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宏华集团
HONGHUA GROUP

Honghua Group Limited
宏華集團有限公司

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

**ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2017**

	Six months ended 30 June		
	2017	2016	% change
	RMB'000	RMB'000	
	(Unaudited)	(Unaudited)	
Turnover (RMB'000)	819,223	1,295,927	-36.8%
Gross profit (RMB'000)	45,044	203,504	-77.9%
Gross profit margin (%)	5.5%	15.7%	
Loss from operations (RMB'000)	(346,988)	(201,200)	72.5%
Loss attributable to equity shareholders of the Company (RMB'000)	(390,908)	(250,894)	55.8%
Loss per share			
— Basic (RMB cents)	(9.64)	(7.89)	22.2%
— Diluted (RMB cents)	(9.64)	(7.89)	22.2%
The Board does not recommend payment of interim dividend for the six months ended 30 June 2017.			

INTERIM RESULTS

The Board of the Company hereby announces the unaudited interim financial results of the Group for the six months ended 30 June 2017, together with the comparative figures for the corresponding period in 2016.

The interim financial report for the six months ended 30 June 2017 is unaudited, but has been reviewed by PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants whose unmodified review report is included in the interim financial report to be sent to shareholders of the Company.

These interim results have also been reviewed by the Audit Committee, comprising solely the independent non-executive Directors, one of whom chairs the Audit Committee.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2017

		Unaudited	
		Six months ended 30 June	
	<i>Note</i>	2017	2016
		RMB'000	RMB'000
Revenue	3	819,223	1,295,927
Cost of sales		(774,179)	(1,092,423)
Gross profit		45,044	203,504
Distribution expenses		(167,291)	(131,560)
Administrative expenses		(228,792)	(278,240)
Other losses, net		(57,311)	(9,039)
Other income		61,362	14,135
Operating loss	4	(346,988)	(201,200)
Finance income		19,030	82,702
Finance expenses		(118,284)	(130,506)
Finance expenses-net		(99,254)	(47,804)
Share of post-tax profits of associates		565	2,535
Share of post-tax losses of joint ventures		(2,180)	(1,421)
Loss before income tax		(447,857)	(247,890)
Income tax expense	5	50,566	(2,389)
Loss for the period		(397,291)	(250,279)
Loss attributable to:			
— Owners of the Company		(390,908)	(250,894)
— Non-controlling interests		(6,383)	615
		(397,291)	(250,279)
Loss per share attributable to owners of the Company (expressed in RMB cents per share)			
Basic and diluted	6	(9.64)	(7.89)

**UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF
COMPREHENSIVE INCOME**

For the six months ended 30 June 2017

	Unaudited	
	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Loss for the period	<u>(397,291)</u>	<u>(250,279)</u>
Other comprehensive income		
<i>Items that may be reclassified to profit or loss</i>		
Currency translation differences	<u>(11,387)</u>	<u>10,223</u>
Other comprehensive income for the period, net of tax	<u>(11,387)</u>	<u>10,223</u>
Total comprehensive income for the period	<u><u>(408,678)</u></u>	<u><u>(240,056)</u></u>
Total comprehensive income attributable to:		
— Owners of the Company	<u>(401,811)</u>	<u>(243,454)</u>
— Non-controlling interests	<u>(6,867)</u>	<u>3,398</u>
	<u><u>(408,678)</u></u>	<u><u>(240,056)</u></u>

UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2017

	<i>Note</i>	Unaudited 30 June 2017 RMB'000	Audited 31 December 2016 RMB'000
ASSETS			
Non-current assets			
Lease prepayments		375,560	379,582
Property, plant and equipment	7	2,714,364	2,794,054
Payment for acquisition of leasehold prepayments		148,166	148,166
Intangible assets	7	225,642	230,913
Investments in associates		62,380	61,771
Investments in joint ventures		42,560	44,754
Deferred income tax assets		471,169	415,701
Available-for-sale financial assets		88,294	88,294
Trade and other receivables	8	244,680	252,652
Total non-current assets		4,372,815	4,415,887
Current assets			
Inventories		2,046,248	2,116,147
Trade and other receivables	8	2,544,976	3,431,335
Amount due from customers for contract work	9	287,690	181,503
Current tax recoverable		4,103	3,797
Available-for-sale financial assets		18,800	15,000
Pledged bank deposits		528,386	559,737
Cash and cash equivalents		1,850,033	544,360
Total current assets		7,280,236	6,851,879
Total assets		11,653,051	11,267,766

**UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEET
(CONTINUED)**

As at 30 June 2017

	<i>Note</i>	Unaudited 30 June 2017 RMB'000	Audited 31 December 2016 RMB'000
EQUITY			
Equity attributable to owners of the Company			
Share capital		487,944	300,983
Other reserves		4,246,576	3,007,063
Retained earnings		200,477	590,864
		<u>4,934,997</u>	<u>3,898,910</u>
Non-controlling interests		156,274	184,542
		<u>5,091,271</u>	<u>4,083,452</u>
LIABILITIES			
Non-current liabilities			
Deferred income		76,142	72,763
Borrowings	<i>10</i>	1,923,811	2,086,126
Trade and other payables	<i>11</i>	–	2,788
		<u>1,999,953</u>	<u>2,161,677</u>
Current liabilities			
Deferred income		7,330	38,567
Trade and other payables	<i>11</i>	2,267,792	2,677,890
Current income tax liabilities		47,099	53,080
Borrowings	<i>10</i>	2,118,706	2,212,922
Provisions for other liabilities and charges		120,900	40,178
		<u>4,561,827</u>	<u>5,022,637</u>
Total current liabilities		<u>4,561,827</u>	<u>5,022,637</u>
Total liabilities		<u>6,561,780</u>	<u>7,184,314</u>
Total equity and liabilities		<u>11,653,051</u>	<u>11,267,766</u>

1 GENERAL INFORMATION

Honghua Group Limited (the “Company”) and its subsidiaries (together, the “Group”) are principally engaged in manufacturing drilling rigs, offshore engineering, and oil 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’s shares are listed on The Stock Exchange of Hong Kong Limited.

This interim condensed consolidated financial information is presented in Chinese Renminbi (“RMB”), unless otherwise stated.

This interim condensed consolidated financial information has not been audited.

Significant events and transactions

In May 2017, the Company completed the issuance of 2,114,000,000 new shares to China Aerospace Science and Industry Corporation (“CASIC”) and public investors.

2 ACCOUNTING POLICIES

Basis of preparation

This interim condensed consolidated financial information for the six months ended 30 June 2017 has been prepared in accordance with IAS 34, ‘Interim financial reporting’. The interim condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with IFRSs.

Accounting policies

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2016, as described in those annual financial statements, except for the estimation of income tax using the tax rate that would be applicable to expected total annual earnings and the adoption of amendments to IFRSs effective for the financial year ending 31 December 2017.

(a) Amendments to IFRSs effective for the financial year ending 31 December 2017 do not have a material impact on the Group.

(b) ***Impact of standards issued but not yet applied by the Group***

(i) *IFRS 9 Financial instruments*

IFRS 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The Group has decided not to adopt IFRS 9 until it becomes mandatory on 1 January 2018.

The Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets for the following reasons:

- The debt instruments that are currently classified as available-for-sale (AFS) financial assets appear to satisfy the conditions for classification as at fair value through other comprehensive income (FVOCI) and hence there will be no change to the accounting for these assets.
- A FVOCI election is available for the equity instruments which are currently classified as AFS.
- Equity investments currently measured at fair value through profit or loss (FVPL) will likely continue to be measured on the same basis under IFRS 9.

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

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

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

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

(ii) *IFRS 15 Revenue from contracts with customers*

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers revenue arising from the sale of goods and the rendering of services and IAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption. The new standard is effective for first interim periods within annual reporting periods beginning on or after 1 January 2018. The Group will adopt the new standard from 1 January 2018.

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

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

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

(iii) IFRS 16 Leases

IFRS 16 was issued in January 2016. It will result in almost all leases being recognized on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of approximately RMB8,397,000. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

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

The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

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

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

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

The following table presents revenue and profit information regarding the Group's operating segments for the six months ended 30 June 2017 and 2016 respectively.

	Land drilling rigs		Parts and components and others				Offshore drilling rigs		Oil and gas engineering services		Total	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June			
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Revenue from external customers	165,374	355,631	481,193	712,379	118,217	148,409	54,439	79,508	819,223	1,295,927		
Inter-segment revenue	-	-	31,570	128,872	-	1,197	1,746	-	33,316	130,069		
Reportable segment revenue	<u>165,374</u>	<u>355,631</u>	<u>512,763</u>	<u>841,251</u>	<u>118,217</u>	<u>149,606</u>	<u>56,185</u>	<u>79,508</u>	<u>852,539</u>	<u>1,425,996</u>		
Reportable segment (loss)/profit	<u>(66,353)</u>	<u>14,315</u>	<u>(153,221)</u>	<u>14,137</u>	<u>(61,512)</u>	<u>(46,119)</u>	<u>(36,994)</u>	<u>(150,832)</u>	<u>(318,080)</u>	<u>(168,499)</u>		

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 six months ended 30 June 2017, such information was not reviewed by the Group's chief operating decision maker. Accordingly, no segment assets and liabilities are presented.

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

	Six months ended 30 June	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Segment loss		
— for reportable segments	(318,080)	(168,499)
Elimination of inter-segment profits/(losses)	3,341	(1,805)
	<hr/>	<hr/>
Segment loss derived from Group's external customers	(314,739)	(170,304)
Share of post-tax profits of associates	565	2,535
Share of post-tax losses of joint ventures	(2,180)	(1,421)
Other income and other losses, net	4,051	5,096
Finance income	19,030	82,702
Finance expenses	(118,284)	(130,506)
Unallocated head office and corporate expenses	(36,300)	(35,992)
	<hr/>	<hr/>
Loss before income tax	(447,857)	(247,890)
	<hr/> <hr/>	<hr/> <hr/>

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

	Six months ended 30 June	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
PRC (country of domicile)	226,840	363,334
Americas	211,492	415,763
Middle East	205,839	287,084
Europe and Central Asia	159,060	171,596
South Asia and South East Asia	—	4,649
Africa	15,992	53,501
	<hr/>	<hr/>
	819,223	1,295,927
	<hr/> <hr/>	<hr/> <hr/>

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

	30 June 2017 RMB'000	31 December 2016 RMB'000
PRC (country of domicile)	3,435,334	3,533,041
Americas	45,977	49,996
Middle East	181,604	192,981
Europe and Central Asia	96,560	92,792
South Asia and South East Asia	–	–
Africa	53,877	43,082
	<u>3,813,352</u>	<u>3,911,892</u>

For the six months ended 30 June 2017, revenue of approximately RMB172 million (for the six months ended 30 June 2016: RMB322 million) is derived from one external customer (for the six months ended 30 June 2016: one external customer). The revenue is attributable to the Land drilling rigs in the Middle East (for the six months ended 30 June 2016: parts and components in the Americas).

4 OPERATING LOSS

The following items have been charged/(credited) to the operating loss during the period:

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Provision for legal claim	50,516	–
Provision for impairment of trade and other receivables	34,493	13,979
Write down of inventories	15,505	20,824
Losses/(Gains) on disposal of property, plant and equipment, lease prepayment and other intangible assets	139	(3,789)
Impairment charge relating to oil and gas engineering services cash generating unit (“O&GCGU”)	–	49,907
	<u>–</u>	<u>49,907</u>

5 INCOME TAX EXPENSE

Taxation in the interim condensed consolidated statement of profit or loss represents:

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Current income tax		
— Hong Kong Profits Tax ⁽ⁱ⁾	172	839
— the People's Republic of China (the "PRC") ⁽ⁱⁱ⁾	1,355	7,028
— Other jurisdictions ⁽ⁱⁱⁱ⁾	4,176	2,986
Deferred income tax	(56,269)	(8,464)
	<u>(50,566)</u>	<u>2,389</u>

(i) Hong Kong

The provision for Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits of the subsidiaries of the Group incorporated in Hong Kong during the six months ended 30 June 2017.

(ii) PRC

Pursuant to the income tax rules and regulations of the PRC, the subsidiaries of the Group in the PRC are subject to PRC enterprise income tax at a rate of 25% during the six months ended 30 June 2017, except for the following company:

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

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

(iii) Others

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

Income tax expense is recognised based on management's estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the year ending 31 December 2017 is 19% (the estimated tax rate for the six months ended 30 June 2016 was 17%).

6 LOSS PER SHARE

The calculation of basic loss per share for the six months ended 30 June 2017 is based on the loss attributable to owners of the Company for the period of RMB390,908,000 (six months ended 30 June 2016: loss of RMB250,894,000) and the weighted average number of shares of 4,055,504,000 (six months ended 30 June 2016: 3,178,968,000 shares) in issue during the period.

Diluted earnings per share is the same as basic loss per share as there are no potential dilutive shares outstanding for all periods presented.

	Six months ended 30 June	
	2017	2016
Loss attributable to owners of the Company (RMB'000)	<u>(390,908)</u>	<u>(250,894)</u>
Weighted average number of ordinary shares in issue (thousands)	4,117,593	3,241,057
Effect of the share award scheme (thousands)	(62,089)	(62,089)
Effect of share options exercised (thousands)	<u>–</u>	<u>–</u>
Adjusted weighted average number of ordinary shares in issue (thousands)	<u>4,055,504</u>	<u>3,178,968</u>
Basic and diluted loss per share (RMB cents per share)	<u>(9.64)</u>	<u>(7.89)</u>

7 PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	Property, plant and equipment <i>RMB'000</i>	Freehold land <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Goodwill <i>RMB'000</i>	Other intangible assets ⁽ⁱ⁾ <i>RMB'000</i>
Six months ended					
30 June 2017					
Net book value					
Opening amount as at					
1 January 2017	2,440,466	5,897	347,691	–	230,913
Additions	32,632	–	11,498	–	19,665
Transfer from construction in progress	12,443	–	(12,443)	–	–
Disposals	(4,354)	–	–	–	(449)
Depreciation and amortisation	(113,209)	–	–	–	(21,965)
Currency translation difference	(6,119)	(138)	–	–	(2,522)
Closing amount as at	2,361,859	5,759	346,746	–	225,642
Six months ended					
30 June 2016					
Net book value					
Opening amount as at					
1 January 2016	2,332,906	5,995	800,192	13,484	220,777
Additions	14,482	–	40,257	–	20,100
Transfer from construction in progress	46,179	–	(46,179)	–	–
Disposals	(27,160)	–	–	–	(1,060)
Impairment	(36,423)	–	–	(13,484)	–
Depreciation and amortisation	(109,346)	–	–	–	(20,059)
Currency translation difference	4,343	127	–	–	2,073
Closing amount as at	2,224,981	6,122	794,270	–	221,831

(i) During the six months ended 30 June 2017, the Group capitalised development cost of approximately RMB19,242,000 (30 June 2016: RMB10,931,000).

