宏华集团有限公司
HONGHUA GROUP LIMITED

(incorporated in the Cayman Islands with limited liability)

Stock Code: 196

ANNUAL REPORT 2019

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Jin Liliang *(Chairman)*
Zhang Mi *(Vice Chairman)*
Ren Jie

NON-EXECUTIVE DIRECTORS

Han Guangrong
Chen Wenle

INDEPENDENT NON-EXECUTIVE DIRECTORS

Liu Xiaofeng
Chen Guoming
Su Mei
Poon Chiu Kwok
Chang Qing
Wu Yuwu *(Passed away on 29 May 2019)*
Wei Bin *(Appointed with effect from 29 August 2019)*

SECRETARY OF BOARD OF DIRECTORS

Zhuang Wenmin

BOARD COMMITTEES

AUDIT COMMITTEE

Wu Yuwu *(Committee Chairman, passed away on 29 May 2019)*
Wei Bin *(Committee Chairman, appointed with effect from 29 August 2019)*
Liu Xiaofeng
Chen Guoming
Su Mei
Poon Chiu Kwok
Chang Qing

REMUNERATION COMMITTEE

Liu Xiaofeng *(Committee Chairman)*
Zhang Mi
Jin Liliang
Su Mei
Wu Yuwu *(Passed away on 29 May 2019)*
Wei Bin *(Appointed with effect from 29 August 2019)*

STRATEGIC INVESTMENT AND RISK CONTROL COMMITTEE

Jin Liliang *(Committee Chairman)*
Zhang Mi
Ren Jie
Liu Xiaofeng
Poon Chiu Kwok
Chang Qing

JOINT COMPANY SECRETARIES

Zhuang Wenmin
Lee Mei Yi

LEGAL ADVISOR

AS TO HONG KONG LAW

HERBERT SMITH FREEHILLS LLP

PRINCIPAL BANKERS

Bank of China Limited
Industrial and Commercial Bank of China Limited
Industrial Bank Co., Ltd.
China CITIC Bank Co., Ltd.
Ping An 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
22nd Floor, Prince's Building
Central
Hong Kong

REGISTERED OFFICE

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

CORPORATE INFORMATION

HEAD OFFICE

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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
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

	2019 **RMB'000**	2018 RMB'000	Changes
OPERATING RESULTS			
Revenue from continuing operations	**4,425,686**	4,205,162	5.2%
Operating profit from continuing operations	**378,391**	339,431	11.5%
Profit before income tax from continuing operations	**166,265**	143,582	15.8%
Profit attributable to owners of the company	**107,472**	82,287	30.6%
Profit per share from continuing and discontinued operations attributable to owners of the Company (expressed in RMB cents per share)			
Basic profit per share	**2.03**	1.55	31.0%
Diluted profit per share	**2.03**	1.55	31.0%
FINANCIAL POSITION			
Total non-current assets	**5,298,467**	4,772,175	11.0%
Total current assets	**6,455,861**	5,544,922	16.4%
Total assets	**11,754,328**	10,317,097	13.9%
Total current liabilities	**5,033,409**	5,374,100	-6.3%
Total non-current liabilities	**2,240,542**	624,086	259.0%
Total liabilities	**7,273,951**	5,998,186	21.3%
Total equity	**4,480,377**	4,318,911	3.7%

FINANCIAL HIGHLIGHTS

	2019	2018	Changes
Key financial ratios*			
Gross Margin from continuing operations	**29.7%**	25.7%	4 percentage points
Net Margin from continuing operations	**2.4%**	2.0%	0.4 percentage points
Return on average assets	**1.0%**	0.8%	0.2 percentage points
Return on average equity	**2.6%**	2.0%	0.6 percentage points
Current ratio	**1.28**	1.03	24.3%
Quick ratio	**1.03**	0.74	39.2%
Total debt/Total assets	**34.1%**	30.2%	3.9 percentage points
Total liabilities/Total assets	**61.9%**	58.1%	3.8 percentage points

CHAIRMAN’S STATEMENT

DEAR SHAREHOLDERS AND FRIENDS,

Firstly, on behalf of the Board of Directors of Honghua Group Limited, I would like to express my sincere gratitude to all shareholders and friends for their attention and support.

In 2019, centering on the principles of "Business Model Innovation, Management Innovation, Technology Innovation", Honghua continued to explore the models for high-quality sustainable development. In view of the implementation of the national energy security strategy, the industry has been actively exploring new models for low-cost green development. In order to meet the needs for market development, Honghua puts up a shale gas overall solution which integrates drilling, well completion, and drainage and production, in order to construct a sustainable business model through green development and an owners' benefit sharing mechanism. By virtue of market development at the early stage, our green electric shale gas mining model has gradually become a model leading the new direction for development in the industry. In 2019, we embraced a year of harvest with breakthroughs made with respect to market share and scope of business. Upon successful completion of our first drilling and well completion integration project, our business achieved a leap-forward transition from purely drilling and fracturing services to platform turnkeys. The entering into of the shale gas fracturing engineering service agreement extended the scope of fracturing services from purely pumping service to comprehensive fracturing services. We recorded an increase of 34% for drilling service in footage for the year as compared to 2018, and the number of stages for pumping service increased by 2.5 times. During the Year, Honghua introduced packaged equipment including electric sand-mixing skid, electric fluid supply skid and 105MPa high pressure manifold, making solid steps towards market-oriented, standardized and diversified business development. As the concept of providing premium products and services had long been deeply rooted in Honghua's development, we continued to explore a flexible, efficient and compliant management and control model, and operating mechanism under mixed ownership, so as to fully improve operational efficiency and market vitality, while focusing on crafting and upgrading core technologies. In 2019, two of our R&D staff were honored with the 2nd class awards of the State Technological Invention Award, who participated in a project applied in the Earth Crust No.1, the first 10,000m drilling rig for continental scientific drilling in China. This is the first exploratory well drilling for continental Cretaceous worldwide. In the future, we will continue to contribute for "Made by Honghua" with respect to, among other things, downhole tools, smart rigs and deep-sea drilling and production equipment.

CHAIRMAN'S STATEMENT

Looking back at 2019, Honghua achieved significant results in cost reduction and efficiency improvement. The Group lowered its costs as compared to the same period of Last Year through means such as technological innovation, cost control, and supply chain optimization. Honghua strengthened technological innovation to give play to the leading role of technology in cost reduction. For the sake of reducing production costs, our oil-related services achieved an improvement in drilling efficiency by adopting technologies including differential pressure drilling and aggressive parameter drilling. By establishing a cost-price management information platform, we strengthened cost-price management, as well as management on the two financial items, i.e. inventory and accounts receivable. We continued to optimize the structure of interest-bearing debts, and successfully issued US$200 million senior notes with a term of three years and a coupon rate of 6.375%. The cost of long-term loans at weighted average interest rate fell by 0.71% to 5.27% for the Year. Under a series of programs to improve supply chain management, such establishment of a supplier management system, optimization of long-term imported parts delivery time, and a SRM information management platform, we achieved initial results for supply chain optimization for further exploration of the room for cost reduction in respect of material procurement.

From the end of 2019 to the beginning of 2020, China suffered from the coronavirus outbreak. Honghua Group mobilized all employees and responded quickly to make every effort to prevent and control the epidemic, ensuring that there was no infected or suspected patient within the Group. In this regard, we would like to thank the employees of Honghua who stayed and worked hard during the epidemic for your dedication and persistence. Although the epidemic affected our supply chain procurement and product delivery and transportation to some extent, with the effective control of the epidemic, the production department resumed production in an orderly manner, and the impact has gradually reduced. When the epidemic is over, all units of Honghua will resume to full operation with an expected rebound in production. Under the effective cooperation of various departments and subsidiaries, we will strive to make up the work progress affected by the novel coronavirus outbreak in the first quarter.

Looking back at 2019, although our sales and profits have increased for three consecutive years, issues such as reduced number of overseas orders for rigs and declining profit margins for rigs remained unsolved. Our overall profitability has yet to return to normal. In the forthcoming year, Honghua will further strengthen cost control, shorten the delivery cycle, secure overseas orders, make full use of our advantages of leading rig products, and be fully prepared for overseas business challenges. At the same time, Honghua will seize the development opportunities in the domestic unconventional oil and gas market, adhere to the three major innovation principles, deepen the strategic structural transformation, optimize the operation and management concepts, and enhance high-quality profitability, in order to bring long-term benefits to our shareholders.

Lastly, we would like to extend our sincere gratitude to shareholders and friends for their long-term support. We are also grateful to the directors, the management team and all the staff of honghua for their commitment. Your perseverance will see Honghua pursuing a new stage in its development.

Chairman
Jin Liliang

30 March 2020

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

In 2019, the Group's revenue from continuing operations amounted to approximately RMB4,426 million, representing an increase of 5.2% from RMB4,205 million for Last Year. Gross profit from continuing operations was approximately RMB1,316 million, representing an increase of 21.6% from RMB1,082 million for Last Year. The profit attributable to equity shareholders was approximately RMB107 million.

MARKET REVIEW

In 2019, the oil price, remaining at medium to low position, fluctuates frequently. Driven by favorable factors such as production reduction orders and the improvement of global trade, the international oil price ushered in a long-lost rise at the end of 2019. In 2019, WTI and Brent oil prices increased by 34.46% and 22.68% in aggregate, respectively. According to the data released by Baker Hughes Inc., an American oil service company, the number of active crude oil wells in the United States decreased by 207 in total for 2019, which was the first annual decline since 2016. However, the crude oil production of the United States rose from 11.7 million barrels per day at the beginning of 2019 to 12.9 million barrels per day on 20 December. In view of the slowdown in the growth of shale oil in the United States, the U.S. sanctions on Venezuela and Iran, and the extension of oil output cuts as agreed by the Organization of the Petroleum Exporting Countries (OPEC), the market's concerns about oversupply have eased. As the substantial growth of crude oil on the supply side was limited, the demand side became the main factor restraining the increase in crude oil prices. However, uncertainties remained in macroeconomics and geopolitics. Sino-US trade frictions, Brexit, and geopolitical factors in the Middle East led to increased turbulence in oil prices throughout the year.

In 2019, China's reliance on imported crude and natural gas was over 70% and 40%, respectively. The National Energy Administration convened a working conference on the significant enhancement of exploration and development of oil and gas, requiring oil companies to fulfill their responsibility for increasing reserves and production, and continuing to increase investment in upstream exploration and development. The total capital expenditure of the three major oil suppliers increased by 23% for the year, which was up to about RMB370 billion. At the beginning of 2019, the three major oil suppliers all formulated a "seven-year action plan" with respect to oil exploration and production from 2019 to 2025. By virtue of the advancement of policies, the domestic oil service market is expected to usher in a long-term boom. With the in-depth implementation of the system reform in the oil and gas industry in china, the risk of shale gas development will be below expectation,the shale gas subsidies will reduce the risk of shale gas development, and the risk of reduction in oil and gas capital expenditures at home and abroad will be below expectation. The National Energy Conference has clearly emphasized the promotion of market-oriented reforms in the energy sector, relaxation of oil and gas exploration and development, and investment and construction of oil and gas pipeline networks, liquefied natural gas (LNG) terminals, and gas storage and peak shaving facilities, as well as market access for the power distribution business, in order to encourage the active participation by various types of social capital.

BUSINESS REVIEW

In 2019, global oil and gas industry continued to recover. With the increase in upstream capital expenditure, Honghua recorded growth in both operating revenue and net profit during the year, reaching a record high since its listing in 2015. Centering on the three major strategic transformation tasks of our major shareholder, China Aerospace Science and Industry Corporation Limited ("CASIC"), Honghua adopted flexible and diversified marketing tactics. Through commercial model innovations such as lease-driven sales, our business scope has been expanded, thus promoting sales growth. In addition, through establishing the overseas marketing coordination platform of Aerospace Cloud, we have facilitated online and offline sales coordination, as well as created synergy development between manufacturing and service segments, thus promoting steady growth in operating results and quality of the Group.

In 2019, Honghua's revenue generated from China recorded significant growth of 103.7%, representing 50.7% of business structure and reached a record high since its listing. In line with the national energy security strategy, Honghua focused on the development of domestic shale gas market, and implemented the general solution for eco-friendly shale gas development focusing on "prioritizing distribution network, exploring gas by electricity". For the equipment business of the Group, it has been developed from drilling rigs into complete set electric fracturing equipment with 6000HP electric fracturing pumps as core equipment. Leveraging on equipment to facilitate services, Honghua enhanced its oil and gas engineering services from rig drilling to drilling and completion integration engineering service. Taking technology innovation as core driver, Honghua is leading the new trend for green development in the industry.

1. LAND DRILLING RIGS AND RELATED PRODUCT BUSINESS SEGMENT

In 2019, Honghua sold 24 land drilling rigs with sales of approximately RMB1,269 million, representing a decrease of 45.5% from RMB2,327 million in the corresponding period of last year. Total sales for parts and components amounted to RMB2,552 million, representing an increase of 63.7% from RMB1,559 million in the corresponding period of last year.

In the international market, Honghua signed orders of 4 complete sets of drilling rig and 11 retrofit rigs with existing customers in the Middle East, which worth USD61.52 million in aggregate. Leveraging on its reputation and brand influence in the region over the years, Honghua successfully gained a new customer, and obtained new order for 2 drilling rigs. In the Middle Asia, Honghua successfully signed order for 5 complete sets of drilling rig and workover rigs, and sold several sets of parts and components, including top drive and mud pump, independently invented by Honghua as part of the sales of drilling rigs. Following the successful expansion of sales channel into Columbia, South America and realization of rig sales in the first half of the year, Honghua successfully signed new order for 1 drilling rig in the second half. In Africa-Asia and Russian region, leveraging on its competitive edges in relation to customized products such as alpine drilling rig and dessert fast moving rig, Honghua successfully signed orders for 5 drilling rigs. In 2019, thanks to the national energy security strategy and the prime period for the development of unconventional oil and gas such as shale gas, Honghua achieved significant growth in new domestic orders, bringing the proportion to domestic sales revenue for the year reached 50.7%, the highest level since the listing of the Company. During the period, Honghua obtained an order for main drilling rigs from a subsidiary of CNPC Group, which worth RMB110 million. Subsequently, Honghua signed orders for ancillary equipment such as electric system, which worth RMB60 million. Such orders were bided by 6 drilling rig manufacturers, and Honghua won all orders with its high quality drilling rigs and outstanding aftersales services.

Parts and components sales recorded rapid growth in 2019. In particular, there was significant increase in the proportion of independent sales of core parts and components to total sales, reflecting the implementation of Honghua's strategic positioning of "machine-to-component". The independent sales of top drives, the core self-produced parts and components of Honghua, increased by 78.9% as compared to the corresponding period of Last Year, Domestic drilling works increased rapidly, with higher requirements on the functions of drilling rigs for development of unconventional oil and gas. By fulfilling customer demand on upgrade and improvement of traditional drilling rigs to digital-control drilling rigs, there was significant increase in orders for drilling rig improvement. In terms of supporting characteristic equipment of shale gas, we sold 8 sets of fracturing pumps throughout the Year. Flexible liquid tanks have been recognized by customers, who entered into bulk purchase orders. Hence, the sales of flexible liquid tanks increased by 40.61% as compared to the corresponding period of last Year. During the Year, the progress of creating a complete set for our fracturing equipment ran quickly. Honghua have introduced fracturing ancillary equipment such as electric sand-mixing skid, electric fluid supply skid and 105MPa high pressure manifold. Meanwhile, Honghua conducted structural optimization on electric fracturing pump, thus improving both operating efficiency and operating time of the product. We have achieved a national new record of zero default for continuous operation of 200 hours in our operation block.

In 2019, Honghua continued to adopt flexible and diversified sale models. Through different means such as "financing lease", "operating lease" and "sale by lease", Honghua fulfilled different demands of customers, thus driving significant increase in sales of drilling rigs and parts and components. Leveraging on its strong product quality and flexible sales models, Honghua successfully achieved breakthrough in 1 new market, and obtained 11 orders from new customers.

2. OIL AND GAS ENGINEERING SERVICE BUSINESS SEGMENT

In 2019, Honghua had a total of 11 drilling crews achieving 94,018 meters in footage during the year, which is the highest workload in last three years. Honghua also had a total of 12 fracturing pumping crews, and offered 2,934 stages of pumping services. Engineering services provided by Honghua realized total sales amount of approximately RMB605 million, representing an increase of 89.66% from RMB319 million in the corresponding period of last year.

In 2019, Honghua expanded its operations into several domestic oil service markets. During the first half of the year, the turnkey project on the integration of fracturing oil testing for the first drilling rig at the shale gas platform in Changning, Sichuan has completed, marking the leap-forward breakthrough in oil services from drilling and fracturing single engineering services to platform turnkeys. Attributable to our outstanding performance in Changning Block, Honghua obtained new orders of RMB230 million in aggregate from our Changning shale gas drilling project throughout the year, including the workloads of several wells at 2 platforms. During the Year, our oil service crew completed drilling of 7 wells in Changning Block, and 10 drilled wells were still in the midst of intense operation. The newly contracted national shale gas development demonstration project in Guizhou has operated smoothly, and achieved 3,089 meters in footage as at the end of 2019. During the Year, Honghua's oil service team entered Chongqing market for the first time. It has obtained orders for 2 wells, and broke the highest footage record in a single day for the project. In respect of operation efficiency, Honghua's oil service team continued to deepen the implementation of measures on reducing costs and improving efficiency, thereby ensuring service quality while improving operation efficiency. Production efficiency for the year was 80.76%, up by 16.9% as compared to Last Year. In Changning Block, we achieved relocation of drilling rigs in 17 days and the fastest well relocation in 1.3 day, and created several new records such as the fastest "four commencement and four completion" for shale gas drilling in China. With the rapid development of domestic shale gas market, in order to achieve best allocation of technology and resources, Honghua entered into strategic cooperation agreement with Schlumberger China Limited ("Schlumberger China"). Pursuant to which, both parties reached an agreement on priority cooperation for the shale gas drilling and fracturing integration project in Sichuan, thus laying foundation for the cooperation on several projects to be conducted in the future.

In 2019, Honghua's oil and gas engineering service achieved major breakthrough in overseas markets. It has obtained project orders, which worth over USD30 million in aggregate, from international renowned oil service companies, with service term effective throughout 2020. The cooperation with international renowned oil service companies can enhance the brand influence of Honghua in the Middle East, which will provide good demonstration for subsequent cooperation. In the Middle East, Honghua's oil service has established good reputation with its quality service, and successfully renewed the drilling project, which worth approximately USD16 million, with existing customer, COSL.

In 2019, both orders and workloads for fracturing service achieved significant growth. Honghua obtained RMB90 million fracturing service contract from the tight oil and gas exploration and development department of Southwest Oil & Gas field, which is the first tight gas fracturing engineering service contract of the Company. During the period, by entering into the shale gas fracturing engineering service agreement, which worth approximately RMB50 million in aggregate, with a subsidiary of CNPG, we achieved a breakthrough in the business scope of fracturing service of Honghua, marking the business expansion of Honghua from single pumping services to comprehensive electric fracturing services. Our goal on creating a complete set for our fracturing equipment has gradually realized on schedule. In Weiyuan and Changning, Sichuan and Nanchuan, Chongqing, the complete set of fracturing equipment, including 6000HP electric fracturing pumps, electric sand-mixing skid, command control center, 105MPa high pressure manifold and flexible water tanks etc. independently invented by Honghua, has been utilized for the first time, and recognized by the owners. During the Year, Honghua offered 2,934 stages of pumping services in Changning, Weiyuan, Rong County and Lu County, Sichuan, Fuling and Nanchuan, Chongqing and Mahu, Xinjiang, covering the four major production zones in China, namely Fuling Shale Gas Field, Nanchuan Shale Gas Field, Weirong Shale Gas Field and Changning Shale Gas Demonstration Zone. During the Year, Honghua has expanded its fracturing service into Jiaoshiba Region, the core region of Fuling Shale Gas Field. Our oil service team realized 24-hour continuous operation in Mahu, Xinjiang, which fully testified the reliability, stability and effectiveness of our electric fracturing pumps. Looking forward, Honghua's oil service will continue to maintain rapid growth, and aim at increasing its market share.

ENVIRONMENTAL POLICIES AND PERFORMANCE

For the year ended 31 December 2019, Honghua's business operation made continuous efforts in mitigating pollution of the environment and conserving natural resources through its policies and guidelines. No non-compliance in relation to environmental and social aspects was recorded. Engagement with stakeholders has resulted in heightened concerns on key material issues, which include (i) Product Quality: (ii) Emissions: (iii) Health and Safety: (iv) Food Health and Safety and (v) Intellectual Property Rights. These aspects had already been managed by Honghua and Honghua will continue to keep close communication with stakeholders for advancing environmental, social and governance management. Details of Honghua's environmental policies and performance are set out in the Environmental, Social and Governance Report of this annual report.

QUALITY MANAGEMENT AND RESEARCH & DEVELOPMENT

During the Year, Honghua continued to enhance its quality control, and established long-term mechanism on quality and technology. We have fully completed the five standards for advanced manufacturing technology, and successfully passed the annual assessment of different standards such as ISO 9001, API Q1, CCC, ATEX and CSA. We have also obtained new API8C qualification for hydraulic elevator, non-destructive inspection CG qualification and four CNEx certificate of conformity on explosion proof.

In 2019, Honghua focused our product and technology R&D projects on equipment such as intelligent downhole tools, unconventional oil and gas development equipment, natural gas hydrate exploring equipment systems and deep-sea mining devices.

In May 2019, we have completed the prototype installation and in-house testing of our first intelligent trajectory guidance system. In June, we have conducted the first downhole testing. All testing were completed in a single drill, and did not experience loss of signal and order or repeating of drilling works during the testing. In December, our testing platform successfully completed the testing on angle adjustment and direction twist of guidance tools. Several rounds of downhole application of hydraulic interchange crawlers and other downhole tools were completed at the well site. The longest downhole operation lasted for 240 hours, with average mechanic drilling speed increased to 37%, maximum at above 90%. In respect of unconventional oil and gas development equipment, the processing and installation technology design for the ultra-high pressure, large displacement, highly reliable, long useful life, modular and long-distance automatic control enable ultra-high pressure fracturing system has completed, pending for production of prototype. The 20 sections of industrial testing on 105MPa high pressure manifold have completed. The industrial testing on electric sand-mixing skid was conducting at the well site. The trial production for automatic sand transportation and storage system has completed, and ready for industrial testing. Trial production of prototype for electric continuous mixing skid was conducting. The research and development of mining equipment for solid and liquefied natural gas hydrate has successfully passed the 2019 annual expert assessment of the Ministry of Science and Technology. The on-site launch test for excavation principle machine has completed. The hydrate trial dredger project has gained the support from the high-tech shipping technology research project of the Ministry of Industry and Information Technology. We have established connection with China Geological Survey, Guangzhou Marine Geological Survey and Huangpu Shipyard, and is currently conducting drilling package design. In respect of deep-sea mining, Honghua has established projects on development of submarine lifting pump and design for mining cart upgrade, thereby realizing comprehensive system and equipment set covering from deck to submarine level.

The “Key Technology for Top-Drive and Accurate Pressure Control Drilling Equipment and Its Application” jointly invented by Jilin University and Honghua won the second prize of the 2019 State Technological Invention Award. The project has been applied to the Earth Crust No. 1, the first 10,000 m specialized continental scientific drilling rig in China. This drilling rig created a new record on depth of core drilling for deep earth research, and was the first scientific well drilled through Continental Cretaceous in the world. The 6000HP electric fracturing pumps independently invented by Honghua won the Silver Award of the 2019 China Best Design Award.

As at 31 December 2019, Honghua has a total of 458 effective patents, including a total of 170 effective invention patents. During the Year, Honghua applied for 118 new patents, including 2 international invention patents and 60 domestic invention patents. 56 patents were granted, including 8 invention patents.

HUMAN RESOURCES MANAGEMENT

During the Year, Honghua continued to implement the talent thriving enterprise strategy, and improved the value-based talent development incentive system. We also optimized our talent selection and allocation mechanism, enhanced the performance-driven appraisal system, improved the introduction, cultivation and incentive mechanism for innovative, professional and skilled talents, amended special remuneration incentive proposal, and optimized benefit plan so as to increase the sense of happiness and achievement of our staff. As at 31 December 2019, the total number of employees of Honghua was 3,795, increased by 84 as compared to the corresponding period of last year, with 652 being R&D staff.

During the Year, Honghua implemented a total of 940 training projects, and trained 44,209 person-head with 35.18 hours per person. Honghua always strives to the concept of "centering on technology innovation and driving by talent development", and focuses on introduction and cultivation of quality talent. During the Year, Honghua participated in the special "visa talent" introduction plan organized by the Ministry of Human Resources and Social Security, so as to introduce quality talent suitable for corporate development. Through the postgraduate workshop project of Chongqing University of Science & Technology and the outstanding engineer internship program of Xi'an Shiyou University, the coordinated innovation between enterprises, colleges and science research institutions was formed, thus promoting in-depth integration of industry knowledge and research. In the future, the talent pool of the Group will focus on the direction of professionalism and research on mechanical integration, automation, big data, intellectualization and smart drilling.

OUTLOOK

Affected by public health emergencies and international geopolitics, it is estimated that the international oil prices will experience drastic fluctuations in 2020. In view of the risk of the plunge of international oil prices, the industry will actively seek effective solutions to further reduce production costs so as to increase the profit margins being squeezed by low oil prices. In the domestic market, 2020 is the second year of the implementation of the "Seven-Year Action Plan" proposed by the three major oil companies. The situation of high domestic dependence on foreign oil and gas remains severe. On 31 December 2019, the Ministry of Natural Resources announced files of Several Matters Concerning Promoting the Reform of Mineral Resources Administration (for Trial Implementation), any qualified domestic and overseas companies are eligible to acquire oil and gas mining rights pursuant to relevant requirements. The Chinese government has further opened up the rights on upstream exploration and development, and encouraged market competitors to participate in oil and gas market development. This will bring huge development opportunities for enterprises with state-owned background, such as Honghua, other than the Three Chinese Oil and Gas Companies.

First of all, in response to the national policy on energy security, we will continue to increase the proportion of clean energy. Honghua will promote the general eco-friendly development solution for unconventional oil and gas exploration, from drilling to completion and then transportation. During the period of low oil prices, the cost savings advantages of honghua's all-electric fracturing solution are further highlighted. Honghua will implement the general eco-friendly development solution of "pumping gas with electricity and combination of gas and electricity", thereby realizing the mutual win-win mode of income sharing with owners, promoting the industry to realize the cost-reduction and eco-friendly development. We will also facilitate the application of packaging and standardization of complete set of fracturing equipment, with 6000HP electric fracturing pump as core, Meanwhile, leveraging on our competitive edges as manufacturer, and driving our services with equipment, we will further enhance the efficiency of our oil service team and project management capability, thereby further expanding our business scale and enhancing profitability.

Secondly, Honghua will continue to build up its core competitiveness with technologies. We will facilitate the research and commercialization of downhole tools, especially for twist guidance downhole tools, thus creating another feature product line of Honghua. In addition, Honghua will also enhance the upgrade of intelligence electric fracturing system, and facilitate the research and development on deep-sea mining projects such as the fluidization equipment for solidified natural gas hydrate, thus continue to inject vitality to the Company and create new point of growth. At the same time, Honghua will enhance the technology and human resources integration with CASIC, thus bringing synergies. Based on the demand on core technologies in global oil and gas industry, leveraging on the technology and human resources of different subsidiaries of CASIC, Honghua will facilitate the construction of cross-sector integration and innovation industrial park in Chengdu Base, and proactively promote the implementation of cross-sector technology application projects.

Thirdly, in the coming year, Honghua will continue to focus on China, the Middle East and other markets, expand the domestic market share, and explore the equipment upgrade and customized demand in OPEC countries. We will strive to push forward the large-scale lease and sales of our core self-produced products of parts and components, such as top drives, automatic machines and five-cylinder pumps, and overcome various challenges such as short delivery cycle and high cost control requirement to further enhance production and management standard. During the period of low oil prices, Honghua will further improve the level of refined management, control cash flows, strengthen control on investment costs, leverage the advantage in risk tolerance with a state-owned enterprise as back-up forces, and continue to expand low-cost financing channels. Leveraging on its high quality development and profitability, Honghua strives to become a global leader in equipment and technology for oil and gas exploration and development, and an integrated supplier offering a full range of energy services and solutions with comprehensive competitive strengths.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

During the Year, the Group's gross profit and profit attributable to shareholders of the Company amounted to RMB1,316 million and RMB107 million respectively, and gross profit margin and net profit margin were 29.7% and 2.4% respectively. While gross profit and profit attributable to shareholders of the Company in the Last Year amounted to approximately RMB1,082 million and RMB82 million respectively, gross profit margin and net profit margin in the Last Year were 25.7% and 2.0% respectively. Profit attributable to shareholders for the year increased than that for Last Year, which was mainly attributable to the continued improvement of global oil and gas industry and the moderate increase in upstream capital expenditure. Meanwhile, the Group actively grasped the market trends, adopted a flexible and diversified marketing approach, which led the significant growth of sales in parts and components and others, specially, new products continue to gain market acceptance, such as 6000HP electric fracturing pumps, top drives and flexible liquid tanks.

Turnover

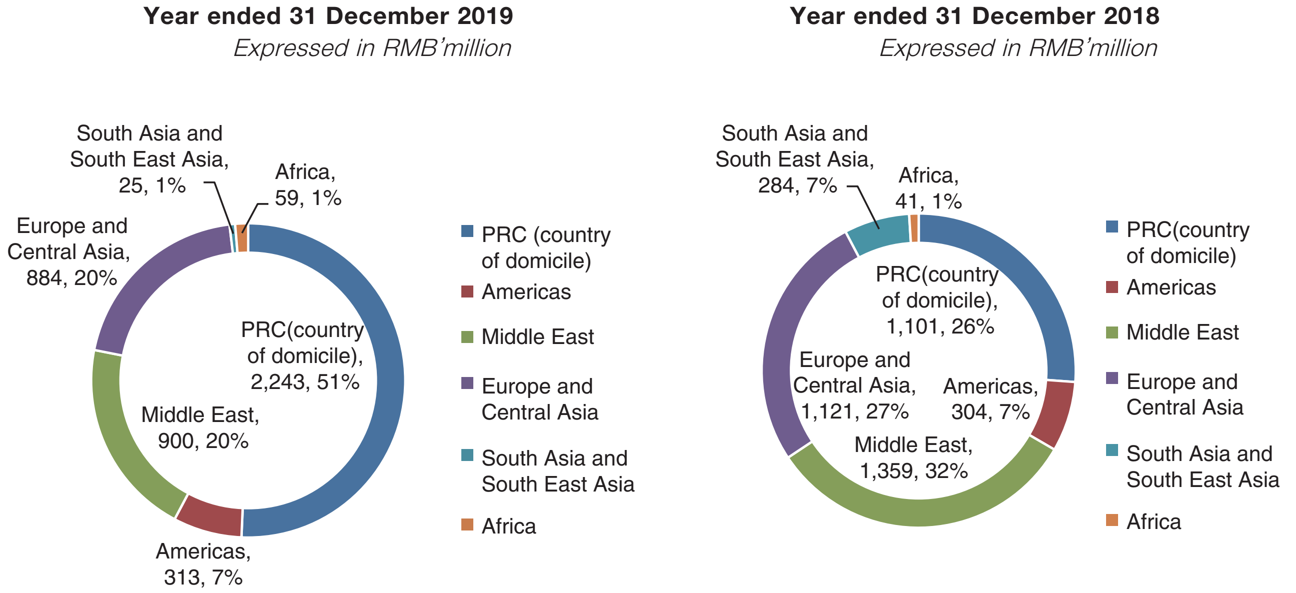
During the Year, the Group's turnover amounted to approximately RMB4,426 million, representing an increase of RMB221 million or 5.2% from RMB4,205 million for Last Year. The increase was mainly attributable to the continuous growth of Chinese shale gas and natural gas production activities, the Group's revenues from parts, rig upgrading and oil and gas engineering services have increased significantly. At the same time, the traditional land drilling rig market maintains a certain amount of market sales.

