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 2018

FINANCIAL HIGHLIGHT

	Six months ended 30 June		
	2018	2017	change
	RMB'000	*RMB'000*	
	(Unaudited)	(Unaudited)	
Turnover from continuing operations (RMB'000)	**1,146,723**	701,006	63.6%
Gross profit from continuing operations (RMB'000)	**186,330**	83,933	122.0%
Gross profit margin from continuing operations (%)	**16.2%**	12.0%	35.0%
Operating loss from continuing operations (RMB'000)	**(56,143)**	(285,964)	–80.4%
Loss attributable to equity shareholders of the Company (RMB'000)	**(118,414)**	(390,908)	–69.7%
Loss per share			
— Basic (RMB cents)	**(2.24)**	(9.64)	–76.8%
— Diluted (RMB cents)	**(2.24)**	(9.64)	–76.8%

The Board does not recommend payment of interim dividend for the six months ended 30 June 2018.

INTERIM RESULTS

The Board of the Company hereby announces the unaudited interim financial results of the Group for the six months ended 30 June 2018, together with the comparative figures for the corresponding period in 2017.

The interim financial report for the six months ended 30 June 2018 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 2018

		Unaudited Half-year	
		2018	2017 Restated
	Note	***RMB'000***	*RMB'000*
Continuing operations			
Revenue	*2*	**1,146,723**	701,006
Cost of sales		**(960,393)**	(617,073)
Gross profit		**186,330**	83,933
Distribution expenses		**(88,696)**	(166,850)
Administrative expenses		**(201,332)**	(170,449)
Net impairment losses on financial assets		**(53,354)**	(34,493)
Other gains/(losses), net		**59,275**	(57,294)
Other income		**41,634**	59,189
Operating loss	*3*	**(56,143)**	(285,964)
Finance income		**10,155**	18,762
Finance expenses		**(48,172)**	(111,453)
Finance expenses-net		**(38,017)**	(92,691)
Share of net profits of associates and joint ventures accounted for using the equity method		**(15,058)**	(1,615)
Loss before income tax		**(109,218)**	(380,270)
Income tax expense	*4*	**410**	44,010
Loss from continuing operation		**(108,808)**	(336,260)
Loss from discontinued operation		**(5,135)**	(61,031)
Loss for the half-year		**(113,943)**	(397,291)
Loss attributable to:			
— Owners of the Company		**(118,414)**	(390,908)
— Non-controlling interests		**4,471**	(6,383)
		(113,943)	(397,291)
Loss per share for loss from continuing operations attributable to the ordinary equity holders of the Company (expressed in RMB cents per share)			
Basic and diluted	*5*	**(2.17)**	(8.17)
Loss per share for loss attributable to the ordinary equity holders of the Company (expressed in RMB cents per share)			
Basic and diluted	*5*	**(2.24)**	(9.64)

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2018

	Unaudited Half-year	
	2018	2017 Restated
	RMB'000	*RMB'000*
Loss for the half-year	**(113,943)**	(397,291)
Other comprehensive income		
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	**41,409**	(11,981)
Exchange differences on translation of discontinued operations	**(558)**	594
Items that will not be reclassified to profit or loss		
Changes in the fair value of equity investments at fair value through other comprehensive income	**431**	–
Income tax relating to these items	**(108)**	–
Other comprehensive income for the half-year, net of tax	**41,174**	(11,387)
Total comprehensive income for the half-year	**(72,769)**	(408,678)
Total comprehensive income for the half-year attributable to:		
Owners of the Company	**(77,474)**	(401,811)
Non-controlling interests	**4,705**	(6,867)
	(72,769)	(408,678)
Total comprehensive income for the half-year attributable to owners of the Company arises from:		
Continuing operations	**(73,513)**	(342,525)
Discontinued operations	**(3,961)**	(59,286)
	(77,474)	(401,811)

UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2018

	Note	Unaudited 30 June 2018 RMB'000	Audited 31 December 2017 RMB'000
ASSETS			
Non-current assets			
Lease prepayments		**216,523**	218,742
Property, plant and equipment	*6*	**1,661,103**	1,516,225
Investment properties		**1,999**	–
Payment for acquisition of leasehold prepayments		**37,510**	37,510
Intangible assets		**140,174**	146,906
Investments accounted for using the equity method		**62,502**	77,558
Deferred tax assets		**253,468**	232,057
Financial assets at fair value through other comprehensive income		**74,053**	–
Available-for-sale financial assets		**–**	90,192
Trade and other receivables	*8*	**79,079**	6,186
Other assets		**12,248**	8,719
Total non-current assets		**2,538,659**	2,334,095
Current assets			
Inventories		**2,220,661**	1,816,083
Contract assets		**70,604**	–
Trade and other receivables	*8*	**2,846,947**	2,559,988
Current tax recoverable		**5,083**	6,595
Other current assets		**30,700**	–
Pledged bank deposits		**186,830**	191,140
Cash and cash equivalents		**572,428**	1,100,292
		5,933,253	5,674,098
Assets classified as held for sale		**2,118,081**	2,058,351
Total current assets		**8,051,334**	7,732,449
Total assets		**10,589,993**	10,066,544

UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)
As at 30 June 2018

	Note	**Unaudited 30 June 2018** *RMB'000*	Audited 31 December 2017 *RMB'000*
LIABILITIES			
Non-current liabilities			
Deferred income		**59,689**	68,624
Borrowings	*7*	**1,393,347**	1,881,691
Total non-current liabilities		**1,453,036**	1,950,315
Current liabilities			
Contract liabilities		**668,189**	–
Deferred income		**10,194**	41,268
Trade and other payables	*9*	**1,728,519**	1,760,966
Current income tax liabilities		**43,079**	67,175
Borrowings	*7*	**1,860,480**	1,434,325
Provisions for other liabilities and charges		**86,893**	115,671
		4,397,354	3,419,405
Liabilities of disposal group classified as held for sale		**633,768**	519,174
Total current liabilities		**5,031,122**	3,938,579
Total liabilities		**6,484,158**	5,888,894
EQUITY			
Share capital		**488,001**	487,983
Other reserves		**4,222,235**	4,180,608
Accumulated deficits		**(776,041)**	(657,876)
		3,934,195	4,010,715
Non-controlling interests		**171,640**	166,935
Total equity		**4,105,835**	4,177,650
Total liabilities and equity		**10,589,993**	10,066,544

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, and was approved for issue by the Board of Directors of the Company on 30 August 2018.

This interim condensed consolidated financial information has not been audited.

2 SEGMENT AND REVENUE INFORMATION

(a) Description of segments

The Group is a diversified group which derives its revenues and profits from a variety of sources. The Group's senior executive management is the Group's chief operating decision-maker. Management considers the business 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.

According to the announcement dated 27 December 2017, the Group intends to dispose of its entire equity interest of the majority entities of the offshore drilling rigs segment, and the results of those major entities included in this segment have been presented as discontinued operations (Note 10).

(b) Segment information

The table below shows the segment information and the basis on which revenue is recognised regarding the Group's reportable segments for the half-year ended 30 June 2018 and 2017 respectively. The segment information below includes the discontinued operations as disclosed in Note 10:

	Land drilling rigs Half-year		Parts and components and others Half-year		Offshore drilling rigs Half-year		Oil and gas engineering services Half-year		Total Half-year	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Revenue from external customers	**649,264**	165,374	**372,810**	481,193	**6,626**	118,217	**124,649**	54,439	**1,153,349**	819,223
Inter-segment revenue	**–**	–	**192,923**	31,570	**9,014**	–	**–**	1,746	**201,937**	33,316
Reportable segment revenue	**649,264**	165,374	**565,733**	512,763	**15,640**	118,217	**124,649**	56,185	**1,355,286**	852,539
Timing of revenue recognition										
At a point time	**649,264**	165,374	**372,810**	481,193	**6,626**	118,217	**2,907**	29,679	**1,031,607**	794,463
Over time	**–**	–	**–**	–	**–**	–	**121,742**	24,760	**121,742**	24,760
	649,264	165,374	**372,810**	481,193	**6,626**	118,217	**124,649**	54,439	**1,153,349**	819,223
Reportable segment (loss)/profit	**(71,390)**	(66,353)	**24,792**	(153,221)	**1,410**	(61,512)	**(58,419)**	(36,994)	**(103,607)**	(318,080)

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.