(ii) As at 30 June 2017, bank borrowings are secured by property, plant and equipment with a net book value of approximately RMB89,514,000 (31 December 2016: RMB122,064,000) (Note 10).

8 TRADE AND OTHER RECEIVABLES

	30 June 2017 RMB'000	31 December 2016 RMB'000
Trade receivables ⁽ⁱ⁾	1,708,055	2,515,227
Bills receivable ⁽ⁱ⁾	24,168	123,272
Less: provision for impairment of trade receivables	(139,435)	(297,241)
	1,592,788	2,341,258
Amount due from related parties		
— Trade ⁽ⁱ⁾	48,121	46,019
— Non-trade	33,602	27,882
Finance lease receivable	169,195	178,205
Less: provision for impairment of finance lease receivable	(35,738)	(30,932)
Value-added tax recoverable	206,545	209,208
Prepayments	388,910	379,851
Other receivables	533,940	649,677
Less: provision for impairment of other receivables	(147,707)	(117,181)
	2,789,656	3,683,987
Representing:		
Current portion	2,544,976	3,431,335
Non-current portion	244,680	252,652
Total	2,789,656	3,683,987

- (i) As at 30 June 2017 and 31 December 2016, 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 were as follows:

	30 June 2017 RMB'000	31 December 2016 RMB'000
Within 3 months	272,723	584,291
3 to 12 months	503,603	467,157
Over 1 year	864,583	1,335,829
	1,640,909	2,387,277

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.

9 CONTRACT WORK-IN-PROGRESS

	30 June 2017 RMB'000	31 December 2016 RMB'000
Contract cost incurred plus recognised profit less recognised losses	350,281	425,452
Less: progress billings	(60,951)	(243,949)
Less: provision of contract work-in-progress	(1,640)	–
	<u>287,690</u>	<u>181,503</u>
Contract work-in-progress		
Representing:		
Amount due from customers for contract work	<u>287,690</u>	<u>181,503</u>
	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Contract revenue recognised as revenue	<u>118,217</u>	<u>148,409</u>

10 BORROWINGS

	30 June 2017 RMB'000	31 December 2016 RMB'000
(a) Bank loans		
Secured ⁽ⁱ⁾		
— Current portion	490,950	648,751
— Non-current portion	340,261	368,907
	<u>831,211</u>	<u>1,017,658</u>
Unsecured		
— Current portion	1,424,256	1,560,286
— Non-current portion	240,000	342,000
	<u>1,664,256</u>	<u>1,902,286</u>
Total bank loans	<u>2,495,467</u>	<u>2,919,944</u>

	30 June 2017 RMB'000	31 December 2016 RMB'000
(b) Others		
Secured loan from related party		
— Current portion	3,500	3,885
— Non-current portion	4,582	5,874
	8,082	9,759
Senior notes ⁽ⁱⁱ⁾	1,338,968	1,369,345
Short-term Financing Debentures ⁽ⁱⁱⁱ⁾	200,000	–
Total borrowings	4,042,517	4,299,048
Current borrowings	2,118,706	2,212,922
Non-current borrowings	1,923,811	2,086,126
Total borrowings	4,042,517	4,299,048

(i) As at 30 June 2017, the bank loans were secured by land use right of RMB26,380,000 (31 December 2016: RMB27,052,000), property, plant and equipment of RMB89,514,000 (31 December 2016: RMB122,064,000), bank deposits of RMB315,420,000 (31 December 2016: RMB311,745,000) and 20% equity interest of Sichuan Honghua Petroleum Equipment Co., Ltd. (“Honghua Company”), a subsidiary of the Group.

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

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

(iii) On 15 March 2017, Honghua Company issued the first tranche of Short-term Financing Debentures with an aggregate principal amount of RMB200,000,000, a term of 180 days, on nominal value of RMB100 per unit and with interest rate of 6.8% per annum.

Movements in borrowings is analysed as follows:

RMB'000

Six months ended 30 June 2017

Opening amount as at 1 January 2017	4,299,048
Additions	766,952
Repayments	(1,013,168)
Currency translation differences	(10,315)

Closing amount as at 30 June 2017	<u><u>4,042,517</u></u>
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Six months ended 30 June 2016

Opening amount as at 1 January 2016	4,664,431
Additions	1,293,247
Repayments	(1,503,814)
Currency translation differences	14,126

Closing amount as at 30 June 2016	<u><u>4,467,990</u></u>
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11 TRADE AND OTHER PAYABLES

	30 June 2017 <i>RMB'000</i>	31 December 2016 <i>RMB'000</i>
Trade payables	1,075,982	1,335,588
Amounts due to related companies		
— Trade	56,018	17,290
— Non-trade	9,000	32
Bills payable	349,515	362,580
Receipts in advance	387,829	431,397
Other payables	389,448	533,791
	<u><u>2,267,792</u></u>	<u><u>2,680,678</u></u>
Representing:		
Current portion	2,267,792	2,677,890
Non-current portion	<u><u>—</u></u>	<u><u>2,788</u></u>
Total	<u><u>2,267,792</u></u>	<u><u>2,680,678</u></u>

As at 30 June 2017 and 31 December 2016, the ageing analysis of the trade payables and bills (including amounts due to related parties of trading in nature) based on invoice date were as follows:

	30 June 2017 RMB'000	31 December 2016 RMB'000
Within 3 months	334,477	722,807
3 to 6 months	166,826	130,232
6 to 12 months	357,027	402,660
Over 1 year	623,185	459,759
	<u>1,481,515</u>	<u>1,715,458</u>

MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2017, the Group's revenue amounted to approximately RMB819 million, representing a decrease of 36.8% from RMB1,296 million for the same period of last Year. Gross profit was approximately RMB45 million, representing a decrease of 77.9% from RMB204 million for the same period last Year. The loss attributable to equity shareholders was approximately RMB391 million.

MARKET REVIEW

In the first half of 2017, the global oil & gas market was still full of uncertainties: following the oil production cut agreement ("Agreement") between Organization of Petroleum Exporting Countries ("OPEC") and non-OPEC countries reached for the first time in 15 years in last year, both parties have agreed in March this year to extend the agreement to March 2018, which brought a slightly upside momentum to the international oil price. However, with the rebounding of international oil price in the first quarter of the year, the shale oil production in U.S. recovered, thus limiting the effect of Agreement and leading to the largest dropping of the international oil price of the first half year since 1997 despite its steady rising from the low point of last year. Nevertheless, Barclays's Global Oil & Gas Capital Expenditure Survey for 2017 forecasted that global oil & gas capital expenditure might increase by 9% year-on-year. But, continuous volatility of the international oil price makes large oil companies continue to be on the fence about the upstream exploration expenditure. After a 20% to 30% decline in capital expenditure for upstream oil & gas exploration for two consecutive years, the market still need more momentum to be improved.

