	376,294,783	1,564,022,620[2]	48.25%
Wealth Afflux Limited	Long	–	157,800,000	1,187,727,837	–	218,494,783	1,564,022,620[3]	48.25%
Ally Smooth Investments Limited	Long	–	–	1,187,727,837	–	376,294,783	1,564,022,620[3]	48.25%
Equity Trustee Limited	Long	–	–	–	1,503,485,237	–	1,503,485,237 [3][5][6][9][10][14][20][22]	46.38%
Charm Moral International Limited	Long	–	–	1,187,727,837	–	376,294,783	1,564,022,620[4]	48.25%
Mowbray Worldwide Limited	Long	–	33,227,200	1,187,727,837	–	343,067,583	1,564,022,620[5]	48.25%
Ecotech Enterprises Corporation	Long	–	28,105,000	1,187,727,837	–	348,189,783	1,564,022,620[6]	48.25%
Mr. Zheng Yong	Long	2,963,000	20,020,950	1,187,727,837	–	353,310,833	1,564,022,620[7]	48.25%
Beauty Clear Holdings Limited	Long	–	–	1,187,727,837	–	376,294,783	1,564,022,620[8]	48.25%
Mr. Zuo Huixian	Long	2,964,000	210,000	–	1,206,532,237	354,316,383	1,564,022,620[9]	48.25%
Vast & Fast Corporation	Long	–	18,804,400	1,187,727,837	–	357,490,383	1,564,022,620[9]	48.25%
Mr. Zhang Xu	Long	1,899,000	12,686	–	1,201,285,237	360,825,697	1,564,022,620[10]	48.25%
Cavendish Global Corporation	Long	–	13,557,400	1,187,727,837	–	362,737,383	1,564,022,620[10]	48.25%
Elegant Scene International Limited	Long	–	–	1,187,727,837	–	376,294,783	1,564,022,620[11]	48.25%
Mr. Wang Jiangyang	Long	1,611,000	6,752,600	1,187,727,837	–	367,931,183	1,564,022,620[11]	48.25%
Mr. Chen Jun	Long	922,000	2,074,599	1,187,727,837	–	373,298,184	1,564,022,620[12]	48.25%
Believe Power International Limited	Long	–	–	1,187,727,837	–	376,294,783	1,564,022,620[13]	48.25%
Mr. Fan Bing	Long	1,744,000	30,000	–	1,206,308,837	355,939,783	1,564,022,620[14]	48.25%
Brondesbury Enterprises Limited	Long	–	18,581,000	1,187,727,837	–	357,713,783	1,564,022,620[14]	48.25%
Mr. Zhang Yanyong	Long	1,500,000	1,720	1,187,727,837	–	374,793,063	1,564,022,620[15]	48.25%
Mr. Ao Pei	Long	537,000	962,308	1,187,727,837	–	374,795,475	1,564,022,620[16]	48.25%
Mr. Tian Diyong	Long	608,000	260,400	1,187,727,837	–	375,426,383	1,564,022,620[17]	48.25%
Mr. Shen Dingjian	Long	304,000	1,285,720	1,187,727,837	–	374,705,063	1,564,022,620[18]	48.25%
Benefit Way International Limited	Long	–	–	1,187,727,837	–	376,294,783	1,564,022,620[19]	48.25%
Mr. Liu Xuetian (deceased)	Long	–	–	–	1,193,780,237	370,242,383	1,564,022,620[20]	48.25%
Dobson Global Inc.	Long	–	6,052,400	1,187,727,837	–	370,242,383	1,564,022,620[20]	48.25%
Ms. Qu Yihong	Long	–	–	1,193,780,237	–	370,242,383	1,564,022,620[21]	48.25%
Ms. Liu Ying	Long	–	–	1,193,780,237	–	370,242,383	1,564,022,620[21]	48.25%
Mr. Zhou Bing	Long	1,805,000	3,856,714	–	1,187,727,837	370,633,069	1,564,022,620[22]	48.25%
Darius Enterprises Limited	Long	–	–	1,187,727,837	–	376,294,783	1,564,022,620[22]	48.25%
Ms. Lv Lan	Long	1,583,000	250,808	1,187,727,837	–	374,460,975	1,564,022,620[23]	48.25%
Mr. Tian Yu	Long	1,580,000	1,508,478	1,187,727,837	–	373,206,305	1,564,022,620[24]	48.25%
Mr. Li Hanqiang	Long	281,000	311,000	1,187,727,837	–	375,702,783	1,564,022,620[25]	48.25%
Mr. Liu Yingguo	Long	242,000	264,000	1,187,727,837	–	375,788,783	1,564,022,620[26]	48.25%
Mrs. Liu Lulu	Long	924,000	596,400	1,187,727,837	–	374,774,383	1,564,022,620[27]	48.25%
Yi Langlin	Long	–	2,156,000 1,561,866,620 (family interest)	–	–	–	1,564,022,620[28]	48.25%

Name	Long/ Short Position	Personal 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
		Share Option	Shares Interest	Number of shares held				
China Aerospace Science and Industry Corporation	Long	–	1,606,000,000	–	–	-	1,606,000,000[29]	49.55%
Jianhong Capital Fund I L.P.	Long	–	508,000,000	–	–	-	508,000,000[30]	15.67%
Jinhong Capital (Cayman) Limited	Long	–	–	508,000,000	–	-	508,000,000[30]	15.67%
E&H Capital Management Co. Ltd.	Long	–	–	508,000,000	–	-	508,000,000[30]	15.67%
Hu Jie	Long	–	–	508,000,000	–	-	508,000,000[30]	15.67%
E Erdun	Long	–	–	508,000,000	–	-	508,000,000[30]	15.67%

(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 1,564,022,620 Shares.

(29) In accordance with the Subscription Agreement entered into between the Company and China Aerospace Science and Industry Corporation ("CASIC") on 19 December 2016, CASIC has conditionally agreed to subscribe for and the Company has conditionally agree to allot and issue an aggregate of 1,606,000,000 Shares and the transaction has not been completed.

(30) In accordance with the Subscription Agreement entered into among the Company, Jianhong Capital Fund I L.P. ("Jianhong") and E&H Capital Management Co. Ltd. on 19 December 2016, Jianhong has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue an aggregate of 508,000,000 Shares and the transaction has not been completed.

Jianhong Capital Fund I L.P. is owned 99% by E Erdun as limited partner and 1% by Jianhong Capital (Cayman) Limited as general partner, which in turn is wholly-owned by E&H Capital Management Co. Ltd., which in turn is held 48.75% each by Hu Jie and E Erdun. Accordingly, each of Jianhong Capital (Cayman) Limited, E&H Capital Management Co. Ltd., Hu Jie and E Erdun was deemed to have interest in 508,000,000 shares held by Jianhong.

Save as disclosed above, to the best of the Directors and the Chief Executives of the Company's knowledge, as at 31 December 2016, 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 2016, none of the grantees has exercised the share options granted to him under the Pre-IPO share option scheme and 6,644,000 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 2016, 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) of 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 140,565,700 Shares, representing approximately 3.04% 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 2016 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
5 April 2012	15,400,000	1.19	Up to 30% of the share options granted to each grantee from 5 April 2013 to 4 April 2014; up to 60% of the share options granted to each grantee on or before 4 April 2015; all the remaining share options granted to each grantee on or after 5 April 2015	up to 4 April 2022
24 March 2014	3,200,000	2.024	up to 30% of the share options granted to each grantee from 24 April 2014 to 23 April 2015; up to 60% of the share options granted to each grantee on or before 23 April 2016; all the remaining share options granted to each grantee on or after 24 April 2016	up to 23 March 2024

Date of grant	Number of grant (shares)	Exercise price per Share (HK$)	Exercise period of share options	Valid period of the share options
2 July 2014	40,575,000	1.96	Vesting of the share options is conditional upon the achievement of corporate goals of the Company and the individual performance of the respective Grantees. The share options or any portion thereof shall lapse if the relevant corporate goals cannot be achieved. Up to 30% of the share options granted to each grantee after April 2015; up to 60% of the share options granted to each grantee after April 2016; all the remaining share options granted to each grantee after April 2017	up to1 July 2024
21 September 2016	41,350,000	0.44	up to 30% of the Share Options granted to each Grantee from 21 September 2017 to 20 September 2018 ;up to 60% of the Share Options granted to each Grantee on or before 20 September 2019 ;all the remaining Share Options granted to each Grantee on or after 21 September 2019	up to 20 September 2026

Particulars and movements of share options under the Share Option Scheme during the year ended 31 December 2016 were as follows:

	Number of share options									
Name or category of participant	Outstanding as at 01/01/2016	Granted during the Year	Exercised during the Year	Lapsed during the Year	Cancelled during the Year	Outstanding as at 31/12/2016	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
		2,000,000	–	–	–	2,000,000	21/09/2016	21/09/2017–20/09/2026	0.44	0.435
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
		500,000	–	–	–	500,000	21/09/2016	21/09/2017-20/09/2026	0.44	0.435
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
		700,000	–	–	–	700,000	21/09/2016	21/09/2017–20/09/2026	0.44	0.435
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
		700,000	–	–	–	700,000	21/09/2016	21/09/2017-20/09/2026	0.44	0.435
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
		500,000	–	–	–	500,000	21/09/2016	21/09/2017-20/09/2026	0.44	0.435
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
		700,000	–	–	–	700,000	21/09/2016	21/09/2017-20/09/2026	0.44	0.435
Sub-total	25,547,000	5,100,000	–	–	–	30,647,000				
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
		700,000	–	–	–	700,000	21/09/2016	21/09/2017-20/09/2026	0.44	0.435
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
		700,000	–	–	–	700,000	21/09/2016	21/09/2017-20/09/2026	0.44	0.435
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

Name or category of participant	Number of share options: Outstanding as at 01/01/2016	Granted during the Year	Exercised during the Year	Lapsed during the Year	Cancelled during the Year	Outstanding as at 31/12/2016	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$
	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
		700,000	–	–	–	700,000	21/09/2016	21/09/2017-20/09/2026	0.44	0.435
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
		800,000	–	–	–	800,000	21/09/2016	21/09/2017-20/09/2026	0.44	0.435
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
		450,000	–	–	–	450,000	21/09/2016	21/09/2017-20/09/2026	0.44	0.435
Sub-total	8,341,000	3,350,000	–	–	–	11,691,000				
Other										
Employee	22,864,500		–	875,000	–	21,989,500	15/04/2009	01/12/2009-14/04/2019	1.27	1.29
Employee	2,943,000	–	–	–	–	2,943,000	20/06/2011	19/07/2011-19/06/2021	0.83	0.79
Employee	13,861,000		–	210,000	–	13,651,000	05/04/2012	05/04/2013-04/04/2022	1.19	1.20
Employee	29,588,000	–	–	1,811,940	–	27,776,060	02/07/2014	02/07/2014-01/07/2024	1.96	1.92
Employee	32,900,000	–	–	350,000	–	32,550,000	21/09/2016	21/09/2017-20/09/2026	0.44	0.435
Sub-total	69,256,500	32,900,000		3,246,940		98,909,560				
Total	103,144,500	41,350,000		3,246,940		141,247,560				

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 2016, 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 2016 were as follows:

	Number of Shares					
	Outstanding during 01/01/2016	Purchased during the Year	Granted during the Year	Vested during the Year	Cancelled during the Year	Outstanding as at 31/12/2016
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 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 37 to the consolidated financial statements as it constituted material related party transaction. Certain related parties transactions disclosed in Note 37 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 HONGTAI 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 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 RMB 26 million for each of the three years ending on 31 December 2018.