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 2018, 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 to loss before income tax is provided as follows:

	Half-year	
	2018	2017
	RMB'000	*RMB'000*
Segment loss		
— for reportable segments	**(103,607)**	(318,080)
Elimination of inter-segment profits	**14,929**	3,341
Segment loss derived from Group's external customers	**(88,678)**	(314,739)
Share of post-tax profits of associates	**(10,940)**	565
Share of post-tax losses of joint ventures	**(4,118)**	(2,180)
Other income and other losses, net	**102,550**	4,051
Finance income	**10,602**	19,030
Finance expenses	**(57,692)**	(118,284)
Unallocated head office and corporate expenses	**(66,968)**	(36,300)
Loss before income tax	**(115,244)**	(447,857)

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

	Half-year	
	2018	2017
	RMB'000	*RMB'000*
PRC (country of domicile)	**267,990**	226,840
Americas	**53,592**	211,492
Middle East	**481,599**	205,839
Europe and Central Asia	**83,778**	159,060
South Asia and South East Asia	**264,754**	–
Africa	**1,636**	15,992
	1,153,349	819,223

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

	30 June 2018 *RMB'000*	31 December 2017 *RMB'000*
PRC (country of domicile)	**3,225,114**	2,935,946
Americas	**41,251**	43,165
Middle East	**187,585**	192,811
Europe and Central Asia	**76,586**	94,698
South Asia and South East	**–**	–
Africa	**34,603**	38,720
	3,565,139	3,305,340

For the six-months ended 30 June 2018, revenues of approximately RMB330 million (for the six months ended 30 June 2017: RMB172 million) are derived from one external customer (for the six months ended 30 June 2017: one external customer). These revenues are attributable to the sales of land drilling rigs in Middle East(for the six months ended 30 June 2017: land drilling rigs in the Middle East).

3 OPERATING LOSS

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

	Half-year	
	2018 *RMB'000*	2017 *RMB'000*
Write down of inventories	**3,203**	15,505
Provision for impairment of trade and other receivables	**53,354**	34,493
Provision for legal claims	**–**	50,516
(Gains)/loss on disposal of property, plant and equipment, lease prepayment and other intangible assets	**(145)**	139

4 INCOME TAX EXPENSE

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

	Half-year	
	2018	2017
		Restated
	RMB'000	*RMB'000*
Current income tax		
— Hong Kong Profits Tax (i)	**76**	172
— the People's Republic of China (the "PRC") (ii)	**15,032**	1,355
— Other jurisdictions (iii)	**5,360**	4,176
Deferred income tax	**(20,878)**	(49,713)
	(410)	(44,010)

(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 2018 and 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 2018, except for the following companies:

(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.

(b) Sichuan Honghua Petroleum Equipment Co., Ltd. ("Honghua Company")

Corporate income tax ("CIT") of Honghua Company is accrued at a tax rate of 15% applicable for Hi-tech enterprises pursuant to the relevant PRC tax rules and regulations for the six months ended 30 June 2018 and 2017.

(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 effective annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the year ending 31 December 2018 is 20%, compared to 18% (as restated) for the six months ended 30 June 2017.

5 LOSS PER SHARE

The calculation of basic loss per share for the six months ended 30 June 2018 is based on the loss attributable to owners of the Company for the period of RMB118,414,000 (six months ended 30 June 2017: loss of RMB390,908,000) and the weighted average number of shares of 5,293,500,000 (six months ended 30 June 2017: 4,055,504,000 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.

	Half-year	
	2018	2017
Loss attributable to owners of the Company (RMB'000)	**(118,414)**	(390,908)
From continuing operations	**(114,844)**	(331,206)
From discontinued operations	**(3,570)**	(59,702)
Weighted average number of ordinary shares in issue (thousands)	**5,355,521**	4,117,593
Effect of the share award scheme (thousands)	**(62,089)**	(62,089)
Effect of share options exercised (thousands)	**68**	–
Adjusted weighted average number of ordinary shares in issue (thousands)	**5,293,500**	4,055,504
Basic loss per share (RMB cents per share)	**(2.24)**	(9.64)
From continuing operations (RMB cents per share)	**(2.17)**	(8.17)
From discontinued operations (RMB cents per share)	**(0.07)**	(1.47)