In the domestic market, clean energy sector achieved a favorable turn. In addition to being benefited from the rising of the environmental protection awareness and the further narrowing gap between oil and gas price, the development and utilization of conventional natural gas and unconventional shale gas witnessed abundant growth potential, supported by Chinese government's favorable clean energy policy. In early 2017, according to *Thirteenth Five-year Planning of Energy Development* ("The Plan"), National Development and Reform Commission ("NDRC") formulated *Thirteenth Five-year Plan for Oil Development* and *Thirteenth Five-year Plan for Natural Gas Development*. In the Plan, China will make great efforts in key unconventional natural gas areas including shale gas and coal bed methane, and will deepen the reform of oil and gas system and oil enterprises. China's oil and gas system reform will be implemented in the relaxation of control over market access, marketization pricing and other aspects, in order to expand the function of market supply and demand adjustment mechanism, as well as realize the goal that natural gas consumption accounting for 10% of one-off energy consumption volume (comparing the current natural gas consumption percentage of approximately 6%). With Chinese government's support for shale gas exploration and development, the exploitation of shale gas resource in Sichuan Basin is expected to speed up. Sichuan Shale Gas Exploration and Development Co., Ltd. ("Sichuan Shale Gas Corporation"), a joint venture company which is led by China National Petroleum Corporation ("CNPC") was established in Chengdu in May 2017, marking the establishment of the second shale gas company under the cooperation between the central and local government. Sichuan province has large clean energy reservation and is the largest clean energy production base in China. In recently years, Sichuan provincial government actively promotes the construction of natural gas and shale gas production fields, and plans to build a

benchmark natural gas production base in 2020, comprising shale gas fields located in northeastern Sichuan, central Sichuan and western Sichuan. At the same time, in order to realize the transformation of China's energy structure, Chinese government also enacted diversified measures for domestic natural gas development and utilization, and expand the development of Liquefied Natural Gas ("LNG"). The rapid development of China's natural gas industry is an irreversible trend, and it is expected to create favorable development opportunities for the leading enterprises with excellent technology and production capabilities in the industry in relation to oil and gas exploration and exploitation, storage and transportation.

Facing the complicated and changing international and domestic environment, Honghua successfully brought in the state-owned enterprise and hi-tech conglomerate — China Aerospace Science & Industry Corporation ("CASIC") to be the largest shareholder as a part of the mixed-ownership reform of state-owned enterprise in large oil and gas equipment manufacturing industry, which generated new impetus for the future development of Honghua. As a large scale state-owned enterprises with a focus on the development of national hi-tech industry, CASIC currently has seven A-share listed companies and became World's Top 500 enterprises in 2016 for the first time and ranked as the A level state-owned enterprises for consecutive nine years. CASIC'S business strategy can be summarized as "one core two wings" namely, space defense as the core business, information technology and equipment manufacturing as the main products, and implement the "military-civil integration" development strategy. In May, as part of its strategic deployment in the field of energy equipment, CASIC positioned Honghua as "Leading Enterprise of Energy Equipment Manufacturing", "Core Equipment Manufacturing Unit", "Core International Operation Unit" and "Overseas Investment and Financing Platform" after the completion of share subscription. Focusing on the four strategic principles, Honghua will strive to become the first-class international enterprise of oil and gas exploration and exploitation equipment and technology within the period of the 13th Five-year Plan.

BUSINESS REVIEW

1. Land Drilling Equipment and Related Products Business

In the first half of 2017, oil inventory and oversupply situation were still severe, and oil supply and demand was still looking for new balance point. Against this backdrop, the number of idle drilling rig across the globe was still large, which greatly restrained the new market demand for land drilling rigs. Facing the pressure of continuous industry downturn, Honghua actively explored business opportunities in the existing and new markets, across the industry chain, and sought new strategic cooperation. During the Period, Honghua signed 6 new land drilling rigs at total amount of approximately USD55 million. In the first half of the year, Honghua strived to expand new client base while also actively maintains and deepens the relationship with the old clients. In the Asia and Europe market, Honghua obtained an order of 50LDB drilling rig from an existing Turkish client, following the last engagement in 2013. In the Central-Asia's "Russian-dominated" market, Honghua continues to solidity and expand its market share, and signed the contracts of 5 land drilling rigs worth approximately USD50 million.

In terms of parts and components, while solidifying the existing dominated areas, Honghua also actively explores new markets and new customers, expands the sales range of parts and components in the overseas market where its subsidiary companies is located, and gained market shares. During the Period, Honghua has sold 28 sets of mud pumps, 10 sets of top drives and 6 sets of direct drive pumps. In terms of special equipment for shale gas, Honghua sold 4 sets of flexible water tanks and signed the rental agreement for 2 6,000-horsepowered electric fracturing pumps for the first time. At the same time, Honghua also actively expanded product-agent business and laid a solid foundation to further expand the sales of parts and components.

During the Period, with the support of CASIC, Honghua carried out innovative finance leasing business, and expanded the business with small and medium oil companies. In June, Honghua cooperated with Aerospace Science & Industry Financial Leasing Co., Ltd. (“ASIFL”), which is the subsidiary of CASIC, to sign its first domestic finance leasing agreement to sell the inventory products worth over RMB30 million. In the current low oil price, small and medium oil companies cannot afford high capital expenditure for oil rig and other drilling equipment. Such cooperation mode can provide small and medium oil companies with cost effective finance leasing services, and helps Honghua expand into new markets around the world.

In addition, Honghua’s new geophysical exploration business also made a breakthrough. By virtue of the rich experience and excellent technologies in the field of topography exploration, Honghua successfully engaged a new client in Bolivia and developed the two-dimension earthquake data collection project of geophysical exploration in the country. The contract for the new geophysical exploration project demonstrated that Honghua gradually expanded the service business of oil and gas exploration by replying on its equipment advantages, and made further expansion in worldwide markets and developed new profit driver in the future.

During the Period, Honghua also demonstrated new products, expanded client resources and carried out brand marketing by actively participating in large-scale international Expos and sales activities. In the exhibition in Russia, Honghua demonstrated the self-developed “Aurora” polar rig model. Since February 2016, “Aurora” polar rig has been operating in Russia’s arctic region Yamal, which opened a new chapter of operating in extreme wind and snow storm in the environment of -60 degrees centigrade. It is also China’s first self-developed drilling rig against extremely chilly weather, which marked Honghua’s excellent achievement in the industry. In the America’s Offshore Technology Conference (‘OTC’), Honghua demonstrated its unique “Jumbo Device” — offshore liquefied natural gas platform (“PLNG”) and super-high-power electric fracturing system as the core products with the combination of large-scale model, VR system and video, drew extensive attention from customers. As a world-leading oil rig manufacturer that has been active in the Middle East, Honghua also attended the 2017 Iran International Oil Exhibition. By the exhibitions mentioned above, Honghua not only highlighted its power in product R&D and innovation, but also repeatedly showed the creative concept of “offshore equipment manufactured onshore” and the powerful function of large hoisting equipment “Honghai Crane”. Under the uncertainty of international oil market, with the rising of “Made-in-China” and Chinese brand, new products with high cost-effective will likely provide more choices for global clients.