During the Year, the total purchases made by the Group from Hongtai Company amounted to approximately RMB8,270,000.

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

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

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

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

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

(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 193 to 198 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 37(f) 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 35.7% of total purchase, and the largest supplier accounted for approximately 17.7% of total purchase.

2. During the Year, the Group's five largest customers accounted for approximately 53.5% of total sales and the largest customer accounted for approximately 18.0% 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 2016, 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 report, the Company has maintained sufficient public float since its Listing Date.

MANAGEMENT CONTRACTS

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

AUDITOR

The financial statements of the Group for the year ended 31 December 2016 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 2017

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

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

OPINION

WHAT WE HAVE AUDITED

The consolidated financial statements of Honghua Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 81 to 206, which comprise:

- the consolidated balance sheet as at 31 December 2016;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

OUR OPINION

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

INDEPENDENCE

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Impairment of property, plant and equipment
- Valuation of inventory
- Valuation of trade receivables

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment of property, plant and equipment	
Refer to note 16 to the consolidated financial statements.	We evaluated the appropriateness of the discounted cash flow model adopted by management.
As at 31 December 2016, the total balance of property, plant and equipment ("PP&E") is RMB2,794,054,000, including RMB1,623,615,000 relating to loss making subsidiaries of the Oil and gas engineering services and Offshore drilling rigs segments. PP&E is carried at the lower of historical cost less accumulated depreciation and value in use based on discounted future cash flows of cash generating units ("CGU"). Significant judgements are required for determination of key assumptions, including discount rates, revenue growth rates and gross margins. As a result of management assessment, an impairment balance of RMB36,598,000 was made in relation to the PP&E under the Oil and gas engineering services segment. We focused on this area because of the significance of PP&E and management judgements involved.	We challenged the management's key assumptions by: • comparing the revenue growth rates with historical data, assessing future customer demand with reference to our knowledge of economic and industry trend; • comparing the gross margin with the historical data and considering the future product mix and production volume; • comparing the discount rate with the cost of capital for the CGUs. We tested the mathematical accuracy of the calculations of the discounted cash flows. We independently performed sensitivity analysis about the key drivers of growth, including revenue growth and expected changes in gross margins. We found that management's judgements in determining the value in use of PP&E are supported by the evidence we gathered.

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of inventory	
Refer to note 22 to the consolidated financial statements. As at 31 December 2016, the Group had gross inventory balance of RMB2,219,158,000, against which a provision for inventory write-down of RMB103,011,000 was made. Inventories are carried at the lower of cost and net realisable value ("NRV"). NRV is determined based on the estimated selling price less the estimated costs to completion, if relevant, other costs necessary to make the sale and related taxes. We focused on this area because of the significance of inventory balance and management judgements involved in identifying inventories subject to write-down and determining the NRV.	We evaluated and tested management's controls over identifying inventories subject to write-down and determination of the estimated selling price. We evaluated and challenged the methodology adopted by management for identifying inventories subject to write-down based on our independent assessment of write-down indicators. We compared the estimated selling prices with the selling prices of the recent orders from customers. We challenged management's future sales projections for the prices and quantities by checking historical sales information and considering market trend. We independently evaluated the future market trend factors management considered in determining the estimated selling prices, including possible changes of customer demands and technology development, by corroborating with research information, checking subsequent outcomes of these factors and making reference to our industry knowledge. We assessed the reasonableness of the estimated costs to completion by comparing with the historical costs to completion of the similar inventories. We found that management's judgements in determining the NRV of inventory are supported by the evidence we gathered.

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of trade receivables	
Refer to note 19 to the consolidated financial statements. The balance of trade receivables as at 31 December 2016 is RMB2,515,227,000, against which a provision for impairment of RMB297,241,000 was made. For individual provision, judgement is required for identifying trade receivable balances impaired and determining the future cash flows. For collective provision, judgement is required for determining the provision needed for trade receivable balances with similar credit risk characteristics, taking into consideration the historical experience, ageing analysis and credit conditions. We focused on this area because of the significance of trade receivables balance and management judgements involved in determining the collectability and impairment.	We evaluated and tested the controls over the collectability of the trade receivables, including the monthly review of ageing analysis, repayment and impairment assessment of trade receivables performed by management. We sent confirmations to customers on a sample basis, focusing on material balances. For individual provision, we challenged management's process for identifying trade receivables impaired and checked the documents and information relating to the estimated future cash flows on a sample basis. For collective provision, we tested the accuracy of ageing analysis. We assessed the appropriateness of the method management adopted to determine the provision by comparing with the historical bad debts incurred. We found that management's judgements relating to the recoverability of trade receivable are supported by the evidence we gathered.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Lee Chung Bor.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 29 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2016
(All amounts in RMB unless otherwise stated)

	Note	Year ended 31 December	
		2016	2015
		RMB'000	RMB'000
Revenue	5	**2,343,614**	4,219,253
Cost of sales	8	**(2,065,960)**	(3,272,716)
Gross profit		**277,654**	946,537
Distribution expenses	8	**(371,560)**	(472,764)
Administrative expenses	8	**(653,733)**	(584,016)
Other gains/(losses), net	7	**9,040**	(9,863)
Other income	6	**129,067**	77,504
Operating loss		**(609,532)**	(42,602)
Finance income	10	**43,310**	83,145
Finance expenses	10	**(129,521)**	(344,980)
Finance expenses — net		**(86,211)**	(261,835)
Share of profit of associates	12	**3,487**	925
Share of (loss)/profit of joint ventures	12	**(3,905)**	1,793
Loss before income tax		**(696,161)**	(301,719)
Income tax expense	13	**68,912**	35,853
Loss for the year		**(627,249)**	(265,866)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2016
(All amounts in RMB unless otherwise stated)

	Note	Year ended 31 December 2016 RMB'000	Year ended 31 December 2015 RMB'000
Loss attributable to:			
— Owners of the Company		**(609,689)**	(252,207)
— Non-controlling interests		**(17,560)**	(13,659)
		(627,249)	(265,866)
Loss per share for profit attributable to owners of the Company (expressed in RMB cents per share)			
Basic loss per share	14(a)	**(19.18)**	(7.93)
Diluted loss per share	14(b)	**(19.18)**	(7.93)

The notes on pages 91 to 206 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016
(All amounts in RMB unless otherwise stated)

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Loss for the year	**(627,249)**	(265,866)
Other comprehensive income		
Items that may be reclassified to profit or loss		
Change in value of available-for-sale financial assets, net of tax	**–**	(827)
Currency translation differences	**(49,412)**	70,978
Other comprehensive income for the year, net of tax	**(49,412)**	70,151
Total comprehensive income for the year	**(676,661)**	(195,715)
Total comprehensive income attributable to:		
— Owners of the Company	**(652,006)**	(183,079)
— Non-controlling interests	**(24,655)**	(12,636)
	(676,661)	(195,715)

The notes on pages 91 to 206 form an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2016
(All amounts in RMB unless otherwise stated)

		As at 31 December	
		2016	2015
	Note	RMB'000	RMB'000
ASSETS			
Non-current assets			
Lease prepayments	15	379,582	405,732
Property, plant and equipment	16	2,794,054	3,139,093
Payment for acquisition of leasehold prepayment		148,166	163,192
Intangible assets	17	230,913	234,261
Investments in associates	12	61,771	52,161
Investments in joint ventures	12	44,754	48,239
Deferred income tax assets	29	415,701	318,263
Available-for-sale financial assets	18	88,294	74,053
Trade and other receivables	19	252,652	356,985
Total non-current assets		4,415,887	4,791,979
Current assets			
Inventories	22	2,116,147	2,164,432
Trade and other receivables	19	3,431,335	4,537,569
Amount due from customers for contract work	20	181,503	20,778
Current tax recoverable		3,797	9,592
Available-for-sale financial assets	18	15,000	39,203
Held-to-maturity financial assets	21	–	46,734
Pledged bank deposits	23	559,737	368,884
Bank deposits maturing over three months		–	100,518
Cash and cash equivalents	23	544,360	1,102,651
Total current assets		6,851,879	8,390,361
Total assets		11,267,766	13,182,340

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2016
(All amounts in RMB unless otherwise stated)

		As at 31 December	
		2016	2015
	Note	**RMB'000**	RMB'000
EQUITY			
Equity attributable to owners of the Company			
Share capital	24	**300,983**	300,983
Other reserves	26	**3,007,063**	3,046,576
Retained earnings		**590,864**	1,204,470
		3,898,910	4,552,029
Non-controlling interests		**184,542**	222,157
Total equity		**4,083,452**	4,774,186
LIABILITIES			
Non-current liabilities			
Deferred income	31	**72,763**	51,376
Borrowings	28	**2,086,126**	2,331,886
Trade and other payables	27	**2,788**	23,255
Total non-current liabilities		**2,161,677**	2,406,517

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2016
(All amounts in RMB unless otherwise stated)

		As at 31 December	
		2016	2015
	Note	**RMB'000**	RMB'000
Current liabilities			
Deferred income	31	**38,567**	4,923
Trade and other payables	27	**2,677,890**	3,556,059
Current income tax liabilities		**53,080**	54,130
Borrowings	28	**2,212,922**	2,332,545
Provisions for other liabilities and charges	30	**40,178**	53,980
Total current liabilities		**5,022,637**	6,001,637
Total liabilities		**7,184,314**	8,408,154
Total equity and liabilities		**11,267,766**	13,182,340

The notes on pages 91 to 206 form an integral part of these consolidated financial statements.

The financial statements on pages 81 to 90 were approved by the Board of Directors on 29 March 2017 and were signed on its behalf.

Director

Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016
(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	Total 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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016
(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	Total RMB'000	Non-controlling interests RMB'000	Total Equity RMB'000
Balance at 1 January 2016	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
Comprehensive income												
Loss for the year	–	–	–	–	–	–	–	–	(609,689)	(609,689)	(17,560)	(627,249)
Other comprehensive income	–	–	–	–	–	(42,317)	–	–	–	(42,317)	(7,095)	(49,412)
Total comprehensive income	–	–	–	–	–	(42,317)	–	–	(609,689)	(652,006)	(24,655)	(676,661)
Transactions with owners												
Equity-settled share-based transactions	–	–	–	3,022	–	–	–	–	–	3,022	–	3,022
Options lapsed under share option schemes	–	–	–	(1,004)	–	–	–	–	1,004	–	–	–
Acquisition of non-controlling interests	–	–	(4,135)	–	–	–	–	–	–	(4,135)	(9,313)	(13,448)
Disposal of subsidiary	–	–	–	–	–	–	–	–	–	–	(3,647)	(3,647)
Appropriation to surplus reserve	–	–	–	–	4,921	–	–	–	(4,921)	–	–	–
Total transactions with owners, recognised directly in equity	–	–	(4,135)	2,018	4,921	–	–	–	(3,917)	(1,113)	(12,960)	(14,073)
Balance at 31 December 2016	300,983	2,349,292	47,075	533,067	418,281	(216,034)	–	(124,618)	590,864	3,898,910	184,542	4,083,452

The notes on pages 91 to 206 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016
(All amounts in RMB unless otherwise stated)