(1) Revenue by Geographical Areas

The Group's revenue by geographical segment areas during the Year was as follows: (1) Sales revenue in mainland China increased by RMB1,142 million compared with that for Last Year to approximately RMB2,243 million, accounting for approximately 50.7% of total revenue; (2) The Group's export revenue decreased by RMB926 million with that for Last Year to approximately RMB2,182 million, accounting for approximately 49.3% of total revenue.

The Group's sales revenue by region is affected by oil and gas exploration activities across different areas of the world. Faced with the operational situation featuring fluctuation adjustments in the oil and gas industry market, the Group continued to focus on technology innovation, improved the quality of products and services, and concentrated on international business development while strictly controlling operating costs. Meanwhile, the Group will make an effort to develop the domestic market by leveraging the platform advantage of CASIC so as to form a new source of business growth.

Revenue by Geographical Areas



(2) Revenue by Business Categories

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

During the Year, the Group's sales revenue from land drilling rigs amounted to approximately RMB1,269 million, representing a decrease of RMB1,058 million or 45.5% from approximately RMB2,327 million for Last Year.

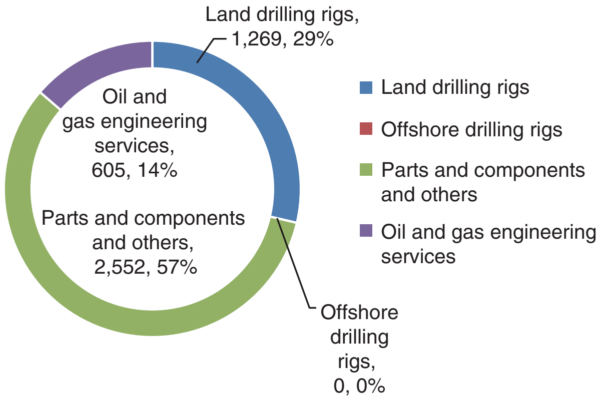
During the Year, the Group's sales revenue from parts and components and others amounted to approximately RMB2,552 million, representing an increase of RMB993 million or 63.7% from approximately RMB1,559 million for Last Year.

During the Year, the Group's revenue from oil and gas engineering services amounted to approximately RMB605 million, representing an increase of RMB286 million or 89.7% from approximately RMB319 million for Last Year.

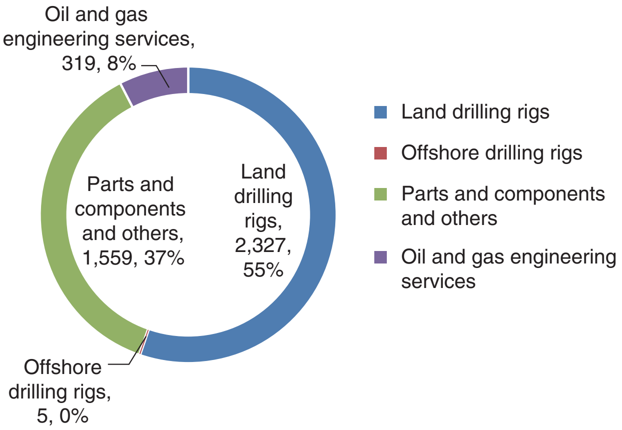
During the Year, there is no revenue from offshore drilling rigs because the related business was disposed of in 2018 which revenue from offshore drilling rigs amounted to approximately RMB5 million.

Revenue by Business Categories

Product sales distribution for 2019
Expressed in RMB'million



Product sales distribution for 2018
Expressed in RMB'million



Cost of Sales

During the Year, the Group's cost of sales from continuing operations amounted to approximately RMB3,110 million, while it was approximately RMB3,123 million in the Last Year, representing a decrease of RMB13 million or approximately 0.4%, which was mainly attributable to the Group's strict cost control and measures was adopted to reduce costs and improve efficiency which began to bear fruit. With a slight increase in sales revenue and further reduced cost of sales, there is greater room for profit exploration.

Gross Profit and Gross Margin

During the Year, the Group's gross profit from continuing operations amounted to approximately RMB1,316 million, representing an increase of RMB234 million or 21.6% from RMB1,082 million for Last Year.

During the Year, the Group's overall gross margin from continuing operations was 29.7%, representing an increase of 4 percentage points from 25.7% for Last Year, which was mainly attributable to changes in the Group's product sales of structural adjustments and strict cost control which began to bear fruit. Driven by the gradual recovery of the oil and gas industry, the sales proportion of the Group's parts and components and others business represented a significant increase of 20.7 percentage points to 57.7% from Last Year. Especially the gross margin growth was mainly attributable to more sales of new products with high gross margin.

Expenses in the Year

During the Year, the Group's distribution costs from continuing operations amounted to approximately RMB357 million, representing an increase of RMB44 million or 14.1% from RMB313 million for Last Year, which was mainly attributable to the Group's sales growth and the corresponding increase in relevant commission and warranty costs.

During the Year, the Group's administrative expenses from continuing operations amounted to approximately RMB503 million, representing an increase of RMB34 million or approximately 7.2% from RMB469 million for Last Year. This is mainly due to the increased research and development costs for the continuous development.

During the Year, the Group's net financial expenses from continuing operations amounted to approximately RMB209 million, representing an increase of RMB46 million or 28.2% from net financial expenses of approximately RMB163 million for Last Year. It was mainly attributable to the increase of borrowings. Meanwhile, the Group obtained borrowings from CASIC at a lower interest rate, issued new senior notes replace the original one at a lower interest rate during the Year, and further improved the debt structure, and the increasing of financial expenses is lower than the increasing of total borrowings.

Profit before Tax

During the Year, the Group's profit before tax from continuing operations amounted to approximately RMB166 million, representing an increase of RMB22 million or 15.3% from RMB144 million for Last Year.

Income Tax Expenses

During the Year, the Group's income tax expense from continuing operations amounted to approximately RMB34 million compared with the income tax expense of approximately RMB34 million for Last Year.

Profit for the year

The Group's profit for the year amounted to approximately RMB132 million compared with approximately RMB97 million for Last Year, in which profit attributable to owners of the Company and profit attributable to non-controlling interests amounted to approximately RMB107 million and approximately RMB25 million respectively. Net margin for the year amounted to 2.4% compared with a net margin of 2.0% for Last Year.

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

EBITDA for the year amounted to approximately RMB558 million compared with approximately RMB493 million for Last Year, which was mainly attributable to the impact of market recovery, the adjustment of the group's product structure and the increase of profitable spare parts and other businesses. EBITDA margin amounted to 12.6% compared with 11.7% for Last Year.

Dividend

As at 31 December 2019, the Board did not recommend distribution of annual dividends.

Source of Funds and Borrowings

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

As at 31 December 2019, the Group's borrowings for continuing operations increased by RMB889 million to approximately RMB4,009 million compared with that as at 31 December 2018. In particular, borrowings repayable within one year decreased by RMB628 million or 24.7% to approximately RMB1,918 million compared with that as at 31 December 2018.

Deposit and Cash Flow

As at 31 December 2019, the Group's cash and cash equivalents from continuing operations increased by approximately RMB204 million to approximately RMB890 million compared with that as at 31 December 2018.

During the Year, the Group's net cash inflow from operating activities amounted to approximately RMB103 million, net cash outflow from investing activities amounted to approximately RMB317 million, and net cash inflow from financing activities amounted to approximately RMB413 million.

Assets Structure and Changes

As at 31 December 2019, total assets of the Group amounted to approximately RMB11,754 million. In particular, current assets increased by RMB911 million to approximately RMB6,456 million compared with that as at 31 December 2018, accounting for approximately 54.9% of total assets, which was mainly attributable to the increase in trade and other receivables; non-current assets increased by RMB526 million to approximately RMB5,298 million compared with that as at 31 December 2018, accounting for approximately 45.1% of total assets, which was mainly attributable to the increase in long-term receivables.

Liabilities

As at 31 December 2019, total liabilities of the Group amounted to approximately RMB7,274 million. In particular, total current liabilities decreased by RMB341 million to approximately RMB5,033 million compared with that as at 31 December 2018, accounting for approximately 69.2% of total liabilities; total non-current liabilities increased by RMB1,617 million to approximately RMB2,241 million compared with that as at 31 December 2018, accounting for approximately 30.8% of total liabilities. As at 31 December 2019, the Group's gearing ratio was approximately 61.9%, increasing by 3.8 percentage points compared with that as at 31 December 2018.

Equity

As at 31 December 2019, total equity amounted to approximately RMB4,480 million, representing an increase of RMB161 million compared with that as at 31 December 2018. Total equity attributable to owners of the Company amounted to approximately RMB4,266 million, representing an increase of RMB137 million compared with that as at 31 December 2018. Non-controlling interests totaled approximately RMB215 million, representing an increase of RMB25 million compared with that as at 31 December 2018. During the period, the Company's basic profit per share and diluted profit per share amounted to approximately RMB2.03 cents and RMB2.03 cents respectively.

Capital Expenditure, Major Investments and Capital Commitments

During the Year, the Group's total capital expenditure on infrastructure and technical improvements amounted to approximately RMB274 million, representing a decrease of approximately RMB73 million compared with that for Last Year.

As at 31 December 2019, the Group had capital commitments of approximately RMB11 million, which were used for the optimization of its business and production capacity.

Principal Risks and Uncertainties

The Group provides development equipment and engineering services of oil and gas fields. Due to the geopolitical uncertainties and the global spread of COVID-19, the Group's business is exposed to the risk of fluctuations in oil and gas prices and a reduction in oil and gas development activities. The Board of the Company pays close attention to the market conditions and will change the Group's market strategy in a timely manner according to the market changes to ensure a stable business development of the Group.

Meanwhile, the Group's activities are exposed to various financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk), credit risk and liquidity risk. Details of these financial risks are set out in note 3 to the Consolidated Financial Statements for the year ended 31 December 2019.

EXECUTIVE DIRECTORS

Mr. Jin Liliang (金立亮先生), aged 53, has been an Executive Director of the Company and chairman of the Board since 24 August 2018. Mr. Jin joined in China Aerospace Science and Industry Corporation Limited in 1993. He was a vice president of a subsidiary of China Aerospace Science and Industry Corporation Limited. Mr. Jin has rich experience of corporate operation and management. He holds a master's degree of Engineering from Harbin Institute of Technology. Positions held by Mr.Jin in the Company's subsidiaries are set forth in the table below.

Subsidiary	Position	Term of Office
Honghua Holdings Limited	Chairman	Since 29 December 2018
Honghua (China) Investment Co., Ltd.	Chairman	Since 10 October 2018

Mr. Zhang Mi (張弭先生), aged 63, has been an Executive Director since June 2007, the chairman of the Board from June 2007 to March 2017 and the vice Chairman of the Board 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
	Chief Executive Officer	Since 8 September 2009
Sichuan Honghua Petroleum Equipment Co.,Ltd.	Director	Since 31 December 1997
Honghua International Co., Ltd.	Director	Since 13 January 2004
Honghua (China) Investment Co, Ltd.	Director	Since 19 October 2009
	General manager	Since 15 October 2009
Honghua Oil & Gas Engineering Services Co. Ltd.	Director	Since 14 April 2009
Honghua America, LLC.	Chairman	Since 11 October 2004
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 53, 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	From 1 July 2013 to 8 May 2019
	Chairman	Since 1 January 2018
Honghua International Co., Ltd.	Director	Since 13 January 2004
Sichuan Honghua Electric Co.,Ltd.	Director	Since 1 August 2009
Honghua (China) Investment Co., Ltd.	Director	Since 19 October 2009
Newco (H.K.) Limited	Chairman	Since 22 June 2008 to 16 August 2019
Honghua America, LLC.	Director	Since 10 October 2008

NON-EXECUTIVE DIRECTORS

Mr. Han Guangrong (韓廣榮先生), aged 58, 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 40, has been the Non-executive Director of the Company since 29 March 2017. Mr. Chen is currently the vice general manager of Shenzhen Aerospace Industry Technology Research Institute 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 57, 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, Cinda International Holdings Limited, Sunfonda Group Holdings Limited and AAG Energy 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 in1988 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 in1983.

Mr. Chen Guoming (陳國明先生), aged 57, has been an Independent Non-executive Director of the Company since 18 January 2008. Mr. Chen 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 the China Petroleum Society, the Offshore Engineering Committee of China Naval Architects and Marine Engineers' Society and China Mechanical Engineering Society. He has been receiving special subsidies granted by the State Council of the PRC government (政府特殊津貼) since August 2005. In 1982, Mr. Chen graduated from the Mechanical Department of the East China Petroleum Institute with a Bachelor's Degree. He earned his Master's degree in 1986, from the Beijing Graduate School of East China Petroleum Institute. He obtained his Ph.D. degree in 1999, and was promoted to Ph.D. candidate supervisor in 2000.

Ms. Su Mei (蘇梅女士), aged 51, 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 from Sichuan University in 2013, and obtained Bachelor's degree of Chinese from Shandong University in 1991.

Mr. Poon Chiu Kwok (潘昭國先生), aged 58, has been an Independent Non-executive Director of the Company since 15 June 2017. Mr. Poon is currently an executive director, vice president and company secretary of Huabao International Holdings Limited. Mr. Poon has years of experience in finance, compliance and listed companies management. Mr. Poon is currently the independent non-executive director of Sany Heavy Equipment International Holdings Company Limited, Greentown Service Group Co., Ltd., Sunac China Holdings Limited, Tonly Electronics Holdings Limited, Yuanda China Holdings Limited, Changan Minsheng APLL Logistics Co. Ltd., Jinchuan Group International Resources Co. Ltd., TUS International Limited, AUX International Holdings Limited and Yanzhou Coal Mining Company Limited. Mr. Poon is a fellow member of CPA Australia, The Institute of Chartered Secretaries and Administrators in the U.K., The Hong Kong Institute of Chartered Secretaries in H.K. and a member of its Technical Consultation Panel, Audit Committee and China Focus Group. He was granted postgraduate diploma in laws from the University of London. He holds a Master's degree in international accounting, Master's and Bachelor's degree in laws and a Bachelor's degree in business studies.

Mr. Chang Qing (常清先生), aged 63, has been an Independent Non-executive Director of the Company since 15 June 2017. Mr Chang is currently the chairman of Jinpeng International Futures Co., Ltd. and a professor of College of Economics and Management of China Agricultural University. Mr. Chang is now acting as an independent non-executive director of Kangda International Environmental Company Limited and China Chengtong Development Group Limited. He previously served as independent non-executive directors of Tibet Summit Resources Co., Ltd., TBEA Co., Ltd., Shenwu Environmental Technology Co., Ltd. and Yuan Long Ping High-Tech Agriculture Co., Ltd. respectively. Mr. Chang graduated from the Chinese Academy of Social Sciences with a doctorate degree in agricultural economics and management in 2001, graduated from Jilin University with both a master's degree in national economics in 1985 and a bachelor's degree in economics in 1982.

Mr. Wei Bin (魏斌先生), aged 50, has been an Independent Non-executive Director of the Company since 29 August 2019. Mr. Wei is currently the asset management senior partner of CDH Investments Management (Hong Kong) Limited. Mr. Wei was the Chief Accountant and the Chief Financial Officer of the China Resources (Holdings) Company Limited. In the past three years, he has been a non-executive director of four companies listed on The Stock Exchange of Hong Kong Limited. He was a non-executive director of China Resources Cement Holdings Limited (stock code: 01313) from August 2008 to January 2018, a non-executive director of China Resources Gas Group Limited (stock code: 01193) from November 2008 to January 2018, a non-executive director of China Resources Land Limited (stock code: 01109) from October 2010 to April 2017 and a non-executive director of China Vanke Co., Ltd. (stock code: 02202, also listed on the Shenzhen Stock Exchange) from March 2013 to June 2017. Mr. Wei holds a Bachelor's degree in Auditing from Zhongnan University of Economics and a Master's degree in Finance from Jinan University, and is a Senior Accountant and a Senior Auditor in China. He is also a non-practicing member of the Chinese Institute of Certified Public Accountants.

SENIOR MANAGEMENT

Mr. Yang Yunqing (楊運青先生), aged 42, has been the Vice-president of the Company since August 2018. Mr. Yang had been working at the CASIC Group since 2001. Before joining the Company, Mr. Yang once served as the Deputy Director of the Development and Planning Department of the CASIC and has rich experiences in planning and operation management. Mr. Yang holds a Bachelor's degree from Harbin Engineering University.

Mr. Dang Nan (黨楠先生), aged 55, has been the Vice-president of the Company since March 2017. Mr. Dang had been working at the CASIC Group since 1989. Before joining the company, Mr. Dang once served as the Vice president of a subordinate unit of the CASIC. Mr. Dang holds a Master's degree from Beihang University.

Ms. Xu Xiufang (許秀芳女士), aged 48, has been the Chief Financial Officer of the Company since March 2017. Ms. Xu had been working at the CASIC Group since August 1994 and was engaged in accounting and financing. Before joining the Company, Ms. Xu once served as the chief accountant of a subordinate unit of the CASIC. Ms. Xu holds a Master's degree from Huazhong University of Science and Technology and a Bachelor's degree from Beijing Forestry University.

Ms. Yao Yuhong (姚宇紅女士), aged 51, has been the Vice president of the Company since August 2018. Ms. Yao had been working at the CASIC since 1991. Before joining the Company, Ms. Yao once served as the Deputy Director of the Asset Operation Department of the CASIC. She has rich experiences in asset operation, investment, mergers and acquisitions and financial management. Ms. Yao holds a Master's degree from the Business School of Renmin University of China.

Ms. Xu Chuan (徐川女士), aged 54，has been the Human Resources Director of the Company since December 2016. Ms. Xu joined the Company in 2001 and once served as the vice general manager of Honghua International Co., Ltd. (四川宏華國際科貿有限公司) and the vice general manager of Sichuan Honghua Petroleum Equipment Co., Ltd (四川宏華石油設備有限公司). Ms. Xu holds a bachelor's degree from Southwestern Petroleum University.

Mr. He Bin (何斌先生), aged 46, has been the Vice-president since August 2018. Mr. He joined the Group in 2008 as the director of Strategic Investment Department and assistant president and the secretary of Board and a Joint Company Secretary 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.

Mr. Di Xiaohong (狄曉宏先生), aged 56, has been the Senior Administration Director of the Company since September 2018. Mr. Di joined the Company in January 2000 and once served as the vice general Manager of Sichuan Honghua Petroleum Equipment Co., Ltd (四川宏華石油設備有限公司) . He has rich experiences in corporate management and administration.

Mr. Yuan Hai (袁海先生), aged 42, has been the Financial Controller of the Company since 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 as senior tax consultant. From 2004 to 2007, he worked in Bayer Animal Health China as financial controller. Mr. Yuan holds a Bachelor's degree from Southwestern University of Finance and Economics.

Ms. Zhuang Wenmin (莊文敏女士), aged 39, has been the secretary of Board and a Joint Company Secretary of the Company since August 2018. Ms. Zhuang Joined the Company since 2009, has been the director of the Legal & Securities Department of the Company since January 2016. She is responsible for corporate governance and compliance, risk management and legal affairs of the Company. Ms. Zhuang holds a master's degree in Law from Southwestern University of Finance and Economics.

Ms. Lee Mei Yi (李美儀女士), aged 52, has been a Joint Company Secretaries of the Company since 7 July 2015. Ms. Lee is an executive 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 26 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 2019.

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 adopted the principles and code provisions of the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules as basis of the company's corporate governance practices.

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 the principles and practices as set out in the CG Code.

The Company has complied with the code provisions as set out in the CG Code throughout the year ended 31 December 2019, save for certain deviation from the code provision in respect of the dismissal of the nomination committee of the Company, the vacancy of the Chairman of Audit Committee from 29 May 2019 to 28 August 2019 and the failure to meet the requirement set out in Rule 3.25 of the Listing Rules stipulating a remuneration committee must comprise a majority of independent non-executive directors, 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 2019.

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.

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 11 Directors, consisting of 3 Executive Directors, namely Mr. Jin Liliang, Mr. Zhang Mi and Mr. Ren Jie, 2 Non-executive Directors, namely Mr. Han Guangrong and Mr. Chen Wenle and 6 Independent Non-executive Directors, namely Mr. Liu Xiaofeng, Mr. Chen Guoming, Ms. Su Mei, Mr. Poon Chiu Kwok, Mr. Chang Qing and Mr. Wei Bin. 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)

The positions of Chairman and President are held by Mr Jin Liliang and Mr. Zhang Mi respectively. The Chairman provides leadership and is responsible for the effective functioning and leadership of the Board. The President focuses on the Company's business development and daily management and operations generally.

INDEPENDENT NON-EXECUTIVE DIRECTORS

During the year ended 31 December 2019, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least four Independent Non-executive Directors representing one-third of the Board.

On 29 May 2019, Mr. Wu Yuwu passed away. His replacement, Mr. Wei Bin was appointed as the Independent Non-executive Director on 29 August 2019.

During the year ended 31 December 2019, the Company had six Independent Non-executive Directors with three 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 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.

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 BOARD AND MANAGEMENT

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

With effect from 1 January 2019, Rule 13.92 of the Listing Rule 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 Company 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. The Company recognizes and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in maintaining the Company's competitive advantage.

Pursuant to the Board Diversity Policy, the Board will review annually the structure, size and composition of the Board and where appropriate, make recommendations on changes to complement the Company's corporate strategy and to ensure that the Board maintains a balanced diverse profile. In relation to reviewing and assessing the Board composition, the Board is committed to diversity at all levels and will consider a number of aspects, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and regional and industry experience.

The Company aims to maintain an appropriate balance of diversity perspectives that are relevant to the Company's business growth and is also committed to ensuring that recruitment and selection practices at all levels (from the Board downwards) are appropriately structured so that a diverse range of candidates are considered.

The Board will consider setting measurable objectives to implement the Board Diversity Policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives.

The Board will review the Board Diversity Policy, as appropriate, to ensure its effectiveness.

DIRECTOR NOMINATION POLICY

The Company has adopted a Director Nomination Policy which sets out the selection criteria and process and the Board succession planning considerations in relation to nomination and appointment of Directors of the Company and aims to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company and the continuity of the Board and appropriate leadership at Board level.

The Director Nomination Policy sets out the factors for assessing the suitability and the potential contribution to the Board of a proposed candidate, including but not limited to the following:

- Character and integrity;
- Qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy;
- Diversity in all aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service;
- Requirements of Independent Non-executive Directors on the Board and independence of the proposed Independent Non-executive Directors in accordance with the Listing Rules; and
- Commitment in respect of available time and relevant interest to discharge duties as a member of the Board and Board committees of the Company.

The Director Nomination Policy also sets out the procedures for the selection and appointment of new Directors and re-election of Directors at general meetings.

The Board will review the Director Nomination Policy, as appropriate, to ensure its effectiveness.

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 2019, 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		
Jin Liliang	✓	✓
Zhang Mi	✓	✓
Ren Jie	✓	✓
Non-Executive Directors		
Han Guangrong	✓	✓
Chen Wenle	✓	✓
Independent Non-Executive Directors		
Liu Xiaofeng	✓	✓
Chen Guoming	✓	✓
Su Mei	✓	✓
Poon Chiu Kwok	✓	✓
Chang Qing	✓	✓
Wu Yuwu (passed away on 29 May 2019)	✓	✓
Wei Bin (appointed with effect from 29 August 2019)	✓	✓

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 period from 1 January 2019 to 28 May 2019, the Audit Committee comprised six Independent Non-executive Directives, namely Mr. Wu Yuwu (Chairman), Mr. Liu Xiaofeng, Mr. Chen Guoming, Ms. Su Mei, Mr. Poon Chiu Kwok and Mr. Chang Qing.

On 29 May 2019, Mr. Wu Yuwu passed away and there was a vacancy of the Chairman of the Audit Committee after his death until 28 August 2019. The Company failed to meet the requirement set out in Rule 3.21 of the Listing Rule that the Audit Committee must be chaired by an independent non-executive director for the period from 29 May 2019 to 28 August 2019.

On 29 August 2019, Mr. Wei Bin was appointed as the Chairman of the Audit Committee.

The Audit Committee currently comprises six Independent Non-executive Directors, namely Mr. Wei Bin (Chairman), Mr. Liu Xiaofeng, Mr. Chen Guoming, Ms. Su Mei, Mr. Poon Chiu Kwok and Mr. Chang Qing. Three of Independent Non-executive Directors possess the appropriate professional qualifications 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 2019, the financial reporting and compliance procedures, the report from the management on the Company's internal control and risk management systems and processes, 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 2019 and the attendance records are set out under "Directors' Attendance Records" on page 39.

REMUNERATION COMMITTEE

During the period from 1 January 2019 to 28 May 2019, the Remuneration Committee comprised five members, namely Mr. Liu Xiaofeng (Chairman), Mr. Zhang Mi, Mr. Jin Liliang, Ms. Su Mei and Mr. Wu Yuwu.

On 29 May 2019, Mr. Wu Yuwu passed away. The Company failed to meet the requirement set out in Rule 3.25 of the Listing Rules stipulating a remuneration committee must comprise a majority of independent non-executive directors during the period from 29 May 2019 to 28 August 2019.

During the period from 29 May 2019 to 28 August 2019, the Remuneration Committee comprised four members, Mr. Liu Xiaofeng (Chairman), Mr. Zhang Mi, Mr. Jin Liliang and Ms. Su Mei.

On 29 August 2019, Mr. Wei Bin was appointed as the member of the Remuneration Committee.

The Remuneration Committee currently comprises five members, Mr. Liu Xiaofeng (Chairman), Mr. Zhang Mi, Mr. Jin Liliang, Ms. Su Mei and Mr. Wei Bin, the majority of them are Independent Non-executive Directors.

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 and making recommendation to the Board on 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 2019 and the attendance records are set out under "Directors' Attendance Records" on page 39.

Details of the remuneration of the senior management by band are set out in note 38 in the Notes to the Audited Financial Statements for the year ended 31 December 2019.

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. Except Mr. Jin Liliang, the Chairman of the Board, whose remuneration consists of annual basic remuneration and annual performance appraisal remuneration, 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

During the ended 31 December 2019, the Strategic Investment and Risk Control Committee comprised six members, Mr. Jin Liliang (Chairman), Mr. Zhang Mi, Mr. Ren Jie, Mr. Liu Xiaofeng, Mr. Poon Chiu Kwok and Mr. Chang Qing.

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 investment 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 2019 and the attendance records are set out under "Directors' Attendance Records" on page 39.

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 RECORDS OF DIRECTORS AND COMMITTEE MEMBERS

During the year ended 31 December 2019, five Board meetings were held for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

The summary of 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 and the General Meetings during the year ended 31 December 2019 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**
Jin Liliang	05/05	–	01/01	02/02	01/01
Zhang Mi	05/05	–	01/01	02/02	0/01
Ren Jie	05/05	–	–	02/02	0/01
Han Guangrong	05/05	–	–	–	0/01
Chen Wenle	05/05	–	–	–	0/01
Liu Xiaofeng	05/05	02/02	01/01	02/02	01/01
Chen Guoming	05/05	02/02	–	–	0/01
Su Mei	04/05	02/02	01/01	–	0/01
Poon Chiu Kwok	05/05	02/02	–	02/02	01/01
Chang Qing	05/05	02/02	–	02/02	0/01
Wu Yuwu [a]	01/01	01/01	01/01	–	–
Wei Bin [b]	–	–	–	–	–

a passed away on 29 May 2019

b appointed with effect from 29 August 2019

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 2019.

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 87 to 94.

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 2019, the remuneration paid to the Company's external auditors, Messrs PricewaterhouseCoopers, is set out below:

Service Category	**Fees (in Renminbi)**
Audit Services	3,507,000
Non-audit Services	
– Reviewing interim financial statements	1,200,000
– Other	550,000
Total	5,257,000

The auditors' remuneration disclosed in note 8 to the consolidated financial statements included the remuneration paid to PricewaterhouseCoopers as detailed above.

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.

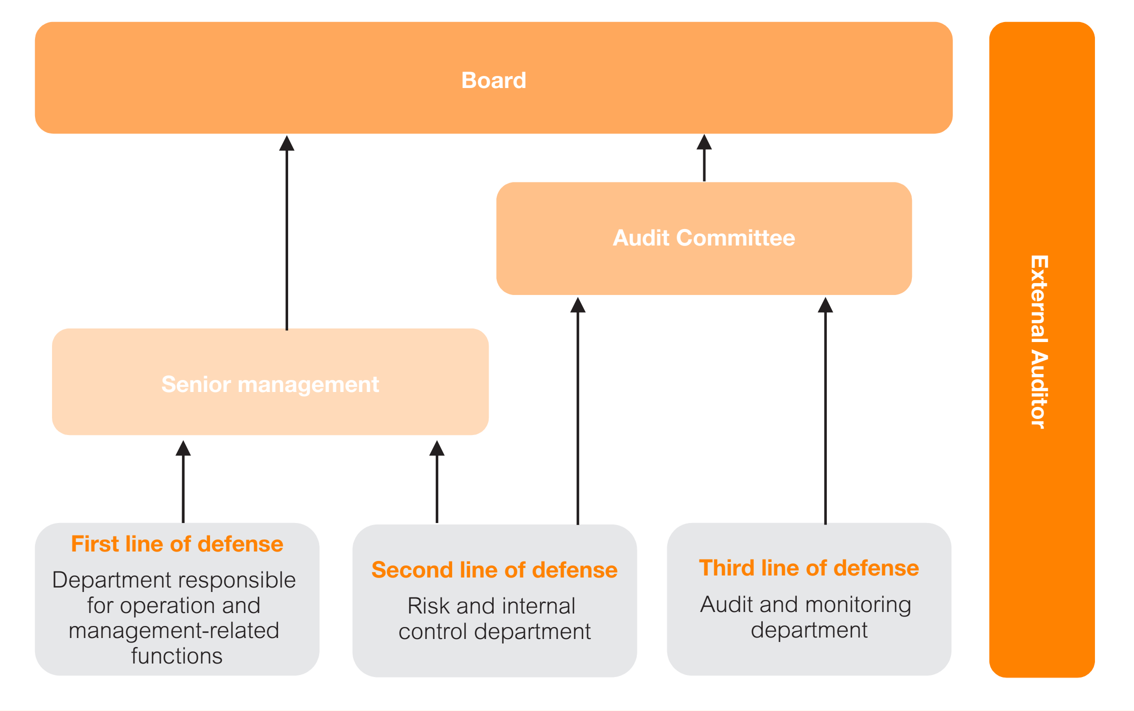
The Audit Committee assists the Board in leading the management and overseeing their design, implementation and monitoring of the risk management and internal control systems.

The Company has established and formulated appropriate policies and checks to ensure that there is no unauthorized use or disposal of asset. Reliable financial and accounting records are maintained in accordance with relevant rules and regulations, relevant accounting standards and regulatory reporting requirements. Material risks which may affect the performance of the Company are properly identified and managed. Such systems and internal controls can only provide reasonable and not absolute assurance against material misstatement or loss and are designed to manage rather than eliminate the risk of failure to achieve business objectives.

RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK

The Company has established a risk management organizational structure with clear responsibility rank and reporting program. The risk and internal control department and the audit and monitoring department assist the Board and the Audit Committee in the continuous review of effectiveness of the Company's risk management and internal control system. The Directors regularly receive information on material risks which may affect the performance of the Company from these Committees.

The Company has adopted the following "three lines of defense" model as the guideline of risk management structure:



As the first line of defense, each department and subsidiary of the Company responsible for operation and management and internal control-related functions are the frontline of risk exposure and shall actively analyze the possibility and severity of potential/actual risks in the course of ordinary business activity. They also carry out preliminary risk information collection and identification, actively implement risk solution, participate in the development of risk management culture and receive guidance and supervision from the risk and internal control department. The management of the Company, as supported by the risk and internal control department and the audit and monitoring department, is responsible for the design, execution and monitoring of the risk management and internal control system and submits regular report on the effectiveness of such systems to the Board. The management has confirmed to the Board the effectiveness of the issuer's risk management and internal control system.