In the future, Honghua's land equipment manufacturing business segment will leverage the positioning of "Leading Enterprise of Energy Equipment Manufacture" by CASIC, take portability, intelligence, cost-effectiveness, environmental protection as the development directives for product and technology, capitalize the world-leading position in drilling equipment market and explore and expand the oil and gas equipment industry with high added-value and huge market potential. Through its core products, such as complete set of drilling rig, core parts and components, electric driven fracturing pump, Honghua plans to steadily extend equipment product line. At the same time, Honghua plans to continue to invest resources in the R&D of new generation of materials and technology, and develop downhole tools, exploration and transport equipment and other products, and realize the diversified development of energy equipment manufacturing.

2. Oil and Gas Engineering Services Business

During the Period, the international oil prices rebounded in continuous turbulence, which is favorable to the improvement of global oil and gas engineering services market. However, the output cut agreements between OPEC and non-OPEC countries still faced many uncertain factors, and oil companies were still conservative in capital expenditure. As of June 30th, 2017, Honghua had total 14 oil and gas engineering services team engaged in well drilling and directional well service in China and overseas markets. During the Period, the footage drilled amounted to 6,882 meters, another 9 directional wells were completed with a total drilled footage of 5,662 meters. Among which, the directional well project located in the Middle East commenced operation in early this year, and made huge progress, maintained 100% the project completion acceptance rate, which further laid a solid foundation for Honghua to expand overseas market. At the beginning of the year, in order to raise the utilizing rate of drilling rigs, Honghua actively leased its idle drilling rigs. During the Period, the utilization rate of Honghua's land drilling rig including leased rigs is over 50%.

During the Period, Honghua's integrated solution for shale gas has made significant breakthrough. Honghua signed a strategic cooperation agreement with SINOPEC East China Oil and Gas Company (中國石化股份公司華東油氣分公司, "East China Branch"), to build a mutual-beneficiary and sustainable strategic partnership in the field of shale gas exploration. On the same day, a non-binding Memorandum of Understanding ("MOU") between Honghua and Halliburton Energy Services (China) Limited ("Halliburton China") was signed which contemplated that the parties will be each other's preferred subcontractor in the integrated projects of well drilling and completion and shale gas projects in the Sichuan Basin area. Such strategic partnerships will enable Honghua to greatly expand its shale gas business in domestic market.

The strategic cooperation between Honghua and East China Branch began in May 2017. Honghua's self-developed electric large-powered fracturing pump with independent R&D, design and production successfully cooperated with SINOPEC East China Branch to complete a large-scale fracturing operation in the shale gas region of South PingQiao, Nanchuan, Chongqing. The fracturing operation adopted the combination of 2 sets of Honghua's 6000-horsepower electric fracturing pump and 18 sets of traditional 2500-horsepower fracturing pump on site. The field test showed that Honghua's single 6000-horsepower electric fracturing pump equates to 3 conventional 2500-horsepower

fracturing pump, and proves that single electric fracturing pump can save the fuel cost by 20% compared with the traditional fracturing pump. In the future, according to the strategic cooperation with East China Branch, Honghua will provide the leasing and sales service of electric large-power fracturing pump and other equipment for East China Branch's shale gas fields in Pengshui and other regions in China, and help East China Branch carry out sustainable shale gas exploration, further raise production rate and realize cost reduction and profitability enhancement.

During the Period, leverage on the rich resources of CASIC, Honghua continued to adjust market strategy at home and abroad, and focused on expand the EPC service for unconventional shale gas drilling, and capitalized on business opportunities in Sichuan — a major province of clean energy and the largest production base of clean energy in China. According to the official data, the total reserve volume of conventional natural gas in Sichuan Basin is 7.2 trillion cubic meters, the accumulative proven reserve is 3 trillion cubic meters, ranking the 3rd in China. The reserve of shale gas resource is 27.5 trillion cubic meters and the exploitable yield is 4.42 trillion cubic meters in Sichuan Province, both of which are largest and account for 20.5% and 17.7% in China respectively. Relying on its prospective deployment and the global resources in oil and gas equipment market, Honghua announced in 2012 its self-developed integrated solution and related equipment for shale gas exploration and development with the concept of “prioritizing distribution network, exploiting gas by using gas while simultaneously producing gas and electricity in an industrialized, assembly line operation format”. Through electricity produced by conventional, unconventional natural gas or associated gas on site, the solution can provide high-efficiency energy-saving module for on-site operation in relation to well drilling, well completion and gas exploitation. Combining with Honghua's self-developed oil and gas drilling equipment such as DBS fracturing system, approximately 80% of fuel cost of the operation can be reduced, the utilization rate of drilling rig can be improved, and greenhouse gas emissions can be reduced by up to 95%, all of which can help customers significantly improve operation efficiency and reduce production cost, boost the development of shale gas industry in China and even the world.

Overseas oil and gas engineering services market is Honghua's core development area. By virtue of Honghua's resources in overseas market and CASIC's vast sales network in emerging countries, such as “One Belt One Road” countries, Honghua will actively solidify the existing markets and expand into new business areas. Following the long-term development strategy, Honghua successfully acquired the membership of International Association of Drilling Contractors and the market access certificate of Zhongyuan Petroleum Engineering Co., Ltd. In addition, Honghua will strive to get more drilling qualifications of other markets in the second half of the year, so as to boost the business expansion in home and abroad, expand the customer base, and fully prepare the market recovery in the future.

3. Offshore Engineering Equipment and Related Products Business

In the first half of 2017, facing the new situation of oil and gas industry, Honghua's offshore business focused on equipment and facility construction for offshore LNG industrial chain, including the PLNG project, accelerated the commercialization of FSP LNG tank, and continue to target the delivery of LNG powered ship for-LNG Power Shipping within this year.

During the Period, the Pre-Front End Engineering and Design ("Pre-FEED") of Honghua's first offshore PLNG was completed and reviewed by the American Bureau of Shipping ("the ABS") and an Approval-in-Principle ("AIP") was granted. In May, Shanghai Honghua Offshore Oil and Gas Equipment Co., Ltd. ("Honghua Offshore"), a wholly-owned subsidiary of Honghua, entered into a Heads of Agreement (the "new HOA") with LNG 21 Partners, LLC ("LNG 21", formerly known as ARGO) Pursuant to the new HOA, LNG 21 intends to raise the consideration of their earlier purchased one set of PLNG from Honghua Offshore to approximately USD2.2 billion (equivalent to approximately HKD17.2 billion). The optimized PLNG project, with the CAPEX investment on unit liquefaction capability decreased to approximately USD500/ton, is expected to become the first US LNG facility with the CAPEX investment below USD600/ton, which will further enhance the competitiveness of the PLNG. Honghua will continue proceed the FEED research as well as complete the gas purchase project acquisition agreement, to speed up implementation of PLNG.

QUALITY MANAGEMENT AND R&D

During the Period, Honghua continued to focus on the strengthening the company's overall competitiveness. Honghua passed the approval of new ISO14001-2015 standard and obtained new certificates and successfully obtained Grade-2 qualification of safe production standardization.