		Year ended 31 December	
	Note	2016 RMB'000	2015 RMB'000
Cash flows from operating activities			
Cash generated from operations	33	**84,368**	648,982
Income tax paid		**(23,579)**	(90,341)
Net cash generated from operating activities		**60,789**	558,641
Cash flows from investing activities			
Payment for additions of property, plant and equipment and construction in progress		**(135,266)**	(250,921)
Increase in lease prepayment		**–**	(11,616)
Disposal of lease prepayment		**8,900**	–
Decrease in payment for acquisition of leasehold prepayment		**15,026**	–
Proceeds on disposal of property, plant and equipment		**32,636**	25,631
Purchase of available-for-sale financial assets		**(524,800)**	(890,735)
Proceeds from disposal of available-for-sale financial assets		**549,454**	1,182,531
Net loans granted to related companies		**(839)**	(22,188)
Proceeds from government grants related to assets		**38,906**	13,521
Net cash outflow on disposal of subsidiary	38	**(67)**	–
Interest received		**14,440**	53,923
Expenditure on development project and other intangible assets		**(56,391)**	(52,845)
Decrease/(increase) in bank deposits maturing over three months		**100,518**	(96,515)
Net cash generated from/(used in) investing activities		**42,517**	(49,214)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016
(All amounts in RMB unless otherwise stated)

	Note	Year ended 31 December 2016 RMB'000	2015 RMB'000
Cash flows from financing activities			
Proceeds from borrowings		**2,448,636**	3,263,571
Repayments of borrowings		**(2,895,234)**	(3,837,180)
Interest and bank charges paid		**(234,513)**	(283,513)
Net loans from related companies		**11,050**	–
Payment for acquisition of non-controlling interests	36	**(13,448)**	–
Net cash used in financing activities		**(683,509)**	(857,122)
Net decrease in cash and cash equivalents		**(580,203)**	(347,695)
Cash and cash equivalents at the beginning of year		**1,102,651**	1,442,014
Exchange gains on cash and cash equivalents		**21,912**	8,332
Cash and cash equivalents at end of the year		**544,360**	1,102,651

The notes on pages 91 to 206 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 by the Board of Directors of the Company on 29 March 2017.

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 with all applicable International Financial Reporting Standards ("IFRS") and requirements of the Hong Kong Companies ordinance Cap. 622. 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 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 2016:

- Accounting for acquisitions of interests in joint operations — Amendments to IFRS 11
- Clarification of acceptable methods of depreciation and amortisation — Amendments to IAS 16 and IAS 38
- Annual improvements to IFRSs 2012-2014 cycle, and
- Disclosure initiative — amendments to IAS 1.

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

(b) 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 2016 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'

The new standard addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

While the Group has yet to undertake a detailed assessment of the classification and measurement of financial assets, debt instruments currently classified as available-for-sale (AFS) financial assets would appear to satisfy the conditions for classification as at fair value through other comprehensive income (FVOCI) and hence there will be no change to the accounting for these assets.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 BASIS OF PREPARATION (continued)

2.1.1 Changes in accounting policy and disclosures (continued)

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

IFRS 9, 'Financial instruments' (continued)

The other financial assets held by the Group include:

- equity instruments currently classified as AFS for which a FVOCI election is available, and
- equity investments currently measured at fair value through profit or loss (FVPL) which would likely continue to be measured on the same basis under IFRS 9.

Accordingly, the Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. While the Group is yet to undertake a detailed assessment as the Group does not have any hedge relationships now. Accordingly, the Group does not expect a significant impact on the accounting for its hedging relationships.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. While the Group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, it may result in an earlier recognition of credit losses.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 BASIS OF PREPARATION (continued)

2.1.1 *Changes in accounting policy and disclosures* (continued)

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

IFRS 9, 'Financial instruments' (continued)

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

IFRS 9 must be applied for financial years commencing on or after 1 January 2018. Based on the transitional provisions in the completed IFRS 9, early adoption in phases was only permitted for annual reporting periods beginning before 1 February 2015. After that date, the new rules must be adopted in their entirety. The Group does not intend to adopt IFRS 9 before its mandatory date.

IFRS 15, 'Revenue from contracts with customers'

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Management is currently assessing the effects of applying the new standard on the Group's financial statements and has identified the following areas that are likely to be affected:

- revenue from service — the application of IFRS 15 may result in the identification of separate performance obligations which could affect the timing of the recognition of revenue.
- accounting for certain costs incurred in fulfilling a contract — certain costs which are currently expensed may need to be recognised as an asset under IFRS 15, and
- rights of return IFRS 15 requires separate presentation on the balance sheet of the right to recover the goods from the customer and the refund obligation.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 BASIS OF PREPARATION (continued)

2.1.1 *Changes in accounting policy and disclosures* (continued)

(b) *New standards and interpretations not yet adopted* (continued)

IFRS 15, 'Revenue from contracts with customers' (continued)

At this stage, the Group is not able to estimate the impact of the new rules on the Group's financial statements. The Group will make more detailed assessments of the impact over the next twelve months.

IFRS 15 is mandatory for financial years commencing on or after 1 January 2018. At this stage, the Group does not intend to adopt the standard before its effective date.

IFRS 16, 'Leases'

IFRS 16 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for Group's operating leases. As at the 31 December 2016, the Group has non-cancellable operating lease commitments of approximately RMB12,885,000, see Note 35. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

The new standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

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)

2.2 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.

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 SUBSIDIARIES (continued)

2.2.1 Consolidation (continued)

(a) *Business combinations* (continued)

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.

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.

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 SUBSIDIARIES (continued)

2.2.1 *Consolidation* (continued)

(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. It means the amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs.

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.

2.3 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 ASSOCIATES (continued)

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 of 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, including any other unsecured receivables, 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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").

(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". All other foreign exchange gains and losses are presented in profit or loss within "Other gains/(losses) – net".

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 FOREIGN CURRENCY TRANSLATION (continued)

(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:

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

(ii) income and expenses for each statement of 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

(iii) 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.

(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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at historical cost less accumulated 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 the statement of 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 units-of-production method. 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 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

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/(losses) — 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 CIP 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 INTANGIBLE ASSETS (continued)

(c) *Capitalised development costs*

Capitalised development costs that are directly attributable to the design and testing of new or improved products when meet relevant criteria (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.

2.11 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 FINANCIAL ASSETS (continued)

2.11.1 *Classification* (continued)

(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 gains/(losses) — 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

2.13 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 in 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 IMPAIRMENT OF FINANCIAL ASSETS (continued)

(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 reclassified 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 the consolidated statement of 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 reclassified from equity and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through the consolidated statement of profit or loss.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. See Note 2.11.2 for further information about the Group's accounting for trade receivables and Note 2.13 for a description of the Group's impairment policies.

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.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22 CURRENT AND DEFERRED INCOME TAX (continued)

(b) *Deferred income tax* (continued)

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 of 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% (2015: 20% to 22%) of the standard wages determined by the relevant authorities in the PRC for the year ended 31 December 2016. 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.

(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.

2.24 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).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.24 SHARE-BASED PAYMENTS (continued)

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

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.

2.25 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.25 CONSTRUCTION CONTRACTS (continued)

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 related tax. 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

Except interest income from financial lease service is recorded as revenue; all other kinds of interest income are recorded as 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 recognised 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 the statement of 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 the statement of 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 financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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;

(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 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.

Risk management is carried out by the senior executive management of the Group. 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 principles for overall risk management, as well as 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.

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 2016 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 2016.

	Exposure to foreign currency		
	USD items (RMB'000)	EUR items (RMB'000)	RMB items (RMB'000)
At 31 December 2016			
Cash and cash equivalents	**331,752**	**22**	**322**
Trade and other receivables	**3,539,237**	**15,071**	**–**
Borrowings	**(201,679)**	**–**	**–**
Trade and other payables	**(1,977,727)**	**–**	**(50)**
Overall net exposure	**1,691,583**	**15,093**	**272**

	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	–
Borrowings	(697,294)	–	–
Trade and other payables	(2,307,511)	–	–
Overall net exposure	849,227	19,323	–

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 FINANCIAL RISK FACTORS (continued)

(a) *Market risk* (continued)

(i) *Foreign exchange risk* (continued)

As at 31 December 2016 and 2015, the Group has no forward exchange contracts used as economic hedges against trade and receivables.

As at 31 December 2016, if RMB had weakened/strengthened by 5% (2015: 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 RMB68,415,000 (2015: RMB28,243,000 higher/lower) higher/lower, mainly as a result of foreign exchange gains/losses on translation of USD-denominated cash and cash equivalents, trade and other receivables, borrowings and trade and other payables.

As at 31 December 2016, if RMB had weakened/strengthened by 5% (2015: 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 RMB641,000 (2015: RMB800,000) higher/lower, mainly as a result of foreign exchange gains/losses 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.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 FINANCIAL RISK FACTORS (continued)

(a) *Market risk* (continued)

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

The Group's interest rate risk arises primarily from 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. All borrowings including senior notes 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.

As at 31 December 2016, 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 RMB4,592,000 (2015: RMB9,390,000).

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 2016 and 2015, 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 2015.

(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.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 FINANCIAL RISK FACTORS (continued)

(b) *Credit risk* (continued)

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.

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 2016, 10% (2015: 16%) and 35% (2015: 28%) 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.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 FINANCIAL RISK FACTORS (continued)

(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.

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.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 FINANCIAL RISK FACTORS (continued)

(c) *Liquidity risk* (continued)

	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 2016					
Trade and other payables (i)	**2,246,493**	**2,788**	**–**	**–**	**2,249,281**
Senior notes	**103,361**	**103,361**	**1,490,761**	**–**	**1,697,483**
Borrowings (excluding senior notes)	**2,688,679**	**506,342**	**243,983**	**584**	**3,439,588**
Total financial liabilities	**5,038,533**	**612,491**	**1,734,744**	**584**	**7,386,352**
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

(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 going concern, so that it can continue to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

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

Consistent with 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 2016, the Group's strategy, which was unchanged from 2015 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 2016 and 2015 were as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Total borrowings (Note 28)	**4,299,048**	4,664,431
Less: cash and cash equivalents (Note 23)	**(544,360)**	(1,102,651)
Net debt	**3,754,688**	3,561,780
Total equity	**4,083,452**	4,774,186
Total capital	**7,838,140**	8,335,966
Gearing ratio	**48%**	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 2016 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. Management of the Group has overall responsibility for overseeing all significant fair value measurements, including level 3 fair values and reports directly to the management.

Management of the Group regularly reviews significant unobservable inputs and valuation adjustments. If third-party information is used to measure fair values, then management of the Group 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	–	–	88,294	88,294
– debt investment	–	–	15,000	15,000
Total assets	–	–	103,294	103,294

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 2015.

	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

There were no transfers among levels 1, 2 and 3 during 2016 and 2015. There were no other changes in valuation techniques during 2016 and 2015.

(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.

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 FAIR VALUE ESTIMATION (continued)

(c) *Financial instruments in level 3*

The following table presents the changes in level 3 instruments for the year ended 31 December 2015 and 2016.

Available-for-sale financial assets — equity investment	Year ended 31 December 2016 RMB'000	2015 RMB'000
Opening balance at 1 January	**74,053**	74,053
Additions	**14,241**	–
Changes in fair value recognised in profit or loss during the period	**–**	–
Closing balance at 31 December	**88,294**	74,053

Available-for-sale financial assets — debt investment	Year ended 31 December 2016 RMB'000	2015 RMB'000
Opening balance at 1 January	**39,203**	331,826
Net disposal	**(24,203)**	(292,623)
Closing balance at 31 December	**15,000**	39,203

Derivative financial instruments	Year ended 31 December 2016 RMB'000	2015 RMB'000
Opening balance at 1 January	**–**	324
Changes in fair value recognised in profit or loss during the period	**–**	(344)
Currency translation differences	**–**	20
Closing balance at 31 December	**–**	–

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 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.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

4.1 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

(c) 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.