As the second line of defense, the risk and internal control department and the risk control panel of the Company are primarily responsible for the coordinated planning and development, maintenance and improvement of the risk management and internal control system. They evaluate and formulate ongoing enhancement on the compliance and reasonableness of the principal business procedures and the risk management mechanism and risk control capability of the Company and its subordinated entities. In accordance with the Company's strategic goal and business plan, they devise or arrange relevant department to devise risk management system, internal control system, risk management and internal control manual and management measures, including setting up evaluation mechanism of risk management, evaluation mechanism of effectiveness of internal control, recommendation of risk management strategy and internal control improvement, and report to the management and the Audit Committee.

As the third line of defense, the Audit Committee and the audit and monitoring department of the Company are primarily responsible for the follow-up scrutiny, audit and monitoring of the tasks assigned to the first and second line of defense and reporting to the Board. The audit and monitoring department is responsible for performing independent review of the adequacy and effectiveness of the risk management and internal control systems, examining key issues in relation to the accounting practices and all material controls and providing its findings and recommendations for improvement to the Audit Committee.

The risk and internal control department and the audit and monitoring department have adopted an audit method based on risk and control. With their operation plan throughout the year, the audit and monitoring department and the risk and internal control department cover every major task and program of the operation and business of the Company and service units. They also conduct extraordinary review as requested by the management and the result of audit work is submitted to the Audit Committee and the executive and senior management of the Company. The risk and internal control department and the audit and monitoring department conduct examination and follow-up on audit matters to strive for proper execution and report to the management of the Company (as the case may be) and the Audit Committee regularly.

RISK MANAGEMENT AND INTERNAL CONTROL MEASURES

The Company has adopted several policies and programs to evaluate and prudently boost the effectiveness of the risk management and internal control system, including the requirement on the executive management of the Company to conduct evaluation and verify in person the proper and effective operation of such matters every year. The Company believes that such measure shall strengthen future corporate governance and business practice.

In 2019, the Company achieved the following key results in order to strengthen the risk management system:

- The Company formulated or revised a series of corporate governance policies to improve the foundation of corporate governance, including implementation measures of accountability for non-compliance operations and investments, safety production management measures, capital management regulations, credit risk management measures, procedural rules of the chairman office, etc.;

- The Company's internal audit and internal control assessment incorporated risk management to the state of audit planning, and prepared the sufficiency and effectiveness assessment report for the year based on the Company's comprehensive risk analysis;

- The Company optimized the overall risk management system, formulated risk assessments for major business decision-making matters, filing and tracking management standards for major business risks, and applied risk management methods such as risk assessment and risk response to enhance its capabilities of operational risk prevention and resolution. In the next step, the key work of risk management and control was, on the foundation of continuous optimization of management systems and improvement of corporate governance, to reasonably protect the Company's realization of business objectives through the enhancement of management efficiency by perfecting the control measures of key control segments.

- The risk and internal control department and the audit and monitoring department report their work in respect of the sufficiency and effectiveness of the risk management and internal control for the previous period to the Board and the Audit Committee at every regular meeting throughout the year, including but not limited to highlighting any failure in the implementation of these control procedures or any material deficiencies of the procedures.

The risk and internal control department takes the lead in the risk management process of the Company by identifying and assessing the material risks within the Group. The management will then discuss, agree and implement relevant risk management measures and corresponding responsive measures. Relevant risk assessment results are reported to the Board and the Audit Committee.

REVIEW OF RISK MANAGEMENT AND INTERNAL CONTROL EFFECTIVENESS

The Audit Committee and the Board were not aware of any key findings that would have any substantive impact on the business or financial condition of the Company, and of the opinion that the existing risk management and internal control system is appropriate and effective in terms of sufficiency of resources, qualification and experience of staff, training program and financial budget, internal audit and financial report.

The Management reported to the Board and the Audit Committee on the effectiveness of the risk management and internal control system of the year as at 31 December 2019.

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 2019, 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.

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.

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.

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 Zhuang Wenmin, 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 and matters.

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

SHAREHOLDERS' RIGHTS

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

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

CONVENING AN EXTRAORDINARY GENERAL MEETING BY SHAREHOLDERS

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

PUTTING FORWARD PROPOSALS AT GENERAL MEETINGS

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

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.

DIVIDEND POLICY

The Company has adopted a dividend policy (the "Dividend Policy"). With an emphasis on providing reasonable investment return to its Shareholders, the Company strives to implement a sustained and stable dividend policy by considering the current actual operating conditions of the Company, the sustainability and the interests of the Shareholders as a whole.

The Company may distribute dividends to the Shareholders in cash, in shares or in other forms as the Board considers appropriate.

According to the Dividend Policy, subject to the relevant criteria, based on the audited annual statements and the net profit attributable to the Shareholders for the Year and on the premise that the distributable profit is positive and there is sufficient working capital, the Company may distribute annual dividends to the Shareholders in cash in proportion to at least 30% of the annual distributable profit in principle.

In deciding whether to propose a dividend and in determining the dividend amount, the Board shall consider the following factors as a whole: the financial results, the cash flows, the future operations and revenue, the capital requirements and capital expenditure plan, the Shareholders' interests of the Company and its subsidiaries as well as any other relevant factors.

The Board will review the Dividend Policy from time to time and may exercise at its sole and absolute discretion to update, amend and/or modify the Dividend Policy at any time as it seems fit and necessary. There is no assurance that dividends will be paid in any particular amount for any given period.

SCOPE AND REPORTING PERIOD

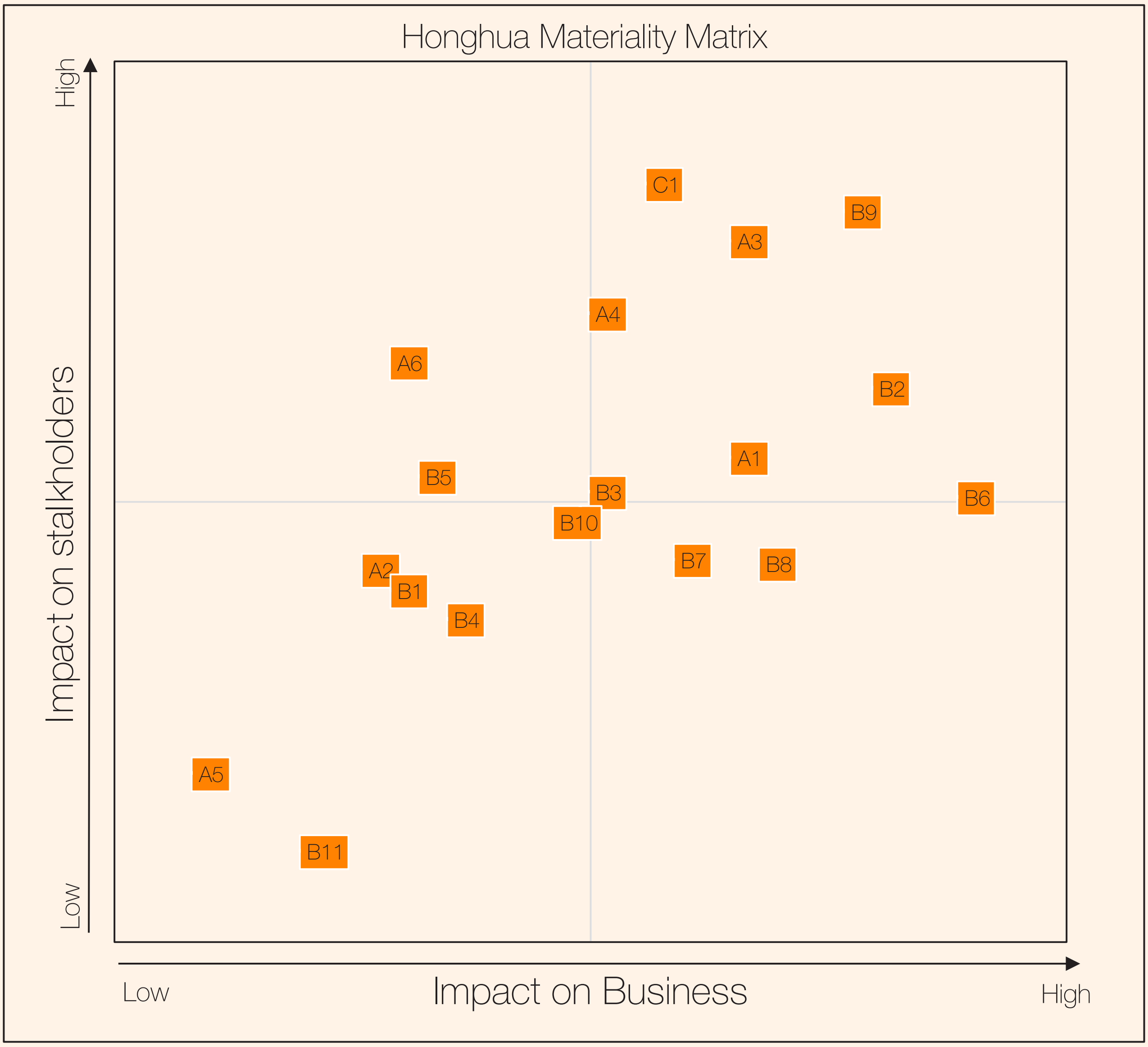
This is the fourth Environmental, Social and Governance ("ESG") report by the Honghua Group Limited (the "Group"), highlighting its ESG performance, with disclosure reference made to the ESG Reporting Guide as described in Appendix 27 of the Listing Rules and Guidance set out by The Stock Exchange of Hong Kong Limited.

The Group is a large-scale equipment manufacturer and drilling service provider, specializing in research, design, manufacture and set-assembly of drilling rigs, offshore engineering and oil & gas exploitation and production equipment.

This ESG report covers the Group's overall environmental and social performances of its major business operations which contribute to the Group's most significant environmental and social impacts. These include the business operations Honghua Group Limited and its subsidiaries Honghua (China) Investment Co., Ltd. and Sichuan Honghua Petroleum Equipment Co., Ltd. in (i) the head office in Chengdu, (ii) the office and (iii) the manufacturing plant in Guanghan, Sichuan Province of the People's Republic of China ("PRC"), from 1 January 2019 to 31 December 2019, unless otherwise stated. The reporting scope of this ESG report remains unchanged compared with the last reporting period.

STAKEHOLDER ENGAGEMENT AND MATERIALITY

The Group values feedback of its stakeholders as they bring invaluable directions for continuous development to the Group. Internal and external stakeholders have been involved in regular engagement activities to share views regarding the Group's operation and performances. The Group has specifically engaged the board members, senior management, frontline staff, and suppliers to gain further insights on ESG material aspects and challenges in the reporting period. The Materiality Matrix below shows the result of our materiality assessment process:


Honghua Materiality Matrix
High
Impact on stalkholders
Low
C1
B9
A3
A4
A6
B2
A1
B5
B3
B6
B10
B7
B8
A2
B1
B4
A5
B11
Low
Impact on Business
High

A.	**Environmental Issues**	
	Energy	A1
	Water	A2
	Emissions	A3
	Effluent and Waste	A4
	Other Raw Materials Consumption	A5
	Environmental Protection Policies	A6
B.	**Social Issues**	
	Employment	B1
	Health and Safety	B2
	Development and Training	B3
	Labor Standards	B4
	Supply Chain Management	B5
	Intellectual Property Rights	B6
	Customer Data Protection	B7
	Customer Service	B8
	Product Quality	B9
	Anti-corruption	B10
	Community Investment	B11
C.	**Others**	
	Food Safety and Health	C1

Among the environmental and social aspects, the following five ones were the material aspects of the Group's operation:

- Product Quality
- Emissions
- Health and Safety
- Food Health and Safety
- Intellectual Property Rights

The above aspects were strictly managed through strict compliance with the relevant laws and regulations, the Group's policies and guidelines. Management of the aspects has been described in separate sections below. The Group will continue to identify areas of improvement for the concerned aspects and keep close communication with its stakeholders to exchange ideas for advancing the Group's ESG management.

STAKEHOLDERS' FEEDBACK

The Group welcomes stakeholders' feedback on our ESG approach and performance. Please give your suggestions or share your views with us via email at shareholder@hhcp.com.cn.

THE GROUP'S SUSTAINABILITY VISION AND COMMITMENT

As one of the largest land drilling rig manufacturers in the world, the Group is committed to leading the industry with the highest standards.

ESG management is of great importance in the Group's business operation. The Group incorporates ESG considerations into its operation and is devoted to:

- Ensuring occupational health and safety of employees;
- Creating a green work environment;
- Enhancing the capabilities of employees; and
- Enriching corporate culture to strengthen bond among employees.

The Board of the Group understands that a sound ESG management structure is essential to the Group's development. Apart from pursuing continuous growth and success, the Group strives for excellence in its ESG management. The Group also communicates with its stakeholders in an open and transparent manner to enhance stakeholders' understanding towards the Group's operation.

STANDARDS AND CERTIFICATIONS

As a licensed manufacturer under the American Petroleum Institute ("API") Monogram program, the Group conforms to the specifications set out by the API. The Group's quality management system complies with the ISO 9001: 2008 and GB/T 19001-2008 standards. Its design, manufacture and service of drilling rigs and associated components conform with the API Specification Q1.

A. ENVIRONMENTAL

The Group operates in accordance with its policies formulated for environmental and resources management, which are also in compliance with all applicable national laws and regulations including the *Environmental Protection Law of the PRC, the Atmospheric Pollution Prevention and Control Law of the PRC, the Water Pollution Prevention and Control Law of the PRC, Soil Pollution Prevention and Control Law of the PRC, the Law of the PRC on the Prevention, Control of Environmental Pollution Caused by Solid Wastes*, and *Regulation on Urban Drainage and Sewage Treatment*. All emissions and discharges meet the national statutory standards. During the reporting period, there was no material non-compliance issues relating to the environment.

A1. Emissions

A1.1. Air Pollutant Emissions

The Group consumed natural gas, liquified petroleum gas ("LPG"), petrol and diesel in the reporting period, which contributed to the emission of 940.17 kg of nitrogen oxides ("NOx"), 12.42 kg sulphur oxides ("SOx") and 8.79 kg respiratory suspended particles ("PM"). Emissions from the Group's operation were treated before release.

A1.2. Greenhouse Gas Emissions

Scope of Greenhouse Gas Emissions	**Emission Sources**	**Emission (in tonnes of carbon dioxide equivalent "tCO_2e")**	**Total Emission (in percentage)**
Scope 1 Direct Emission			
Combustion of fuel for stationary source	Natural gas	4,110.06	42%
	LPG	5,228.95	
Combustion of fuel for mobile sources	Petrol	130.38	
	Diesel	1,653.85	
Scope 2 Energy Indirect Emission			
Purchased electricity		13,525.77	54%
Purchased natural gas		907.96	
Scope 3 Other Indirect Emission			
Paper waste disposal		23.35	4%
Electricity used for freshwater processing		77.51	
Electricity used for sewage processing		21.53	
Business air travel		907.53	
Total		26,586.89	100%

Note 1: Emission factors were made reference to Appendix 27 of the Main Board Listing Rules and their referred documentation as set out by Hong Kong Exchanges and Clearing Limited, unless stated otherwise.

Note 2: Emission factors for combustion of natural gas and LPG for stationary source were made reference to GHG Emissions from Stationary Combustion (Chinese), provided by the Greenhouse Gas Protocol.

Note 3: Combined margin emission factor of 0.6063 tCO_2/MWh was used for purchased electricity in Sichuan Province of the PRC.

The Group's activities contributed to 26,586.89 tonnes of carbon dioxide equivalent (emission intensity: 0.11 tCO_2e/m^2) (including carbon dioxide, methane and nitrous oxides) in the reporting period.

A1.3. Hazardous Waste

Hazardous wastes generated were stored in designated area and collected by licensed collectors. A total of 137.41 tonnes of hazardous wastes was generated in the reporting period. When compared with last year, the Group has generated 21.4% more hazardous waste, mainly due to the production growth.

Hazardous Wastes	**Wastes Generated in 2019 (in tonnes)**	**Wastes Generated (in percentage)**
Waste mineral oil	79.4	58%
Waste oil paint containers	40.51	29%
Oil-containing wraps	10	7%
Waste activated carbon	5	4%
Waste emulsifier	2.5	2%
TOTAL	137.41	100%

A1.4. Non-hazardous Waste

A total of 9,060.10 tonnes of non-hazardous wastes was generated by the Group during the reporting period. The amount was 18.6% more than that of last year due to the production growth. Non-hazardous wastes were collected by qualified collectors.

Non-hazardous Wastes	Wastes Generated in 2019 (in tonnes)	Wastes Generated (in percentage)
Waste steel	4,806.60	53%
Waste iron	3,480.13	39%
Commercial waste	492.00	5%
Waste wood materials	144.00	2%
Ash from sandblasting	126.00	1%
Wastepaper	16.21	<1%
Branches	4.80	<1%
Waste wire spool	1.70	<1%
TOTAL	9,060.10	100%

A1.5. Measures to Mitigate Emissions

The health, safety and environmental ("HSE") policies of the Group were formulated with the objectives of pursuing occupational health and production safety, minimizing environmental pollution, and sustaining continuous improvement. Emissions and discharges are closely monitored, analysed, and inspected regularly by qualified specialists. If any accidents causing disruption or damage to the surrounding communities or the environment occurred, persons in charge will be subject to disciplinary actions.

The Group monitors emissions of dust and smoke, sulphur dioxide, nitrogen oxides, volatile organic compounds ("VOCs"), benzene, toluene and xylene. Dusts are also filtered by filter bags and water-based paint are used to reduce VOCs emission. Smoke generated from welding is purified by appropriate ventilation and fume extractors. The Group also adopts advanced technologies, such as activated carbon adsorption, plasma adsorption and plasma-UV catalysis treatment, to control emissions. The collection and treatment facilities have efficiencies of 95% or above.

Apart from emission control, the Group centralises coordination of vehicle arrangements to ensure that vehicles are used in the most efficient way. Engines are turned off when idling. Business air travels are tracked, and the Group avoids air travels whenever possible.

A1.6. Waste Handling and Reduction Initiatives

When collecting, storing, transporting, using and treating solid wastes, the Group avoids diffusion and leakage, and does not allow any unpermitted disposal of wastes. Waste generated by the Group is stored in specified areas with strict monitoring. All kinds of waste are collected by licensed collectors. Records of waste collection are kept according to the document control procedures. Training are given to the warehouse keepers to enhance their knowledge in waste management.

The Group avoids and reduces paper use to promote a paperless office. It encourages double-sided printing and provides recycling collection trays to collect recyclable paper separately. Apart from saving paper, distribution of office resources (e.g. stationaries) is strictly monitored through a registration system. When waste is inevitably generated, the Group recycles wastes to minimize the environmental impacts.

With the Group's effort in paper recycling, a total of 11.35 tonnes of paper had been recycled during the reporting period.

A2. Use of Resources

To reduce utilization of resources, the Group has formulated management policies regarding energy and resources use, which manages consumption of natural gas, electricity, water, raw materials, packaging materials, office paper and other office necessities.

A2.1. Energy Consumption

The energy consumption involved in the Group's operation includes the use of natural gas, LPG, petrol, diesel and electricity. The Group consumed a total of 69,117,692.18 kWh (energy intensity: 286.40 kWh/m^2) energy in the reporting period.

Energy Consumption Sources	Direct Consumption	Consumption (in kWh)
Natural Gas	1,609,854.20 m^3	15,908,714.63
LPG	1,733,133.42 kg	24,157,474.68
Petrol	48,366.54 L	428,607.50
Diesel	631,523.34 L	6,314,185.37
Electricity	22,308,710.00 kWh	22,308,710.00

Natural gas was used for central air conditioning, canteen operation, heating and forging; LPG was consumed for canteen operation and production; petrol and diesel were used for drilling rig testing and the Group's vehicles. To avoid leakage of natural gas, the Group regularly inspects and maintains transmission pipelines. Pipelines are repaired immediately when leakage is identified.

A2.2. Water Consumption

A total of 191,909.67 m^3 of water (water intensity 0.795 m^3/m^2) was supplied by the municipal water suppliers. There was no significant issue in sourcing water during the reporting period.

Wastewater Treatment

A total of 99,211 m^3 of wastewater (wastewater intensity 0.411 m^3/m^2) was generated during the reporting period. The Group ensures that wastewater is treated and meets the standard of the PRC before discharge. Discharging pollutants or wastewater into the surface water drainage is prohibited. Wastewater treatment facilities are regularly cleaned to enhance effectiveness. The Group holds valid discharge permit and keeps track of its discharges. It also continuously improves its production process, upgrades equipment, adopts new technologies, reinforces existing on-site wastewater treatment facilities and reuses production water after sedimentation. The Group complied with the Integrated Wastewater Discharge Standard (GB8978-1996) of the PRC during the reporting period.

A2.3. Energy Use Efficiency Initiatives

The Group keeps track of its monthly electricity consumption and controls consumption by:

- Developing electricity consumption systems to calculate, compare and analyse total electricity consumption;
- Adopting energy-saving lightings whenever possible;
- Controlling the temperature of air-conditioners at the range of 23-25°C;
- Conserving fuel consumption by enforcing regulations;
- Combining trips to reduce fuel use;
- Educating employees to optimize productivity and reduce unnecessary electricity use; and
- Promoting electricity conservation behaviours among employees.

A2.4. Water Use Efficiency Initiatives

The Group keeps track of its monthly water consumption and controls consumption by:

- Utilizing wastewater and reduce discharges;
- Reusing production water after treating by sedimentation;
- Maintaining taps, fire hydrants and pipe network to avoid wastage due to leakage; and
- Promoting water conservation behaviours among employees.

A2.5. Packaging Materials

At product design stage, the Group reduces the use of raw materials whenever possible. Raw materials in stock shall be used before ordering new materials. The Group consumed mainly plastic, steel, and wooden materials during the reporting period. Packaging materials were mostly made up of recyclable materials. The Group repurposes waste packaging materials on site whenever possible. For instance, waste wooden boxes and scrap iron were used to make brackets and transferral trays.

Packaging Materials	**Consumption**
Plastic film	50 pieces
PVC fabrics	199 pieces
Packing straps	83 pieces
Zip bags	48,000 pieces
Cable ties	69,500 pieces
Woven bags	5,000 pieces
Nails	4,000 pieces
Plastic pipes	50,000 meters
Wooden packages	1,509 m^3
Steel materials	109,448 kg

A3. The Environment and Natural Resources

A3.1. Significant Impacts of Activities on the Environment

The Group's production generates exhaust gas, dust and smoke, hazardous waste, wastewater and noise nuisance. The Group has therefore taken the following actions to minimize significant impact on the environment and natural resources:

- Treating exhaust gas by activated carbon, UV photolysis and plasma purification;
- Treating dust and smoke by bag filters;
- Extracting ash from welding machines by purifier;
- Employing only licenced collectors to collect and treat hazardous waste;
- Treating wastewater through sedimentation before discharge;
- Reducing production noise level and vibration by sound insulation wall;
- Digitalizing documents to reduce paper use;
- Performing double-sided printing; and
- Recycling wastepaper.

The abovementioned emissions, hazardous waste and wastewater generation, and noise level has been monitored and assessed annually.

Renovation of the production plant has been done during the reporting period to increase production efficiency and business competitiveness. Environmental impact assessment was conducted before execution of the project. Apart from preventing and mitigating pollution, the Group also concerned about opinions from its stakeholders. Therefore, the Group sent out questionnaires to internal and external stakeholders to collect views concerning the project. No opposing opinions have been collected throughout our survey.

The Group is committed to managing its production and operations with sensitivity to environmental protection. The Group will continue to minimize its adverse impact on the environment through regular monitoring, assessment and evaluation of performances.

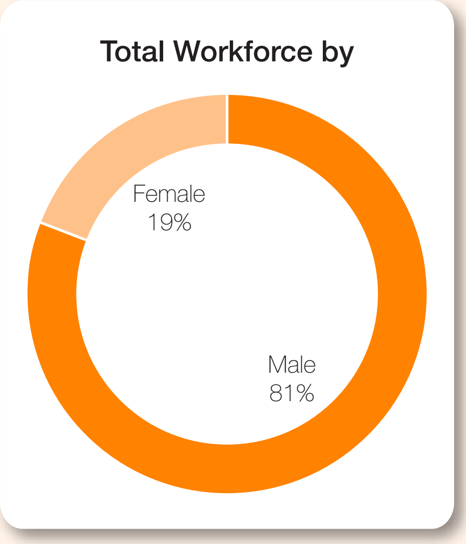
B. SOCIAL

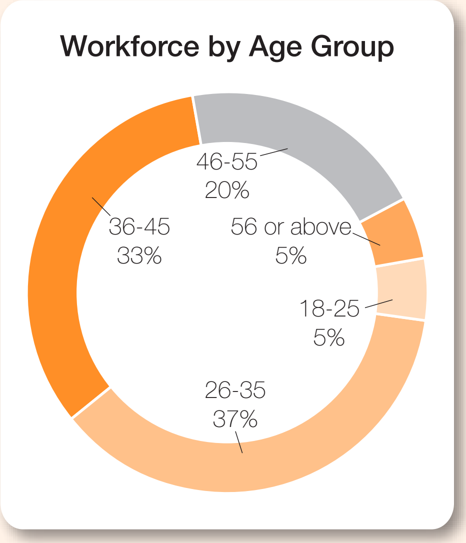
1. *Employment and Labour Practices*

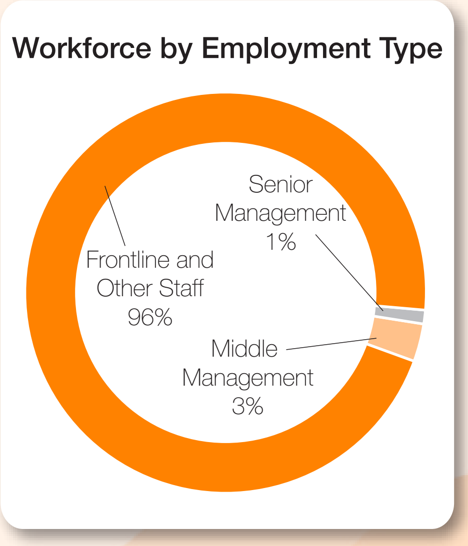
B1. Employment

Total Employees and Turnover

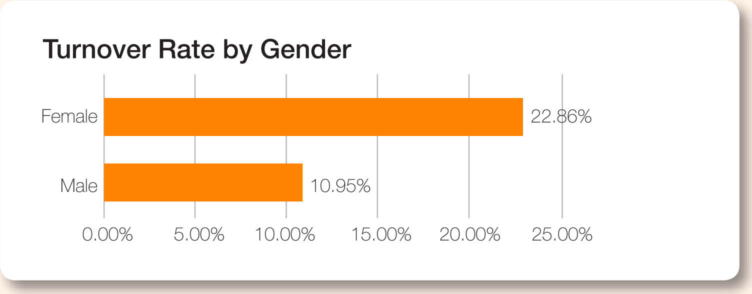
There were 2,332 employees as of 31 December 2019, in which all of them, except one, were full-time employees from the PRC. The number of employees was increased by 9.6% when compared to the previous reporting year.

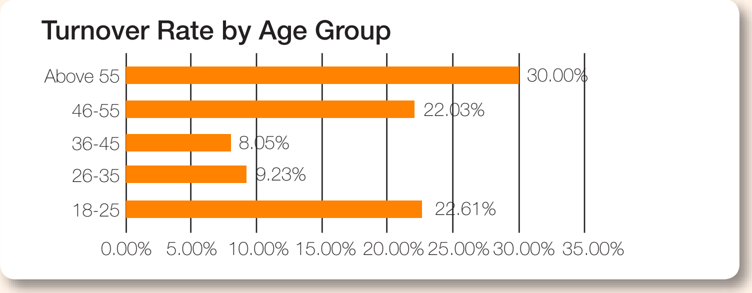


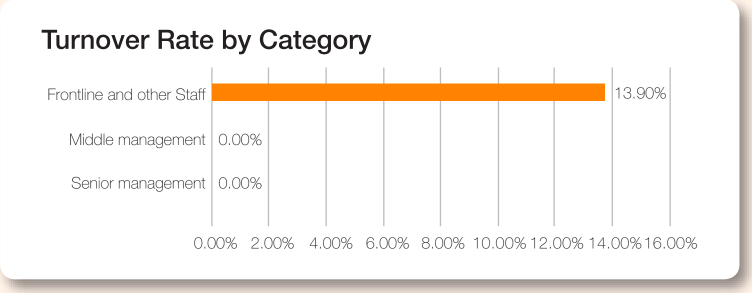




A total of 307 employees left the Group during the reporting period (turnover rate: 13.2 %).







Employee Benefits and Welfare

The Group believes that employees are important assets. The Group strictly complies with the relevant laws and regulations. The remuneration packages and fringe benefits including basic salary, overtime work compensation, allowance, award and bonus are provided. Salary is reviewed every two years and adjusted in accordance with the overall cost of living, industrial salary trend, market trend, the Group's remuneration strategies and its performances. The Group also provides social insurances (including pension, medical, work-related injury, unemployment and maternity insurances), housing fund contributions and other welfare according to the statutory requirement. Major benefits provided by the Group cover all members of the Group and vary depending on job positions. Benefits provided by the Group are listed below:

- Insurance: mandatory social insurance, supplementary medical, employer's liability and accident insurance

- Allowances: service, night shift, health care, heatstroke prevention, food, consolation, lactation and training allowances

- Bonuses: performance and examination bonuses

During the reporting period, the Group raised the budget for the Housing Provident Fund. There was no material non-compliance with laws and regulations relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, and other benefits and welfare was recorded during the reporting period.

Equal Opportunity

The Group respects diversity in the workplace and treats employees equally regardless of their age, nationality, ethnicity, race, sex, religious belief and cultural background. To provide support to breastfeeding mothers when they return to work, the Group has set up a lactation room for expressing breast milk. There was no material non-compliance with laws and regulations relating to equal opportunity, diversity and anti-discrimination was recorded during the reporting period.

Communication with Employees

The Group attaches great importance to employees' health and satisfaction. It cares for the physical and mental health of its employees and their families. During the reporting period, the group has set up an indoor badminton court, a table tennis room, and a reading room for leisure and communication among employees. The Group also organized a series of activities including Spring Festival performance, home visits, badminton competitions, flower arrangement classes, photography events, and outing, etc to engage its employees. The Group ensures sharing of common values between employees and the Group and strives to create a motivating work environment.

B2. Employee Health and Safety

Occupational Health and Safety

The Group is committed to providing a healthy and safe environment. The Group complies with the Work Safety Law of the PRC and the Law of the PRC on the prevention and Control of Occupational Diseases. Occupational health and safety issues are managed by the Group's HSE committee. Management on occupational health and safety has met the OHSAS 18001:2007 standard and the Group will migrate to the ISO 45001 standard in 2020. To pursue occupational health and production safety, the Group has established separate policies on different aspects, including safe production, occupational hazards, hazardous chemical, fire safety, accident prevention and emergency response plan. The policies and practice are reviewed yearly.

All employees are required to follow the safety measurements and guidelines strictly. Their safety practices and performances are examined regularly to ensure that they are competent for safe operation. Any staff who failed to follow the safety precautions can be subject to disciplinary actions. In contrast, departments and individuals performing well in occupational safety, or providing suggestions that help to improve operational safety are awarded. Sharing sessions are organized quarterly for departments to share their safety precautions and exchange ideas.

During the reporting period, the Group has provided health and safety related training and introduced the Safety Month Program. The program included various activities that raise employee awareness regarding health and safety, such as knowledge competition, drills for emergency and other promotional events. In addition, to remind employees to stay away from machines, the Group has added hazard warning tapes on the ground on the manufacturing plant to separate machine areas and passage roads. The Group has installed new ventilation system to cope with the incident of exceedances of dust and xylene found at individual measuring points last year. The Group complies with the Law of the PRC on Prevention and Control of Occupational Diseases and the Law of the PRC on Work Safety. There was no material non-compliance with the laws and regulations relating to providing a safe working environment and protecting employees from occupational hazards during the reporting period.