In terms of HSE production management, Honghua fully implements the responsibility of safety production management with a focus on high-risk operation, and implements public supervision and rectification for hidden danger. At the same time, Honghua comprehensively implements 6S on-site management, carries out 6S special management, and formulates the operation standard and check-up system of 6S on-site management. Through the full implementation of 6S on-site management, the working environment is greatly improved. Together with the upgrade of automated equipment, safety risks are further reduced and staffs' occupational health is further guaranteed.

In the first half of the year, Honghua obtained 17 licensed patents and 9 authorized inventions. As of June 30, 2017, Honghua applied 584 patents, and obtained 443 licensed patents in total.

During the Period, in terms of R&D of downhole tool, Honghua has successfully developed 2 new products: Oil Sealing Motor and Hydraulic cross Climbing Device, which are used to improve drilling efficiency. The Hydraulic cross Climbing Device is the first finished product made in China. Honghua will further rely on CASIC's excellent exploration, technological

reserve which are the first-class level in China. In addition, Honghua will seek synergy from R&D of downhole tool, focus on the technology and equipment breakthrough in downhole equipment for drilling measurement, and continue to solidify Honghua's leading position in the field of oil and gas drilling equipment manufacture.

In addition, Honghua also actively explores, incubates and innovates service business with the spirit of "Innovation, Start-up and Entrepreneurship". During the Period, Honghua's integrated drilling intelligent system "UNISON" fully upgraded drilling rig control system in the form of standardization and modularization, adapted to the development trend of drilling rig, further optimized and improved control performance, and provided automatic and intelligent drilling interface. In the second half of 2017, Honghua will continue to carry out the research on drilling rig, fracturing automation and intelligence, complete the comprehensive drilling intelligent system — UNISON, the drilling parameter optimization system — DrillOptim, the testing of fast sliding drilling technology, and complete the debugging and improvement of electric fracturing equipment.

HR MANAGEMENT

During the Period, Honghua continued to improve the human resource structure, strengthened the acquisition of technical talents, and realized the strategic deployment of optimizing the allocation of talent resources and improving efficiency. As of June 30, 2007, the total number of Honghua staff was 3,684, decreased 19% from the same period of last year, while the number of R&D staff was 343, decreased 13% from the same period of last year. Bases on the staff redundant and cost reduction, Honghua focuses on adjusting personnel structure, strengthening training system construction and improving staff performance. In terms of staff training, in the first half of 2017, Honghua totally organized 311 training programs in total, covering 8,439 participations and a total of 88,000 class hours. The training contents were extensive and the training methods were innovated including symposium, task training, and development experience in order to inspire and guide the staff to think actively, and align their professional outlook and value under the current operation situation, and enhance their competency.

In the future, the talent reserve of Honghua mainly focuses on professional technical talents, international talents, and integrated management talents who know professional knowledge and technology. Since CASIC became the major shareholder of Honghua, the human resource development of Honghua combines with the company's business strategic, Honghua mainly introduces talents in equipment technology, project management, international operation, internal operations, risk control and other core technology and high-level management, establishes internal double-innovation talent development platform, develops mechanism through professional training, and realizes continuous breakthrough by diversified incentive mechanism. Drawing on CASIC's platform, influence and the human resource management system, Honghua built a joint recruitment platform, and attracted high-end professional talents. Honghua will share CASIC's extensive training resources, and draw the support from the soft power of Honghua's senior executives who are assigned by CASIC, and continue to promote the HR competitiveness of Honghua.

FUTURE OUTLOOK

CASIC and Honghua both believe that, in the long run, oil and gas will remain the core energy to fuel the world economic development. In the first half of 2017, the imbalance of supply and demand structure in the international crude oil market was not yet improved. However, as the fluctuation of international oil price began to stabilize in the second quarter, the joint production cut actions by major international oil exporting countries achieved a stable inventory reduction effect. Large oil companies gradually increased their confidence in the new expenditure for oil and gas equipment. Against this backdrop, it is expected that the business environment of global oil and gas equipment market may recover significantly in the second half of the year. In addition, with energy reform carried out in domestic market, natural gas, being a key clean energy, has huge development potential. Honghua's future strategic focus in domestic market will also gradually shift to natural gas industry. Focusing on natural gas exploration, production enhancement, storage and transportation, LNG's storage and transportation, and downstream application fields, Honghua plans to realize its integrated solution for shale gas development as well as deploy the layout in new-type clean energy business.

Facing new situation of oil and gas industry, Honghua will leverage the important opportunity brought by the introduction of CASIC as a major shareholder, by utilising CASIC's market, finance and technology resources to achieve synergy. First, by virtue of CASIC's status of state-owned enterprise, Honghua will participate and expand domestic natural gas equipment and service business, especially for shale gas. At the same time, relying on CASIC's overseas market resources, Honghua will focus on expanding large high-quality equipment business and oilfield services in the countries along "One Belt One Road" regions. Second, with CASIC's support, Honghua will manage its financing cost more efficiently. Thirdly, Honghua will utilise the product and technology resources of energy equipment manufacture within CASIC's system, improve the production capacity of the integrated oil and gas exploration and transportation equipment, and expand the layout of downhole tool business. Honghua will also take "3 Innovations: Technology Innovation, Business Model Innovation and Management Innovation" as the core strategy to promote new products and new business areas, in order to boost the stable long-term development of Honghua. Finally, Honghua will strictly control capital expenditure in Offshore Business segment, continue to actively promote the Offshore Business layout based on LNG industry chain to introduce strategic investors to jointly promote the value of offshore engineering business and release its potential investment value.

As of 15 August, 2017, we have had land drilling equipment backlogs worth approximately RMB3,939 million, which including 13 sets of land drilling rig backlogs, with an aggregate amount of approximately RMB827 million.

As of 15 August, 2017, we have had offshore engineering equipment backlogs worth approximately RMB1,155 billion.

As of 15 August, 2017, we have had oil and gas engineering service contracts worth approximately RMB354 million.

FINANCIAL REVIEW

During the six months ended 30 June 2017, the Group's gross profit and loss attributable to shareholders of the Company amounted to approximately RMB45 million and RMB391 million, respectively, and gross margin and net margin amounted to approximately 5.5% and -47.7%, respectively. In the same period last year, gross profit and loss attributable to shareholders of the Company amounted to approximately RMB204 million and RMB251 million, respectively, gross margin and net margin amounted to approximately 15.7% and -19.4% respectively. During the six month ended 30 June 2017, the gross margin and the net margin of the Group decreased substantially, which was attributed to the significant decrease in the Group's revenue during the Period compared with the corresponding period last year due to low oil price along with unstable recovery of oil drilling equipment demand. The decrease of production caused the increase of idle cost, which lead to substantially losses of Group's business segments.

Turnover

During the six month ended 30 June 2017, the Group's turnover amounted to approximately RMB819 million, representing a decrease of RMB477 million or 36.8% as compared to RMB1,296 million in the same period last year. During the Period, the low oil price and the unstable demand of global oil and gas has lead to a substantial decrease in both sales volume and price of segments of drilling rigs, parts and oil and gas services. The LNG power ship project of the offshore drilling rigs part of the Group came to an end, and no new project has begun, causing the sales of the Group's offshore drilling part to decline as compared to the same period last year.