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.

5 SEGMENT INFORMATION (continued)

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 profit or loss of joint ventures and associates, other gains/(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.

The following table presents revenue and profit information regarding the Group's operating segments for the years ended 31 December 2016 and 2015 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	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
Revenue from external customers	760,037	2,408,514	272,360	203,833	1,158,288	1,268,393	152,929	338,513	2,343,614	4,219,253
Inter-segment revenue	–	48,848	1,197	143,575	194,389	530,249	57	10,263	195,643	732,935
Reportable segment revenue	760,037	2,457,362	273,557	347,408	1,352,677	1,798,642	152,986	348,776	2,539,257	4,952,188
Reportable segment (loss)/profit	(153,972)	164,045	(137,817)	(136,956)	(152,875)	63,566	(227,648)	(163,738)	(672,312)	(73,083)
Depreciation and amortisation for the year	57,207	73,246	85,032	75,666	74,816	93,116	78,340	112,122	295,395	354,150
Impairment on trade and other receivables	41,496	19,629	–	–	75,394	9,606	32,894	419	149,784	29,654
Write-down of inventories	6,009	2,070	–	–	32,998	3,843	10,085	–	49,092	5,913
Impairment provision of fixed assets	–	–	–	–	–	–	36,598	–	36,598	–

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 2016, 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 to loss before income tax is provided as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Segment loss		
— for reportable segments	**(672,312)**	(73,083)
Elimination of inter-segment (loss)/profit	**(4,852)**	397
Segment loss derived from Group's external customers	**(677,164)**	(72,686)
Share of (loss)/profit of joint ventures	**(3,905)**	1,793
Share of profit of associates	**3,487**	925
Other income and other gains, net	**138,107**	67,641
Finance income	**43,310**	83,145
Finance expenses	**(129,521)**	(344,980)
Unallocated head office and corporate expenses	**(70,475)**	(37,557)
Loss before income tax	**(696,161)**	(301,719)

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

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
PRC (country of domicile)	**626,293**	737,596
Americas	**659,806**	521,097
Middle East	**677,223**	1,411,344
Europe and Central Asia	**286,538**	1,067,011
South Asia and South East	**40,343**	58,420
Africa	**53,411**	423,785
	2,343,614	4,219,253

5 SEGMENT INFORMATION (continued)

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

	As at 31 December	
	2016 RMB'000	2015 RMB'000
PRC (country of domicile)	3,533,041	3,955,942
Americas	49,996	54,203
Middle East	192,981	184,269
Europe and Central Asia	92,792	158,658
South Asia and South East	–	–
Africa	43,082	46,591
	3,911,892	4,399,663

For the year ended 31 December 2016, revenues of approximately RMB421,106,000 and RMB283,428,000 were derived from two external customers respectively. These revenues were attributable to the sales of parts and components in Americas and the sales of land drilling rigs in Middle East, respectively.

For the year ended 31 December 2015, revenues of approximately RMB765,979,000 and RMB447,632,000 were derived from two external customers respectively. These revenues were attributable to the sales of land drilling rigs in Europe and Central Asia, and the sales of land drilling rigs and related parts and components in Middle East, respectively.

6 OTHER INCOME

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Government grants	**101,848**	45,676
Sales of scrap materials	**1,401**	9,266
Rental income	**5,537**	9,528
Repair services income	**14,648**	12,593
Others	**5,633**	441
	129,067	77,504

7 OTHER GAINS/(LOSSES), NET

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Changes in fair value recognised in profit or loss	**–**	(344)
Gain on disposals of property, plant and equipment	**3,221**	1,992
Donations	**(1,200)**	(4,110)
Net loss on disposal of subsidiary (Note 38)	**(17,890)**	–
Insurance compensation	**22,210**	–
Others	**2,699**	(7,401)
	9,040	(9,863)

8 EXPENSES BY NATURE

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Amortisation and depreciation		
— Lease prepayment (Note 15)	**8,059**	8,668
— Property, plant and equipment (Note 16)	**247,083**	292,889
— Intangible assets (Note 17)	**40,253**	52,593
Employee benefit expenses (Note 9)	**556,129**	735,954
Changes in inventories of finished goods and work in progress	**100,769**	739,231
Raw materials and consumables used	**1,383,349**	1,745,044
Transportation	**93,043**	220,243
Commission	**55,942**	75,516
Service fee	**44,777**	76,632
Utilities	**38,608**	47,316
Travelling expenses	**40,070**	45,301
Business and other taxes	**19,681**	47,057
Repairs and maintenance expenditure on property, plant and equipment	**8,028**	13,513
Operating lease charges	**52,913**	40,111
Provision for inventory write-down (Note 22)	**49,092**	5,913
Impairment losses on trade and other receivables (Note 19)	**181,543**	29,654
Provision for warranty (Note 30)	**9,664**	3,666
Impairment provision of property, plant and equipment (Note 16)	**36,598**	–
Auditors' remuneration		
— Audit services	**4,378**	3,810
Research and development costs (i)	**64,363**	58,072
Less: amount capitalised into intangible assets	**(56,391)**	(52,845)
Other expenses	**113,302**	141,158
Total cost of sales, distribution expenses and administrative expenses	**3,091,253**	4,329,496

(i) The amount does not include staff costs of the research and development department of approximately RMB40,601,000 (2015: RMB42,665,000) and relevant amortisation and depreciation of approximately RMB12,734,000 (2015: RMB14,431,000), 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	
	2016	2015
	RMB'000	RMB'000
Contributions to defined contribution retirement schemes	**46,768**	86,905
Equity-settled share-based payment expenses (Note 25)	**3,022**	6,131
Salaries, wages and other benefits	**506,339**	642,918
	556,129	735,954

(a) FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose emoluments were highest in the Group for the year ended 31 December 2016 included two (2015: three) directors. Their emoluments are reflected in the analysis disclosed as Note 41. The emoluments payable to the remaining three (2015: two) individuals for the years ended 31 December 2016 and 2015 are as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Basic salaries, allowances and other benefits in kind	**1,056**	968
Discretionary bonuses	**2,282**	1,013
Contributions to defined contribution retirement schemes	**150**	98
Share-based payments	**89**	–
	3,577	2,079

9 EMPLOYEE BENEFIT EXPENSES (continued)

(a) FIVE HIGHEST PAID INDIVIDUALS (continued)

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

	Number of individuals Year ended 31 December	
	2016	2015
HKD1,000,001 to HKD1,500,000	**3**	2

10 FINANCE EXPENSES — NET

	Year ended 31 December	
	2016 **RMB'000**	2015 RMB'000
Finance expenses		
Interest on borrowings wholly repayable within five years	**259,453**	291,777
Net foreign exchange (gain)/loss	**(144,040)**	90,522
Others	**17,083**	1,735
Less: interest expense capitalised into assets under construction (Note 16)	**(2,975)**	(39,054)
	129,521	344,980
Finance income		
Interest income on bank deposits	**(18,423)**	(55,095)
Interest income from long-term receivables	**(24,436)**	(25,545)
Gain on settlement of available-for-sale financial assets	**(451)**	(2,505)
	(43,310)	(83,145)
	86,211	261,835

11 SUBSIDIARIES

The following is a list of the principal subsidiaries as at 31 December 2016:

Name of company	Place of incorporation	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	–	81%	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
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

11 SUBSIDIARIES (continued)

Name of company	Place of incorporation	Particulars of issued and paid-up capital	Attributable equity interest Direct	Attributable equity interest Indirect	Principal activities
Honghua America, LLC	United States of America	Registered capital USD3,414,407	–	100%	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 of drilling rigs
Russia Touhey Motor Drilling Service Limited ("TNG")	Russia Federation	Registered capital RUB489,297,344	–	51%	Oil and 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 RMB184,542,000 (2015: RMB222,157,000), of which approximately RMB117,573,000 (2015: RMB125,058,000) is attributed to Honghua Electric, approximately RMB41,189,000 (2015: RMB48,970,000) is attributed to Honghua International, approximately RMB9,668,000 (2015: RMB18,939,000) is attributed to Gansu Hongteng, and approximately RMB14,825,000 (2015: RMB14,456,000) 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	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
Current								
Assets	1,301,642	815,215	1,853,841	2,049,794	101,253	160,364	136,548	99,446
Liabilities	(855,763)	(390,450)	(1,392,886)	(1,598,439)	(148,963)	(178,638)	(99,973)	(92,909)
Total current net assets/ (liabilities)	445,879	424,765	460,955	451,355	(47,710)	(18,274)	36,575	6,537
Non-current								
Assets	304,281	329,447	124,058	37,378	82,284	83,751	86,607	74,383
Liabilities	(25,781)	(33,147)	(274,980)	(196,000)	–	–	(81,706)	(58,581)
Total non-current net assets/(liabilities)	278,500	296,300	(150,922)	(158,622)	82,284	83,751	4,901	15,802
Net assets	724,379	721,065	310,033	292,733	34,574	65,477	41,476	22,339

11 SUBSIDIARIES (continued)

SUMMARISED FINANCIAL INFORMATION ON SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS (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	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
Revenue	174,075	380,799	357,999	842,074	47,942	17,501	1,483	99,317
Profit/(loss) before income tax	220	(17,379)	(67,296)	88,880	(36,726)	(21,387)	1,572	(26,175)
Income tax expense	1,226	7,026	15,421	(24,049)	5,822	1,483	(820)	2,490
Profit/(loss) for the year	1,446	(10,353)	(51,875)	64,831	(30,904)	(19,904)	752	(23,685)
Other comprehensive income for the year	–	–	–	–	–	–	–	–
Total comprehensive income	1,446	(10,353)	(51,875)	64,831	(30,904)	(19,904)	752	(23,685)
Total comprehensive income allocated to non-controlling interests	272	(2,071)	(7,781)	9,725	(9,271)	(5,971)	369	(11,606)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–

11 SUBSIDIARIES (continued)

SUMMARISED FINANCIAL INFORMATION ON SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS (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	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
Cash flows from operating activities								
Cash generated from/ (used in) operations	684,584	184,654	(213,903)	(96,839)	23,388	10,315	(18,637)	54,285
Interest paid	(11,740)	(13,534)	(15,058)	(21,350)	(4,028)	(4,594)	–	–
Income tax paid	(5)	(3,904)	(12,396)	(29,670)	(14)	(1)	(3,320)	(8,109)
Net cash generated from/ (used in) operating activities	672,839	167,216	(241,357)	(147,859)	19,346	5,720	(21,957)	46,176
Net cash (used in)/generated from investing activities	(738,903)	(121,076)	152,073	206,867	(24,664)	13,788	20,964	(49,153)
Net cash generated from/ (used in) financing activities	(45,000)	83,000	57,880	(28,188)	3,000	(18,000)	–	(72)
Net (decrease)/increase in cash and cash equivalents	(111,064)	129,140	(31,404)	30,820	(2,318)	1,508	(993)	(3,049)
Cash and cash equivalents at beginning of year	143,743	14,603	247,446	216,626	3,714	2,206	1,048	4,097
Cash and cash equivalents at end of year	32,679	143,743	216,042	247,446	1,396	3,714	55	1,048

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	
	2016	2015
	RMB'000	RMB'000
Associates	**61,771**	52,161
Joint ventures	**44,754**	48,239
	106,525	100,400

The amounts recognised in profit or loss are as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Associates	**3,487**	925
Joint ventures	**(3,905)**	1,793
	(418)	2,718

	Associates	Joint ventures
	RMB'000	**RMB'000**
At 1 January 2016	**52,161**	**48,239**
Increase in ownership interest	**6,000**	**–**
Share of profit/(loss)	**3,487**	**(3,905)**
Currency translation differences	**123**	**420**
At 31 December 2016	**61,771**	**44,754**

12 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (continued)

INVESTMENT IN ASSOCIATES

Set out below are the associates of the Group as at 31 December 2016, which are held directly by the Group.