Occupational Health and Safety Data in 2019

Work related fatality	0
Work injury cases >3 days	10
Work injury cases <=3 days	0
Lost days due to work injury	2,009

Food Health and Safety

The Group has explicit contract terms with its contractors to ensure food safety. Food ingredients were tested before cooking. Samples of each dish are kept for record and testing if necessary. Food premises are sanitized regularly and inspected every day.

B3. Development and Training

The Group believes that development and training are crucial for employees to discharge their duties more effectively and efficiently. In the reporting period, employees participated in various types of training including induction, operational, safety, quality, and management training. To nurture talents, the Group has established online and offline training system and conducted skills evaluation for employees. The Group provides training according to their training needs. An internal training team is established to improve and ensure the training quality. During the reporting period, employees of the Group had participated in a total of 8,968 hours of training, the average training hours per employee was 3.85 hours.

Training and Education 2019	**Chengdu**	**Guanghan**	**Manufacturing plant**	**Group-total**
Total number of trained employees	235	647	1,108	1,990
Total training hours for all employees	4,302.75	3,231.5	1,434	8,968.25
Average training hours per employee	8.01	5.77	1.16	3.85
By Employee Category				
Senior Management	18 people	7 people	0 people	25 people
Average training hours per employee	70.25	40.67	0.00	62.85
Middle Management	23 people	44 people	0 people	67 people
Average training hours per employee	25.52	7.48	0.00	20.36
Frontline and other Staff	194 people	596 people	1,108 people	1,898 people
Average training hours per employee	3.76	5.31	1.16	2.70
By Gender				
Male	143 people	467 people	1,040 people	1,650 people
Average training hours per employee	6.91	4.88	1.18	3.00
Female	92 people	183 people	66 people	341 people
Average training hours per employee	10.12	5.36	0.85	6.60

B4. Labour Standards

In pursuance of the Labour Law and the Labour Contract Law of the PRC, there were no child labour nor forced labour in the Group. All employees have signed the employment contract and agreed on the stipulated employment terms and conditions. The rights and interests of women and teen workers are protected under the Group's policies and all the applicable national regulations. There was no material non-compliance with applicable laws and regulations in relation to the prevention of child and forced labour during the reporting period.

2. Operating Practices

B5. Supply Chain Management

The Group believes that proper management of its supply chain could bring positive impact to the natural environment and the society. Policies and procedures have been established for the management of the environmental and social impact of its supply chain. According to the Group's scoring system, suppliers are assessed and scored with respect to their qualifications, productivity, technology, performances, and quality management. The Group only selects qualified suppliers that have passed their supplier assessments. Selected suppliers are evaluated against different performance criteria monthly and annually. The Group had 296 qualified suppliers in the reporting period. Major suppliers of the Group were from the PRC, and other suppliers were from the United States, Hong Kong, the United Arab Emirates, Dubai, Germany, Singapore, Sweden and Canada.

To manage the environmental and social risks of its supply chain, the Group articulates its HSE policies to suppliers through the procurement agreement and has implemented measures to assess and monitor the environmental and social performances of suppliers as shown in the table below.

Management of Supply Chain

Environmental Aspects

- Through procurement agreement or oral communication, the Group requires suppliers to use environmentally friendly materials for packaging and minimise the adverse impact on the environment if possible.
- The Group assesses the discharge permits of its suppliers when applicable. Suppliers without valid discharge permits will not pass the Group's supplier assessment.
- When assessing suppliers, the Group takes into account whether the suppliers have been certified to any environmental management system. Suppliers with certified environmental management system attain higher scores in the scoring system.
- The Group requires selected suppliers to sign the Safety, Fire and Environmental Protection Agreement.

Social Aspects

- Suppliers supplying PPE shall possess valid LA certificates and fulfil qualification requirements set by the Group. Selected suppliers are evaluated by the safety management department and production department of the Group annually.
- Before entering the manufacturing plants, suppliers must read and sign the Entry Terms or the Entry Safety Notice. They will be reminded to put on appropriate PPE and comply with the safety requirements set out by the Group.
- Through agreement, the Group requires suppliers to safeguard their employees' health and safety.

B6. Product Responsibility

The Group is committed to providing products and services with high standard of quality, safety and security, and protect the intellectual property right and personal data. To provide qualified products and services to customers, the Group has established a quality management system, which is in compliance with the ISO 9000 standards and complies strictly with the API specification Q1. The quality management department establishes, implements and maintains the quality management system to promote continuous improvement. There was no material non-compliance relating to health and safety, advertising, labelling and privacy matters regarding products and services provided and method of redress during the reporting period.

Product Assurance and Recall

Product quality is assured through compliance with the international standards and the stringent inspection processes. Apart from meeting the ISO 9000 standards, main components of the drilling rigs obtained the CE markings, fulfilled the state Gosstandart ("GOST") standards, API standards and all product requirements of the export markets.

The Group manages its manufacturing process and its contractors' performances effectively. Defective incoming materials, intermediate products and final products are eliminated from the production line immediately after noticed. Substandard products are analysed and handled with corrective or preventive measures according to the Group's policy. No product was recalled due to safety and health reasons and no material non-compliance with laws and regulations in relation to product health and safety was recorded during the reporting period.

Intellectual Property ("IP") Rights

The Group protects self-owned IP rights and makes certain that its suppliers and other business partners respect the IP rights of the third parties. All drawings, ideas, manuals, designs, models, formulas provided by the Group to suppliers and other business partners shall not be copied or leaked to third parties without the Group's consent. The Group respects IP rights and prudently eliminates the risk of infringement through research and analysis. Suppliers and other business partners shall not infringe copyrights, patent rights, trademarks and other IP rights in the process of design, research and development, and manufacturing. They can be held responsible for all costs if the infringement has caused loss to the Group.

An intellectual property management team has been established for enhancing the Group's IP management, identifying risks and dealing with infringement cases. After investigation and analysis by the intellectual property management team and the legal department, the Group will take appropriate actions, including legal actions, against infringers depending on the circumstances. No material non-compliance with the laws and regulations in relation to IP rights was recorded during the reporting period.

Information Security Management

The Group has developed and implemented a comprehensive range of policies for information security management. To safeguard internal information and data assets, the Group adopted measures including:

- Control of authorities and accessibilities, USB ports and optical drive uses;
- Prohibition of the use of peer-to-peer file sharing services and installation of software at user level;
- Audit of internet access and activities; and
- Encryption of core data.

By signing the employment contract, employees also undertake to protect IP rights and not to disclose any confidential information (including customer information). Customer information includes but not limited to customers' ideas, inventions, data and models, content of documents and correspondences, financial information, marketing strategies and trade secrets. Employees in breach of the contract can be dismissed. No substantiated complaints regarding breach of client privacy, identified leak, theft, or loss of customer information was received during the reporting period.

B7. Anti-corruption

The Group believes that honesty, integrity and fairness are fundamental elements in the Group. It is committed to protecting the legitimate rights of shareholders and investors. Any bribery, theft, fraud and misappropriation are prohibited. Improper benefits including banquets, entertainment, cash, stocks, equities, securities, valuables and properties, etc. shall not be accepted. The Group established policies and regulations, including Regulations on the Integrity of Employees and Supervision, and Implementation Plan on the Safeguard of Supervision System, etc. The policies and regulations are regularly reviewed. This applies to all processes of its business operation including procurement, manufacturing, marketing and communication.

Top management of the Group has assessed corruption risks and established respective monitoring procedures and system. The Group organizes anti-corruption related talks and displays promotion materials in prominent areas to raise employees' awareness. All employees are encouraged to assist in tackling fraud, corruption and other malpractice, and report any suspected cases to the auditing department through email (hhgp.jubao@hhcp.com.cn) or hotline (028-68176829). When there are alleged cases in violation of laws, regulations or the Group's policy, the Group will investigate and impose disciplinary actions (including warning, record of demerit, demotion and dismissal) upon offenders after verification.

During the reporting period, there was no material non-compliance with applicable laws and regulations relating to anti-corruption that could have a significant impact on the Group.

B8. Community Investment

The Group had no particular policy on community investment, but it actively supports poverty alleviation. During the reporting period, it has spent over RMB150,000 to purchase agricultural products produced from the state's poverty counties.

The Board presents this annual report, together with the audited consolidated financial statements of the Group for the year ended 31 December 2019.

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 2019 are set out in the consolidated financial statements on pages 95 to 237 of this annual report.

The Board did not recommend a final dividend for the year ended 31 December 2019.

CLOSURE OF REGISTER OF THE MEMBERS

The register of members of the Company will be closed from Monday, 15 June 2020 to Thursday, 18 June 2020, 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 Friday, 12 June 2020.

SHARE CAPITAL

Changes in the share capital of the Company during the Year are set out in note 23 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 2019.

RESERVES

As of 31 December 2019, the Group has a total of approximately RMB3,778 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 2019 are set out in note 11 to the consolidated financial statements.

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 Directors (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. Ren Jie, Mr. Liu Xiaofeng, Mr. Chen Guoming, Mr. Chang Qing and Mr. Wei Bin 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. 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 "Connected 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 2019, details of remuneration for the Directors and Senior Management of the Company are set out in notes 34(f) and 38 to the consolidated financial statements.

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

	2019 **Number of individuals**
RMB0 to RMB1,000,000	10
RMB1,000,001 to RMB2,000,000	9
RMB2,000,001 to RMB3,000,000	–
RMB3,000,001 to RMB4,000,000	–
RMB4,000,001 to RMB5,000,000	–
RMB5,000,001 to RMB6,000,000	–

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

At 31 December 2019, 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	608,568,632(1)	11.36%
Mr. Ren Jie	Long	Personal interest, corporate interest and settlor of a discretionary trust	89,357,526(2)	1.66%
Ms. Su Mei	Long	Personal interest	150,000(3)	0.002%

(1) Zhang Mi individually owns 3,050,000 Shares. Yi Langlin, spouse of Zhang Mi owns 2,156,000 Shares. Zhang Mi is the settlor of a discretionary trust, The ZYL Family Trust, whose trustee, through Wealth Afflux Limited, holds 36% of the issued share capital of Ally Giant Limited which holds 445,562,632 Shares. The Trustee of The ZYL Family Trust owns 157,800,000 Shares.

(2) Ren Jie individually owns 1,549,000 Shares. He is the settlor of a discretionary trust. The Trustee of The RJDJ Victory Trust owns 87,808,526 Shares.

(3) Su Mei individually owns 150,000 Shares.

(B) SHARE OPTIONS OF THE COMPANY

	Long/Short Position	Number of options held – Personal interest
Mr. Zhang Mi	Long	1,190,000
Mr. Ren Jie	Long	2,885,000
Mr. Liu Xiaofeng	Long	2,450,000
Mr. Chen Guoming	Long	1,800,000

Saved as disclosed above, at 31 December 2019, none of the Directors and Chief Executives (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for Shares (or warrants or debentures, if applicable) of the Company and its associated corporations required to be disclosed pursuant to the SFO.

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

The register of substantial shareholders required to be kept under section 336 of Part XV of the SFO shows that, at 31 December 2019, 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 Shares Interest	Corporate Interest	Corporate Interest and Settlor of a discretionary Trust	Total	% of the issued share capital of the Company
Ally Giant Limited	Long	445,562,632	–	–	445,562,632[(1)]	8.31%
Wealth Afflux Limited	Long	157,800,000	445,562,632	–	603,362,632[(2)]	11.26%
Tricor Equity Trustee Limited	Long	–	–	1,022,599,049	1,022,599,049[(3)]	19.09%
Yi Langlin	Long	2,156,000 607,602,632 (family interest)	–	–	609,758,632[(4)]	11.38%
Kehua Technology Co., Limited	Long	1,606,000,000	–	–	1,606,000,000[(5)]	29.98%
Shenzhen Aerospace Industry Technology Research Institute	Long	–	1,606,000,000	–	1,606,000,000[(5)]	29.98%
China Aerospace Science and Industry Corporation Limited	Long	–	1,606,000,000	–	1,606,000,000[(5)]	29.98%

Notes:

(1) Ally Giant Limited is owned by Wealth Afflux Limited and others 33 shareholders, holding 445,562,632 Shares in total.

(2) Wealth Afflux Limited is held by Equity Trustee Limited (as the trustee of The ZYL Family Trust). The ZYL Family Trust is a discretionary trust established by Zhang Mi (as the settlor),with Equity Trustee Limited (as the trustee). The beneficiaries under The ZYL Family Trust are Zhang Mi and his family members.

(3) Tricor Equity Trustee Limited, as the trustee of The ZYL Family Trust and the 8 other Trusts, holds 1,022,599,049 Shares in total.

(4) Yi Langlin, spouse of Zhang Mi, is deemed to be interested in 609,758,632 Shares in which Zhang Mi holds 1,190,000 share options.

(5) Kehua Technology Co., Limited is owned 40% by Shenzhen Aerospace Industry Technology Research Institute and 60% by China Aerospace Science and Industry Corporation Limited and holds 1,606,000,000 Shares.

Save as disclosed above, to the best of the Directors and the Chief Executives of the Company's knowledge, as at 31 December 2019, 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) 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"). The vesting period of the Pre-IPO Share Option Scheme is ten years from the date of grant until 20 January 2018. 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 73,975,936 Shares, representing approximately 1.38% 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 2019 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

Date of grant	Number of grant (shares)	Exercise price per Share (HK$)	Exercise period of share options	Valid period of the share options
24 March 2014	3,200,000	2.024	up to 30% of the share options granted to each grantee from 24 April 2014 to 23 April 2015; up to 60% of the share options granted to each grantee on or before 23 April 2016; all the remaining share options granted to each grantee on or after 24 April 2016	up to 23 March 2024
2 July 2014	40,575,000	1.96	vesting of the share options is conditional upon the achievement of corporate goals of the Company and the individual performance of the respective Grantees. The share options or any portion thereof shall lapse if the relevant corporate goals cannot be achieved. Up to 30% of the share options granted to each grantee after April 2015; up to 60% of the share options granted to each grantee after April 2016; all the remaining share options granted to each grantee after April 2017	up to 1 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 2019 were as follows:

	Number of share options									
Name or category of participant	Outstanding as at 01/01/2019	Granted during the Year	Exercised during the Year	Lapsed during the Year	Cancelled during the Year	Outstanding as at 31/12/2019	Date of grant (DD/MM/YY)	Exercise period (DD/MM/YY)	Exercise price per Share HK$	Price 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
	1,190,000	–	–	–	–	1,190,000	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
	885,000	–	–	–	–	885,000	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
Sub-total	16,599,000	–	–	–	8,274,000	8,325,000				
Other										
Employee	29,768,500	–	–	–	29,768,500	–	15/04/2009	01/12/2009-14/04/2019	1.27	1.29
Employee	5,543,000	–	–	–	–	5,543,000	20/06/2011	19/07/2011-19/06/2021	0.83	0.79
Employee	10,906,000	–	–		–	10,906,000	05/04/2012	05/04/2013-04/04/2022	1.19	1.20
Employee	1,900,000	–	–	–	–	1,900,000	24/03/2014	24/04/2014-23/03/2024	2.024	2.02
Employee	14,222,036	–	–		184,600	14,037,436	02/07/2014	02/07/2014-01/07/2024	1.96	1.92
Employee	34,842,000	–	90,000		550,000	34,202,000	21/09/2016	21/09/2017-20/09/2026	0.44	0.435
Sub-total	97,181,536	–	90,000		30,503,100	66,588,436				
Total	113,780,536	–	90,000		38,777,100	74,913,436				

(B) SHARE OPTION SCHEME OF 2017

The 2017 Share Option Scheme is conditionally adopted by the Shareholders at the annual general meeting proposed to be held on 14 June 2017. As at 31 December 2019, no options were granted under the 2017 Share Option Scheme.

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 2019, the Trustee has purchased 97,817,000 of the Company's Shares, accounting for 1.82% 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 2019 were as follows:

	Number of Shares					
	Outstanding during 01/01/2019	**Purchased during the Year**	**Granted during the Year**	**Vested during the Year**	**Cancelled during the Year**	**Outstanding as at 31/12/2019**
Total	61,089,300	-	-	-	-	61,089,300

CONNECTED TRANSACTIONS

During the Year, the Group has the following connected transactions which are required to be disclosed in this report in accordance with Chapter 14A of the Listing Rules. Certain related parties transactions disclosed in note 34 to the consolidated financial statements were not disclosed below as they fulfilled the exemption requirements in Chapter 14A of the Listing Rules.

DEBT ARRANGEMENT FOR OFFSHORE SEGMENT AND SIIC GUARANTEE

(1) On 28 October 2018, Honghua (China) Investment Co., Ltd. ("Honghua Investment") entered into the Domestic Debt Repayment Agreement with Honghua Offshore Oil & Gas Equipment (Jiangsu) Co., Ltd. ("Jiangsu Offshore"), and Shanghai Honghua Offshore Oil & Gas Equipment Co. ("Shanghai Offshore"), pursuant to which Jiangsu Offshore shall repay an existing debt of an aggregated amount of RMB1,989.5049 million, together with relevant interest to Honghua Investment.

(2) On 28 October 2018, Honghua Holdings Limited ("Honghua Holdings") entered into the Overseas Debt Repayment Agreement with Honghua Holdings Limited ("Honghua Holdings"), pursuant to which Tank Tek shall repay an existing debt of an aggregated amount of USD16.9291 million, together with relevant interest to Honghua Holdings.

(3) On 5 August 2015, Honghua Investment issued an irrevocable guarantee in favor of SIIC Shanghai International Trade (Group) Co., Ltd. ("SIIC") for the debt owed by Jiangsu Offshore to SIIC ("SIIC Guarantee").

Jiangsu Offshore is owned as to 51% equity interest by Jiangsu Hongjieding Energy Technology Co., Ltd ("Jiangsu Hongjieding"). Mr. Zhang Mi, an executive director of the Company, through his sole proprietorship, holds 53.85% of equity interests in Jiangsu Hongjieding as of the date of this report. Accordingly, Jiangsu Offshore is a connected person of the Company. Therefore, the Domestic Debt and Overseas Debt will then constitute financial assistance provided by the Group to Jiangsu Offshore and Tank Tek, thus connected transactions for the Company. In addition, Jiangsu Offshore will become a subsidiary of Jiangsu Hongjieding and therefore the SIIC Guarantee will constitute financial assistance provided by the Group to a connected person.

FRAMEWORK AGREEMENT FOR STRATEGIC COOPERATION BETWEEN ASIFL AND THE GROUP

On 1 June 2018, Honghua (China) Investment Co., Ltd. ("Honghua Investment"), Honghua Financial Leasing (Shenzhen) Co., Ltd. ("Honghua Shenzhen"), Honghua Financial Leasing (Shanghai) Co., Ltd. ("Honghua Shanghai") and Aerospace Science & Industry Financial Leasing Co., Ltd. ("ASIFL") entered into between the Lease Framework Agreement (2018 Revised edition) (the "Lease Framework Agreement"), to amend the relevant contents of the 2017 Framework Agreement and the supplemental agreement to the Framework Agreement. Term of the Lease Framework Agreement starts from the date of entering into the agreement ("1 June 2018") to 6 November 2020.

The annual cap for the sales transaction under the Finance Lease Transaction model was RMB400 million according to the Lease Framework Agreement, and the actual amount was RMB0 during the Year. The maximum daily balance of the Leasing principal was RMB989.536 million for the Finance Lease Transactions according to the Lease Framework Agreement, and the actual largest outstanding amount was RMB557.28 million. The maximum one-off handling fee was RMB18 million, and the actual handling fee was RMB0 during the year. The maximum outstanding interest for 2019 was RMB164.234 million according to the Lease Framework Agreement, and the actual outstanding interest fee was RMB74.07 million. The annual cap for the sales transaction under the Operating Lease Transaction model was RMB200 million according to the Lease Framework Agreement, and the actual amount was RMB0 during the Year. The amount of rental to be paid for the Operating Lease Transaction was 119.245 million, and the actual amount was RMB3.442 million.

CASIC indirectly holds 29.98% of the shares in the Company and therefore is a substantial shareholder and connected person of the Company. CASIC and its subsidiaries together hold a 46.5% equity interest in ASIFL, thus ASIFL is an associate of CASIC and in turn a connected person of the Company. Therefore, these transactions constitute connected transactions.

FINANCIAL COOPERATION AGREEMENT BETWEEN AEROSPACE ASIFC AND THE GROUP

On 1 June 2018, the Company and Aerospace Science and Industry Financial Corporation ("ASIFC") entered into the Financial Cooperation Agreement. According to the Financial Cooperation Agreement, ASIFC will provide the Group with deposit and settlement services. Term of the Financial Cooperation Agreement was 3 years from the date of entering into the agreement ("1 June 2018").During the year, the daily maximum balance of deposits (including accrued interests) under the Financial Cooperation Agreement was RMB1.5 billion, and the actual balance of deposits was RMB304.714 million.

CASIC indirectly holds 29.98% of the shares in the Company and therefore is a substantial shareholder and connected person of the Company. CASIC and its subsidiaries together hold a 100% equity interest in Aerospace Science and Industry Financial Corporation, thus Aerospace Science and Industry Financial Corporation is an associate of CASIC and in turn a connected person of the Company. Therefore, the deposit transactions under the Financial Cooperation Agreement constitute connected transactions.

LOAN AGREEMENT AND PROPERTY COLLATERAL AGREEMENT BETWEEN ASIFC AND THE GROUP

On 17 September 2018, Sichuan Honghua Electric Co., Ltd. ("Honghua Electric"), entered into the Loan Agreement and Property Collateral Agreement with ASIFC. According to the Agreement, ASIFC will provide a loan of RMB70 million to Honghua Electric for a term commencing on 17 September 2018 and expiring on 17 September 2019. Pursuant to the Property Collateral Agreement, the loan was secured by the property collateral provided by Honghua Electric in favour of ASIFC.

CASIC indirectly holds 29.98% of the shares in the Company and therefore is a substantial shareholder and connected person of the Company. CASIC and its subsidiaries together hold a 100% equity interest in Aerospace Science and Industry Financial Corporation, thus Aerospace Science and Industry Financial Corporation is an associate of CASIC and in turn a connected person of the Company. Therefore, the deposit transactions under the Financial Cooperation Agreement constitute connected transactions.

PURCHASE FRAMEWORK AGREEMENT BETWEEN AEROSPACE SYSTEM AND HONGHUA ELECTRIC

On 31 May 2019, Honghua Electric and Aerospace System entered into a Purchase Framework Agreement, pursuant to which Honghua Electric will purchase raw materials,parts and components, equipment and other products from Aerospace System.The term of the Purchase Framework Agreement commences at the date of the agreement and will last until 31 December 2019. The annual cap under the Purchase Framework Agreement for the year ended 31 December 2019 is RMB100 million. During the Year, the actual amount was RMB72.807 million.

CASIC indirectly holds approximately 29.98% of the shares in the Company through its wholly-owned subsidiary Kehua, and therefore is a substantial shareholder and connected person of the Company. CASIC holds 100% equity interest in Aerospace System through Aisino Corporation whose 39.8% equity interest is held by CASIC, thus Aerospace System is an associate of CASIC and in turn a connected person of the Company. Therefore, the Transactions constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

PURCHASE FRAMEWORK AGREEMENT AND SALES FRAMEWORK AGREEMENT BETWEEN AEROSPACE JIANGNAN, AEROSPACE CLOUD,AEROSPACE SANJIANG AND THE GROUP

On 17 July 2019, the Company and Aerospace Jiangnan (Aerospace Jiangnan Group Co., Ltd., formerly known as Guizhou Aerospace Industry Co., Ltd.) entered into the Purchase Framework Agreement, pursuant to which the Company will purchase equipment and products including rig parts, forged parts of solution tanks and blanks from Aerospace Jiangnan. The annual cap under the Purchase Framework Agreement for the year ended 31 December 2019 is RMB6 million. During the Year, the actual amount was RMB1.298 million;

the Company and Aerospace Cloud entered into the Purchase Framework Agreement, pursuant to which the Company will purchase products including servers and related technology services from Aerospace Cloud. The annual cap under the Purchase Framework Agreement for the year ended 31 December 2019 is RMB2 million. During the Year, the actual amount was RMB1.967 million;

and the Company and Aerospace Sanjiang entered into the Purchase Framework Agreement, pursuant to which the Company will purchase products including whole towing devices, LNG auxiliary equipment and downhole testing equipment and related services from Aerospace Sanjiang. The annual cap under the Purchase Framework Agreement for the year ended 31 December 2019 is RMB21 million. During the Year, the actual amount was RMB5.01 million;

and the Company and Aerospace Jiangnan entered into the Sales Framework Agreement, pursuant to which the Company will sell products including steel structure and related processing services to Aerospace Jiangnan. The annual cap under the Purchase Framework Agreement for the year ended 31 December 2019 is RMB10 million. During the Year, the actual amount was RMB0.19 million.

The term of each of the Purchase Framework Agreements and the Sales Framework Agreement will commence on the date of the agreement and expire on 31 December 2021.

CASIC indirectly holds approximately 29.98% of the shares in the Company through its wholly-owned subsidiary Kehua, and therefore is a substantial shareholder and connected person of the Company. CASIC directly holds 100%, 49.51% and 100% equity interest in Guizhou Aerospace, Aerospace Cloud and Aerospace Sanjiang, respectively, thus Guizhou Aerospace, Aerospace Cloud and Aerospace Sanjiang are all Associates of CASIC and in turn connected persons of the Company. Therefore, the Purchase Transactions and the Sales Transactions constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

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 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 223 to 229 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 27 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 34(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 16.08% of total purchase, and the largest supplier accounted for approximately 5.15% of total purchase.

2. During the Year, the Group's five largest customers accounted for approximately 39.95% of total sales and the largest customer accounted for approximately 13.50% 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 2019, 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 2019 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
Chairman
Jin Liliang

PRC, 30 March 2020

羅兵咸永道

To the Shareholders of Honghua Group Limited

(incorporated in the Cayman Islands 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 95 to 237, which comprise:

- the consolidated balance sheet as at 31 December 2019;
- 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 2019, 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 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. As at 31 December 2019, the total balance of property, plant and equipment ("PP&E") is RMB1,641,678,000, including RMB482,190,000 relating to the Oil and gas engineering services segment which was loss making in prior years and recorded a profit for the year ended 31 December 2019. 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, no additional provision for impairment was made in relation to the PP&E under the Oil and gas engineering services segment for the year ended 31 December 2019. We focused on this area because of the significance of PP&E and management judgements involved.	We evaluated the appropriateness of the discounted cash flow model adopted by management. 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 21 to the consolidated financial statements. As at 31 December 2019, the Group had gross inventory balance of RMB1,434,951,000, against which a provision for inventory write-down of RMB167,595,000 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 gross balance of trade receivables as at 31 December 2019 is RMB3,712,886,000 against which a provision for impairment of RMB294,486,000 was made. When assessing the impairment of trade receivables, judgement is required for determining the lifetime expected credit losses, taking into consideration the ageing of the trade receivables, their repayment history, current financial position as well as the expected operating results and ability to meet the obligation. 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. We obtained management's assessment on the recoverability of the trade receivables and performed our independent evaluation. We corroborated management's assessment by reviewing individual customer's credit profile and payment history on a sample basis. We evaluated whether the historical loss rates were appropriately adjusted for the forward-looking factors, such as the expected operating results of the trade receivables and their ability to meet the obligation. 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 AUDIT COMMITTEE 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.

The Audit Committee is 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 judgement 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 the Audit Committee 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 the Audit Committee 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 the Audit Committee, 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, 30 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2019
(All amounts in RMB unless otherwise stated)

	Notes	Year ended 31 December 2019 RMB'000	 2018 RMB'000
Continuing operations			
Revenue	5	**4,425,686**	4,205,162
Cost of sales	8	**(3,109,852)**	(3,122,890)
Gross profit		**1,315,834**	1,082,272
Distribution costs	8	**(357,273)**	(313,211)
Administrative expenses	8	**(503,486)**	(469,484)
Net impairment losses on financial and contract assets	3.1(b)	**(190,989)**	(93,829)
Other (expenses)/income	6	**(11,954)**	90,678
Other gains, net	7	**126,259**	43,005
Operating profit		**378,391**	339,431
Finance income	10	**23,035**	5,600
Finance expenses	10	**(231,938)**	(169,005)
Finance expenses – net		**(208,903)**	(163,405)
Share of net losses of associates and joint ventures accounted for using the equity method	12	**(3,223)**	(32,444)
Profit before income tax		**166,265**	143,582
Income tax expense	13	**(33,776)**	(33,897)
Profit from continuing operations		**132,489**	109,685
Loss from discontinued operations	35	**–**	(13,063)
Profit for the year		**132,489**	96,622

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2019
(All amounts in RMB unless otherwise stated)

		Year ended 31 December	
		2019	2018
	Notes	**RMB'000**	RMB'000
Profit attributable to:			
– Owners of the Company		**107,472**	82,287
– Non-controlling interests		**25,017**	14,335
		132,489	96,622
Profit attributable to owners of the Company arises from:			
– Continuing operations		**107,472**	92,377
– Discontinued operations		**–**	(10,090)
		107,472	82,287
Profit per share from continuing and discontinued operations attributable to owners of the Company (expressed in RMB cents per share)			
Basic profit per share			
From continuing operations	14	**2.03**	1.74
From discontinued operations	14	**–**	(0.19)
	14	**2.03**	1.55
Diluted profit per share			
From continuing operations	14	**2.03**	1.74
From discontinued operations	14	**–**	(0.19)
	14	**2.03**	1.55

The notes on pages 105 to 237 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019
(All amounts in RMB unless otherwise stated)

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Profit for the year	**132,489**	96,622
Other comprehensive income		
Items that may be reclassified to profit or loss		
Currency translation differences	**19,090**	25,164
Items that will not be reclassified to profit or loss		
Change in the fair value of equity investments at fair value through other comprehensive income	**10,806**	(717)
Income tax relating to these items	**(1,792)**	179
Other comprehensive income for the year, net of tax	**28,104**	24,626
Total comprehensive income for the year	**160,593**	121,248
Total comprehensive income attributable to:		
– Owners of the Company	**135,964**	106,091
– Non-controlling interests	**24,629**	15,157
	160,593	121,248
Total comprehensive income attributable to owners of the Company arises from:		
– Continuing operations	**135,964**	118,082
– Discontinued operations	**–**	(11,991)
	135,964	106,091

The notes on pages 105 to 237 form an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2019
(All amounts in RMB unless otherwise stated)

		As at 31 December	
	Note	**2019** **RMB'000**	2018 RMB'000
ASSETS			
Non-current assets			
Lease prepayments	15	**–**	192,242
Right of use assets	17	**187,769**	–
Property, plant and equipment	16	**1,641,678**	1,518,266
Payment for acquisition of leasehold prepayment		**–**	10,000
Intangible assets	18	**180,342**	161,186
Debt investments	20	**97,906**	–
Investments accounted for using the equity method	12	**31,259**	35,135
Deferred income tax assets	28	**273,347**	261,632
Financial assets at fair value through other comprehensive income	3.3(c)	**87,129**	74,053
Trade and other receivables	19	**1,281,354**	907,304
Loan to an associate and other related party	3.1(b)	**1,450,181**	1,584,192
Other non-current assets		**67,502**	28,165
Total non-current assets		**5,298,467**	4,772,175
Current assets			
Inventories	21	**1,267,356**	1,564,797
Contract assets	5	**219,937**	42,758
Trade and other receivables	19	**3,593,152**	2,939,969
Debt investments	20	**24,915**	–
Loan to an associate and other related party	3.1(b)	**88,278**	79,982
Current tax recoverable		**8,341**	46
Assets classified as held for sale		**–**	684
Financial assets at fair value through other comprehensive income	3.3(c)	**95,407**	93,884
Pledged bank deposits	22	**268,673**	137,302
Cash and cash equivalents	22	**889,802**	685,500
Total current assets		**6,455,861**	5,544,922
Total assets		**11,754,328**	10,317,097

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2019
(All amounts in RMB unless otherwise stated)

	Note	As at 31 December **2019** **RMB'000**	 2018 RMB'000
EQUITY			
Equity attributable to owners of the Company			
Share capital	23	**488,023**	488,015
Other reserves	25	**4,253,108**	4,223,911
Accumulated losses		**(475,551)**	(583,183)
		4,265,580	4,128,743
Non-controlling interests		**214,797**	190,168
Total equity		**4,480,377**	4,318,911
LIABILITIES			
Non-current liabilities			
Deferred income	30	**54,464**	49,086
Borrowings	27	**2,091,779**	575,000
Lease liabilities	17	**94,299**	–
Total non-current liabilities		**2,240,542**	624,086

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2019
(All amounts in RMB unless otherwise stated)

		As at 31 December	
		2019	2018
	Note	**RMB'000**	RMB'000
Current liabilities			
Contract liabilities	5	**163,799**	241,082
Deferred income	30	**10,497**	45,450
Trade and other payables	26	**2,826,518**	2,340,886
Current income tax liabilities		**46,297**	56,041
Borrowings	27	**1,917,590**	2,545,450
Lease liabilities	17	**16,673**	–
Provisions for other liabilities and charges	29	**52,035**	145,191
Total current liabilities		**5,033,409**	5,374,100
Total liabilities		**7,273,951**	5,998,186
Total equity and liabilities		**11,754,328**	10,317,097

The notes on pages 105 to 237 form an integral part of these consolidated financial statements.