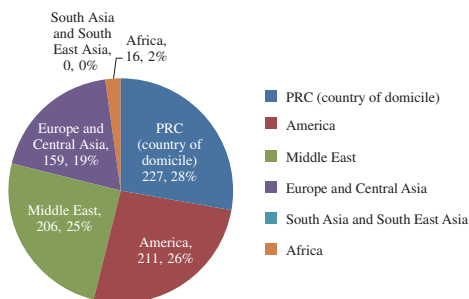
(a) Revenue by Geographical Locations

The Group's revenue by geographical segment during the Period: (1) The Group's export revenue amounted to approximately RMB592 million, accounting for approximately 72.3% of the total revenue, representing a decrease of RMB341 million as compared to the same period last year; (2) revenue generated from the PRC amounted to approximately RMB227 million, accounting for approximately 27.7% of the total revenue, representing a decrease of RMB136 million as compared to the corresponding period last year.

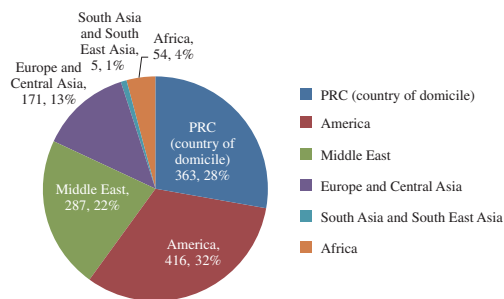
The revenues from different regions are affected by international oil and gas exploration activities. The Group will focus on the development of international business, keep on to improve the quality of products and services and strictly control the operating cost.

Revenue by Geographical Locations

Six months ended 30 June 2017
Expressed in RMB'million



Six months ended 30 June 2016
Expressed in RMB'million



(b) Revenue by operating segments

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

During the Period, external revenue from land drilling rigs amounted to approximately RMB165 million, representing a decrease of RMB191 million or 53.7% as compared to RMB356 million in the corresponding period Last Year.

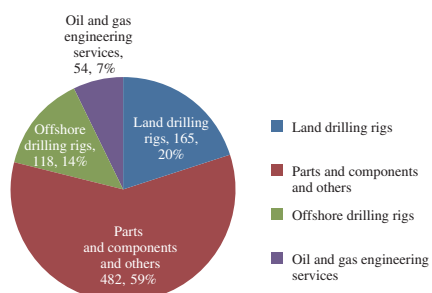
During the Period, external revenue from parts and components and others amounted to approximately RMB482 million, representing a decrease of RMB230 million or 32.3% as compared to RMB712 million in the corresponding period Last Year.

During the Period, external revenue from offshore drilling rigs amounted to approximately RMB118 million, representing a decrease of RMB30 million or 20.3% as compared to RMB148 million in the corresponding period Last Year.

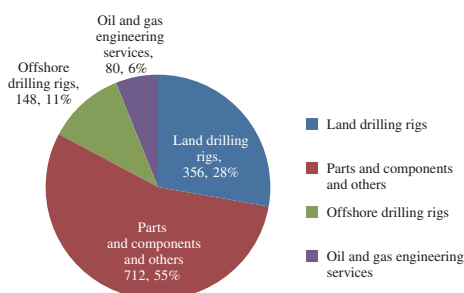
During the Period, revenue from oil and gas engineering services amounted to approximately RMB54 million, representing a decrease of RMB26 million or 32.5% as compared to RMB80 million in the corresponding period Last Year.

Revenue by operating segments

Six months ended 30 June 2017
Expressed in RMB'million



Six months ended 30 June 2016
Expressed in RMB'million



Cost of Sales

During the Period, the Group's cost of sales amounted to approximately RMB774 million, representing a decrease of approximately 29.1% or RMB318 million as compared to RMB1,092 million in the same period Last Year. The decrease was mainly due to the decline in sales volume and the Group's continued focus on reducing costs and improving efficiency, such as the optimization process and employee benefit expense. The decline of the sales cost was lower than the decline of the sales revenue which was mainly affected by the increase of the idle time cost of the Group's offshore drilling rigs, and oil and gas engineering services part.

Gross Profit and Gross Margin

During the Period, the Group's gross profit amounted to approximately RMB45 million, representing a decrease of RMB159 million or 77.9% as compared to RMB204 million in the corresponding period Last Year.

During the Period, the Group's overall gross margin was 5.5%, representing a decrease of 10.20 percentage point compared with the corresponding period last year of 15.7%. In the condition of the demand of both domestic and overseas is declining continuously which leads to the decrease of order and the decrease of revenue, the fixed costs of the Group's segments of Land drilling rigs and Oil and gas services could not decrease correspondingly, resulted in the decrease of gross profit margin of unit product.

Expenses in the Period

During the period, the Group's distribution expenses amounted to approximately RMB167 million, representing an increase of RMB35 million or 26.5% as compared to RMB132 million in the corresponding period Last Year. The decreasing rate was 15.9% as compared to Last Year, if the rig insurance premium was deducted. The rig insurance premium, as a result of government subsidy, amounted to approximately RMB36 million and the maintenance cost of drilling rig taking into consideration insurance company compensation, amounted to approximately RMB20 million. This was mainly attributable to decreased transportation costs and the customs declaration fee as a result of the declined sales revenue, the Group's cost reduction initiative, such as travelling expenses and the employee benefit expense reduction by the optimization of the personnel structure, amounting to 30.0% as compared to the same period Last Year.

During the period, the Group's administrative expenses amounted to approximately RMB229 million, representing a decrease of RMB49 million or 17.6% as compared to RMB278 million in the corresponding period Last Year. During the Period, the Group had further optimized the scientific research institution and project, which lead to a decrease of R&D expenditure, the Group had also optimized the organizational structure and the hierarchy of management, which lead to a substantially decrease of labor cost.

During the Period, the Group's net finance expenses amounted to approximately RMB99 million, representing an increase of RMB51 million, or 106.3% as compared to net finance expense of RMB48 million in the corresponding period Last Year. This was mainly attributable to the decrease of the net foreign exchange gain, amounting to RMB57 million as compared to the same period last year due to the impact of the appreciation of the RMB. The Group also optimized and reduced the debt scale, resulting in the decrease of the interest expense, amounting to RMB156 million or 6.9% as compared to the same period Last Year.

Loss Before Income Tax

During the period, loss before income tax of the Group amounted to approximately RMB448 million, representing an increase of RMB200 million or 80.7% compared to loss before income tax of RMB248 million in the same period Last Year.

Income Tax Expense

During the period, the Group's income tax expense amounted to approximately RMB-51 million as compared to the income tax expense of approximately RMB2 million in the corresponding period Last Year.

Loss for the Period

During the period, the Group's loss amounted to approximately RMB397 million, as compared to a loss of approximately RMB250 million in the corresponding period Last Year. Loss attributable to equity shareholders of the Company was approximately RMB391 million, while loss attributable to non-controlling interests was approximately RMB6 million. During the period, net margin was -47.72%, as compared to a net margin of -19.36% in the corresponding period Last Year.

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

During the period, EBITDA amounted to a loss of RMB209 million, as compared to approximately RMB67 million in the corresponding period Last Year, which was mainly attributable to the decrease in operating profit as a result of the decrease in revenue from the land drilling rigs and component, and oil & gas engineering services part. The EBITDA margin was -25.6%, as compared to -5.1% in the corresponding period Last Year.