Nature of investment in associates as at 31 December 2016 and 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	51%	(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. As at 1 April 2016, the Group increased its equity share in Honghua (Shenzhen) from 44.44% to 51.11%, with a purchase consideration of RMB6,000,000. As the Group's voting rights in board of directors of Honghua (Shenzhen) remains as 40%, the company is still accounted as an associate.

(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 2016, 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	
	2016	2015
	RMB'000	RMB'000
Current		
Assets	**72,391**	75,195
Liabilities	**(45,603)**	(56,719)
Total current net assets	**26,788**	18,476
Non-current		
Assets	**88,383**	90,433
Liabilities	**(12,266)**	(12,026)
Total non-current net assets	**76,117**	78,407
Net assets	**102,905**	96,883

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	
	2016	2015
	RMB'000	RMB'000
Revenue	**12,557**	8,458
Post-tax profit for the year	**6,022**	6,835
Total comprehensive income	**6,022**	6,835

The information above reflects the amounts presented in the financial statements of the associates (and not Honghua Group Limited's share of those amounts) adjusted for differences in accounting policies between the Group and the associates.

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	
	2016	2015
	RMB'000	RMB'000
Opening net assets 1 January	**96,883**	66,688
Capital injection	**–**	23,360
Profit for the year	**6,022**	6,835
Closing net assets	**102,905**	96,883
Interest in associate (2016: 51.11%/2015: 44.44%)	**52,595**	43,067
Carrying value	**52,595**	43,067

12 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (continued)

INVESTMENT IN JOINT VENTURES

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
At 1 January	**48,239**	86,914
Changed from a joint venture to an associate	**–**	(40,029)
Share of (loss)/profit	**(3,905)**	1,793
Currency translation differences	**420**	(439)
At 31 December	**44,754**	48,239

Nature of investment in joint ventures as at 31 December 2016 and 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 2016, 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	
	2016 RMB'000	2015 RMB'000
Current		
Assets	**53,910**	50,719
Liabilities	**(62,472)**	(54,403)
Total current net liabilities	**(8,562)**	(3,684)
Non-current		
Assets	**87,279**	96,867
Liabilities	**–**	–
Total non-current net assets	**87,279**	96,867
Net assets	**78,717**	93,183

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	
	2016	2015
	RMB'000	RMB'000
Revenue	**5,588**	39,386
Post-tax loss for the year	**(7,006)**	(4,851)
Total comprehensive loss	**(7,006)**	(4,851)

The information above reflects the amounts presented in the financial statements of the joint venture, adjusted for differences in accounting policies between the Group and the joint venture, and not Honghua Group Limited's share of those amounts.

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	
	2016	2015
	RMB'000	RMB'000
Opening net assets 1 January	**93,183**	88,822
Post-tax loss for the year	**(7,006)**	(4,851)
Currency translation differences	**(7,460)**	9,212
Closing net assets	**78,717**	93,183
Interest in joint venture (50%)	**39,359**	46,591
Carrying value	**39,359**	46,591

13 INCOME TAX EXPENSE

Taxation in the consolidated statement of profit or loss represents:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Current income tax — Hong Kong Profits Tax (i)		
Provision for the year	1,480	3,265
Current income tax — PRC (ii)		
Provision for the year	20,950	74,107
Under/(over) provision in respect of prior years	316	(3,030)
	21,266	71,077
Current income tax — Other jurisdictions (iii)		
Provision for the year	5,299	7,898
Under provision in respect of prior years	279	–
	5,578	7,898
Total current income tax	28,324	82,240
Deferred income tax	(97,236)	(118,093)
Income tax expense	(68,912)	(35,853)

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 2016 and 2015.

(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 2016 and 2015, 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 2016 and 2015.

(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.

(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 2016 and 2015. 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 before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to the consolidated entities as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Loss before income tax	**(696,161)**	(301,719)
Tax calculated at statutory tax rates applicable to each group entities	**(114,732)**	(57,843)
Tax effect of non-deductible expenses	**3,543**	20,958
Tax effect of non-taxable income	**(7,413)**	(9,812)
Tax losses for which no deferred income tax asset was recognised	**8,935**	7,253
Deductible temporary differences for which no deferred income tax asset was recognised	**6,085**	–
Reversal of previously recognised deductible temporary differences	**2,122**	–
Write off of previously recognised tax losses	**31,953**	6,621
Under/(over) provision in respect of prior years	**595**	(3,030)
Income tax expense	**(68,912)**	(35,853)

14 LOSS PER SHARE

(a) BASIC LOSS PER SHARE

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

	Year ended 31 December	
	2016	2015
Loss attributable to owners of the Company (RMB'000)	**(609,689)**	(252,207)
Issued ordinary shares (thousands)	**3,241,057**	3,241,057
Effect of the share award scheme (thousands)	**(62,089)**	(62,089)
Effect of share options exercised (thousands)	**–**	–
Weighted average number of ordinary shares (thousands)	**3,178,968**	3,178,968
Basic loss per share (RMB cents per share)	**(19.18)**	(7.93)

(b) DILUTED LOSS PER SHARE

The calculation of diluted loss 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	
	2016	2015
Loss attributable to owners of the Company (RMB'000)	**(609,689)**	(252,207)
Weighted average number of ordinary shares (thousands)	**3,178,968**	3,178,968
Effect of deemed issue of shares under the share option scheme (thousands)	**–**	–
Weighted average number of ordinary shares (diluted) (thousands)	**3,178,968**	3,178,968
Diluted loss per share (RMB cents per share)	**(19.18)**	(7.93)

15 LEASE PREPAYMENTS

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

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
At 1 January	**405,732**	402,784
Additions	**–**	11,616
Disposals	**(8,900)**	–
Disposal of subsidiary (Note 38)	**(9,191)**	–
Amortisation (Note 8)	**(8,059)**	(8,668)
At 31 December	**379,582**	405,732

(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 RMB27,052,000 (2015: RMB186,953,000) (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 2015							
Cost	4,934	1,593,972	1,594,520	354,636	80,108	362,312	3,990,482
Accumulated depreciation and 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
Year ended 31 December 2016							
Opening net book amount	**5,995**	**1,022,858**	**1,136,419**	**147,300**	**26,329**	**800,192**	**3,139,093**
Additions	**–**	**11,092**	**25,276**	**29,003**	**2,329**	**50,962**	**118,662**
Transfer from construction in progress	**–**	**454,609**	**3,447**	**3,231**	**265**	**(461,552)**	**–**
Transfer from inventories	**–**	**–**	**–**	**2,199**	**–**	**–**	**2,199**
Transfer to inventories	**–**	**–**	**(95,099)**	**–**	**–**	**–**	**(95,099)**
Disposals (Note 33)	**(507)**	**(3,959)**	**(11,342)**	**(12,710)**	**(897)**	**–**	**(29,415)**
Disposal of subsidiary (Note 38)	**–**	**(27,550)**	**(3,376)**	**(654)**	**(40)**	**(41,911)**	**(73,531)**
Depreciation charge (Note 8)	**–**	**(74,916)**	**(124,318)**	**(41,381)**	**(6,468)**	**–**	**(247,083)**
Currency translation difference	**409**	**3,616**	**10,761**	**663**	**377**	**–**	**15,826**
Impairment provision of fixed assets	**–**	**–**	**(36,598)**	**–**	**–**	**–**	**(36,598)**
Closing net amount	**5,897**	**1,385,750**	**905,170**	**127,651**	**21,895**	**347,691**	**2,794,054**
At 31 December 2016							
Cost	**5,897**	**1,684,683**	**1,590,212**	**408,754**	**82,031**	**347,691**	**4,119,268**
Accumulated depreciation and impairment	**–**	**(298,933)**	**(685,042)**	**(281,103)**	**(60,136)**	**–**	**(1,325,214)**
Net book amount	**5,897**	**1,385,750**	**905,170**	**127,651**	**21,895**	**347,691**	**2,794,054**

16 PROPERTY, PLANT AND EQUIPMENT (continued)

(a) Depreciation expense of approximately RMB203,731,000 (2015: RMB205,791,000) has been charged in cost of sales, RMB5,457,000 (2015: RMB11,068,000) in distribution expenses and RMB37,895,000 (2015: RMB76,030,000) in administrative expenses.

(b) As at 31 December 2016, the construction in progress mainly comprises the Honghai gantry crane being constructed in the PRC.

(c) As at 31 December 2016, the Group was in the process of obtaining the legal title of buildings with carrying amount of approximately RMB140,662,000 (2015: RMB152,564,000).

(d) Bank borrowings were secured by certain buildings and machineries of the Group with a net book value of approximately RMB122,064,000 as at 31 December 2016 (2015: RMB455,650,000) (Note 28).

(e) The Group has capitalised borrowing costs amounting to approximately RMB2,975,000 (2015: RMB39,054,000) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings at 3.13% (2015: 6.72%).

(f) Net rental income amounting to RMB5,537,000 (2015: RMB9,528,000) relating to the lease of plant and machinery are included in profit or loss (Note 6).

(g) The impairment charge of RMB36,598,000 for the year ended 31 December 2016 relates to the impairment of the oil and gas engineering services cash generating unit, which operates in the oil and gas engineering services segment.

The recoverable amount is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a ten-year period, cash flows beyond the five-year period are calculated based on a forecasted growth rate according to historical industry cycle. The discount rate applied to the cash flow projections primarily ranging from 12.2%–13.3% (2015: 8.9%–9.8%), which represents the weighted-average cost of capital for the industry. The impairment charge has been recognised against property, plant and equipment of RMB36,598,000.

16 PROPERTY, PLANT AND EQUIPMENT (continued)

(h) For the year ended 31 December 2016, inventories were transferred to fixed assets for the research purposes of landing drilling products, and fixed assets were transferred out to inventories for rebuild and future sale.

(i) 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	
	2016	2015
	RMB'000	RMB'000
Cost	**53,236**	53,236
Accumulated depreciation at 1 January	**(23,858)**	(14,499)
Additions	**4,714**	–
Disposals	**(14,206)**	–
Depreciation charge for the year	**(2,127)**	(9,358)
Net book amount	**17,759**	29,379

17 INTANGIBLE ASSETS

	Goodwill RMB'000	Technical know-how RMB'000	Development cost RMB'000	Total RMB'000
At 1 January 2015				
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 31 December 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
Year ended 31 December 2016				
Opening net book amount	**13,484**	**104,571**	**116,206**	**234,261**
Additions	**–**	**–**	**56,391**	**56,391**
Amortisation charge (Note 8)	**–**	**(35,764)**	**(4,489)**	**(40,253)**
Disposal of subsidiary (Note 38)	**(13,484)**	**(11,219)**	**(987)**	**(25,690)**
Currency translation difference	**–**	**4,705**	**1,499**	**6,204**
Closing net amount	**–**	**62,293**	**168,620**	**230,913**
At 31 December 2016				
Cost	**13,484**	**362,634**	**190,676**	**566,794**
Accumulated amortisation and impairment	**–**	**(289,122)**	**(21,069)**	**(310,191)**
Disposal of subsidiary (Note 38)	**(13,484)**	**(11,219)**	**(987)**	**(25,690)**
Net book amount	**–**	**62,293**	**168,620**	**230,913**

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

18 AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

	Year ended 31 December	
	2016 **RMB'000**	2015 RMB'000
At 1 January	**113,256**	405,879
Additions	**539,041**	890,735
Disposals	**(549,003)**	(1,183,358)
At 31 December	**103,294**	113,256
Less: non-current portion	**(88,294)**	(74,053)
Current portion	**15,000**	39,203

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

	As at 31 December	
	2016 **RMB'000**	2015 RMB'000
Investment in unlisted companies	**88,294**	74,053
Structured deposit (i)	**15,000**	39,203
	103,294	113,256

(i) As at 31 December 2016 and 2015, structured deposit consisted of principal-protected structure deposit placed in several commercial banks in the PRC.