The consolidated financial statements on pages 95 to 237 were approved by the Board of Directors on 30 March 2020 and were signed on its behalf.

Jin Liliang	**Zhang Mi**
Director	*Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019
(All amounts in RMB unless otherwise stated)

		Attributable to owners of the Company											
	Note	Share capital RMB'000 (Note 23)	Share premium RMB'000 (Note 25)	Other reserve RMB'000 (Note 25)	Capital reserve RMB'000 (Note 25)	Surplus reserve RMB'000 (Note 25)	Exchange reserve RMB'000 (Note 25)	Fair value reserve RMB'000 (Note 25)	Shares held for share award scheme RMB'000 (Note 24)	Accumulated losses RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total Equity RMB'000
Balance at 1 January 2018		487,983	3,596,927	50,525	534,251	429,697	(307,597)	1,423	(124,618)	(657,876)	4,010,715	166,935	4,177,650
Profit for the year		–	–	–	–	–	–	–	–	82,287	82,287	14,335	96,622
Other comprehensive income		–	–	–	–	–	24,342	(538)	–	–	23,804	822	24,626
Total comprehensive income		–	–	–	-	–	24,342	(538)	–	82,287	106,091	15,157	121,248
Transactions with owners													
Equity-settled share-based transactions		–	–	–	1,726	–	–	–	–	–	1,726	–	1,726
Disposal of subsidiaries		–	–	–	–	–	–	–	–	–	–	8,076	8,076
Contribution from shareholders		–	–	10,063	–	–	–	–	–	–	10,063	–	10,063
Shares issued under share option scheme		32	169	–	(53)	–	–	-	–	–	148	–	148
Options lapsed under share option schemes		–	–	–	(364)	–	–	–	–	364	–	–	-
Appropriation to surplus reserve		–	–	–	–	7,958	–	–	–	(7,958)	–	–	-
Total transactions with owners, recognised directly in equity		32	169	10,063	1,309	7,958	–	–	–	(7,594)	11,937	8,076	20,013
Balance at 31 December 2018		488,015	3,597,096	60,588	535,560	437,655	(283,255)	885	(124,618)	(583,183)	4,128,743	190,168	4,318,911

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019
(All amounts in RMB unless otherwise stated)

		Attributable to owners of the Company											
	Note	Share capital RMB'000 (Note 23)	Share premium RMB'000 (Note 25)	Other reserve RMB'000 (Note 25)	Capital reserve RMB'000 (Note 25)	Surplus reserve RMB'000 (Note 25)	Exchange reserve RMB'000 (Note 25)	Fair value reserve RMB'000 (Note 25)	Shares held for share award scheme RMB'000 (Note 24)	Accumulated losses RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total Equity RMB'000
Balance at 1 January 2019		488,015	3,597,096	60,588	535,560	437,655	(283,255)	885	(124,618)	(583,183)	4,128,743	190,168	4,318,911
Profit for the year		-	-	-	-	-	-	-	-	107,472	107,472	25,017	132,489
Other comprehensive income		-	-	-	-	-	19,478	9,014	-	-	28,492	(388)	28,104
Total comprehensive income		-	-	-	-	-	19,478	9,014	-	107,472	135,964	24,629	160,593
Transactions with owners													
Equity-settled share-based transactions		-	-	-	839	-	-	-	-	-	839	-	839
Shares issued under share option scheme		8	83	-	(57)	-	-	-	-	-	34	-	34
Options lapsed under share option schemes		-	-	-	(15,918)	-	-	-	-	15,918	-	-	-
Appropriation to surplus reserve		-	-	-	-	15,758	-	-	-	(15,758)	-	-	-
Total transactions with owners, recognised directly in equity		8	83	-	(15,136)	15,758	-	-	-	160	873	-	873
Balance at 31 December 2019		488,023	3,597,179	60,588	520,424	453,413	(263,777)	9,899	(124,618)	(475,551)	4,265,580	214,797	4,480,377

THE CONSOLIDATED FINANCIAL STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019
(All amounts in RMB unless otherwise stated)

		Year ended 31 December	
	Note	**2019** **RMB'000**	2018 RMB'000
Cash flows from operating activities			
Cash generated from operations	32	**183,588**	524,885
Income tax paid		**(80,580)**	(61,939)
Net cash generated from operating activities		**103,008**	462,946
Cash flows from investing activities			
Payment for additions of property, plant and equipment and construction in progress		**(353,113)**	(352,896)
Proceeds from financing lease as lessor		**11,723**	–
Proceeds from disposal of property, plant and equipment	32	**77,058**	37,867
Net loans granted to related companies		**–**	(4,910)
Proceeds from government grants related to assets		**3,519**	32,340
Net cash outflow on disposal of subsidiaries	32	**–**	(97,197)
Receipts of loans to related parties		**79,842**	–
Dividends received		**626**	–
Receipt of debt investments		**4,350**	–
Payment for debt investments		**(128,632)**	–
Proceeds from sales of investment accounted for using the equity method		**17,169**	–
Interest received		**1,462**	5,443
Expenditure on development project and other intangible assets		**(30,973)**	(52,010)
Net cash used in investing activities		**(316,969)**	(431,363)

THE CONSOLIDATED FINANCIAL STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019
(All amounts in RMB unless otherwise stated)

	Note	Year ended 31 December 2019 RMB'000	 2018 RMB'000
Cash flows from financing activities			
Proceeds from bond issued		**1,372,136**	–
Proceeds from borrowings		**2,234,728**	1,553,589
Repayments of borrowings		**(3,250,993)**	(1,948,514)
Interest and charges paid		**(204,176)**	(207,310)
Net loans from related companies		**472,673**	120,000
Payment for financing guarantee		**(200,000)**	–
Payments of lease liabilities		**(11,509)**	–
Proceeds from share issued under share option scheme		**–**	148
Net cash generated from/(used in) generated financing activities		**412,859**	(482,087)
Net increase/(decrease) in cash and cash equivalents		**198,898**	(450,504)
Cash and cash equivalents at the beginning of year		**685,500**	1,124,806
Exchange gains on cash and cash equivalents		**5,404**	11,198
Cash and cash equivalents at end of the year		**889,802**	685,500

The notes on pages 105 to 237 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 of drilling rigs, oil and 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 address of its registered office is Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman, KY1-1108, Cayman Islands.

The Company was listed on the Main Board of the Stock Exchange of Hong Kong Limited on 7 March 2008.

These financial statements are presented in Chinese Renminbi ("RMB"), unless otherwise stated, and were approved for issue by the Board of Directors of the Company on 30 March 2020.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRS") and requirements of the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared under the historical cost convention, except that financial assets at fair value through other comprehensive income are carried at fair value, and certain financial assets and liabilities are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. 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 New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2019:

- IFRS 16 Leases
- Prepayment Features with Negative Compensation – Amendments to IFRS 9
- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28
- Annual Improvements to IFRS Standards 2015–2017 Cycle
- Plan Amendment, Curtailment or Settlement – Amendments to IAS 19
- Interpretation 23 Uncertainty over Income Tax Treatments.

The Group has applied IFRS 16 Leases for the first time for their annual reporting period commencing 1 January 2019. The Group had to change its accounting policies as a result of adopting IFRS 16. There is no retrospective adjustment recognised in prior periods. The impact of adopting IFRS 16 is disclosed in Note 2.2. Most of the other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

2.1.2 New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.2 New standards and interpretations not yet adopted (Continued)

Standards, Amendments or Interpretations	Subject	Effective for annual accounting periods beginning on or after
Amendments to IAS 1 and IAS 8	Definition of Material	1 January 2020
Amendments to IFRS 3	Definition of a Business	1 January 2020
IAS 39, IFRS 7 and IFRS 9 (Amendments)	Hedge Accounting	1 January 2020
Conceptual Framework	Revised Conceptual Framework for Financial Reporting	1 January 2020
IFRS 17	Insurance Contracts	1 January 2021

2.2 Changes in accounting policy and disclosures

This note explains the impact of the adoption of IFRS 16 Lease on the Group's financial statements.

As indicated in Note 2.1 above, the Group has adopted IFRS 16 Leases from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The new accounting policies are disclosed in Note 2.30.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.4%.

For leases previously classified as finance leases the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application. After the date of initial application, measurements of IFRS 16 can be applied by the entity. The remeasurements to the lease liabilities were recognised as adjustments to the related right-of-use assets immediately after the date of initial application.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting policy and disclosures (Continued)

(a) Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

(b) Measurement of lease liabilities

	RMB' 000
Operating lease commitments disclosed as at 31 December 2018	13,489
Discounted using the lessee's incremental borrowing rate of at the date of initial application	13,256
Add: finance lease liabilities recognised as at 31 December 2018	2,878
Less: short-term leases recognised on a straight-line basis as expense	(5,350)
Less: low-value leases recognised on a straight-line basis as expense	(51)
Lease liability recognised as at 1 January 2019	10,733
Of which are:	
Current lease liabilities	7,285
Non-current lease liabilities	3,448
	10,733

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting policy and disclosures (Continued)

(c) Measurement of right-of-use assets

The associated right-of-use assets were measured as if the new rules had always been applied.

The prepaid lease payment for land used rights are reclassified to right-of-use assets as at 31 December 2019 and 1 January 2019, respectively.

The recognised right-of-use assets mainly relate to prepaid lease payment for land use rights and buildings and equipment.

(d) Adjustments recognised in the balance sheet on 1 January 2019

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- right-of-use assets – increase by RMB203,202,000
- deferred tax assets – increase by RMB33,000
- lease liabilities – increase by RMB10,733,000.
- lease prepayments – decrease by RMB192,242,000.

The net impact on retained earnings on 1 January 2019 was an increase of RMB260,000.

(e) Lessor accounting

The Group did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of IFRS 16.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Subsidiaries

2.3.1 Consolidation

A subsidiary is an entities (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 remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Subsidiaries (Continued)

2.3.1 Consolidation (Continued)

(a) Business combinations (Continued)

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.

(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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Subsidiaries (Continued)

2.3.2 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.

2.4 Associates

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Associates (Continued)

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.

2.5 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 ventures' 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.

2.6 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)

2.7 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 generally 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 the statement of profit or loss within 'finance income or expenses'. All other foreign exchange gains and losses are presented in the statement of 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)

2.7 Foreign currency translation (Continued)

(c) Group companies

The results and financial position of the group entities (none of which has the currency of a hyperinflationary 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 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 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 operation are treated as assets and liabilities of the foreign operation 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)

2.8 Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment losses. 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 on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

• Freehold land	No depreciation
• 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 2.11).

Gains and losses on disposals are determined by comparing proceeds with 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)

2.9 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.

2.10 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.

(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. Amortisation is calculated using the straight-line method over its estimated useful life of 10 years (Note 2.34).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 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 inflows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting date.

2.12 Non-current assets (or disposal groups) held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale when their carrying amount will be recovered principally through a sale transaction and a sale is considered highly probable. The non-current assets (except for certain assets as explained below), (or disposal groups), are stated at the lower of carrying amount and fair value less costs to sell. Deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries and associates) and investment properties, which are classified as held for sale, would continue to be measured in accordance with the policies set out elsewhere in Note 2.

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographic area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the statement of profit or loss.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 Financial assets

2.13.1 Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

2.13.2 Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

2.13.3 Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 Financial assets (Continued)

2.13.3 Measurement (Continued)

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 Financial assets (Continued)

2.13.3 Measurement (Continued)

Equity instruments (Continued)

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

2.13.4 Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 3.1(b) for further details.

2.14 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet where 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.

2.15 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.

2.16 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)

2.17 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 the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See Note 19 for further information about the Group's accounting for trade receivables and Note 3.1(b) for a description of the Group's impairment policies.

2.18 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.

2.19 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.

2.20 Trade and other payables

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

Trade 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)

2.21 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 amount 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 prepayment 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 2.15. 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.

2.22 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Borrowing costs (Continued)

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.

2.23 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 and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Current and deferred income tax (Continued)

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially 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 tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

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

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

(c) Offsetting

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.24 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% (2018: 20% to 22%) of the standard wages determined by the relevant authorities in the PRC for the year ended 31 December 2019. 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.

2.25 Share-based payments

(a) Equity-settled share-based payment transactions

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.25 Share-based payments (Continued)

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

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.

2.26 Provisions

Provisions for warranties 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 can be 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 the passage of time is recognised as interest expense.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.27 Revenue recognition

(a) Sale of goods

The Group manufactures and sells land drillings rigs, parts and components to the ultimate customers or dealers. Sales are recognised when control of the products has transferred, being when the customer has the ability to direct the use of and obtain substantially all of the remaining benefits from the products. The control of products is transferred when products have been shipped to the specified location, being when customer has accepted the products and collectability of the related parted receivables is reasonably assured.

The sales commission is the incremental cost of obtaining a contract and the Group expenses these costs as incurred where the expected amortisation period is one year or less.

For contracts that contain more than one performance obligations, typically sales of products, transportation as well as installation services in one contract, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

The Group's obligation to repair or replace faulty products under the standard warranty terms is recognised as a provision, see Note 29.

Instalment sales, under which the consideration is receivable in instalments. The certain contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year shall be considered any financing components. As a consequence, the Group adjusts the transaction prices for the time value of money.

As receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

(b) Sale of services

The Group provides service of drilling technology service. Revenue is recognised on the basis of outputs to the satisfaction of the performance obligation relative to the total expected outputs to the satisfaction of that performance obligation.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.28 Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares

by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(b) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and

- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

2.29 Dividend income

Dividends are received from financial assets measured at fair value through profit or loss (FVPL) and at fair value through other comprehensive income (FVOCI)). Dividends are recognised as other income in profit or loss when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits, unless the dividend clearly represents a recovery of part of the cost of an investment. In this case, the dividend is recognised in OCI if it relates to an investment measured at FVOCI. However, the investment may need to be tested for impairment as a consequence.

2.30 Leases

As explained in Note 2.2 above, the Group has changed its accounting policy for leases where the Group is the lessee. The new policy is described below and the impact of the change in Note 2.2.

Until 31 December 2018, leases in which a significant portion of the risks and rewards of ownership were not transferred to the Group as lessee were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.30 Leases (Continued)

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Group under residual value guarantees
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

After the commencement date, the variable lease payments are not included in the measurement of the lease liability initially, and are recognised in profit or loss in the period in which the event or condition that triggers those payments occurs.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the entities within the Group, which does not have recent third party financing, and
- makes adjustments specific to the lease, eg term, country, currency and security.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.30 Leases (Continued)

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term (Note 16). Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

In classifying a sublease, the intermediate lessor shall classify the sublease as a finance lease or an operating lease as follows:

- if the head lease is a short-term lease that the Group, as a lessee, has accounted this lease on a straight-line basis over the lease term as an expense in profit or loss, the sublease shall be classified as an operating lease.
- otherwise, the sublease shall be classified by reference to the right-of-use assets arising from the head lease, rather than by reference to the underlying asset.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.31 Dividend distribution

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

2.32 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 the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment 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.

2.33 Interest income

Interest income from financial assets at FVPL is included in the net fair value gains/(losses) on these assets.

Interest income on financial assets at amortised cost and financial assets at FVOCI calculated using the effective interest method is recognised in the statement of profit or loss as part of other income.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes, see Note 10 below. Any other interest income is included in other income.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.34 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.

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.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(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.

The following table details the Group's exposure at 31 December 2019 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 2019.

	Exposure to foreign currency		
	USD items (RMB'000)	**EUR items (RMB'000)**	**RMB items (RMB'000)**
At 31 December 2019			
Cash and cash equivalents	**221,406**	**417**	**35,603**
Trade and other receivables	**1,673,820**	**–**	**398**
Borrowings	**(752,718)**	**–**	**–**
Trade and other payables	**(312,202)**	**(1,578)**	**(516)**
Lease liabilities	**(110,972)**	**–**	**–**
Overall net exposure	**719,334**	**(1,161)**	**35,485**

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(i) Foreign exchange risk (Continued)

	Exposure to foreign currency		
	USD items (RMB'000)	EUR items (RMB'000)	RMB items (RMB'000)
At 31 December 2018			
Cash and cash equivalents	130,917	431	538
Trade and other receivables	1,374,704	265	–
Borrowings	(429,293)	–	–
Trade and other payables	(180,980)	–	(1,034)
Overall net exposure	895,348	696	(496)

As at 31 December 2019 and 2018, the Group did not have any forward exchange contracts to hedge its exposure to foreign exchange risk.

As at 31 December 2019, if RMB had weakened/strengthened by 5% (2018: 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 RMB30,572,000 higher/lower (2018: RMB36,987,000 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.

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 2019, 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 RMB3,808,000 (2018: RMB3,692,000).

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 2019 and 2018, the impact on the Group's profit after tax is estimated as annualised impact on interest expense of such a change in interest rates.

(b) Credit risk

Credit risk arises from cash and cash equivalents, contractual cash flows of debt instruments carried at amortised cost and at fair value through comprehensive income and deposits with banks, as well as credit exposures to customers, including outstanding receivables.

(i) Risk management

Credit risk is managed on a group basis. Management has a credit policy in place and the exposures to these credit risks are monitored on an on-going basis.

Risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the management. The compliance with credit limits by customers is regularly monitored by line management.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(i) Risk management (Continued)

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer and the industry in which the customers operate. Significant concentration of credit risk primarily arises when the Group has significant exposure to individual customers. As at 31 December 2019, 21% (2018: 13%) and 25% (2018: 34%) of the total trade 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 provides guarantees which expose the Group to credit risk (Note 36).

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 and cash equivalents at bank and pledged bank deposits were deposited at the state-owned commercial banks in the PRC.

(ii) Impairment of financial assets

The Group has the following types of financial assets that are subject to the expected credit loss model:

- trade receivables for sales of inventory and from the provision of services
- contract assets
- loan to an associate and other related party carried at amortised cost
- debt investments carried at amortised cost
- bank acceptance bill receivables carried at FVOCI
- finance lease receivables
- other financial assets at amortised cost
- pledged bank deposits, and
- cash and cash equivalents

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

While pledged bank deposits and cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

Trade receivables and contract assets

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

If the credit losses of a signal trade receivable can be assessed at a reasonable cost, the credit losses of those trade receivables are assessed separately. If not, to measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

The expected loss rates are based on the payment profiles of sales over a period of 24 months before 31 December 2019 or 1 January 2019 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the GDP and the unemployment rate of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

On that basis, the loss allowance as at 31 December 2019 and 31 December 2018 was determined as follows for both trade receivables and contract assets:

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

Trade receivables and contract assets (Continued)

i) As at 31 December 2019 and 31 December 2018, receivables with amounts subject to separate assessment for impairment are as below:

31 December 2019	**Current**	**1-30 days past due**	**More than 30 days past due**	**More than 60 days past due**	**More than 90 days past due**	**Total**
Expected loss rate	**–**	**–**	**–**	**–**	**35.14%**	**–**
Gross carrying amount– trade receivables (RMB'000)	**–**	**–**	**–**	**–**	**592,786**	**592,786**
Loss allowance (RMB'000)	**–**	**–**	**–**	**–**	**(208,313)**	**(208,313)**

31 December 2018	Current	1-30 days past due	More than 30 days past due	More than 60 days past due	More than 90 days past due	Total
Expected loss rate	–	–	–	–	48.15%	–
Gross carrying amount – trade receivables (RMB'000)	–	–	–	–	217,322	217,322
Loss allowance (RMB'000)	–	–	–	–	(104,650)	(104,650)

As the above debtors suffered in several lawsuits or operation difficulty, the Group cannot be able to collect the amount under the original terms, provisions for impairment on those receivables were made.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

Trade receivables and contract assets (Continued)

ii) As at 31 December 2019 and 31 December 2018, trade receivables and contract assets have been grouped on the basis of shared credit risk characteristics and the days past due for the measurement of expected credit losses:

- bank acceptance bill receivables group

  As at 31 December 2019, the total amount of bank acceptance bills was RMB500,000 (2018: RMB1,133,000), these bills will be accepted by large state-owned banks or national commercial banks. The Group believes that there is no significant credit losses due to the bank default.

- revenue of land drilling rigs group

31 December 2019	**Current**	**1-30 days past due**	**More than 30 days past due**	**More than 60 days past due**	**More than 90 days past due**	**Total**
Expected loss rate	**0.43%**	**1.15%**	**–**	**–**	**7.49%**	**–**
Gross carrying amount – trade receivables (RMB'000)	**1,507,630**	**139,921**	**–**	**–**	**25,622**	**1,673,173**
Loss allowance (RMB'000)	**(6,546)**	**(1,612)**	**–**	**–**	**(1,918)**	**(10,076)**

31 December 2018	Current	1-30 days past due	More than 30 days past due	More than 60 days past due	More than 90 days past due	Total
Expected loss rate	0.33%	–	–	–	0.90%	–
Gross carrying amount – trade receivables (RMB'000)	1,100,695	–	–	–	246,063	1,346,758
Loss allowance (RMB'000)	(3,619)	–	–	–	(2,215)	(5,834)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

Trade receivables and contract assets (Continued)

ii) As at 31 December 2019 and 31 December 2018, trade receivables and contract assets have been grouped on the basis of shared credit risk characteristics and the days past due for the measurement of expected credit losses: (Continued)

- revenue of fracture pumps group

31 December 2019	**Current**	**1-30 days past due**	**More than 30 days past due**	**More than 60 days past due**	**More than 90 days past due**	**Total**
Expected loss rate	**0.42%**	**–**	**–**	**–**	**–**	**–**
Gross carrying amount – trade receivables (RMB'000)	**173,564**	**–**	**–**	**–**	**–**	**173,564**
Loss allowance (RMB'000)	**(724)**	**–**	**–**	**–**	**–**	**(724)**

31 December 2018	Current	1-30 days past due	More than 30 days past due	More than 60 days past due	More than 90 days past due	Total
Expected loss rate	0.32%	–	–	–	–	–
Gross carrying amount – trade receivables (RMB'000)	345,082	–	–	–	–	345,082
Loss allowance (RMB'000)	(1,089)	–	–	–	–	(1,089)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

Trade receivables and contract assets (Continued)

ii) As at 31 December 2019 and 31 December 2018, trade receivables and contract assets have been grouped on the basis of shared credit risk characteristics and the days past due for the measurement of expected credit losses: (Continued)

- revenue of parts and components and others group

31 December 2019	**Current**	**1-30 days past due**	**More than 30 days past due**	**More than 60 days past due**	**More than 90 days past due**	**Total**
Expected loss rate	**2.22%**	**6.56%**	**9.15%**	**10.81%**	**11.54%**	**–**
Gross carrying amount – trade receivables (RMB'000)	**615,560**	**107,632**	**19,016**	**45,746**	**322,299**	**1,110,253**
Gross carrying amount – contract assets (RMB'000)	**31,806**	**–**	**–**	**–**	**–**	**31,806**
Loss allowance (RMB'000)	**(14,363)**	**(7,061)**	**(1,740)**	**(4,945)**	**(37,196)**	**(65,305)**

31 December 2018	Current	1-30 days past due	More than 30 days past due	More than 60 days past due	More than 90 days past due	Total
Expected loss rate	3.11%	6.32%	7.65%	10.81%	11.23%	–
Gross carrying amount – trade receivables (RMB'000)	487,984	26,264	26,816	45,827	244,437	831,328
Gross carrying amount – contract assets (RMB'000)	12,560	–	–	–	–	12,560
Loss allowance (RMB'000)	(15,564)	(1,660)	(2,051)	(4,953)	(27,457)	(51,685)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

Trade receivables and contract assets (Continued)

ii) As at 31 December 2019 and 31 December 2018, trade receivables and contract assets have been grouped on the basis of shared credit risk characteristics and the days past due for the measurement of expected credit losses: (Continued)

- revenue of oil and gas engineering services group

31 December 2019	**Current**	**1-30 days past due**	**More than 30 days past due**	**More than 60 days past due**	**More than 90 days past due**	**Total**
Expected loss rate	**0.42%**	**0.80%**	**0.93%**	**1.55%**	**6.53%**	**–**
Gross carrying amount – trade receivables (RMB'000)	**130,332**	**128,918**	**16,931**	**28,408**	**124,186**	**428,775**
Gross carrying amount – contract assets (RMB'000)	**189,153**	**–**	**–**	**–**	**–**	**189,153**
Loss allowance (RMB'000)	**(1,345)**	**(1,032)**	**(158)**	**(440)**	**(8,115)**	**(11,090)**

31 December 2018	Current	1-30 days past due	More than 30 days past due	More than 60 days past due	More than 90 days past due	Total
Expected loss rate	0.06%	–	–	–	6.95%	–
Gross carrying amount – trade receivables (RMB'000)	205,923	–	–	–	63,345	269,268
Gross carrying amount – contract assets (RMB'000)	10,942	–	–	–	19,385	30,327
Loss allowance (RMB'000)	(129)	–	–	–	(5,749)	(5,878)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

Trade receivables and contract assets (Continued)

ii) As at 31 December 2019 and 31 December 2018, trade receivables and contract assets have been grouped on the basis of shared credit risk characteristics and the days past due for the measurement of expected credit losses: (Continued)

- revenue of oil and gas engineering services group (Continued)

The loss allowances for trade receivables and contract assets as at 31 December 2019 reconcile to the opening loss allowances as follows:

	Contract assets		**Trade receivables**	
	2019 (RMB'000)	2018 (RMB'000)	**2019 (RMB'000)**	2018 (RMB'000)
Opening loss allowance at 1 January	**(129)**	–	**(169,007)**	(265,086)
Increase in loss allowance recognised in profit or loss during the year	**(893)**	(129)	**(124,139)**	(54,098)
Receivables written off during the year as uncollectible	**-**	–	**4**	18
Disposal of subsidiaries	**-**	–	**-**	151,304
Exchange rate changes	**-**	–	**(1,344)**	(1,145)
	(1,022)	(129)	**(294,486)**	(169,007)

Trade receivables and contract assets are written off where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments.

Impairment losses on trade receivables and contract assets are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

Loan to an associate and other related party and debt investments

Loan to an associate and other related party is considered credit-impairment on origination and no loss allowance is recognised on initial recognition. For such assets, impairment is determined based on full lifetime expected credit loss on initial recognition. However, lifetime expected credit losses are included in the estimated cash flows when calculating the effective interest rate on initial recognition. The effective interest rate for interest recognition throughout the life of the asset is a credit-adjusted effective interest rate.

For measuring expected credit losses, the estimate of expected cash shortfalls reflects the cash flows expected from collateral and other credit enhancements that are part of the contractual terms and are not recognised separately by the entity.

As at 31 December 2019 and 31 December 2018, loan to an associate and other related party subject to separate assessment for impairment is as below:

31 December 2019	**Current**	**1-30 days past due**	**More than 30 days past due**	**More than 60 days past due**	**More than 90 days past due**	**Total**
Expected loss rate	**3.14%**	**–**	**–**	**–**	**–**	**–**
Gross carrying amount-Loan to an associate and other related party (RMB'000)	**1,588,346**	**–**	**–**	**–**	**–**	**1,588,346**
Loss allowance (RMB'000)	**(49,887)**	**–**	**–**	**–**	**–**	**(49,887)**

31 December 2018	Current	1-30 days past due	More than 30 days past due	More than 60 days past due	More than 90 days past due	Total
Expected loss rate	0.00%	–	–	–	–	–
Gross carrying amount-Loan to an associate and other related party (RMB'000)	1,664,174	–	–	–	–	1,664,174
Loss allowance (RMB'000)	–	–	–	–	–	–

Debt investments at amortised cost are considered to have low credit risk, and the loss allowance recognised during the period was therefore limited to 12 months' expected losses.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

Financial assets at fair value through other comprehensive income

Bank acceptance bill receivables carried at FVOCI are considered to have low credit risk, and the loss allowance recognised during the period was therefore limited to 12 months expected losses. Management considers 'low credit risk' for the instruments as the issuers have strong capacity to meet its contractual cash flow obligations in the near term.

Finance lease receivables

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for finance lease receivables.

To measure the expected credit losses, finance lease receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of revenue over a period of 24 months before 31 December 2019 or 1 January 2019 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the GDP and the unemployment rate of the countries in which it rents its inventory out through financing lease to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

On that basis, the loss allowance as at 31 December 2019 and 31 December 2018 was determined as follows for finance lease receivables:

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

Finance lease receivables (Continued)

i) As at 31 December 2019 and 31 December 2018, finance lease receivables with amounts subject to separate assessment for impairment are as below:

31 December 2019	**Current**	**1-30 days past due**	**More than 30 days past due**	**More than 60 days past due**	**More than 90 days past due**	**Total**
Expected loss rate	**–**	**–**	**–**	**–**	**55.87%**	**–**
Gross carrying amount – finance lease receivables (RMB'000)	**–**	**–**	**–**	**–**	**137,289**	**137,289**
Loss allowance (RMB'000)	**–**	**–**	**–**	**–**	**(76,705)**	**(76,705)**

31 December 2018	Current	1-30 days past due	More than 30 days past due	More than 60 days past due	More than 90 days past due	Total
Expected loss rate	–	–	–	–	46.54%	–
Gross carrying amount – finance lease receivables (RMB'000)	–	–	–	–	140,633	140,633
Loss allowance (RMB'000)	–	–	–	–	(65,449)	(65,449)

As the above debtors suffered in several lawsuits or operation difficulty, the Group cannot be able to collect the amount under the original terms, provisions for impairment on those receivables were made.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

Finance lease receivables (Continued)

ii) As at 31 December 2019 and 31 December 2018, finance lease receivables have been grouped on the basis of shared credit risk characteristics and the days past due for the measurement of expected credit losses:

Finance lease receivables within due date group

31 December 2019	**Current**	**1-30 days past due**	**More than 30 days past due**	**More than 60 days past due**	**More than 90 days past due**	**Total**
Expected loss rate	**0.30%**	**–**	**–**	**–**	**–**	**–**
Gross carrying amount – finance lease receivables (RMB'000)	**178,082**	**–**	**–**	**–**	**–**	**178,082**
Loss allowance (RMB'000)	**(534)**	**–**	**–**	**–**	**–**	**(534)**

31 December 2018	Current	1-30 days past due	More than 30 days past due	More than 60 days past due	More than 90 days past due	Total
Expected loss rate	0.30%	–	–	–	–	–
Gross carrying amount – finance lease receivables (RMB'000)	114,199	–	–	–	–	114,199
Loss allowance (RMB'000)	(367)	–	–	–	–	(367)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

Other financial assets at amortised cost

Other financial assets at amortised cost include other receivables. The closing loss allowances for other financial assets as at 31 December 2019 reconcile to the opening loss allowances as follows:

	Other receivables RMB'000
Opening loss allowance as at 1 January 2019	**(117,302)**
Increase in the allowance recognised in profit or loss during the year	**(4,672)**
Written off during the year as uncollectible	**78**
Exchange rate changes	**(949)**
Closing loss allowance as at 31 December 2019	**(122,845)**

Net impairment losses on financial and contract assets recognised in profit or loss

During the year, the following losses were recognised in profit or loss in relation to impaired financial assets:

	2019 RMB'000	2018 RMB'000
Impairment losses		
Impairment losses on trade receivables and contract assets	**(125,032)**	(54,227)
Impairment losses on finance lease receivables	**(11,423)**	(17,525)
Impairment losses on other financial assets at amortised cost	**(4,672)**	(22,077)
Impairment losses on loan to an associate and other related party	**(49,862)**	–
Net impairment losses on financial and contract assets	**(190,989)**	(93,829)

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.