Dividends

As at 30 June 2017, the Board does not recommend payment of dividend.

Source of Capital and Borrowings

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

As at 30 June 2017, the Group's bank borrowings and senior notes amounted to approximately RMB4,043 million, representing a decrease of approximately RMB256 million as compared to 31 December 2016. Among which, borrowings repayable within one year amounted to approximately RMB2,119 million, representing a decrease of RMB94 million or 4.3%, as compared to 31 December 2016.

Deposits and Cash Flow

As at 30 June 2017, the Group's cash and cash equivalents amounted approximately RMB1,850 million, representing an increase of approximately RMB1,306 million as compared to 31 December 2016.

During the period, the Group's net cash inflow from operating activities amounted to approximately RMB225 million, net cash inflow from investing assets, during the period amounted to approximately RMB16 million; net cash inflow from financing activities amounted to approximately RMB1,077 million.

Assets Structure and Changes

As at 30 June 2017, the Group's total assets amounted to approximately RMB11,653 million, representing an increase of approximately RMB385 million or 3.4% as compared to 31 December 2016. Current assets amounted to approximately RMB7,280 million, accounting for 62.5% of total assets, representing an increase of RMB428 million as compared to 31 December 2016. Non-current assets amounted to approximately RMB4,373 million, accounting for 37.5% of total assets, representing a decrease of approximately RMB43 million as compared to 31 December 2016.

Liabilities

As at 30 June 2017, the Group's total liabilities amounted to approximately RMB6,562 million, representing a decrease of approximately RMB622 million as compared to 31 December 2016. Current liabilities amounted to approximately RMB4,562 million, accounting for approximately 69.5% of total liabilities, representing a decrease of approximately RMB461 million as compared to 31 December 2016. Non-current liabilities amounted to approximately RMB2,000 million, accounting for approximately 30.5% of total liabilities, representing a decrease of approximately RMB161 million as compared to 31 December 2016. As at 30 June 2017, the Group's total liabilities/total assets ratio was approximately 56.31%, representing a decrease of 7.45 percentage points as compared to 31 December 2016.

Equity

As at 30 June 2017, total equity amounted to RMB5,091 million, representing an increase of RMB1,008 million as compared to 31 December 2016. Total equity attributable to equity shareholders of the Company amounted to approximately RMB4,935 million, representing an increase of RMB1,036 million as compared to 31 December 2016. Non-controlling interests totaled to approximately RMB156 million, representing a decrease of RMB28 million as compared to 31 December 2016. During the period, the Group's basic loss per share were RMB0.0964, and diluted loss per share were RMB0.0964.

Capital Expenditure, Major Investment and Capital Commitments

During the period, capital expenditure of the Group on infrastructure and technical improvements amounted to approximately RMB64 million, representing a decrease of approximately RMB11 million as compared to the corresponding period Last Year.

As at 30 June 2017, the Group had capital commitments of approximately RMB289 million, which was mainly attributable to capital commitment for the construction of Jiangsu Qidong offshore manufacturing base and the expansion of the Group's business as well as its production capacity.

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

Neither the Company nor any of its subsidiaries has purchased, sold or bought back any of the Company's Shares during the six months ended 30 June 2017.

AUDIT COMMITTEE

The Audit Committee comprises all the Independent Non-executive Directors with written terms of reference in compliance with the Listing Rules and the CG Code. The Audit Committee is primarily responsible for reviewing and supervising the adequacy and effectiveness of the Group's financial reporting system, internal control systems and risk managements system and associated procedures and providing advices and recommendations to the Board. The Audit Committee is also responsible for reviewing the compliance of the corporate governance issues, the corporate governance report and the corporate governance policy. The Audit Committee shall hold at least two meetings per year and review opinions of internal auditors, matters in respects of internal control, risk management and financial reporting. The Audit Committee has reviewed the interim results of the Group for the six months ended 30 June 2017.

COMPLIANCE WITH THE CG CODE

The Company has applied the principles and code provisions as set out in the CG Code.

The Company has complied with the code provisions of the CG Code throughout the six months period from 1 January 2017 to 30 June 2017, except for the deviations as mentioned below.

Code Provision A.2.1 of the CG Code stipulates that the roles of Chairman and Chief Executive should be separate and should not be performed by the same individual. From 1 January 2017 to 29 March 2017, Mr. Zhang Mi was the Chairman of the Board and President (Chief Executive) of the Company. Mr. Zhang Mi was the main founder of the Group and has extensive experiences in the industry and related industries. In the opinion of the Board, the vesting of duties of Chairman of the Board and President (Chief Executive) of the Company to Mr. Zhang Mi provided the Company a strong and consistent leadership and allowed effective planning and execution of business decisions and strategies, as well as ensured the interests of the shareholders of the Company as a whole. On the other hand, the balance between powers and duties could be ensured through the operation of the Board and the committees under it.

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

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

For improving work efficiency, the nomination committee was dismissed with effect from 19 March 2013. The Board shall review its own structure, size and composition (including taking into account of the board diversity policy of the Company) regularly to ensure that it has a balance of expertise, skills, experience and diversity of board members appropriate for the requirements of the business of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a set of Code for Securities Trading with terms no less exacting than that of the Model Code. After the specific enquiry made by the Company, all the Directors have confirmed that they have complied with the standards specified in both the Code for Securities Trading and the Model Code throughout the six months ended 30 June 2017.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2017

This announcement will be published on both the websites of the Company (www.hh-gltd.com) and the Stock Exchange (www.hkexnews.hk). The interim report of the Company for the six months ended 30 June 2017 will be dispatched to shareholders of the Company and published on the aforesaid websites in due course.

DEFINITION

“Audit Committee”	the audit committee of the Company
“Board”	the Board of Directors of the Company
“CG Code”	Corporate Governance Code set out in Appendix 14 to the Listing Rules
“Code for Securities Trading”	code for securities trading adopted by the Company since 21 January 2008
“Company”	Honghua Group Limited
“Directors”	directors of the Company
“Group”	the Company and its subsidiaries, its associate and its jointly controlled entities
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange (as amended from time to time)
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules
“Period”	the six months ended 30 June 2017
“PRC” or “China”	the People’s Republic of China, unless the context requires otherwise, reference in this announcement of the PRC or China excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“same period last year”	the six months ended 30 June 2016
“Share(s)”	ordinary shares issued by the Company, with a nominal value of HK\$0.10 each

“Stock Exchange”

The Stock Exchange of Hong Kong Limited

“US\$”

United States of America dollars, the lawful currency of the United States of America

On behalf of the Board
Honghua Group Limited
Chen Yajun
Chairman

Hong Kong, 29 August 2017

As at the date of this announcement, the executive directors of the Company are Mr. Chen Yajun (Chairman), Mr Zhang Mi and Mr Ren Jie, the non-executive directors of the Company are Mr. Han Guangrong and Mr. Chen Wenle, and the independent non-executive directors of the Company are Mr. Liu Xiaofeng, Mr. Qi Daqing, Mr. Chen Guoming, Ms. Su Mei, Mr. Poon Chiu Kwok and Mr. Chang Qing.