The fair values of the investment in unlisted companies and structured deposits are measured by the discounted cash flow model with key assumptions including counter-parties' credit risk and market interest rate, and are within level 3 of the fair value hierarchy.

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	
	2016	2015
	RMB'000	RMB'000
Trade receivables (a)	**2,515,227**	3,618,306
Bills receivable	**123,272**	102,143
Less: provision for impairment of trade receivables	**(297,241)**	(247,151)
	2,341,258	3,473,298
Amount due from related parties		
— Trade	**46,019**	77,683
— Non-trade	**27,882**	54,796
Finance lease receivable	**178,205**	207,920
Less: provision for impairment of finance lease receivable	**(30,932)**	(7,734)
Value-added tax recoverable	**209,208**	273,163
Prepayments	**379,851**	442,666
Other receivables (b)	**649,677**	381,818
Less: provision for impairment of other receivables	**(117,181)**	(9,056)
	3,683,987	4,894,554
Representing:		
Current portion (c)	**3,431,335**	4,537,569
Non-current portion (d)	**252,652**	356,985
Total	**3,683,987**	4,894,554

19 TRADE AND OTHER RECEIVABLES (continued)

(a) As at 31 December 2016 and 31 December 2015, the ageing analysis of the net amount of trade receivables and bills receivable (including amounts due from related parties of trading in nature), based on the invoice date is as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Within 3 months	**584,291**	1,906,084
3 to 12 months	**467,157**	750,856
Over 1 year	**1,335,829**	894,041
	2,387,277	3,550,981

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 2016, the Group's trade and bills receivable of approximately RMB859,948,000 (2015: RMB421,881,000) were individually determined to be impaired, and the ageing of these receivables is over 1 year (2015: over 1 year). 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 RMB297,241,000 (2015: RMB247,151,000) were recognised. The Group does not hold any collateral over these balances.

19 TRADE AND OTHER RECEIVABLES (continued)

(a) (continued)

At 31 December 2016, trade receivables of approximately RMB988,478,000 (2015: RMB1,261,670,000) 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	
	2016	2015
	RMB'000	RMB'000
Within 1 month past due	**77,360**	269,582
1 to 3 months past due	**92,919**	48,915
Over 3 months but within 12 months past due	**238,312**	756,372
Over 1 year past due	**579,887**	186,801
	988,478	1,261,670

(b) Included in other receivables of the Group as at 31 December 2016 is an amount of approximately RMB32,317,000 (2015: 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 2016 included receivables of approximately RMB10,844,000 (2015: RMB100,292,000) 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 RMB21,307,000 (2015: RMB37,192,000), prepayment for acquisition property, plant and equipment of approximately RMB178,422,000 (2015: RMB177,422,000) and deposit placed as security for borrowings of approximately RMB42,079,000 (2015: 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	
	2016	2015
	RMB'000	RMB'000
At 1 January	**263,941**	234,287
Provision for impairment of receivables	**181,543**	29,654
Receivables written off during the year as uncollectible	**(130)**	–
At 31 December	**445,354**	263,941

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

(f) As at 31 December 2016 and 2015, 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 2016, Group's trade and bills receivables of approximately RMB23,900,000 (2015: RMB17,464,000) 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 2016, the Group had receivables under finance lease as follows:

	2016 RMB'000	2015 RMB'000
Non-current receivables		
Finance leases — gross receivables	22,572	40,406
Unearned finance income	(1,265)	(3,214)
	21,307	37,192
Current receivables		
Finance leases — gross receivables	166,608	190,467
Unearned finance income	(9,710)	(19,739)
	156,898	170,728
Gross receivables from finance leases:		
— No later than 1 year	166,608	190,467
— Later than 1 year and no later than 5 years	22,572	40,406
	189,180	230,873
Unearned future finance income on finance leases	(10,975)	(22,953)
Net investment in finance leases	178,205	207,920
The net investment in finance leases is analysed as follows:		
No later than 1 year	156,898	170,728
Later than 1 year and no later than 5 years	21,307	37,192
Total	178,205	207,920

20 CONTRACT WORK-IN-PROGRESS

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Contract cost incurred plus recognised profit less recognised losses	**425,452**	439,350
Less: progress billings	**(243,949)**	(418,572)
Contract work-in-progress	**181,503**	20,778
Representing:		
Amount due from customers for contract work	**181,503**	20,778

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Contract revenue recognised as revenue	**272,360**	332,667

21 HELD-TO-MATURITY FINANCIAL ASSETS

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Held-to-maturity debt investment	**–**	46,734

The debt investment was due on 31 July 2016.

22 INVENTORIES

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Raw materials	**674,418**	601,058
Work in progress	**948,293**	810,027
Finished goods	**491,244**	733,213
Goods in transit	**2,192**	20,134
	2,116,147	2,164,432

For the year ended 31 December 2016, the cost of inventories recognised as the Group's expense and included in 'cost of sales' amounted to approximately RMB1,484,118,000 (2015: RMB2,484,275,000).

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

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
At 1 January	**79,609**	106,340
Provision	**55,369**	14,001
Write off	**(15,605)**	(32,644)
Reversal	**(6,277)**	(8,088)
Disposal of subsidiary (Note 38)	**(10,085)**	–
At 31 December	**103,011**	79,609

23 CASH AND CASH EQUIVALENTS

(a) CASH AND CASH EQUIVALENTS

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Cash on hand	**1,655**	3,600
Cash at bank	**542,705**	1,079,051
Short-term bank deposits (i)	**–**	20,000
Cash and cash equivalents	**544,360**	1,102,651

(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 2015	3,241,057	300,983
Shares issued under share option scheme (i)	–	–
At 31 December 2015	3,241,057	300,983
At 1 January 2016	**3,241,057**	**300,983**
Shares issued under share option scheme (i)	**–**	**–**
At 31 December 2016	**3,241,057**	**300,983**

(i) No share option was exercised during the years ended 31 December 2016 and 2015.

The total authorised number of ordinary shares is 10,000,000,000 shares (2015: 10,000,000,000 shares) with a par value of HKD0.1 per share (2015: HKD0.1 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 of 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			
	2016		2015	
	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**	**54,066**	HKD3.83	55,371
Granted	**–**	**–**	–	–
Exercised	**–**	**–**	–	–
Forfeited	**–**	**–**	–	–
Lapsed	**HKD3.83**	**(710)**	HKD3.83	(1,305)
At 31 December	**HKD3.83**	**53,356**	HKD3.83	54,066

The options outstanding at 31 December 2016 had a weighted average remaining contractual life of 1.08 years (2015: 2.08 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
— on 21 September 2016	41,350 (d)	(i) 30% on 21 September 2017 (ii) 30% on 21 September 2018 (iii) 40% on 21 September 2019	10 years
Total share options	170,325		

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.

(d) 8,450,000 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			
	2016		2015	
	Weighted average exercise price	Number of share options (thousands)	Weighted average exercise price	Number of share options (thousands)
At 1 January	**HKD 1.51**	**103,145**	HKD1.51	106,684
Granted	**HKD 0.44**	**41,350**	–	–
Exercised	**–**	**–**	–	–
Forfeited	**HKD 1.64**	**(1,664)**	HKD1.96	(1,687)
Lapsed	**HKD 1.48**	**(1,583)**	HKD1.29	(1,852)
At 31 December	**HKD 1.62**	**141,248**	HKD1.51	103,145

The options outstanding at 31 December 2016 had an exercise price in the range of HKD0.44 to HKD2.02 (2015: HKD0.83 to HKD2.02) and a weighted average remaining contractual life of 5.76 years (2015: 6.27 years).

For the years ended 31 December 2016 and 2015, there was no share option exercised.

25 SHARE-BASED PAYMENTS (continued)

(b) SHARE OPTION SCHEME (continued)

(ii) (Continued)

The fair value of options granted to the directors and selected employees is determined by using the binomial valuation model. The fair value of options granted on 21 September 2016 was HKD0.22 and HKD0.18 per option for the directors and selected employees respectively. The significant inputs into the model were spot share price of HKD0.44 at the grant date, exercise price shown above, volatilities of 55.65%, dividend yield of 1.75%, exercise multiples of 2.47 and 1.6 for directors and selected employees respectively, forfeiture rate of 0.00% for directors and selected employees, and an annual risk-free interest rates of 1.06%. The volatilities were based on the daily historical volatility of the Company. See Note 9 for the total expense recognised in profit or loss for share options granted to directors and employees.

(c) SHARE AWARD SCHEME

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

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

During the year ended 31 December 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.

25 SHARE-BASED PAYMENTS (continued)

(c) SHARE AWARD SCHEME (continued)

No shares were acquired by the Trustee under the Scheme for the years ended 31 December 2016 and 2015. As at 31 December 2016, 62,089,300 shares were held by the Trustee under the Scheme (2015: 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.

26 OTHER RESERVES (continued)

(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	
	2016	2015
	RMB'000	RMB'000
Trade payables	**1,335,588**	1,386,017
Amounts due to related companies		
— Trade	**17,290**	16,451
— Non-trade	**32**	65
Bills payable	**362,580**	857,472
Receipts in advance	**431,397**	780,861
Other payables	**533,791**	538,448
	2,680,678	3,579,314
Representing:		
Current portion	**2,677,890**	3,556,059
Non-current portion	**2,788**	23,255
Total	**2,680,678**	3,579,314

27 TRADE AND OTHER PAYABLES (continued)

At 31 December 2016 and 2015, 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	
	2016	2015
	RMB'000	RMB'000
Within 3 months	**722,807**	1,004,615
3 to 6 months	**130,232**	371,021
6 to 12 months	**402,660**	260,563
Over 1 year	**459,759**	623,741
	1,715,458	2,259,940

As at 31 December 2016 and 2015, all the trade payables, bills payable 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 2016 and 2015 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 within one year or are repayable on demand.

28 BORROWINGS

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
(a) Bank loans		
Secured (i)		
— Current portion	**648,751**	391,333
— Non-current portion	**368,907**	257,961
	1,017,658	649,294
Unsecured		
— Current portion	**1,560,286**	1,941,212
— Non-current portion	**342,000**	796,000
	1,902,286	2,737,212
(b) Other loans		
Secured loan from related party (Note 37)		
— Current portion	**3,885**	–
— Non-current portion	**5,874**	–
	9,759	–
Senior notes (ii)		
— Non-current portion	**1,369,345**	1,277,925
	1,369,345	1,277,925
Current borrowings	**2,212,922**	2,332,545
Non-current borrowings	**2,086,126**	2,331,886
Total borrowings	**4,299,048**	4,664,431

28 BORROWINGS (continued)

(i) As at 31 December 2016, the bank loans were secured by interest in land use rights of approximately RMB27,052,000 (2015: RMB186,953,000), property, plant and equipment of approximately RMB122,064,000 (2015: RMB455,650,000), bank deposits of approximately RMB311,745,000 (2015: RMB10,778,000) and trade and other receivables of approximately RMB23,900,000 (2015: RMB17,464,000).