	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 2019					
Trade and other payables *(i)*	**2,826,117**	**–**	**–**	**–**	**2,826,117**
Senior notes	**88,947**	**88,947**	**1,484,187**	**–**	**1,662,081**
Borrowings (excluding senior notes)	**2,005,442**	**449,297**	**238,313**	**50,600**	**2,743,652**
Lease liabilities	**24,275**	**24,275**	**70,313**	**–**	**118,863**
Total financial liabilities	**4,944,781**	**562,519**	**1,792,813**	**50,600**	**7,350,713**
At 31 December 2018					
Trade and other payables *(i)*	2,340,314	–	–	–	2,340,314
Senior notes	869,831	–	–	–	869,831
Borrowings (excluding senior notes)	1,766,926	504,180	47,940	51,297	2,370,343
Total financial liabilities	4,977,071	504,180	47,940	51,297	5,580,488

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

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Capital management

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

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

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

For the year ended 31 December 2019, the Group's strategy, which was unchanged from 2018, 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 2019 and 2018 were as follows:

	As at 31 December	
	2019 **RMB'000**	2018 RMB'000
Total borrowings (Note 27)	**4,009,369**	3,120,450
Less: cash and cash equivalents (Note 22)	**(889,802)**	(685,500)
Net debt	**3,119,567**	2,434,950
Total equity	**4,480,377**	4,318,911
Total capital	**7,599,944**	6,753,861
Gearing ratio	**41%**	36%

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation

(a) Fair value hierarchy

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

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.

The following table presents the Group's financial assets that are measured at fair value at 31 December 2019.

	Level 1 **RMB'000**	**Level 2** **RMB'000**	**Level 3** **RMB'000**	**Total** **RMB'000**
Assets				
Financial asset at fair value through other comprehensive income				
—Investment in unlisted companies	**–**	**–**	**104,263**	**104,263**
—Bank acceptance bill receivables	**–**	**–**	**78,273**	**78,273**
Total assets	**–**	**–**	**182,536**	**182,536**

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (Continued)

(a) Fair value hierarchy (Continued)

The following table presents the Group's financial assets that are measured at fair value at 31 December 2018.

	Level 1 RMB'000	**Level 2** RMB'000	**Level 3** RMB'000	**Total** RMB'000
Assets				
Financial asset at fair value through other comprehensive income				
—Investment in unlisted companies	–	–	89,475	89,475
—Bank acceptance bill receivables	–	–	78,462	78,462
Total assets	–	–	167,937	167,937

There were no transfers among levels 1, 2 and 3 during 2019 and 2018. There were no other changes in valuation techniques during 2019 and 2018.

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

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.

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.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (Continued)

(b) Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

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

(c) Fair value measurements using significant unobservable inputs (level 3)

	Investments in unlisted companies RMB'000	**Bank acceptance bill receivables RMB'000**	**Total RMB'000**
Opening balance 1 January 2018	90,192	30,839	121,031
Acquisitions	–	635,435	635,435
Disposals	–	(587,812)	(587,812)
Changes in fair value	(717)	–	(717)
Closing balance 31 December 2018	**89,475**	**78,462**	**167,937**
Acquisitions	**3,982**	**656,031**	**660,013**
Disposals	**–**	**(656,220)**	**(656,220)**
Changes in fair value	**10,806**	**–**	**10,806**
Closing balance 31 December 2019	**104,263**	**78,273**	**182,536**

There is no unrealised gains or losses recognised in profit or loss attributable to balances held at the end of the reporting period.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (Continued)

(c) Fair value measurements using significant unobservable inputs (level 3) (Continued)

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 27.

(d) Valuation inputs and relationships to fair value

The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurements. See (b) above for the valuation techniques adopted.

	Fair value at			Details of unobservable inputs		Relationship of unobservable inputs to fair value
Description	**31 December 2019 RMB'000**	31 December 2018 RMB'000	**Unobservable inputs**	**2019**	2018	
Unlisted companies -current	**17,134**	15,422	Discount rate	**21%**	21%	negative
Unlisted companies -non-current	**87,129**	74,053	Discount rate	**33.18%**	11%	negative
Bank acceptance bill receivables	**78,273**	78,462	Discount rate	**3.42%-8.30%**	3.85%-6.76%	negative

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) Measurement of expected credit loss

The Group calculates expected credit losses according to the default risk exposure and expected credit loss rate, and determines the expected credit loss rate based on default probability and default loss rate. In determining the expected credit loss rate, the Group uses data such as internal historical credit loss experience, etc., and adjusts historical data based on current conditions and forward-looking information. When considering forward-looking information, the indicators used by the Group include the risk of economic downturn, the expected increase in unemployment rate, the external market environment, the technological environment and changes in customer conditions. The Group regularly monitors and reviews assumptions related to the calculation of expected credit losses. In 2019, there was no significant change in the above estimation techniques and key assumptions.

(b) 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.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

4.1 Critical accounting estimates and assumptions (Continued)

(c) 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.

(d) Income taxes

The Group is subject to various taxes in the places which the Group has operations. Significant judgement 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.

The Group disposed its equity interests in the major entities of offshore drilling rigs segment in 2018, and the results of those major entities of this segment have been presented as discontinued operations (Note 35).

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, net and other (expense)/income. Finance income and expenses are not allocated to segments, as this type of activity is driven by the central treasury function, which manages the cash position of the Group. Other information provided, except as noted below, to the senior executive management is measured in a manner consistent with that in the consolidated financial statements.

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

5 SEGMENT INFORMATION (CONTINUED)

The following table presents revenue and profit information regarding the Group's operating segments for the years ended 31 December 2019 and 2018 respectively. The segment information below includes the discontinued operations as disclosed in Note 35. The Group derives revenue from the transfer of good and services over time and at a point in the following operating segments.

	Land drilling rigs		**Parts and components and others**		**Oil and gas engineering services**		**Offshore drilling rigs**		**Total**	
	Year ended 31 December		**Year ended 31 December**		**Year ended 31 December**		**Year ended 31 December**		**Year ended 31 December**	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Segment revenue	**1,487,664**	2,326,526	**2,785,909**	1,691,014	**604,811**	319,265	**-**	16,544	**4,878,384**	4,353,349
Inter-segment revenue	**(218,308)**	–	**(234,390)**	(131,643)	**-**	–	**-**	(11,545)	**(452,698)**	(143,188)
Revenue from external customers	**1,269,356**	2,326,526	**2,551,519**	1,559,371	**604,811**	319,265	**-**	4,999	**4,425,686**	4,210,161
Timing of revenue recognition										
At a point in time	**1,487,664**	2,326,526	**2,785,909**	1,691,014	**-**	–	**-**	16,544	**4,273,573**	4,034,084
Over time	**-**	–		–	**604,811**	319,265	**-**	–	**604,811**	319,265
Reportable segment profit/(loss)	**115,875**	228,870	**347,159**	197,533	**7,574**	11,310	**-**	(46,225)	**470,608**	391,488
Depreciation and amortisation for the year (i)	**56,628**	58,768	**111,590**	87,303	**36,839**	40,027	**-**	53,212	**205,057**	239,310
Impairment on trade and other receivables	**35,545**	20,877	**89,294**	73,913	**4,865**	3,631	**-**	(10,073)	**129,704**	88,348
Write-down of inventories	**3,611**	24,888	**62,591**	21,091	**5,175**	9,088	**-**	4,795	**71,377**	59,862
Impairment provision of property, plant and equipment	**-**	576	**-**	315	**7,852**	–	**-**	–	**7,852**	891

(i) The amount includes depreciation and amortisation of property, plant and equipment, intangible assets, right-of-use assets and other non-current assets.

Given the manufacturing processes of the Group's business are in a form of vertical integration, the Group's chief operating decision maker considered segment assets and liabilities information was not relevant in assessing performance of and allocating resources to the operations segments. During the year ended 31 December 2019, 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 profit to profit before income tax is provided as follows:

	Year ended 31 December	
	2019 **RMB'000**	2018 RMB'000
Segment profit		
– for reportable segments	**470,608**	391,488
Elimination of inter-segment (profit)/loss	**(87,622)**	13,587
Segment profit derived from the Group's external customers	**382,986**	405,075
Share of loss of joint ventures	**(3,223)**	(28,169)
Share of loss of associates	**–**	(4,275)
Other income and other gains, net	**114,305**	159,715
Finance income	**23,035**	6,641
Finance expenses	**(231,938)**	(174,040)
Unallocated head office and corporate expenses	**(118,900)**	(245,251)
Profit before income tax	**166,265**	119,696

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

	Year ended 31 December	
	2019 **RMB'000**	2018 RMB'000
PRC (country of domicile)	**2,243,222**	1,101,255
Americas	**313,249**	304,220
Middle East	**900,364**	1,358,710
Europe and Central Asia	**884,494**	1,121,046
South Asia and South East	**25,434**	283,848
Africa	**58,923**	41,082
	4,425,686	4,210,161

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	
	2019 **RMB'000**	2018 RMB'000
PRC (country of domicile)	**1,670,303**	1,501,686
Americas	**2,711**	174,377
Middle East	**342,140**	171,398
Europe and Central Asia	**62,137**	62,398
Africa	**31,259**	35,135
	2,108,550	1,944,994

For the year ended 31 December 2019, revenue of approximately RMB597,654,000 was derived from an external customer. The revenue was attributed to the sales of land drilling rigs in Europe and Central Asia.

For the year ended 31 December 2018, revenues of approximately RMB940,703,000, RMB863,879,000 and RMB517,241,000 were derived from three external customers respectively. These revenues were attributed to the sales of land drilling rigs in Middle East, the sales of land drilling rigs in Europe and Central Asia and the sales of parts and components in PRC (country of domicile), respectively.

Assets and liabilities related to contracts with customers

(a) ***The Group has recognised the following assets and liabilities related to contracts with customers:***

	Year ended 31 December	
	2019 **RMB'000**	2018 RMB'000
Current contract assets	**220,959**	42,887
Less: loss allowance	**(1,022)**	(129)
Total contract assets	**219,937**	42,758
Current contract liabilities	**163,799**	241,082

(i) Contract assets and contract liabilities recognised in relation to oil and gas engineering service and sale of goods.

(ii) Contract assets have increased as the Group has provided more services ahead of the agreed payment schedules for fixed-price contracts. The Group also recognised a loss allowance for contract assets in accordance with IFRS 9, see Note 3.1(b) for further information.

Contract liabilities for sales of goods have decreased by RMB77,283,000 as the Group was due to the negotiation of less prepayments from customers.

5 SEGMENT INFORMATION (CONTINUED)

Assets and liabilities related to contracts with customers (Continued)

(b) Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in current reporting period relates to carried-forward contract liabilities:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Revenue recognised that was included in the contract liability balance at the beginning of the year		
Sales of goods	**239,848**	–
Service	**1,234**	–

(c) Unsatisfied performance

As at 31 December 2019, the aggregate amounts of the transaction price allocated to contracts that are partially or fully unsatisfied are RMB1,476,446,000.

Management expects that 77% of the transaction price allocated to unsatisfied performance obligations as at 31 December 2019 will be recognised as revenue during the next reporting period (RMB1,137,970,000). The remaining will be recognised in the 2021 financial year and afterwards.

6 OTHER (EXPENSE)/INCOME

	Year ended 31 December	
	2019 **RMB'000**	2018 RMB'000
Government grants	**43,100**	23,799
Services (expense)/income	**(51,822)**	16,540
Rental (expense)/income	**(39,629)**	43,291
Sales of scrap materials	**35,772**	6,173
Others	**625**	875
	(11,954)	90,678

7 OTHER GAINS, NET

	Year ended 31 December	
	2019 **RMB'000**	2018 RMB'000
Insurance compensation	**3,618**	41,930
Net foreign exchange gains	**40,588**	–
Gains on disposals of property, plant and equipment	**35,428**	1,505
Net gains/(losses) on disposals and dissolution of subsidiaries and a joint venture	**17,169**	(7,355)
Other penalty gains	**19,305**	–
Others	**10,151**	6,925
	126,259	43,005

8 EXPENSES BY NATURE

	Year ended 31 December	
	2019 **RMB'000**	2018 RMB'000
Raw materials and consumables used	**1,952,218**	2,308,923
Employee benefit expenses	**572,679**	433,648
Service fee	**371,306**	221,281
Amortisation and depreciation		
— Property, plant and equipment	**163,874**	149,661
— Intangible assets	**13,568**	31,882
— Lease prepayment	**–**	4,604
— Right-of-use-assets	**4,960**	–
Transportation	**105,519**	157,664
Changes in inventories of finished goods and work in progress	**328,444**	95,229
Provision for inventory write-down	**71,377**	87,693
Research and development costs (i)	**93,348**	133,031
Less: amount capitalised into intangible assets	**(38,135)**	(51,388)
Utilities	**45,989**	77,095
Operating lease charges	**10,833**	69,396
Travelling expenses	**57,843**	48,654
Provision of prepayments	**8,666**	27,169
Repairs and maintenance expenditure on property, plant and equipment	**18,122**	17,456
Business and other taxes	**40,653**	17,124
Provision for warranty	**25,357**	10,263
Commission	**60,634**	5,542
Auditors' remuneration		
— Audit services	**4,707**	5,110
— Other services	**550**	80
Impairment provision of property, plant and equipment	**7,852**	891
Other expenses	**50,247**	54,577
Total cost of sales, distribution costs and administrative expenses	**3,970,611**	3,905,585

(i) The amount does not include staff costs of the research and development department of approximately RMB86,396,000 (2018: RMB32,984,000) and relevant amortisation and depreciation of approximately RMB21,334,000 (2018: RMB33,736,000), which are included in the total staff costs as disclosed in Note 9 and total amortisation and depreciation in Note 16 and Note 18 respectively.

9 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2019 **RMB'000**	2018 RMB'000
Contributions to defined contribution retirement schemes	**41,653**	35,281
Equity-settled share-based payment expenses (Note 24)	**839**	1,726
Salaries, wages and other benefits	**530,187**	396,641
	572,679	433,648

(a) Five highest paid individuals

The five individuals whose emoluments were highest in the Group for the year ended 31 December 2019 included one (2018: two) directors. Their emoluments are reflected in the analysis disclosed as Note 38. The emoluments payable to the remaining four (2018: three) individuals for the years ended 31 December 2019 and 2018 are as follows:

	Year ended 31 December	
	2019 **RMB'000**	2018 RMB'000
Basic salaries, allowances and other benefits in kind	**9,581**	1,410
Discretionary bonuses	**2,656**	2,104
Contributions to defined contribution retirement schemes	**300**	125
Share-based payments	**–**	–
	12,537	3,639

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

	Number of individuals Year ended 31 December	
	2019	2018
HKD1,000,001 to HKD5,000,000	**4**	3

10 FINANCE EXPENSES – NET

	Year ended 31 December	
	2019 **RMB'000**	2018 RMB'000
Finance expenses		
Interest on borrowings wholly repayable within five years	**225,707**	161,785
Interest expense from lease liabilities	**6,893**	–
Net foreign exchange loss	**–**	7,394
Others	**–**	541
Less: interest expense capitalised into assets under construction (Note 16)	**(662)**	(715)
	231,938	169,005
Finance income		
Interest income on bank deposits	**(9,169)**	(5,100)
Interest income from non-current receivables	**(12,323)**	(500)
Net foreign exchange gains	**(1,543)**	–
	(23,035)	(5,600)
	208,903	163,405

11 SUBSIDIARIES

The following is a list of the principal subsidiaries as at 31 December 2019:

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")((a) and (c))	The PRC	Registered capital RMB2,200,000,000	–	100%	Manufacturing of petroleum equipment
Sichuan Honghua Electric Co., Ltd. ("Honghua Electric") ((a) and (c))	The PRC	Registered capital RMB100,000,000	–	84%	Manufacturing of panel of drilling rigs
Honghua International Co., Ltd. ("Honghua International") ((a) and (c))	The PRC	Registered capital RMB51,200,000	–	90%	Trading of drilling rigs and related parts
Honghua (China) Investment Co., Ltd. ("Honghua China") ((a), (b) and (c))	The PRC	Registered capital USD320,000,000	–	100%	Investment holding
Honghua Oil & Gas Engineering Technology Services Limited ("Sichuan Oil & Gas Services") ((a) and (c))	The PRC	Registered capital RMB732,600,000	–	100%	Oil and gas drilling service
Gansu Hongteng Oil & Gas Equipment Co., Ltd. ("Gansu Hongteng") ((a) and (c))	The PRC	Registered capital RMB120,000,000	–	70%	Manufacturing of related parts of drilling rigs
Honghua Oil & Gas Engineering Services Limited ("Hongkong Oil & Gas Services")	Hong Kong	Registered capital USD41,080,000	–	100%	Oil and gas drilling service
Newco (H.K.) Limited	Hong Kong	1,000 ordinary shares	–	100%	Trading of drilling rigs and related parts
Honghua America, LLC	United States of America	Registered capital USD3,414,407	–	100%	Trading of drilling rigs and related parts
Russia Touhey Motor Drilling Service Limited ("TNG")	Russia Federation	Registered capital RUB489,297,344	–	51%	Oil and gas drilling service
Han Zheng Testing Technology Co., Ltd. ("Han Zheng Testing")	The PRC	Registered capital RMB11,103,380		100%	Testing service

11 SUBSIDIARIES (CONTINUED)

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

(b) The entity is a wholly-owned foreign invested enterprise established in the PRC.

(c) 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 as at 31 December 2019 was approximately RMB214,797,000 (2018: RMB190,168,000), of which approximately RMB161,437,000 (2018: RMB135,571,000) is attributed to Honghua Electric, approximately RMB31,798,000 (2018: RMB30,445,000) is attributed to Honghua International, approximately RMB10,626,000 (2018: RMB9,927,000) is attributed to Gansu Hongteng, and approximately RMB(4,044,000) (2018: RMB(2,166,000)) is attributed to TNG. The non-controlling interests in respect of other subsidiaries are not material. The amounts disclosed for each subsidiary are before inter-company eliminations.

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. The amounts disclosed for each subsidiary are before inter-company eliminations.

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**	
	2019 RMB’000	2018 RMB’000	**2019 RMB’000**	2018 RMB’000	**2019 RMB’000**	2018 RMB’000	**2019 RMB’000**	2018 RMB’000
Current								
Assets	**2,062,954**	1,616,764	**1,222,537**	1,526,373	**44,890**	111,221	**74,943**	81,121
Liabilities	**(1,197,221)**	(904,212)	**(877,096)**	(1,190,212)	**(70,807)**	(144,577)	**(144,433)**	(147,320)
Total current net assets/ (liabilities)	**865,733**	712,552	**345,441**	336,161	**(25,917)**	(33,356)	**(69,490)**	(66,199)
Non-current								
Assets	**273,967**	268,071	**24,711**	19,795	**63,684**	68,794	**61,502**	61,992
Liabilities	**(18,415)**	(18,416)	**–**	–	**–**	-	**(264)**	(213)
Total non-current net assets	**255,552**	249,655	**24,711**	19,795	**63,684**	68,794	**61,238**	61,779
Net assets	**1,121,285**	962,207	**370,152**	355,956	**37,767**	35,438	**(8,252)**	(4,420)

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		**Honghua International**		**Gansu Hongteng**		**TNG**	
	Year ended 31 December		**Year ended 31 December**		**Year ended 31 December**		**Year ended 31 December**	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
	RMB’000	RMB’000	**RMB’000**	RMB’000	**RMB’000**	RMB’000	**RMB’000**	RMB’000
Revenue	**1,623,503**	955,649	**529,964**	878,348	**103,391**	64,434	**–**	–
Profit/(loss) before income tax	**183,827**	142,999	**19,106**	16,325	**1,897**	36	**(9,818)**	(31,335)
Income tax (expense)/credit	**(24,749)**	(21,281)	**(4,910)**	(4,157)	**432**	(35)	**6,779**	(18)
Profit/(loss) for the year	**159,078**	121,718	**14,196**	12,168	**2,329**	1	**(3,039)**	(31,353)
Other comprehensive loss for the year	**–**	–		–		–	**(793)**	(1,678)
Total comprehensive income/(loss)	**159,078**	121,718	**14,196**	12,168	**2,329**	1	**(3,832)**	(33,031)
Total comprehensive income/(loss) allocated to non-controlling interests	**25,866**	19,791	**1,353**	1,160	**699**	–	**(1,878)**	(16,185)

11 SUBSIDIARIES (CONTINUED)

Summarised financial information on subsidiaries with material non-controlling interests (Continued)

Summarised cash flows

	Honghua Electric		**Honghua International**		**Gansu Hongteng**		**TNG**	
	Year ended 31 December		**Year ended 31 December**		**Year ended 31 December**		**Year ended 31 December**	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Cash flows from operating activities								
Cash (used in)/generated from operations	**(360,799)**	(83,916)	**(42,459)**	133,854	**72,585**	4,781	**2,382**	9,745
Interest paid	**–**	–	**–**	–	**–**	(3,384)	**–**	–
Income tax paid	**(37,215)**	(16,843)	**(9,022)**	(13,512)	**–**	(8)	**(130)**	(1,869)
Net cash (used in)/generated from operating activities	**(398,014)**	(100,759)	**(51,481)**	120,342	**72,585**	1,389	**2,252**	7,876
Net cash generated from/(used in) investing activities	**427,069**	311,218	**105,668**	(107,452)	**(119)**	(339)	**–**	(8,217)
Net cash generated from/(used in) financing activities	**23,855**	(218,415)	**(79,588)**	(130,000)	**(74,393)**	–	**–**	–
Net increase/(decrease) in cash and cash equivalents	**52,910**	(7,956)	**(25,401)**	(117,110)	**(1,927)**	1,050	**2,252**	(341)
Cash and cash equivalents at beginning of year	**30,091**	38,047	**97,305**	214,415	**2,946**	1,896	**–**	341
Cash and cash equivalents at end of year	**83,001**	30,091	**71,904**	97,305	**1,019**	2,946	**2,252**	–

12 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

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

	As at 31 December	
	2019 **RMB'000**	2018 RMB'000
Investment in associates and joint ventures	**31,259**	35,135

The amounts recognised in profit or loss are as follows:

	Year ended 31 December	
	2019 **RMB'000**	2018 RMB'000
Investment in associates and joint ventures	**(3,223)**	(32,444)

	Year ended 31 December	
	2019 **RMB'000**	2018 RMB'000
At 1 January	**35,135**	77,558
Share of loss	**(3,223)**	(32,444)
Decreases in ownership interest	**–**	(9,151)
Currency translation differences	**(653)**	(828)
At 31 December	**31,259**	35,135

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 2019, which are held directly by the Group.

Nature of investment in associates as at 31 December 2019 and 2018.

Name of company	Place of establishment	% of ownership interest	Nature of the relationship	Measurement method
Honghua Offshore Oil and Gas Equipment (Jiangsu) Co., Ltd. ("Honghua (Jiangsu)")	The PRC	49%	(i)	Equity
Shanghai Honghua Offshore Oil & Gas Equipment Co., Ltd. ("Honghua (Shanghai)")	The PRC	49%	(i)	Equity

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 (Jiangsu) and Honghua (Shanghai) are associates of the Group as at 31 December 2019, which, in the opinion of the directors, are material to the Group.

12 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

Investment in associates (Continued)

Honghua (Jiangsu)

Summarised balance sheet

	Year ended 31 December	
	2019 **RMB'000**	2018 RMB'000
Current assets		
Cash and cash equivalents	**21,785**	21,566
Other current assets	**749,310**	790,592
Total current assets	**771,095**	812,158
Non-current assets	**1,300,169**	1,343,418
Current liabilities		
Other current liabilities	**(727,831)**	(691,675)
Total current liabilities	**(727,831)**	(691,675)
Non-current liabilities		
Other Non-current liabilities	**(1,877,991)**	(1,877,991)
Total non-current liabilities	**(1,877,991)**	(1,877,991)
Net assets	**(534,557)**	(414,090)

12 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

Investment in associates (Continued)

Honghua (Jiangsu) (Continued)

Summarised statement of comprehensive income

	Year ended 31 December 2019 RMB'000
Revenue	**115,150**
Interest income	**45**
Depreciation and amortisation	**(55,634)**
Interest expense	**(88,572)**
Income tax expense	**–**
Loss from continuing operations	**(120,467)**
Loss for the period	**(120,467)**
Other comprehensive loss	**–**
Total comprehensive loss	**(120,467)**

Reconciliation of the summarised financial information

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

	Year ended 31 December 2019 RMB'000
Opening net assets 1 January	**(414,090)**
Loss for the year	**(120,467)**
Closing net assets	**(534,557)**
Interest in associate	**–**
Adjustment	**–**
Carrying value (i)	**–**

12 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

Investment in associates (Continued)

Honghua (Shanghai)

Summarised balance sheet

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Current assets		
Cash and cash equivalents	**5,024**	93,342
Other current assets	**17,501**	16,471
Total current assets	**22,525**	109,813
Non-current assets	**73,623**	26,508
Current liabilities		
Other current liabilities	**(233,440)**	(261,995)
Total current liabilities	**(233,440)**	(261,995)
Net assets	**(137,292)**	(125,675)

Summarised statement of comprehensive income

	Year ended 31 December
	2019
	RMB'000
Revenue	**996**
Interest income	**407**
Depreciation and amortisation	**(79)**
Interest expense	**(3,872)**
Income tax expense	**–**
Loss from continuing operations	**(11,617)**
Loss for the period	**(11,617)**
Other comprehensive loss	**–**
Total comprehensive loss	**(11,617)**

12 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

Investment in associates (Continued)

Honghua (Shanghai) (Continued)

Reconciliation of the summarised financial information

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

	Year ended 31 December 2019 RMB'000
Opening net assets 1 January	**(125,675)**
Loss for the year	**(11,617)**
Closing net assets	**(137,292)**
Interest in associate	**–**
Adjustment	**–**
Carrying value (i)	**–**

(i) Both Honghua (Jiangsu) and Honghua (Shanghai) became associates of the Group with zero net book value as at 31 December 2018 (Note 35). For the year ended 31 December 2019, both Honghua (Jiangsu) and Honghua (Shanghai) were still suffered from losses and thus the carrying amount of investments in Honghua (Jiangsu) and Honghua (Shanghai) were zero as at 31 December 2019.

12 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

Investment in joint ventures

Set out below are the joint ventures of the Group as at 31 December 2019, which are held directly by the Group.

Nature of investment in joint ventures as at 31 December 2019 and 2018

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 Financial Leasing (Shenzhen) Co., Ltd. (“Honghua (Shenzhen)”)	The PRC	2019:36% 2018:51%	(ii)	Equity

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

(ii) Honghua (Shenzhen) was incorporated in 2014 and mainly engages in providing leasing services. During the year ended 31 December 2019, the Group sold its 15% equity interests in Honghua (Shenzhen) for a cash consideration of RMB17,168,000 and incurred a gain of RMB17,168,000. The Group’s voting rights in the board of directors of Honghua (Shenzhen) is 50%, and Honghua (Shenzhen) is accounted as a joint venture.

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.

Honghua (Shenzhen) and HH Egyptian Company are joint ventures of the Group as at 31 December 2019, which, in the opinion of the directors, is material to the Group.

Set out below are the summarised financial information for Honghua (Shenzhen) and HH Egyptian Company which are accounted for using the equity method. The information disclosed reflects the amounts presented in the financial statements of the joint ventures and not the Group’s share of those amounts. They have been amended to reflect adjustments made by the entity when using the equity method, including fair value adjustments and modifications for differences in accounting policy.

12 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

Investment in joint ventures (Continued)

Honghua (Shenzhen)

Summarised balance sheet

	As at 31 December	
	2019 **RMB'000**	2018 RMB'000
Current assets		
Cash and cash equivalents	**50,688**	1,594
Other current assets	**121,162**	102,467
Total current assets	**171,850**	104,061
Non-current assets	**1,553,840**	1,001,718
Current liabilities		
Other current liabilities	**(469,005)**	(199,999)
Total current liabilities	**(469,005)**	(199,999)
Non-current liabilities		
Other non-current liabilities	**(1,212,086)**	(857,508)
Total non-current liabilities	**(1,212,086)**	(857,508)
Net assets	**44,599**	48,272

12 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

Investment in joint ventures (Continued)

Honghua (Shenzhen) (Continued)

Summarised statement of comprehensive income

	Year ended 31 December	
	2019 **RMB'000**	2018 RMB'000
Revenue	**327,580**	83,654
Interest income	**63**	43
Depreciation and amortisation	**(231,240)**	(52,422)
Interest expense	**(2,566)**	(526)
Income tax expense	**892**	2,852
Loss from continuing operations	**(3,674)**	(6,841)
Loss for the period	**(3,674)**	(6,841)
Other comprehensive loss	**–**	–
Total comprehensive loss	**(3,674)**	(6,841)

12 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

Investment in joint ventures (Continued)

Honghua (Shenzhen) (Continued)

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	
	2019 **RMB'000**	2018 RMB'000
Opening net assets 1 January	**48,273**	55,114
Loss for the year	**(3,674)**	(6,841)
Closing net assets	**44,599**	48,273
Interest in joint venture	**16,105**	24,672
Adjustment (i)	**(16,105)**	(24,672)
Carrying value	**–**	–

(i) For the year ended 31 December 2019, Honghua (Shenzhen) was still suffered from losses and thus the carrying amount of investments in Honghua (Shenzhen) was zero as at 31 December 2019.

12 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

Investment in joint ventures (Continued)

HH Egyptian Company

Summarised balance sheet

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Current assets		
Cash and cash equivalent	**3,462**	2,139
Other current assets	**21,800**	43,063
Total current assets	**25,262**	45,202
Non-current assets	**90,120**	88,908
Current liabilities		
Other current liabilities	**(52,864)**	(63,841)
Total current liabilities	**(52,864)**	(63,841)
Net assets	**62,518**	70,269

12 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

Investment in joint ventures (Continued)

HH Egyptian Company (Continued)

Summarised statement of comprehensive income

	Year ended 31 December	
	2019 **RMB'000**	2018 RMB'000
Revenue	**16,937**	6,276
Interest income	**–**	–
Depreciation and amortisation	**–**	–
Interest expense	**(144)**	(19)
Income tax expense	**–**	–
Loss from continuing operations	**(6,446)**	(8,550)
Loss for the period	**(6,446)**	(8,550)
Other comprehensive (loss)/income	**(1,305)**	2,590
Total comprehensive (loss)/income	**(7,751)**	(5,960)

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 the Group's share of those amounts.

12 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

Investment in joint ventures (Continued)

HH Egyptian Company (Continued)

Reconciliation of summarised financial information (Continued)

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

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Opening net assets 1 January	**70,269**	76,229
Post-tax loss for the year	**(6,446)**	(8,550)
Currency translation differences	**(1,305)**	2,590
Closing net assets	**62,518**	70,269
Interest in joint venture	**31,259**	35,135
Carrying value	**31,259**	35,135

13 INCOME TAX EXPENSE

Taxation in the consolidated statement of profit or loss represents:

	Year ended 31 December	
	2019 **RMB'000**	2018 RMB'000
Current income tax — Hong Kong Profits Tax *(a)*		
Provision for the year	**23**	2,922
Over provision in respect of prior years	**(607)**	(304)
	(584)	2,618
Current income tax — PRC *(b)*		
Provision for the year	**43,776**	48,627
Under provision in respect of prior years	**373**	3,944
	44,149	52,571
Current income tax — Other jurisdictions *(c)*		
Provision for the year	**11,409**	7,987
Over provision in respect of prior years	**(7,961)**	(16)
	3,448	7,971
Total current income tax	**47,013**	63,160
Deferred income tax (Note 28)	**(13,237)**	(29,263)
Income tax expense	**33,776**	33,897

13 INCOME TAX EXPENSE (CONTINUED)

(a) Hong Kong

The provision for Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits of the subsidiaries of the Group incorporated in Hong Kong for the years ended 31 December 2019 and 2018.

(b) PRC

Pursuant to the income tax rules and regulations of the PRC, the subsidiaries of the Group in the PRC are subject to PRC enterprise income tax at a rate of 25% for the years ended 31 December 2019 and 2018, except for the following companies:

(i) Honghua Company and Han Zheng Testing

Corporate income tax ("CIT") of Honghua Company and Han Zheng Testing 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 2019 and 2018.

(ii) 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) Sichuan Oil & Gas Services

CIT of Sichuan Oil & Gas Services is accrued at a tax rate of 15% applicable for Hi-tech enterprises pursuant to the relevant PRC tax rules and regulations for the year ended 31 December 2019 (2018: 25%).

(c) Others

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

13 INCOME TAX EXPENSE (CONTINUED)

(d) Withholding tax

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

The Company's directors revisited the dividend policy of the Group in 2019 and 2018. In order to retain the fundings for operations and future development, it was resolved that the Group's PRC subsidiaries will not distribute dividend to the offshore holding companies in the foreseeable future. Any dividends to be declared by the Company will be distributed from the share premium account.

(e) The tax on the Group's profit before tax differs from the theoretical amount that would arise using the tax rate applicable to the group entities as follows:

	Year ended 31 December	
	2019 **RMB'000**	2018 RMB'000
Profit before income tax	**166,265**	143,582
Tax calculated at statutory tax rates applicable to each group entities	**18,998**	11,562
Tax effect of non-deductible expenses	**504**	9,406
Tax effect of non-taxable income	**(1,136)**	(3,413)
Tax effect of changing tax rate	**19,635**	–
Tax losses for which no deferred income tax asset was recognised	**31,698**	–
Deductible temporary differences for which no deferred income tax asset was recognised	**15,446**	1,262
Recognise deductible temporary differences for which no deferred income tax asset was recognised in prior years	**–**	(54,754)
Recognise tax losses for which no deferred income tax asset was recognised in prior years	**(41,849)**	–
Write off of previously recognised tax losses	**–**	66,699
(Over)/Under provision in respect of prior years	**(8,195)**	3,624
Use of tax losses which unrecognised in prior years	**(1,325)**	(489)
Income tax expense	**33,776**	33,897

13 INCOME TAX EXPENSE (CONTINUED)

(f) Amounts recognised directly in other comprehensive income

Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but charged to other comprehensive income:

	Year ended 31 December	
	2019 **RMB'000**	2018 RMB'000
Deferred tax: Changes in the fair value of equity investments at fair value other comprehensive income	**1,792**	(179)

14 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings 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	
	2019	2018
Profit attributable to owners of the Company (RMB'000)	**107,472**	82,287
From continuing operations	**107,472**	92,377
From discontinued operations	**–**	(10,090)
Weighted average number of ordinary shares in issue (thousands)	**5,355,958**	5,355,521
Effect of the share award scheme (thousands)	**(62,089)**	(62,089)
Effect of share options exercised (thousands)	**53**	213
Adjusted weighted average number of ordinary shares in issue (thousands)	**5,293,922**	5,293,645
Basic earnings per share (RMB cents per share)	**2.03**	1.55
From continuing operations (RMB cents per share)	**2.03**	1.74
From discontinued operations (RMB cents per share)	**–**	(0.19)

14 EARNINGS PER SHARE (CONTINUED)

(b) Diluted earnings per share

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

	Year ended 31 December	
	2019	**2018**
Profit attributable to owners of the Company (RMB'000)	**107,472**	82,287
From continuing operations	**107,472**	92,377
From discontinued operations	**–**	(10,090)
Weighted average number of ordinary shares in issue (thousands)	**5,293,922**	5,293,645
Effect of deemed issue of shares under the share option scheme (thousands)	**–**	–
Adjusted weighted average number of ordinary shares (diluted) in issue (thousands)	**5,293,922**	5,293,645
Diluted earnings per share (RMB cents per share)	**2.03**	1.55
From continuing operations (RMB cents per share)	**2.03**	1.74
From discontinued operations (RMB cents per share)	**–**	(0.19)

15 LEASE PREPAYMENTS

The prepaid lease payment for land use rights are recognized as right of use assets from 1 January 2019.

	Year ended 31 December	
	2019	**2018**
	RMB'000	RMB'000
At 1 January	**–**	218,742
Additions	**–**	110
Transfers	**–**	(2,123)
Disposal of subsidiaries	**–**	(19,883)
Amortisation	**–**	(4,604)
At 31 December	–	192,242

(a) As at 31 December 2018, land use rights with carrying amount of approximately RMB25,371,000 was secured for bank borrowings (Note 27).

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

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 2018							
Cost	5,555	1,764,071	1,575,083	440,022	82,314	293,413	4,160,458
Transferred to disposal group classified as held for sale	–	(656,639)	(76,857)	(643)	(399)	(73,603)	(808,141)
Accumulated depreciation and impairment	–	(621,658)	(802,114)	(322,010)	(64,242)	(26,068)	(1,836,092)
Net book amount	5,555	485,774	696,112	117,369	17,673	193,742	1,516,225
Year ended 31 December 2018							
Opening net book amount	5,555	485,774	696,112	117,369	17,673	193,742	1,516,225
Additions	–	2,029	180,556	70,019	32,689	9,744	295,037
Transfer from construction in progress	–	4,632	2,846	2,891	–	(10,369)	–
Transfer from inventories	–	–	24,596	–	–	–	24,596
Transfer to investment properties	–	(3,465)	–	–	–	–	(3,465)
Disposals (Note 32)	–	(684)	(33,149)	(2,497)	(32)	–	(36,362)
Disposal of subsidiaries	–	(12,899)	(10,966)	(1,386)	(608)	(101,804)	(127,663)
Depreciation charge	–	(32,961)	(76,042)	(38,840)	(2,228)	–	(150,071)
Currency translation difference	280	1,068	(641)	254	(101)	–	860
Impairment provision of fixed assets	–	–	–	–	–	(891)	(891)
Closing net amount	5,835	443,494	783,312	147,810	47,393	90,422	1,518,266
At 31 December 2018							
Cost	5,835	695,026	1,550,078	490,067	107,022	193,117	3,041,145
Disposal of subsidiaries	–	(12,899)	(10,966)	(1,386)	(608)	(101,804)	(127,663)
Accumulated depreciation and impairment	–	(238,633)	(755,800)	(340,871)	(59,021)	(891)	(1,395,216)
Net book amount	5,835	443,494	783,312	147,810	47,393	90,422	1,518,266
Year ended 31 December 2019							
Opening net book amount	**5,835**	**443,494**	**783,312**	**147,810**	**47,393**	**90,422**	**1,518,266**
Additions	**–**	**3,337**	**77,549**	**51,881**	**8,930**	**96,764**	**238,461**
Transfer from construction in progress	**–**	**74,904**	**4,101**	**2,171**	**–**	**(81,176)**	**–**
Transfer from inventories	**–**	**–**	**99,061**	**–**	**–**	**–**	**99,061**
Disposals	**(5,359)**	**(29,763)**	**(3,082)**	**(2,967)**	**(459)**	**–**	**(41,630)**
Transfer to inventories	**–**	**–**	**(4,867)**	**–**	**–**	**–**	**(4,867)**
Transfer to investment properties	**–**	**(6,468)**	**–**	**–**	**–**	**–**	**(6,468)**
Transfer to construction in progress	**–**	**–**	**(37,442)**	**(3,592)**	**–**	**41,034**	**–**
Depreciation charge	**–**	**(32,220)**	**(82,639)**	**(46,263)**	**(4,991)**	**–**	**(166,113)**
Currency translation difference	**36**	**1,212**	**10,866**	**533**	**173**	**–**	**12,820**
Impairment provision of fixed assets	**–**	**–**	**(7,852)**	**–**	**–**	**–**	**(7,852)**
Closing net amount	**512**	**454,496**	**839,007**	**149,573**	**51,046**	**147,044**	**1,641,678**
At 31 December 2019							
Cost	**512**	**689,954**	**1,598,197**	**490,708**	**113,077**	**147,935**	**3,040,383**
Accumulated depreciation and impairment	**–**	**(235,458)**	**(759,190)**	**(341,135)**	**(62,031)**	**(891)**	**(1,398,705)**
Net book amount	**512**	**454,496**	**839,007**	**149,573**	**51,046**	**147,044**	**1,641,678**

16 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(a) Depreciation expense of approximately RMB121,648,000 (2018: RMB109,994,000) has been charged in cost of sales, RMB7,640,000 (2018: RMB6,697,000) in distribution expenses, RMB34,586,000 (2018: RMB32,970,000) in administrative expenses and RMB2,239,000 (2018: RMB410,000) in development cost. For the year ended 31 December 2018, the amount related to disposal group classified as held for sale was transferred to "Loss for the year from discontinued operations".

(b) As at 31 December 2019, the Group was in the process of obtaining the legal title of buildings with carrying amount of approximately RMB257,852,000 (2018: RMB205,601,000).

(c) As at 31 December 2018, bank borrowings were secured by certain buildings and machinery of the Group with a net book value of approximately RMB29,747,000 (Note 27).

(d) The Group has capitalised borrowing costs amounting to approximately RMB662,000 (2018: RMB715,000) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings at 3.62% (2018: 4.15%).

(e) Net rental income amounting to approximately RMB59,141,000 (2018: RMB46,848,000) relating to the lease of plant and machinery is included in profit or loss (Note 6).

(f) For the year ended 31 December 2018, the amount related to disposal group classified as held for sale was transferred to "Loss for the year from discontinued operations".

(g) For the years ended 31 December 2019 and 2018, inventories were transferred to property, plant and equipment for the research purposes of landing drilling products, and property, plant and equipment was transferred out to inventories for rebuild and future sale.

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

	Year ended 31 December	
	2019 **RMB'000**	2018 RMB'000
Cost	**280,646**	87,129
Accumulated depreciation at 1 January	**(53,328)**	(31,766)
Additions	**93,616**	193,517
Deduction	**(13,446)**	–
Depreciation charge for the year	**(29,864)**	(21,562)
Net book amount	**277,624**	227,318

17 LEASES

This note provides information for leases where the Group is a lessee.

(a) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	31 December 2019 RMB'000	**1 January 2019 RMB'000**
Right-of-use assets		
Lease prepayments for land use rights	**184,652**	**192,242**
Buildings and equipment	**3,117**	**10,872**
Vehicles	**–**	**88**
	187,769	**203,202**
Lease liabilities		
Current	**16,673**	**7,285**
Non-current	**94,299**	**3,448**
	110,972	**10,733**

Additions to the right-of-use assets during the 2019 financial year were RMB123,156,000.

(b) Amounts recognised in the statement of profit or loss

The statement of profit or loss shows the following amounts relating to leases:

	Notes	**2019 RMB'000**	2018 RMB'000
Depreciation charge of right-of-use assets			
Lease prepayments for land use rights		**4,570**	–
Buildings and equipment		**390**	–
Interest expense (included in finance cost)	10	**6,893**	–
Expense relating to short-term and low-value assets leases (included in cost of goods sold and distribution expenses)		**10,782**	–

The total cash outflow for leases in 2019 was RMB38,684,000.

(c) The Group's leasing activities and how these are accounted for

The Group leases various offices, warehouses, equipment and vehicles. Rental contracts are typically made for fixed periods fixed period without extension or termination options. Lease terms are negotiated on an individual basis. The lease agreements do not impose any covenants in relation to security interests in the leased assets that are held by the lessor. Leased assets are not used as security for borrowing purposes. The Group did not provide any residual value guarantees in relation to leased assets.

18 INTANGIBLE ASSETS

	Technical know-how RMB'000	Development Cost and others RMB'000	Total RMB'000
At 1 January 2018			
Cost	348,604	251,609	600,213
Transferred to disposal group classified as held for sale	–	(90,807)	(90,807)
Accumulated amortisation and impairment	(325,320)	(37,180)	(362,500)
Net book amount	23,284	123,622	146,906
Year ended 31 December 2018			
Opening net book amount	23,284	123,622	146,906
Additions	–	52,010	52,010
Amortisation charge	(23,519)	(8,363)	(31,882)
Disposal of subsidiaries	–	(6,210)	(6,210)
Currency translation difference	235	127	362
Closing net amount	–	161,186	161,186
At 31 December 2018			
Cost	348,839	203,876	552,715
Disposal of subsidiaries	–	(6,210)	(6,210)
Accumulated amortisation and impairment	(348,839)	(36,480)	(385,319)
Net book amount	–	161,186	161,186
Year ended 31 December 2019			
Opening net book amount	**–**	**161,186**	**161,186**
Additions	**–**	**35,454**	**35,454**
Amortisation charge	**–**	**(13,734)**	**(13,734)**
Disposals	**–**	**(2,579)**	**(2,579)**
Currency translation difference	**–**	**15**	**15**
Closing net amount	**–**	**180,342**	**180,342**
At 31 December 2019			
Cost	**348,839**	**228,654**	**577,493**
Accumulated amortisation and impairment	**(348,839)**	**(48,312)**	**(397,151)**
Net book amount	**–**	**180,342**	**180,342**

All the amortisation of the Group's intangible assets was charged to administrative expenses. The amount related to disposal group classified as held for sale was transferred to "Loss for the year from discontinued operations".

19 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2019 **RMB'000**	2018 RMB'000
Trade receivables *(a)*	**3,501,437**	2,627,384
Bills receivable	**266,165**	33,637
Less: provision for impairment of trade receivables and bills receivable	**(266,775)**	(169,007)
	3,500,827	2,492,014
Amount due from related parties (Note 34(b))		
– Trade	**211,449**	349,870
– Non-trade	**311,738**	122,858
– Less: provision for impairment of trade receivables for amount due from related parties	**(27,711)**	–
	495,476	472,728
Finance lease receivables	**315,371**	254,832
Less: provision for impairment of finance lease receivable	**(77,239)**	(65,816)
Value-added tax recoverable	**74,929**	123,623
Prepayments	**425,549**	374,168
Less: provision for prepayments	**(36,970)**	(28,291)
Other receivables *(b)*	**299,408**	344,142
Less: provision for impairment of other receivables	**(122,845)**	(120,127)
	4,874,506	3,847,273
Representing:		
Current portion *(c)*	**3,593,152**	2,939,969
Non-current portion *(d)*	**1,281,354**	907,304
Total	**4,874,506**	3,847,273

19 TRADE AND OTHER RECEIVABLES (CONTINUED)

(a) As at 31 December 2019 and 31 December 2018, 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	
	2019	2018
	RMB'000	RMB'000
Within 3 months	**2,517,145**	2,028,514
3 to 12 months	**564,943**	102,487
Over 1 year	**602,477**	710,883
	3,684,565	2,841,884

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

(b) Included in other receivables of the Group as at 31 December 2019 is an amount of approximately RMB21,032,000 (2018: RMB42,380,000) to be indemnified by some beneficiary owners of the Company in relation to a legal claim (Note 29).

(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 2019 included (1) finance lease receivables of approximately RMB129,193,000 (2018: RMB76,759,000); (2) receivables of approximately RMB1,151,961,000 (2018: RMB830,345,000) arising from instalment sales which are due for payment one year after the end of the reporting period and are discounted at market interest rate as at 31 December 2019; and (3) prepayment for acquisition of property, plant and equipment of approximately RMB200,000 (2018: RMB200,000).

(e) As at 31 December 2019 and 2018, the Group's maximum exposure to credit risk was the carrying value of each class of receivables mentioned above.

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

(g) The creation and release of provision for prepayments has been included in "Administrative expenses" and provision for impaired receivables has been included in "Net impairment losses on financial and contract assets" in profit or loss respectively.

(h) As at 31 December 2019, bills receivables of approximately RMB31,700,000 and RMB4,000,000 were secured for borrowings (Note 27) and bills payables, respectively.

(i) As at 31 December 2019, lease liabilities of RMB108,721,000 were secured by finance lease receivables of RMB103,425,000.

19 TRADE AND OTHER RECEIVABLES (CONTINUED)

(j) As at 31 December 2019 and 2018, the Group had receivables under finance lease as follows:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Non-current receivables		
Finance leases – gross receivables	**146,911**	80,373
Unearned finance income	**(17,718)**	(3,614)
	129,193	76,759
Current receivables		
Finance leases – gross receivables	**198,045**	182,599
Unearned finance income	**(11,867)**	(4,526)
	186,178	178,073
Gross receivables from finance leases:		
— No later than 1 year	**198,045**	182,599
— Later than 1 year and no later than 5 years	**146,911**	80,373
	344,956	262,972
Unearned future finance income on finance leases	**(29,585)**	(8,140)
Net investment in finance leases	**315,371**	254,832
The net investment in finance leases is analysed as follows:		
No later than 1 year	**186,178**	178,073
Later than 1 year and no later than 5 years	**129,193**	76,759
Total	**315,371**	254,832

(k) Impairment and risk exposure

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. Note 3.1(b) provides for details about the calculation of the allowance.

20 DEBT INVESTMENTS AT AMORTISED COST

	As at 31 December	
	2019 **RMB'000**	2018 RMB'000
Loan to a joint venture	**105,651**	–
Loan to a third party	**17,170**	–
	122,821	–
Current portion	**24,915**	–
Non-current portion	**97,906**	–
Total	**122,821**	–

The loan to a joint venture, Honghua (Shenzhen), is for a period of 4 years, repayable in quarterly instalments at effective annual interest rate of 7.51% per annum. The loan is repayable in full on 19 July 2023.

The loan to a third party is for a period of 16 months with effective annual interest rate of 6% and is repayable in full on 31 March 2021.

21 INVENTORIES

	As at 31 December	
	2019 **RMB'000**	2018 RMB'000
Raw materials	**539,199**	527,939
Work in progress	**357,737**	522,983
Finished goods	**369,742**	513,300
Goods in transit	**678**	575
	1,267,356	1,564,797

For the year ended 31 December 2019, the cost of inventories recognised as the Group's expense and included in 'cost of sales' amounted to approximately RMB2,280,662,000 (2018: RMB2,404,152,000).

21 INVENTORIES (CONTINUED)

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

	Years ended 31 December	
	2019	2018
	RMB'000	RMB'000
At 1 January	**172,690**	91,488
Provision	**71,698**	114,146
Write off	**(76,472)**	(5,246)
Reversal	**(321)**	(26,453)
Disposal of subsidiaries	**–**	(1,245)
At 31 December	**167,595**	172,690

22 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Cash on hand	**2,601**	5,278
Cash at bank	**887,201**	680,222
Cash and cash equivalents	**889,802**	685,500

(b) Pledged bank deposits

As at 31 December 2019, the deposits are pledged to banks as security against letters of guarantee (Note 27) and for bills payable (Note 26).

As at 31 December 2018, the deposits are pledged to banks as security for bills payable (Note 26).

23 SHARE CAPITAL

Ordinary shares, issued and fully paid:

	Number of shares (thousands)	Amount RMB'000
At 1 January 2018	5,355,521	487,983
Shares issued under share option scheme (Note 24(b)(ii))	384	32
At 31 December 2018	5,355,905	488,015
At 1 January 2019	**5,355,905**	**488,015**
Shares issued under share option scheme (Note 24(b)(ii))	**90**	**8**
At 31 December 2019	**5,355,995**	**488,023**

(a) The total authorised number of ordinary shares is 10,000,000,000 shares (2018: 10,000,000,000 shares) with a par value of HKD0.1 per share (2018: HKD0.1 per share).

24 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 and the rest options were lapsed as at 31 December 2018.

	Year ended 31 December 2018	
	Average exercise price in HKD per share option	Number of share options (thousands)
At 1 January	HKD3.83	52,056
Granted	–	–
Exercised	–	–
Forfeited	–	–
Lapsed	HKD3.83	(52,056)
At 31 December	–	–

24 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	10 years
— 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		

24 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			
	2019		2018	
	Weighted average exercise price	**Number of share options (thousands)**	Weighted average exercise price	Number of share options (thousands)
At 1 January	**HKD1.16**	**132,751**	HKD1.15	134,778
Granted	**–**	**–**	–	–
Exercised	**HKD0.44**	**(90)**	HKD0.44	(384)
Forfeited	**HKD0.44**	**(460)**	HKD0.44	(671)
Lapsed	**HKD1.27**	**(38,494)**	HKD1.37	(972)
At 31 December	**HKD1.12**	**93,707**	HKD1.16	132,751

The options outstanding at 31 December 2019 had an exercise price in the range of HKD0.44 to HKD2.02 (2018: HKD0.44 to HKD2.02) and a weighted average remaining contractual life of 4.18 years (2018: 5.28 years).

For the year ended 31 December 2019, there were 90,000 share options exercised (2018: 384,000 share options exercised).

For the year ended 31 December 2019, options granted on 15 April 2009 which were not exercised in prior years were all lapsed.

24 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.

No shares were acquired by the Trustee under the Scheme for the years ended 31 December 2019 and 2018. As at 31 December 2019, 62,089,300 shares were held by the Trustee under the Scheme (2018: 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.

25 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 24, waiver of debts by the immediate holding company and capital contribution arising on shareholders' indemnity.

(d) Surplus reserve

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

(e) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside the PRC which are dealt with in accordance with the accounting policies as set out in Note 2.7.

(f) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of equity investments at fair value through other comprehensive income held at the end of the reporting period and is dealt with in accordance with the accounting policies in Note 2.13.

26 TRADE AND OTHER PAYABLES

	As at 31 December	
	2019 **RMB'000**	2018 RMB'000
Trade payables	**1,538,066**	1,198,420
Amounts due to related companies (Note 34(c))		
– Trade	**8,681**	603
– Non-trade	**43,216**	230
Bills payable	**689,010**	638,282
Receipts in advance	**401**	572
Other payables	**547,144**	502,779
	2,826,518	2,340,886

At 31 December 2019 and 2018, the ageing analysis of the trade payables and bills payable (including amounts due to related parties of trading in nature) based on invoice date is as follows:

	As at 31 December	
	2019 **RMB'000**	2018 RMB'000
Within 3 months	**446,514**	948,322
3 to 6 months	**492,896**	502,994
6 to 12 months	**747,348**	136,991
Over 1 year	**548,999**	248,998
	2,235,757	1,837,305

As at 31 December 2019 and 2018, all the trade payables, bills payable and other payables of the Group were non-interest bearing and their fair value approximated their carrying amounts due to their short maturities.

As at 31 December 2019 and 2018, bills payable were secured by certain pledged bank deposits as disclosed in Note 22. All the current trade and other payables are expected to be settled within one year or are repayable on demand.

27 BORROWINGS

		As at 31 December	
		2019 **RMB'000**	2018 RMB'000
(a)	Bank loans		
	Secured (i)		
	– Current portion	**125,231**	524,886
	– Non-current portion	**490,000**	95,000
		615,231	619,886
	Unsecured		
	– Current portion	**839,686**	1,059,368
	– Non-current portion	**218,000**	–
		1,057,686	1,059,368
(b)	Unsecured loan from related party (Note 34)		
	– Current portion	**952,673**	50,000
	– Non-current portion	**–**	480,000
		952,673	530,000
(c)	Other loans		
	Secured loan from related party (i) (Note 34)		
	– Current portion	**–**	72,878
	– Non-current portion	**–**	–
		–	72,878
	Senior notes (ii)		
	– Current portion	**–**	838,318
	– Non-current portion	**1,383,779**	–
		1,383,779	838,318
Current borrowings		**1,917,590**	2,545,450
Non-current borrowings		**2,091,779**	575,000
Total borrowings		**4,009,369**	3,120,450

27 BORROWINGS (CONTINUED)

(i) As at 31 December 2019, the bank loans and the secured loan from related party were secured by letters of guarantee as collateral of RMB200,000,000, bills receivable of RMB31,700,000 and 20% equity interest of Honghua Company, a subsidiary of the Group.

As at 31 December 2018, the bank loans and the secured loan from related party were secured by interest in land use rights of approximately RMB25,371,000, property, plant and equipment of approximately RMB29,747,000 and 20% equity interest of Honghua Company, a subsidiary of the Group.

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

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

On 25 September 2014, the Company issued listed senior notes in the aggregate principal amount of USD200,000,000 ("Old Senior Notes"). The Old Senior Notes bear interest at 7.45% per annum, payable semi-annually in arrears and was due in 2019. On 12 February 2018, principle amount of USD77,000,000 were redeemed at a redemption price of 103.725% of the principle amount, plus accrued and unpaid interest. The outstanding principle amount of USD123,000,000 were repaid on 29 September 2019.

The Old 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 and PT. Newco Indo Resources as stated in the Company's offering memorandum on 25 September 2014.

The borrowings at 31 December 2019 bear annual interest ranging from 1.20%-8.30% annually (2018: 1.20%-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	
	2019	2018
	RMB'000	RMB'000
Within 1 year	**1,917,590**	2,545,450
Between 1 and 2 years	**522,000**	480,000
Between 2 and 5 years	**1,569,779**	45,000
Over 5 years	**–**	50,000
	4,009,369	3,120,450

27 BORROWINGS (CONTINUED)

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

	As at 31 December	
	2019 **RMB'000**	2018 RMB'000
Carrying amount		
Bank borrowings	**1,672,917**	1,679,254
Unsecured loan from related party	**952,673**	530,000
Secured loan from related party	**–**	72,878
Senior notes	**1,383,779**	838,318
Fair value		
Bank borrowings	**1,675,718**	1,663,859
Unsecured loan from related party	**954,911**	533,995
Secured loan from related party	**–**	72,884
Senior notes	**1,398,728**	850,176

Except the New Senior Notes, the fair values of non-current borrowings are estimated based on discounted cash flow approach using the prevailing market rates of interest available to the Group for financial instruments with substantially the same terms and characteristics, which were 4.35%-6.84% as at 31 December 2019 (2018: 4.35%-10.7%). The fair value of New Senior Notes is estimated based on the market price traded at over-the-counter as at 31 December 2019. All the fair values of the non-current borrowings are classified as level 2 of the fair value hierarchy.

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

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

	As at 31 December	
	2019 **RMB'000**	2018 RMB'000
RMB	**1,916,404**	1,852,839
USD	**2,092,965**	1,267,611
	4,009,369	3,120,450

27 BORROWINGS (CONTINUED)

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

	As at 31 December	
	2019 **RMB'000**	2018 RMB'000
Fixed rate		
Expiring within 1 year (bank loans and bill facilities)	**6,318,289**	3,219,977

These facilities have been arranged for financing daily operations.

28 DEFERRED INCOME TAX

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

	As at 31 December	
	2019 **RMB'000**	2018 RMB'000
Deferred tax assets		
Deferred tax assets to be recovered within 12 months	**172,785**	112,574
Deferred tax assets to be recovered more than 12 months	**139,588**	149,353
	312,373	261,927
Deferred tax liabilities		
Deferred tax liabilities to be settled within 12 months	**(3,176)**	(295)
Deferred tax liabilities to be settled more than 12 months	**(35,850)**	–
	(39,026)	(295)
Deferred tax assets (net)	**273,347**	261,632

28 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	Unrealised financing income RMB'000	Provision for investment in associates RMB'000	Total RMB'000
At 1 January 2018	19,267	1,628	8,430	44,953	19,898	16,406	124,398	1,410	6,804	-	-	243,194
Recognised in profit or loss	5,421	14,067	(6,333)	17,434	(3,406)	(2,292)	(67,144)	195	134	5,770	54,754	18,600
Currency translation differences	-	-	-	133	-	-	-	-	-	-	-	133
At 31 December 2018	**24,688**	**15,695**	**2,097**	**62,520**	**16,492**	**14,114**	**57,254**	**1,605**	**6,938**	**5,770**	**54,754**	**261,927**
Recognised in profit or loss	**(116)**	**(7,899)**	**1,926**	**31,565**	**(1,163)**	**(4,424)**	**36,057**	**-**	**-**	**(5,770)**	**-**	**50,176**
Currency translation differences	**-**	**-**	**-**	**270**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**270**
At 31 December 2019	**24,572**	**7,796**	**4,023**	**94,355**	**15,329**	**9,690**	**93,311**	**1,605**	**6,938**	**-**	**54,754**	**312,373**

28 DEFERRED INCOME TAX (CONTINUED)

(b) (Continued)

Deferred tax liabilities	**Installment** **RMB'000**	**Interest capitalisation** **RMB'000**	**Changes in fair value of FVOCI** **RMB'000**	**Total** **RMB'000**
At 1 January 2018	–	(10,663)	(474)	(11,137)
Credited to profit or loss	–	10,663	–	10,663
Recognised in other comprehensive income	–	–	179	179
At 31 December 2018	**–**	**–**	**(295)**	**(295)**
Credited to profit or loss	**(36,939)**	**–**	**–**	**(36,939)**
Recognised in other comprehensive income	**–**	**–**	**(1,792)**	**(1,792)**
At 31 December 2019	**(36,939)**	**–**	**(2,087)**	**(39,026)**

The Group has not recognised deferred income tax assets in respect of tax losses of approximately RMB159,404,000 as at 31 December 2019 (2018: RMB302,148,000) as it is not probable that future taxable profits against which the losses can be utilised in the relevant tax jurisdictions of those entities. These tax losses will be expired in 5 to 10 years.

As at 31 December 2019, deferred income tax liabilities of approximately RMB75,121,000 (2018: RMB65,192,200) had not been recognised for the withholding tax that would be payable on the unremitted earnings of certain subsidiaries. Unremitted earnings totalled approximately RMB1,502,414,000 as at 31 December 2019 (2018: RMB1,303,844,000). The Group does not intend to remit these unremitted earnings from the relevant subsidiaries in the foreseeable future.

29 PROVISIONS FOR OTHER LIABILITIES AND CHARGES

	Legal claims of former shareholders (a) RMB'000	Legal claims of sales agency (b) RMB'000	Other legal claims RMB'000	Product warranties RMB'000	Onerous contract (c) RMB'000	Total RMB'000
At 1 January 2018	32,317	48,725	29,824	4,805	–	115,671
Provisions during the year	10,063	–	–	52,014	–	62,077
Utilised during the year	–	–	–	(1,361)	–	(1,361)
Currency translation difference	–	(1,372)	–	–	–	(1,372)
Disposal of subsidiaries	–		(29,824)	–	–	(29,824)
At 31 December 2018	42,380	47,353	–	55,458	–	145,191
At 1 January 2019	**42,380**	**47,353**	**–**	**55,458**	**–**	**145,191**
Provisions during the year	**–**	**–**	**–**	**25,357**	**6,570**	**31,927**
Utilised during the year	**(42,380)**	**(47,353)**	**–**	**(35,350)**	**–**	**(125,083)**
At 31 December 2019	**–**	**–**	**–**	**45,465**	**6,570**	**52,035**

(a) 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.

29 PROVISIONS FOR OTHER LIABILITIES AND CHARGES (CONTINUED)

(a) (Continued)

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.

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.

Honghua Company filed an appeal to Sichuan Higher People's Court in April 2016 again and the final judgement was made in June 2018. In August 2018, the original investors applied for compulsory execution to the Chengdu intermediate court, and the execution amount was RMB41,765,000. The management made the additional provision for the above legal claim of RMB10,063,000 accordingly. The Group has the right to claim from the Indemnifiers and there is no impact on both net assets and cash flow of the Group. In April 2019, the Group paid the relevant provision.

29 PROVISIONS FOR OTHER LIABILITIES AND CHARGES (CONTINUED)

(b) The legal claims provision of approximately RMB47,353,000 relates to certain legal claims brought against a subsidiary of the Group by a sales agency. The sales agency alleged that it was owed commission in excess of USD18,000,000 in relation to their services to the Group. On 11 April 2017, new judgement was issued by Abu Dhabi Federal Court of Appeals that the Group shall pay approximately USD7,457,000 to such sales agency. The provision was recognised in profit or loss within other losses.

In June 2017, the Group filed an appeal pursuant to the Union Supreme Court of the United Arab Emirates. The final judgement was made in February 2019 and the Group shall pay USD7,457,000, which is the same as that in the previous judgement in April 2017. The Group paid the legal claim of USD7,457,000 in June 2019.

(c) Due to the rainy season shutdown, the unavoidable costs of meeting the obligations under the irrevocable geological exploration contract with a third-party company exceed the economic benefits expected to be received under it. As at 31 December 2019, the present obligation under the contract was recognised as a provision.