(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 2016 bear annual interest ranging from 1.20%–7.45% annually (2015: 1.78%–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	
	2016	2015
	RMB'000	RMB'000
Within 1 year	**2,212,922**	2,332,545
Between 1 and 2 years	**489,649**	537,971
Between 2 and 5 years	**1,595,920**	1,777,713
Over 5 years	**557**	16,202
	4,299,048	4,664,431

28 BORROWINGS (continued)

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

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Carrying amount		
Bank borrowings	**2,919,944**	3,386,506
Secured loan from related party	**9,759**	–
Senior notes	**1,369,345**	1,277,925
Fair value		
Bank borrowings	**3,273,102**	3,459,931
Secured loan from related party	**11,403**	–
Senior notes	**1,316,283**	570,212

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%-10.7% as at 31 December 2016 (2015: 4.35%–39.51%) 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	
	2016	2015
	RMB'000	RMB'000
RMB	**2,458,209**	2,271,123
USD	**1,840,839**	2,393,308
	4,299,048	4,664,431

28 BORROWINGS (continued)

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

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Fixed rate		
Expiring within 1 year (bank loans and bill facilities)	**3,211,111**	4,940,570
Expiring beyond 1 year (bank loans)	**252,000**	462,560
	3,463,111	5,403,130

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

29 DEFERRED INCOME TAX

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

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Deferred tax assets		
Deferred tax assets to be recovered within 12 months	**52,022**	47,051
Deferred tax assets to be recovered more than 12 months	**375,873**	283,967
	427,895	331,018
Deferred tax liabilities		
Deferred tax liabilities to be settled within 12 months	**(1,531)**	(544)
Deferred tax liabilities to be settled more than 12 months	**(10,663)**	(12,211)
	(12,194)	(12,755)
Deferred tax assets (net)	**415,701**	318,263

29 DEFERRED INCOME TAX (continued)

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

Deferred tax assets	Write down of inventories RMB'000	Provision for product warranties RMB'000	Unrealised profit on inventories RMB'000	Provision for impairment of receivables RMB'000	Accruals RMB'000	Government grants RMB'000	Tax losses RMB'000	Depreciation difference RMB'000	Impairment provision of property, plant and equipment RMB'000	Total RMB'000
At 1 January 2015	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
Currency translation differences	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
Recognised in profit or loss	2,877	(2,040)	(1,032)	22,731	(19,319)	13,169	75,440	(1,955)	6,804	96,675
Currency translation differences	40	–	–	175	–	–	(12)	(1)	–	202
At 31 December 2016	15,697	1,209	6,614	68,045	17,034	16,456	295,500	536	6,804	427,895

Deferred tax liabilities	Borrowing costs RMB'000	Intangible assets RMB'000	Interest capitalisation RMB'000	Total RMB'000
At 1 January 2015	–	(2,636)	(10,663)	(13,299)
Credited to profit or loss	–	544	–	544
At 31 December 2015	–	(2,092)	(10,663)	(12,755)
Credited to profit or loss	(1,531)	2,092	–	561
At 31 December 2016	(1,531)	–	(10,663)	(12,194)

29 DEFERRED INCOME TAX (continued)

(b) (Continued)

The Group has not recognised deferred income tax assets in respect of tax losses of approximately RMB300,918,000 as at 31 December 2016 (2015: RMB134,861,000) 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 RMB300,918,000 (2015: RMB134,861,000) would be expired in 5 to 20 years.

As at 31 December 2016, deferred income tax liabilities of approximately RMB110,975,000 (2015: RMB108,674,000) had not been recognised for the withholding tax that would be payable on the unremitted earnings of certain subsidiaries. Unremitted earnings totalled approximately RMB2,219,508,000 as at 31 December 2016 (2015: RMB2,173,483,000). The Group does not intend to remit these unremitted earnings from the relevant subsidiaries 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 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
At 1 January 2016	**32,317**	**21,663**	**53,980**
Additional provisions (Note 8)	**–**	**9,664**	**9,664**
Utilised during the year	**–**	**(23,466)**	**(23,466)**
At 31 December 2016	**32,317**	**7,861**	**40,178**

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 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 management take 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 filed an appeal to Sichuan Higher People's Court in April 2016 again. The retrial by the court was held in October 2016 and the judgement has not yet to be made as at 31 December 2016.

31 DEFERRED INCOME

Movement on the deferred income is as follows:

	As at 31 December	
	2016 RMB'000	2015 RMB'000
At 1 January	**56,299**	50,975
Government grants related to assets received during the year	**38,906**	13,518
Government grants related to costs received during the year	**31,995**	–
Credited to profit or loss	**(15,870)**	(8,194)
At 31 December	**111,330**	56,299
Less: non-current portion	**(72,763)**	(51,376)
Current portion	**38,567**	4,923

32 DIVIDENDS

No dividend was approved or paid in respect of the previous financial year for the years ended 31 December 2016 and 2015.

No dividend was proposed for the year ended 31 December 2016.

33 CASH GENERATED FROM OPERATIONS

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

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Loss before income tax	**(696,161)**	(301,719)
Adjustments for:		
— Depreciation of property, plant and equipment	**247,083**	292,889
— Amortisation of intangible assets and lease prepayments	**48,312**	61,261
— Gain on available-for-sale financial assets	**(451)**	–
— Interest income	**(42,859)**	(80,640)
— Interest expense and bank charges	**256,478**	252,723
— Share of loss/(profit) from joint ventures	**3,905**	(1,793)
— Share of profit from associates	**(3,487)**	(925)
— Gain on disposal of property, plant and equipment	**(3,221)**	(1,992)
— Loss on disposal of subsidiary	**17,890**	–
— Foreign exchange (gain)/loss	**(122,544)**	93,443
— Equity-settled share-based payment expenses arising from share option schemes and share award scheme	**3,022**	6,131
— Provision for impairment of property, plant and equipment	**36,598**	–
	(255,435)	319,378
Changes in working capital:		
— Decrease in inventories	**113,826**	803,998
— (Increase)/decrease in amount due from customers for contract work	**(160,725)**	196,223
— Decrease in trade and other receivables	**1,311,768**	720,423
— (Increase)/decrease in pledged bank deposits	**(190,853)**	243,859
— Decrease in trade and other payables	**(720,411)**	(1,622,001)
— Decrease in provisions	**(13,802)**	(12,898)
Cash generated from operations	**84,368**	648,982

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	
	2016 **RMB'000**	2015 RMB'000
Net book amount (Note 16)	**29,415**	23,639
Gains on disposal of property, plant and equipment	**3,221**	1,992
Proceeds from disposal of property, plant and equipment	**32,636**	25,631

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 has not yet to be made as at 31 December 2016.

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:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Contracted for	**250,852**	283,049
Authorised but not contracted for	**29,193**	3,310
	280,045	286,359

(b) OPERATING LEASE COMMITMENTS

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

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Within 1 year	**7,860**	12,707
After 1 year but within 5 years	**5,025**	7,329
	12,885	20,036

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

36 TRANSACTIONS WITH NON-CONTROLLING INTERESTS

ACQUISITION OF ADDITIONAL INTEREST IN SUBSIDIARIES

In December 2016, the Group acquired an additional 1.2% of the interest of Honghua Electric for a purchase consideration of approximately RMB6,924,000. The carrying amount of the non-controlling interests in Honghua Electric on the date of acquisition was approximately RMB129,298,000. The Group recognised a decrease in non-controlling interests of approximately RMB7,757,000 and an increase in equity attributable to owners of the Group of approximately RMB833,000.

In December 2016, the Group acquired an additional 15% of the interest of Honghua America, LLC for a purchase consideration of approximately RMB6,524,000. The carrying amount of the non-controlling interests in Honghua America, LLC on the date of acquisition was approximately RMB1,556,000. The Group recognised a decrease in non-controlling interests of approximately RMB1,556,000 and a decrease in equity attributable to owners of the Group of approximately RMB4,968,000.

The total effect of changes in the ownership interest of the Group during the year is summarised as follows:

	As at 31 December	
	2016 **RMB'000**	2015 RMB'000
Carrying amount of non-controlling interests acquired	**9,313**	–
Consideration paid to non-controlling interests	**(13,448)**	–
Excess of consideration paid recognised within equity	**(4,135)**	–

37 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 2016 and 2015, and balances arising from related party transactions as at 31 December 2016 and 2015.

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 of 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 of which the sister and the sister's husband of a subsidiary's director have 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 the 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 (before 29 August 2016)

37 RELATED-PARTY TRANSACTIONS (continued)

(a) SIGNIFICANT RELATED PARTY TRANSACTIONS

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Purchases of parts and components		
— Hongtai	**8,270**	11,054
— Sichuan Shenyuan	**–**	4,248
— Other related companies	**112**	–
	8,382	15,302
Sale of drilling rigs, parts and components		
— HH Egyptian Company	**5,168**	14,620
— Honghua (Shenzhen)	**–**	48,085
— Sichuan Shenyuan	**23**	–
	5,191	62,705

37 RELATED-PARTY TRANSACTIONS (continued)

(a) SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

	As at 31 December	
	2016	2016
	RMB'000	RMB'000
Decoration service received		
— Luzhou Jianming	**–**	207
Consulting service provided		
— Honghua (Shenzhen)	**2,688**	1,207
Loans to		
— Prime FSP	**–**	7,143
— Honghua (Shenzhen)	**2,500**	15,400
— Li Ming	**–**	1,114
	2,500	23,657

The loans to related parties have no fixed repayment terms and are carrying interest rate of 7.5% (2015: from 5% to 7.5%) annually. No provision was made against the amounts due from related companies at 31 December 2016 and 2015.

	As at 31 December	
	2016	2016
	RMB'000	RMB'000
Loans from		
— Honghua (Shenzhen)	**11,050**	–

The loans from Honghua (Shenzhen) bear fixed interest rate of 1.75% and are due for repayment in August 2019.

37 RELATED-PARTY TRANSACTIONS (continued)

(b) AMOUNTS DUE FROM RELATED COMPANIES

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Trade		
— Joint ventures	**46,009**	44,482
— Other related companies	**10**	33,201
	46,019	77,683
Non-trade		
— Director of a Group's subsidiary and his controlled entity	**–**	27,753
— Joint ventures	**1,467**	1,583
— Other related companies	**26,415**	25,460
	27,882	54,796

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 2016 and 2015.

37 RELATED-PARTY TRANSACTIONS (continued)

(c) AMOUNTS DUE TO RELATED COMPANIES

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Trade		
— Joint ventures	**103**	2,196
— Other related companies	**17,187**	14,255
	17,290	16,451
Non-trade		
— Joint ventures	**–**	65
— Other related companies	**32**	–
	32	65

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

(d) BORROWINGS

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
— Honghua (Shenzhen)	**9,759**	–

As at 31 December 2016, the loans were secured by property, plant and equipment of approximately RMB11,006,000.

(e) AMOUNTS DUE FROM CERTAIN SHAREHOLDERS

The amounts due from certain shareholders as at 31 December 2016 is an amount of approximately RMB32,317,000 (2015: RMB32,317,000), being the amount indemnified by certain shareholders in relation to a legal claim.