30 DEFERRED INCOME

Movement on the deferred income is as follows:

	Year ended 31 December	
	2019 **RMB'000**	2018 RMB'000
At 1 January	**94,536**	109,892
Government grants related to assets received during the year	**14,779**	51,108
Government grants related to costs received during the year	**94,880**	133,430
Credited to profit or loss	**(139,234)**	(199,894)
At 31 December	**64,961**	94,536
Less: non-current portion	**(54,464)**	(49,086)
Current portion	**10,497**	45,450

31 DIVIDENDS

No dividend was approved or paid in respect of the previous financial years for the years ended 31 December 2019 and 2018.

No dividend was proposed for the year ended 31 December 2019.

32 CASH GENERATED FROM OPERATIONS

(a) Reconciliation of profit before income tax to cash generated from operations

	Year ended 31 December	
	2019 **RMB'000**	2018 RMB'000
Profit before income tax included discontinued operations	**166,265**	119,696
Adjustments for:		
– Depreciation of property, plant and equipment	**163,874**	149,661
– Depreciation of right use of assets	**4,960**	–
– Amortisation of intangible assets and lease prepayments	**13,568**	36,486
– Interest income	**(21,492)**	(6,594)
– Interest expense	**232,600**	161,070
– Share of loss from joint ventures and associates	**3,223**	32,444
– Gain on disposal of property, plant and equipment	**(35,428)**	(1,505)
– (Gain) loss on disposal and dissolution of subsidiaries and a joint venture	**(17,169)**	7,355
– Foreign exchange gain	**(34,790)**	(31,095)
– Equity-settled share-based payment expenses arising from share option schemes and share award scheme	**839**	1,726
– Provision for impairment of property, plant and equipment	**7,852**	891
	484,302	470,135
Changes in working capital:		
– Decrease in inventories	**302,536**	137,680
– Increase in trade and other receivables	**(809,893)**	(542,928)
– Decrease in pledged bank deposits	**68,629**	53,838
– Increase in trade and other payables	**485,632**	319,363
– (Increase)/decrease in contract assets	**(177,179)**	25,082
– (Decrease)/increase in contract liabilities	**(77,283)**	22,261
– (Decrease)/increase in provisions for other liabilities and charges	**(93,156)**	39,454
Cash generated from operations	**183,588**	524,885

32 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	
	2019 **RMB'000**	2018 RMB'000
Net book amount (Note 16)	**41,630**	36,362
Gains on disposal of property, plant and equipment	**35,428**	1,505
Proceeds from disposal of property, plant and equipment	**77,058**	37,867

(c) Net debt reconciliation including discontinued operations

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

Net debt	**2019** **RMB'000**	2018 RMB'000
Cash and cash equivalents (Note 22)	**889,802**	685,500
Borrowings – repayable within one year (Note 27)	**(1,917,590)**	(2,545,450)
Borrowings – repayable after one year (Note 27)	**(2,091,779)**	(575,000)
Net debt	**(3,119,567)**	(2,434,950)
Cash and cash equivalents (Note 22)	**889,802**	685,500
Gross debt – fixed interest rates	**(3,103,017)**	(2,247,984)
Gross debt – variable interest rates	**(906,352)**	(872,466)
Net debt	**(3,119,567)**	(2,434,950)

32 CASH GENERATED FROM OPERATIONS (CONTINUED)

(c) Net debt reconciliation including discontinued operations (Continued)

	Assets	Liabilities from financing activities		
	Cash and cash equivalents RMB'000	Borrowings due within 1 year RMB'000	Borrowings due after 1 year RMB'000	Total RMB'000
Net debt as at 1 January 2018	1,124,806	(1,443,825)	(1,881,691)	(2,200,710)
Cash flows	(450,504)	(1,031,766)	1,306,691	(175,579)
Foreign exchange adjustments	11,198	(69,859)	–	(58,661)
Net debt as at 31 December 2018	**685,500**	**(2,545,450)**	**(575,000)**	**(2,434,950)**
Cash flows	**198,898**	**676,593**	**(1,505,136)**	**(629,645)**
Foreign exchange adjustments	**5,404**	**(48,733)**	**(11,643)**	**(54,972)**
Net debt as at 31 December 2019	**889,802**	**(1,917,590)**	**(2,091,779)**	**(3,119,567)**

(d) Cash outflow on disposal of subsidiaries

(i) Disposal of Offshore drilling rigs segment (Note 35)

	2018 RMB'000
Disposal consideration	–
Consideration received in cash and cash equivalents	–
Less: Cash and cash equivalents at the time of the disposal	(93,736)
Net cash outflow on disposal of Offshore drilling rigs segment	(93,736)

(ii) Disposal of Russia Honghua Co., Ltd

	2018 RMB'000
Disposal consideration	–
Consideration received in cash and cash equivalents	–
Less: Cash and cash equivalents at the time of the disposal	(3,461)
Net cash outflow on disposal of Russia Honghua Co., Ltd	(3,461)

32 CASH GENERATED FROM OPERATIONS (CONTINUED)

(d) Cash outflow on disposal of subsidiaries (Continued)

(ii) Disposal of Russia Honghua Co., Ltd (Continued)

The carrying amounts of assets and liabilities as at disposal date of Russia Honghua Co., Ltd as at 30 June 2018 and 31 December 2017 were:

	As at 30 June 2018	As at 31 December 2017
ASSETS		
Non-current assets		
Property, plant and equipment	16,448	10,699
Total non-current assets	16,448	10,699
Current assets		
Inventories	–	14,155
Trade and other receivables	214,134	225,607
Cash and cash equivalents	3,461	28,333
Total current assets	217,595	268,095
Total assets	234,043	278,794
LIABILITIES		
Current liabilities		
Trade and other payables	234,043	404,607
Total current liabilities	234,043	404,607
Total liabilities	234,043	404,607

33 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	
	2019	2018
	RMB'000	RMB'000
Contracted for	**10,891**	10,346
Authorised but not contracted for	**–**	1,455
	10,891	11,801

(b) Operating lease commitments

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

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Within 1 year	**–**	9,807
After 1 year but within 5 years	**–**	3,682
	–	13,489

The Group was the lessee in respect of a number of buildings held under operating leases. None of the leases include contingent rentals.

34 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 2019 and 2018, and balances arising from related party transactions as at 31 December 2019 and 2018.

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
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
Aerospace Science & Industry Financial Leasing Co., Ltd. (航天科工金融租賃有限公司) ("ASFIL")	ASFIL is the joint venture of CASIC
Aerospace Science & Industry Finance CORP (航天科工財務有限責任公司) ("ASFIC")	ASFIC is the subsidiary of CASIC
HH Egyptian Company	Joint venture
Honghua (Shenzhen)	Joint venture
Honghua (Jiangsu)	Associate
Honghua (Shanghai)	Associate
Jiangsu Hongjieding Energy Technology Co., Ltd. ("Jiangsu Hongjieding")	Controlled by a director of the Group
Hong Kong Tank Tek Limited ("HK Tank")	HK Tank is the subsidiary of Jiangsu Hongjieding
Aerospace Information System Engineering (Beijing) Co., Ltd. ("AISE")	AISE is the subsidiary of CASIC
Aerospace Jiangnan Group Co., Ltd. ("AJG")	AJG is the subsidiary of CASIC
Aerospace Sanjiang Group Co., Ltd. ("ASG")	ASG is the subsidiary of CASIC
Aerospace Cloud Technology Development Co., Ltd. ("ACTD")	ACTD is the subsidiary of CASIC

34 RELATED-PARTY TRANSACTIONS (CONTINUED)

(a) Significant related party transactions

	Year ended 31 December	
	2019 **RMB'000**	2018 RMB'000
Purchases of parts and components		
– AISE	**64,431**	–
– Honghua (Jiangsu)	**9,381**	–
– Hongtai	**–**	7,398
– Other related companies	**8,495**	56
	82,307	7,454
Sales of drilling rigs, parts and components		
– ASFIL	**–**	517,241
– HH Egyptian Company	**2,695**	8,875
– Other related companies	**1,980**	–
	4,675	526,116

(i) Besides the related party sales transactions as disclosed above, according to the tripartite agreements signed by the Group, Honghua (Shenzhen) and ASIFL, for the year ended 31 December 2018, the Group sold products amounted to approximately RMB517,241,000 to ASIFL, meanwhile, ASIFL has provided finance lease and operating lease to Honghua (Shenzhen).

According to the tripartite agreements signed by the Group, Honghua (Shenzhen) and third party leasing companies, for the year ended 31 December 2019, the Group sold products amounted to approximately RMB960,177,000 to those third party leasing companies (2018 : RMB36,637,000), meanwhile, those third party leasing companies have provided finance lease to Honghua (Shenzhen), and the risk and rewards of those products have been transferred to Honghua (Shenzhen).

After the completion of the above transactions, Honghua (Shenzhen) and the subsidiaries of the Group have entered into operating lease agreements which leased the above mentioned products to the subsidiaries of the Group, and then the subsidiaries of the Group have leased those products to third party companies.

For the year ended 31 December 2019, the total operating lease expense incurred charged to the profit or loss from the lease agreements above by the Group was approximately RMB311,520,000 (2018 : RMB56,283,000).

34 RELATED-PARTY TRANSACTIONS (CONTINUED)

(a) Significant related party transactions (Continued)

	Year ended 31 December	
	2019 **RMB'000**	2018 RMB'000
Consulting service provided		
– Honghua (Shenzhen)	**15,263**	2,670
Operating lease expenses		
– Honghua (Shenzhen)	**311,520**	56,283
Payments of loans to		
– Honghua (Shenzhen) (Note 20)	**110,000**	–
Receipts of loan to		
– Honghua (Jiangsu) (i)	**71,713**	–
– HK Tank (i)	**8,128**	–
– Honghua (Shenzhen) (Note 20)	**4,350**	–
	84,191	–

34 RELATED-PARTY TRANSACTIONS (CONTINUED)

(a) Significant related party transactions (Continued)

For year ended 31 December 2019, the Group received repayments of loan to an associate and other related parties from HK Tank and Honghua (Shenzhen) based on debt payment arrangements described in Note 35.

	Year ended 31 December	
	2019 **RMB'000**	2018 RMB'000
Receipts of loans from		
– ASFIC	**472,673**	120,000
Repayments of loans from		
– Honghua (Shenzhen)	**2,878**	2,878
– ASFIC	**120,000**	–
	122,878	2,878
Financial income		
– Honghua (Shenzhen)	**2,421**	496
Financial expenses		
– ASFIC	**36,742**	24,877
Disposal of discontinued operations		
– Jiangsu Hongjieding (Note 35)	**–**	–

34 RELATED-PARTY TRANSACTIONS (CONTINUED)

(b) Amounts due from related companies

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Trade (Note 19)		
– Joint ventures	**123,129**	110,821
– Associates	**55,625**	79,049
– Other related companies	**4,984**	160,000
	183,738	349,870
Non-trade (i)		
– Associates	**1,445,674**	1,565,023
– Joint ventures	**400,321**	108,327
– Other related companies	**109,852**	113,682
	1,955,847	1,787,032

(i) As at 31 December 2019, the current loan to an associate and other related party is RMB88,278,000 (2018: RMB79,982,000) and non-current loan to an associate and other related party is RMB1,450,181,000, which will be received after 1 year but within 4 years (2018: RMB1,584,192,000). The Group recorded these debts as "loan to an associate and other related party" and the Group made a provision for the credit risk of RMB49,887,000 (Note 3.1(b)). The debts are secured by equity interests held by Jiangsu Hongjieding as well as assets of Honghua (Jiangsu) and Honghua (Shanghai). The interest of the loans to Honghua (Jiangsu) and HK Tank are 4.75% and 6% respectively.

As at 31 December 2019, the current portion and non-current portion of debt investments to joint venture is RMB24,915,000 and RMB80,736,000 respectively (Note 20).

The other amounts due from other related companies are unsecured, interest-free and repayable on demand (Note 19). No provision was made against the other amounts due from related companies as at 31 December 2019 and 2018.

34 RELATED-PARTY TRANSACTIONS (CONTINUED)

(c) Amounts due to related companies

	As at 31 December	
	2019 **RMB'000**	2018 RMB'000
Trade (Note 26)		
– Joint ventures	**6,979**	–
– Other related companies	**1,702**	603
	8,681	603
Non-trade (Note 26)		
– Joint ventures	**2,079**	–
– Associates	**800**	188
– Other related companies	**40,337**	42
	43,216	230

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

(d) Borrowings (Note 27)

	As at 31 December	
	2019 **RMB'000**	2018 RMB'000
– ASFIC (i)	**952,673**	600,000
– Honghua (Shenzhen) (ii)	**–**	2,878
	952,673	602,878

(i) As at 31 December 2019, the loans from ASFIC were secured by property, plant and equipment of about RMB21,185,000. The loans from ASFIC bear fixed interest rate of 4.35%, of which RMB952,673,000 will be due for repayment in 2020.

(ii) As at 31 December 2018, the loans from Honghua (Shenzhen) were secured by property, plant and equipment of about RMB5,100,000. The loans from Honghua (Shenzhen) bore fixed interest rate of 1.75% and were due for repayment in August 2019.

34 RELATED-PARTY TRANSACTIONS (CONTINUED)

(e) Amounts due from certain shareholders

The amounts due from certain shareholders as at 31 December 2019 is an amount of approximately RMB21,032,000 (2018: RMB42,380,000), being the amount indemnified by certain shareholders in relation to a legal claim (Note 29).

(f) Key management compensation

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Basic salaries, allowances and other benefits in kind	**6,664**	7,430
Contributions to defined contribution retirement schemes	**772**	455
Discretionary bonus	**7,833**	4,570
Share-based payments	**–**	–
	15,269	12,455

35 DISCONTINUED OPERATIONS

(a) Description

According to the announcement dated 27 December 2017, the Group intended to dispose offshore drilling rigs segment, through public tender to be conducted on the Shanghai United Assets and Equity Exchange, (a) its 100% indirect equity interest in Honghua (Jiangsu), a wholly- owned subsidiary of the Group, (b) its 100% indirect equity interest in Honghua (Shanghai), a wholly-owned subsidiary of the Group, (c) its entire 70% indirect equity interest in HK Tank, and the Group's indirect creditor's rights against them. The assets and liabilities related to those entities were presented as disposal group classified as held for sale in the Group's annual financial statements for the year ended 31 December 2017.

In 2018, the Group signed agreements with Jiangsu Hongjieding and Honghua (Shanghai) with the following key transaction terms:

i) The Group agreed to sell its 51% equity interests in both Honghua (Jiangsu) and Honghua (Shanghai) for a cash consideration of RMB1 respectively;

ii) The Group agreed to sell its 25% equity interests in FSP LNG B.V. and 70% equity interests in HK Tank for a cash consideration of USD1 respectively;

iii) The Group agreed to sell its 30% equity interests in Prime FSP, LLC for a cash consideration of USD1.

The Group also entered debt repayment agreements with Honghua (Jiangsu) and HK Tank respectively, pursuant to which Honghua (Jiangsu) and HK Tank shall repay the existing debt, together with relevant interest to the Group after the completion of the above equities transfer. The Group recorded these debts as "loan to an associate and other related party" and the terms are described in Note 34(b).

The disposal was completed on 31 December 2018. Both Honghua (Jiangsu) and Honghua (Shanghai) have become associates of the Group with zero net book value (Note 12) as at 31 December 2018.

35 DISCONTINUED OPERATIONS

(b) Financial performance and cash flow information

The financial performance and cash flow information of the discontinued operations as follows:

	Year ended 31 December 2018 RMB'000
Revenue	4,999
Other losses	(703)
Expenses	(34,913)
Loss before income tax	(30,617)
Income tax expense	10,823
Loss after income tax of discontinued operations	(19,794)
Gain on sale of the subsidiaries after income tax	6,731
Loss from discontinued operations	(13,063)
Other comprehensive income from discontinued operations	(1,901)
Net cash inflow from operating activities	18,030
Net cash outflow from investing activities	(60,139)
Net cash inflow from financing activities	111,331
Net increase in cash generated by discontinued operations	69,222

	As at 31 December 2018 RMB'000
Consideration received or receivable:	
Cash	–
Fair value of loan to an associate and other related party	1,664,174
Total disposal consideration	1,664,174
Carrying amount of net assets sold	(1,657,443)
Profit on sale before income tax and reclassification of foreign currency translation reserve	6,731
Income tax expense	–
Gain on sale after income tax	6,731

35 DISCONTINUED OPERATIONS

(c) Details of the sale of the discontinued operations

At the time of the disposal, the fair value of loan to an associate and other related party was determined to be approximately RMB1,664,174,000. It has been recognised as financial assets at amortised cost.

The carrying amounts of assets and liabilities as at the date of disposal (31 December 2018) were:

	As at 31 December 2018 RMB'000
ASSETS	
Non-current assets	
Lease prepayments	176,960
Property, plant and equipment	1,071,937
Payment for acquisition of leasehold prepayment	104,785
Intangible assets	163,669
Deferred income tax assets	36,973
Trade and other receivables	48,292
Other non-current assets	2,703
Total non-current assets	1,605,319
Current assets	
Inventories	125,229
Trade and other receivables	239,454
Amount due from customers for contract work	–
Contract assets	327,885
Pledged bank deposits	22,330
Cash and cash equivalents	93,736
Total current assets	808,634
Total assets	2,413,953
LIABILITIES	
Current liabilities	
Trade and other payables	747,451
Provisions for other liabilities and charges	9,059
Total current liabilities	756,510
Total liabilities	756,510

36 CONTINGENCIES

On June 2018, the Group received a Notification of Proceeding served by the Court pursuant to which Shanghai Shangshi International Trade (Group) Co., Ltd. (上海上實國際貿易(集團)有限公司)(the "Plaintiff") commenced a legal proceedings against Honghua (Jiangsu) as the first defendant and Honghua China as the second defendant.

Pursuant to the civil complaint, the plaintiff signed the purchase agency contract with Honghua (Jiangsu) in 2015 pursuant to which, the Plaintiff was engaged by Honghua (Jiangsu) to purchase equipment and materials. The purchase was guaranteed by Honghua China. The Plaintiff alleged that, up to now, Honghua (Jiangsu) and Honghua China should pay the Plaintiff RMB320,693,000 for the materials and equipment procurement costs, agency fee and respective interests thereon.

On 5 August 2015, Honghua (Jiangsu) and LNG Power Shipping Co., Ltd. ("LNG Power Shipping") entered into a shipbuilding contract pursuant to which Honghua (Jiangsu) shall build and sell to LNG Power Shipping 200 sets of LNG power ships. Due to the fact that the payment by LNG Power Shipping for the ships was not paid in the progress as expected and due to the project management of LNG Power Shipping, the progress of the shipbuilding was delayed, resulting in Honghua (Jiangsu)'s failure to pay the Plaintiff relevant fees on time.

On 17 October 2018, Plaintiff requested that Honghua (Jiangsu) and Honghua China should pay compensation of RMB190,289,000 for payment overdue.

On 7 November 2019, the first judgement was issued by Shanghai Maritime Court of Appeals that Honghua (Jiangsu) should pay an aggregate amount of RMB336,621,000 and the late payment penalty thereon from 15 February 2018 which is calculated at 1.3 times of the Renminbi benchmark loan interest rate for financial institutions of the same terms published by the People's Bank of China up to the date of actual payment.

On 11 November 2019, Honghua (Jiangsu) and the Group filed an appeal to the Shanghai Higher People's Court. The judgement has not yet to be made as at 31 December 2019.

As at 31 December 2019, Honghua (Jiangsu) has already made the liabilities for the above materials and equipment procurement costs and agency fee of RMB302,140,000. Based on the assessment, management of the Company believed that the possibility of paying the liabilities arising from the guarantee provided by Honghua China was relatively low.

37 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Balance sheet of the Company

	Note	As at 31 December **2019** **RMB'000**	 2018 RMB'000
ASSETS			
Non-current assets			
Investments in subsidiaries		**3,357,027**	3,357,027
Total non-current assets		**3,357,027**	3,357,027
Current assets			
Other receivables		**216**	1,554
Amounts due from subsidiaries		**1,718,731**	1,139,152
Cash and cash equivalents		**1,220**	1,600
Total current assets		**1,720,167**	1,142,306
Total assets		**5,077,194**	4,499,333
EQUITY			
Equity attributable to owners of the Company			
Share capital		**488,023**	488,015
Other reserves	(a)	**3,835,393**	3,755,104
Accumulated losses	(a)	**(674,725)**	(602,839)
Total equity		**3,648,691**	3,640,280
LIABILITIES			
Non-current liabilities			
Borrowings		**1,383,779**	–
Current liabilities			
Borrowings		**–**	838,318
Other payables		**44,724**	20,735
Total liabilities		**1,428,503**	859,053
Total equity and liabilities		**5,077,194**	4,499,333

The balance sheet of the Company was approved by the Board of Directors on 30 March 2020 and was signed on its behalf:

Jin Liliang	**Zhang Mi**
Director	*Director*

37 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (CONTINUED)

(a) Reserve movement of the Company

	Share capital RMB’000	Share premium RMB’000	Other reserve RMB’000	Capital reserve RMB’000	Exchange reserve RMB’000	Shares held for share award scheme RMB’000	Accumulated losses RMB’000	Total RMB’000
Balance at 1 January 2018	487,983	3,596,927	389,691	99,850	(374,684)	(124,618)	(497,507)	3,577,642
Loss for the year	–	–	-	–	–	–	(105,332)	(105,332)
Other comprehensive income	–	–	–	–	167,652	–	–	167,652
Total comprehensive income	–	–	–	-	167,652	–	(105,332)	62,320
Shares issued under share option scheme	32	169	–	(53)	–	–	–	148
Equity-settled share-based transactions	–	–	–	170	-	–	–	170
Total transactions with owners, Recognised directly in equity	32	169	–	117	–	–	–	318
Balance at 31 December 2018	488,015	3,597,096	389,691	99,967	(207,032)	(124,618)	(602,839)	3,640,280
Balance at 1 January 2019	**488,015**	**3,597,096**	**389,691**	**99,967**	**(207,032)**	**(124,618)**	**(602,839)**	**3,640,280**
Loss for the year	**-**	**-**	**-**	**-**	**-**	**-**	**(71,886)**	**(71,886)**
Other comprehensive income	**-**	**-**	**-**	**-**	**80,180**	**-**	**-**	**80,180**
Total comprehensive income	**-**	**-**	**-**		**80,180**	**-**	**(71,886)**	**8,294**
Equity-settled share-based transactions	**-**	**-**	**-**	**83**	**-**	**-**	**-**	**83**
Shares issued under share option scheme	**8**	**83**	**-**	**(57)**	**-**	**-**	**-**	**34**
Total transactions with owners, Recognised directly in equity	**8**	**83**	**-**	**26**	**-**	**-**	**-**	**117**
Balance at 31 December 2019	**488,023**	**3,597,179**	**389,691**	**99,993**	**(126,852)**	**(124,618)**	**(674,725)**	**3,648,691**

38 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 2019:

Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiaries 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						
Jin Liliang	–	690	70	567	–	1,327
Executive Directors						
Zhang Mi	–	673	–	1,317	–	1,990
Ren Jie	–	485	69	640	-	1,194
Non-executive Directors						
Chen Wenle	–	–	–	–	–	–
Han Guangrong	–	–	–	–	–	–
Independent Non-executive Directors						
Chen Guoming	106	–	–	–	–	106
Su Mei	106	–	–	–	–	106
Liu Xiaofeng	212	–	–	–	–	212
Pan Zhaoguo	159	–	–	–	–	159
Chang Qing	106	–	–	–	–	106
Wu Yuwu (passed away on 29 May 2019)	94	–	–	–	–	94
Wei Bin (appointed with effect from 29 August 2019)	72	–	–	–	–	72
Total	855	1,848	139	2,524	–	5,366

38 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 2018:

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

Name	Fees	Basic salaries, allowances and other benefits in kind	Contributions to defined contribution retirement scheme	Discretionary bonuses	Equity-settled share-based payment expenses	Total
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Chairman and Executive Director						
Chen Yajun (resigned with effect from 24 August 2018)	–	460	39	–	–	499
Jin Liliang (appointed with effect from 24 August 2018)	–	287	24	507	–	818
Executive Directors						
Zhang Mi	–	631		1,186	–	1,817
Ren Jie (Chief executive officer)	–	613	57	753	-	1,423
Non-executive Directors						
Chen Wenle	–	–	–	–	–	–
Han Guangrong	–	–	–	–	–	–
Independent Non-executive Directors						
Liu Xiaofeng	211	–	–	–	–	211
Qi Daqing (resigned with effect from 1 January 2018)	–	–	–	–	–	–
Wu Yuwu (appointed with effect from 1 January 2018)	203	–	–	–	–	203
Chen Guoming	110	–	–	–	–	110
Su Mei	110	–	–	–	–	110
Pan Zhaoguo	152	–	–	–	–	152
Chang Qing	101	–	–	–	–	101
Total	887	1,991	120	2,446	–	5,444

38 BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

(b) Directors' retirement benefits and termination benefits

For the years ended 31 December 2019 and 2018, 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 2019, the Company did not provide any consideration to any third party for making available director's services (2018: 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 2019, no loans, quasi-loans or other dealings in favour of directors of the Company, controlled bodies corporate by and connected entities with such directors (2018: 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 34, 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.

39 FINANCIAL INSTRUMENTS BY CATEGORY

The Group holds the following financial instruments:

Financial Assets		**As at 31 December**	
	Notes	**2019** **RMB'000**	2018 RMB'000
Financial assets at amortized cost			
– Trade and bills receivables	19	**3,684,565**	2,841,884
– Finance lease receivables	19	**238,132**	189,016
– Other receivables (include non-trade amounts due from related parties)	19	**477,398**	346,873
– Debt investment	20	**122,821**	–
– Loan to an associate and other related party	3.1(b)	**1,538,459**	1,664,174
– Pledged bank deposits	22	**268,673**	137,302
– Cash and cash equivalents	22	**889,802**	685,500
Financial assets at fair value through other comprehensive income			
– Bank acceptance bill receivables	3.3(c)	**78,272**	78,462
– Investment in unlisted companies at FVOCI	3.3(c)	**104,264**	89,475
		7,402,386	6,066,323

Financial liabilities		**As at 31 December**	
	Notes	**2019** **RMB'000**	2018 RMB'000
Liabilities at amortized cost			
Trade and other payables (exclude payroll and welfare payables, other tax payables and receipts in advance)	26	**2,686,094**	2,195,750
Borrowings	27	**4,009,369**	3,120,450
Lease liabilities	17	**110,972**	–
Provisions for other liabilities and charges		**–**	145,191
		6,806,435	5,461,391

The Group's exposure to various risks associated with the financial instruments is discussed in Note 3. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.

40 EVENTS OCCURRING AFTER THE REPORTING PERIOD

After the outbreak of Coronavirus Disease 2019 (“COVID-19 outbreak”) in early 2020, a series of precautionary and control measures have been and continued to be implemented across the country/region. The Group will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Group. As at the date on which this set of financial statements were authorised for issue, the Group was not aware of any material adverse effects on the financial statements as a result of the COVID-19 outbreak.

FIVE-YEAR FINANCIAL HIGHLIGHTS

	2019	2018	2017	2016	2015
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Consolidated Statement of profit or loss					
Revenue	**4,425,686**	4,205,162	2,175,856	2,147,592	4,219,253
Cost of sales	**3,109,852**	(3,122,890)	(1,540,763)	(1,789,716)	(3,272,716)
Gross profit	**1,315,834**	1,082,272	635,093	357,876	946,537
Distribution costs	**(357,273)**	(313,211)	(232,616)	(369,608)	(472,764)
Administrative expenses	**(503,486)**	(469,484)	(422,090)	(589,195)	(584,016)
Net impairment losses on financial and contract assets	**(190,989)**	(93,829)	(133,094)	–	–
Other income	**(11,954)**	90,678	92,652	126,732	(77,504)
Other gains/(losses), net	**126,259**	43,005	(43,319)	9,210	(9,863)
Operating profit/(loss)	**378,391**	339,431	(103,374)	(464,985)	(42,602)
Finance expenses – net	**(208,903)**	(163,405)	(214,203)	(77,496)	(261,835)
Share of net losses of associates and joint ventures accounted for using the equity method	**(3,223)**	(32,444)	(28,968)	(418)	2,718
Profit/(loss) before income tax	**166,265**	143,582	(346,545)	(542,899)	(301,719)
Income tax expenses	**(33,776)**	(33,897)	(48,651)	25,428	35,853
Profit/(loss) from continuing operations	**132,489**	109,685	(395,196)	(517,471)	–
Discontinued operations					
Loss from discontinued operations	**-**	(13,063)	(834,386)	(109,778)	–
Profit/(loss) for the year	**132,489**	96,622	(1,229,582)	(627,249)	(265,866)
Profit/(loss) attributable to:					
– Owners of the company	**107,472**	82,287	(1,239,368)	(609,689)	(252,207)
– Non-controlling interests	**25,017**	14,335	9,786	(17,560)	(13,659)
Profit/(loss) per share from continuing and discontinued operations attributable to owners of the Company (expressed in RMB cents per share)					
Basic profit/(loss) per share	**2.03**	1.55	(26.50)	(19.18)	(7.93)
Diluted profit/(loss) per share	**2.03**	1.55	(26.50)	(19.18)	(7.93)
Dividend					
Dividends declared and paid	**-**	–	–	–	–
Dividends declared and paid per share	**-**	–	–	–	–
Dividend proposed after balance sheet date	**-**	–	–	–	–
Dividend proposed after balance sheet date per share	**-**	–	–	–	–

FIVE-YEAR FINANCIAL HIGHLIGHTS

	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
Consolidated Balance Sheet					
Total non-current assets	**5,298,467**	4,772,175	2,334,095	4,415,887	4,791,979
Total current assets	**6,455,861**	5,544,922	7,732,449	6,851,879	8,390,361
Total assets	**11,754,328**	10,317,097	10,066,544	11,267,766	13,182,340
Total current liabilities	**5,033,409**	5,374,100	3,938,579	5,022,637	6,001,637
Total non-current liabilities	**2,240,542**	624,086	1,950,315	2,161,677	2,406,517
Total liabilities	**7,273,951**	5,998,186	5,888,894	7,184,314	8,408,154
Total equity	**4,480,377**	4,318,911	4,177,650	4,083,452	4,774,186
Key financial ratios					
Profitability					
Gross margin from continuing operations	**29.7%**	25.7%	29.2%	16.7%	22.4%
EBITDA margin	**12.6%**	11.7%	(24.0%)	(13.4%)	7.4%
Net margin	**2.4%**	2.0%	(57.0%)	(28.4%)	(6.0%)
Return					
Return on average equity	**2.6%**	2.0%	(31.3%)	(14.4%)	(5.4%)
Return on average assets	**1.0%**	0.8%	(11.6%)	(5.0%)	(1.8%)
Liquidity					
Current ratio	**1.28**	1.03	1.96	1.36	1.40
Quick ratio	**1.03**	0.74	1.50	0.94	1.04
Turnover					
Turnover of average trade and bills receivable	**247**	191	172	453	304
Turnover of average trade and bills payable	**239**	174	128	348	321
Turnover of average inventory	**166**	198	160	378	287
Gearing					
Total debts/Total assets	**34.1%**	30.2%	32.9%	38.2%	35.4%
Total liabilities/Total assets	**61.9%**	58.1%	58.5%	63.8%	63.8%
EBIT/Interest expenses	**1.66**	2.07	(3.56)	(2.38)	(0.16)

Note:

Profitability

Gross margin = Gross profit/Revenue

EBITDA = profit/(Loss) from operations + Share of net losses of associates and joint ventures accounted for using the equity method + Depreciation + Amortisation

EBITDA margin = EBITDA/Revenue

Net margin = (Loss)/profit attributable to equity shareholders of the Company/Revenue

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/Revenue

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 = (profit/(Loss) from operations + Share of net losses of associates and joint ventures accounted for using the equity method)/Interest expenses (including the interest expense capitalised into assets under construction)

宏华集团有限公司
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