37 RELATED-PARTY TRANSACTIONS (continued)

(f) KEY MANAGEMENT COMPENSATION

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Basic salaries, allowances and other benefits in kind	**6,149**	5,868
Contributions to defined contribution retirement schemes	**358**	378
Discretionary bonus	**3,911**	1,490
Share-based payments	**875**	–
	11,293	7,736

38 DISPOSAL OF SUBSIDIARY

The Group sold all of its equity interest in Bazhou Honghua Petroleum Applied Chemistry Co., Ltd. ("Bazhou Honghua") to Mr. Li Ming with the consideration of RMB50,000 and the transfer of the equity interest was approved by the regulatory authority on 29 August 2016. After the transaction, Bazhou Honghua is no longer a subsidiary of the Group.

Details of net assets disposed of and the loss on disposal are as follows:

	As at 29 August 2016 RMB'000
Disposal proceeds:	
Cash received	50
Less: Net assets disposed	(4,456)
Goodwill	(13,484)
Net loss on disposal of subsidiary (Note 7)	(17,890)

38 DISPOSAL OF SUBSIDIARY (continued)

The assets and liabilities derecognised as a result of the disposal are as follows:

	As at 29 August 2016 RMB'000
Property, plant and equipment	73,531
Cash and cash equivalents	117
Intangible assets	12,206
Lease prepayment	9,191
Trade and other receivables	37,065
Inventories	18,604
Other assets	3,303
Trade and other payables	(143,785)
Other liabilities	(2,129)
Net assets	8,103
Non-controlling interests	(3,647)
Net assets disposed	4,456
Cash received	50
Less: Cash and cash equivalents of subsidiary disposed	(117)
Net cash outflow on disposal of subsidiary	(67)

39 EVENT AFTER THE REPORTING PERIOD

1. According to the subscription agreement dated 19 December 2016 entered into between the Company as the issuer and China Aerospace Science and Industry Corporation* (中國航天科天集團公司)("CASIC") and Jianhong Capital Fund I L.P. ("Jianhong") as the subscribers in respect of the allotment and issue of an aggregate of 1,606,000,000 new shares of the Company to CASIC and 508,000,000 new shares of the Company to Jianhong at a subscription price of HKD0.77 per share. After such transaction, CASIC will have approximately 29.99% of the total number of issued shares as enlarged and become the first majority shareholder, Jianhong will have approximately 9.49% of the total number of issued shares as enlarged.

   As at the report date, such transactions have been approved by both the Company and the subscribers' shareholders and still in process to complete.

2. 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 15 March 2017, Honghua Company issued the first tranche of Short-term Financing Debentures amounted to RMB200,000,000.

40 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

BALANCE SHEET OF THE COMPANY

		As at 31 December	
	Note	2016 RMB'000	2015 RMB'000
ASSETS			
Non-current assets			
Intangible assets		**62,294**	93,353
Investments in subsidiaries		**3,380,469**	3,039,607
Total non-current assets		**3,442,763**	3,132,960
Current assets			
Other receivables		**1,716**	1,510
Amounts due from subsidiaries		**516,494**	699,932
Cash and cash equivalents		**1,290**	1,293
Total current assets		**519,500**	702,735
Total assets		**3,962,263**	3,835,695
EQUITY			
Equity attributable to owners of the Company			
Share capital		**300,983**	300,983
Other reserves	(a)	**2,578,718**	2,414,606
Accumulated losses	(a)	**(345,126)**	(193,390)
Total equity		**2,534,575**	2,522,199

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

BALANCE SHEET OF THE COMPANY (continued)

		As at 31 December	
	Note	**2016 RMB'000**	2015 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings		**1,369,345**	1,277,925
Current liabilities			
Other payables		**58,343**	35,571
Total liabilities		**1,427,688**	1,313,496
Total equity and liabilities		**3,962,263**	3,835,695

The balance sheet of the Company was approved by the Board of Directors on 29 March 2017 and was signed on its behalf:

Director *Director*

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

BALANCE SHEET 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 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	–	–	–	–	154,867	–	(127,025)	27,842
Equity-settled share-based transactions	–	–	–	686	–	–	–	686
Options lapsed under share option schemes	–	–	–	(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
Balance at 1 January 2016	300,983	2,349,292	389,691	99,425	(299,184)	(124,618)	(193,390)	2,522,199
Loss for the year	–	–	–	–	–	–	(151,736)	(151,736)
Other comprehensive income	–	–	–	–	163,864	–	–	163,864
Total comprehensive income	–	–	–	–	163,864	–	(151,736)	12,128
Equity-settled share-based transactions	–	–	–	248	–	–	–	248
Balance at 31 December 2016	300,983	2,349,292	389,691	99,673	(135,320)	(124,618)	(345,126)	2,534,575

41 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 2016:

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

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	–	1,111	39	599	106	1,855
Executive Directors						
Ren Jie (Chief executive officer)	–	938	51	354	130	1,473
Liu Zhi	–	792	50	84	65	991
Non-executive Directors						
Siegfried Meissner	–	–	–	–	–	–
Independent Non-executive Directors						
Qi Daqing	170	–	–	–	57	227
Liu Xiaofeng	170	–	–	–	57	227
Chen Guoming	85	–	–	–	41	126
Shi Xingquan	85	–	–	–	41	126
Guo Yanjun	128	–	–	–	49	177
Total	638	2,841	140	1,037	546	5,202

41 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 2015:

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

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	–	997	54	304	–	1,355
Executive Directors						
Ren Jie (Chief executive officer)	–	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

41 BENEFITS AND INTERESTS OF DIRECTORS (continued)

(b) DIRECTORS' RETIREMENT BENEFITS AND TERMINATION BENEFITS

For the years ended 31 December 2016 and 2015, 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) CONSIDERATION PROVIDED TO THIRD PARTIES FOR MAKING AVAILABLE DIRECTORS' SERVICES

During the year ended 31 December 2016, the Company did not provide any consideration to any third party for making available director's services (2015: nil).

(d) INFORMATION ABOUT LOANS, QUASI-LOANS AND OTHER DEALINGS IN FAVOUR OF DIRECTORS, CONTROLLED BODIES CORPORATE BY AND CONNECTED ENTITIES WITH SUCH DIRECTORS

During the year ended 31 December 2016, no loans, quasi-loans or other dealings in favour of directors of the Company, controlled bodies corporate by and connected entities with such directors (2015: nil).

(e) 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 37, 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

	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000
Consolidated Income Statement					
Revenue	**2,343,614**	4,219,253	7,812,537	8,047,108	5,068,447
Cost of sales	**(2,065,960)**	(3,272,716)	(6,182,994)	(6,141,643)	(3,321,440)
Gross profit	**277,654**	946,537	1,629,543	1,905,465	1,747,007
Other income	**129,067**	(77,504)	100,312	55,027	3,787
Other gains/(losses), net	**9,040**	(9,863)	(7,326)	7,435	2,084
Distribution expenses	**(371,560)**	(472,764)	(637,567)	(524,053)	(553,623)
Administrative expenses	**(653,733)**	(584,016)	(688,464)	(595,508)	(526,562)
Profit/(loss)from operations	**(609,532)**	(42,602)	396,498	848,366	672,693
Net finance (expenses)/income	**(86,211)**	(261,835)	(273,018)	(139,418)	29,259
Share of profit/(loss) of joint ventures	**(3,905)**	1,793	186	(7,948)	(156)
Share of profit of associates	**3,487**	925		–	7,662
Profit/(loss)before taxation	**(696,161)**	(301,719)	123,666	701,000	709,458
Income tax	**68,912**	35,853	(13,499)	(125,750)	(167,683)
Profit/(loss) for the year	**(627,249)**	(265,866)	110,167	575,250	541,775
Attributable to:					
Equity shareholders of the company	**(609,689)**	(252,207)	91,787	537,617	529,458
Non-controlling interests	**(17,560)**	(13,659)	18,380	37,633	12,317
Figures per share					
— Basic earnings/(loss) per share (RMB cents)	**(19.18)**	(7.93)	2.89	16.99	16.58
— Diluted earnings/(loss) per share (RMB cents)	**(19.18)**	(7.93)	2.87	16.77	16.54
Dividend					
Dividends declared and paid	**–**	–	–	–	–
Dividends declared and paid per share	**–**	–	–	–	–
Dividend proposed after balance sheet date	**–**	–	–	151,983	150,102
Dividend proposed after balance sheet date per share	**–**	–	–	HKD0.06	HKD0.06

FIVE-YEAR FINANCIAL HIGHLIGHTS

	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000
Consolidated Balance Sheet					
Total non-current assets	**4,415,887**	4,791,979	5,238,168	4,548,371	3,227,901
Total current assets	**6,851,879**	8,390,361	10,260,172	9,680,684	6,617,975
Total assets	**11,267,766**	13,182,340	15,498,340	14,229,055	9,845,876
Total current liabilities	**5,022,637**	6,001,637	8,205,237	7,761,845	4,517,478
Total non-current liabilities	**2,161,677**	2,406,517	2,329,333	1,508,564	739,671
Total liabilities	**7,184,314**	8,408,154	10,534,570	9,270,409	5,257,149
Total equity	**4,083,452**	4,774,186	4,963,770	4,958,646	4,588,727

Key financial ratios	2016	2015	2014	2013	2012
Profitability					
Gross margin	**11.8%**	22.4%	20.9%	23.7%	34.5%
EBITDA margin	**-13.4%**	7.4%	9.1%	13.4%	16.3%
Net margin	**-26.0%**	–6.0%	1.2%	6.7%	10.4%
Return					
Return on average equity	**-14.4%**	–5.4%	1.9%	11.7%	12.4%
Return on average assets	**-5.0%**	–1.8%	0.6%	4.5%	6.4%
Liquidity					
Current ratio	**1.36**	1.40	1.25	1.25	1.46
Quick ratio	**0.94**	1.04	0.89	0.89	0.86
Turnover					
Turnover of average trade and bills receivable	**453**	304	155	107	95
Turnover of average trade and bills payable	**348**	321	184	120	119
Turnover of average inventory	**378**	287	170	165	235
Gearing					
Total debts/Total assets	**38.2%**	35.4%	33.1%	33.3%	20.1%
Total liabilities/Total assets	**63.8%**	63.8%	68.0%	65.2%	53.4%
EBIT/Interest expenses	**(2.38)**	(0.16)	1.57	3.98	8.77

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 of associates/Interest expenses

DEFINITIONS

"Articles of Association"	the Articles of Association of the Company, approved at extraordinary shareholders' meetings of the Company on 21 January 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
"CASIC"	China Aerospace Science and Industry Corporation (中國航天科工集團公司), a company incorporated in the PRC
"CASIC Group"	CASIC and its subsidiaries
"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"	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 17 February 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 2016
"Group" or "we" or "us"	the Company and its subsidiaries, and, for the period before the Company became the holding company for such subsidiaries, the entities which carried on the business of the Group
"HK$" or "HK dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Honghua Company"	Sichuan Honghua Petroleum Equipment Co., Ltd. (四川宏華石油設備有限公司), formerly known as Chuanyou Guanghan Honghua Co., Ltd. (川油廣漢宏華有限公司), a limited liability company established in the PRC on 31 December 1997, and a wholly-owned subsidiary of Honghua Holdings Limited
"Honghua Oil & Gas Engineering"	Honghua Oil & Gas Engineering and Technology Services (Sichuan) Co., Ltd. (宏華油氣工程技術服務（四川）有限公司), an indirect wholly-owned subsidiary of Honghua Group Limited
"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 21 June 2002
"Last Year"	for the year ended 31 December 2015

DEFINITIONS

"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

宏华集团有限公司
HONGHUA GROUP LIMITED