6 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*	Assets under construction *RMB'000*	Total *RMB'000*
At 31 December 2017							
Cost	5,555	691,446	1,375,870	419,400	74,466	193,742	2,760,479
Accumulated depreciation	–	(205,672)	(679,758)	(302,031)	(56,793)	–	(1,244,254)
Net book amount	5,555	485,774	696,112	117,369	17,673	193,742	1,516,225
Half-year ended 30 June 2018							
Opening net book amount	5,555	485,774	696,112	117,369	17,673	193,742	1,516,225
Additions	–	1,647	31,205	3,605	341	4,528	41,326
Transfer from construction in progress	–	1,577	–	–	–	(1,577)	–
Transfer from inventories	–	–	189,708	–	–	–	189,708
Transfer to investment properties	–	(1,999)	–	–	–	–	(1,999)
Disposals	–	–	(26)	(509)	–	–	(535)
Disposal of subsidiary	–	–	(10,643)	(56)	–	–	(10,699)
Depreciation charge	–	(16,327)	(41,746)	(10,613)	(1,166)	–	(69,852)
Currency translation difference	70	(67)	(2,070)	(929)	(75)	–	(3,071)
Closing net book amount	5,625	470,605	862,540	108,867	16,773	196,693	1,661,103
At 30 June 2018							
Cost	5,625	692,604	1,582,773	419,426	74,733	196,693	2,971,854
Accumulated depreciation	–	(221,999)	(720,233)	(310,559)	(57,960)	–	(1,310,751)
Net book amount	5,625	470,605	862,540	108,867	16,773	196,693	1,661,103

(i) As at 30 June 2018, bank loans and the secured loan from related party were secured by property, plant and equipment with a net book value of approximately RMB11,709,000 (2017: RMB12,630,000) (Note 7).

7 BORROWINGS

	30 June 2018 *RMB'000*	31 December 2017 *RMB'000*
(a) Bank loans		
Secured (i)		
— Current portion	**59,000**	18,500
— Non-current portion	**–**	–
	59,000	18,500
Unsecured		
— Current portion	**1,796,856**	1,411,245
— Non-current portion	**105,000**	105,000
	1,901,856	1,516,245
Total bank loans	**1,960,856**	1,534,745
(b) Others		
Secured loan from related party (i)		
— Current portion	**4,624**	4,580
— Non-current portion	**–**	2,001
	4,624	6,581
Unsecured loan from related party		
— Current portion	**–**	–
— Non-current portion	**480,000**	480,000
	480,000	480,000
Senior notes (ii)	**808,347**	1,294,690
Total borrowings	**3,253,827**	3,316,016
Current borrowings	**1,860,480**	1,434,325
Non-current borrowings	**1,393,347**	1,881,691
Total borrowings	**3,253,827**	3,316,016

(i) As at 30 June 2018, the bank loans and the secured loan from related party were secured by interest in land use rights of approximately RMB25,707,000, property, plant and equipment of approximately RMB11,709,000, and 20% equity interest of Honghua Company, a subsidiary of the Group.

As at 31 December 2017, the bank loans and the secured loan from related party were secured by interest in land use rights of approximately RMB26,043,000, property, plant and equipment of approximately RMB12,630,000, trade and other receivables of approximately RMB10,000,000 and 20% equity interest of 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, 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.

Movements in borrowings is analysed as follows:

	RMB'000
Six months ended 30 June 2018	
Opening amount as at 1 January 2018	3,316,016
Additions	922,603
Repayments	(1,000,336)
Currency translation differences	15,544
Closing amount as at 30 June 2018	3,253,827
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	4,042,517

As at 30 June 2018 and 31 December 2017, the contractual maturities of the Group's financial liabilities were as follows:

Contractual maturities of financial liabilities	**Less than 6 months** *RMB'000*	**6–12 months** *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*	**Carrying amount** *RMB'000*
At 30 June 2018							
Non-derivatives							
Trade and other payables	**1,728,519**	**–**	**–**	**–**	**–**	**1,728,519**	**1,728,519**
Borrowings (excluding finance leases and senior notes)	**1,084,580**	**830,248**	**75,785**	**526,220**	**75,000**	**2,591,833**	**2,440,856**
Finance leases liabilities	**–**	**4,824**	**–**	**–**	**–**	**4,824**	**4,624**
Senior Notes	**30,316**	**30,316**	**829,000**	**–**	**–**	**889,632**	**808,347**
Total	**2,843,415**	**865,388**	**904,785**	**526,220**	**75,000**	**5,214,808**	**4,982,346**

Contractual maturities of financial liabilities	Less than 6 months *RMB'000*	6–12 months *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*	Carrying amount *RMB'000*
At 31 December 2017							
Non-derivatives							
Trade and other payables	1,542,145	–	–	–	–	1,542,145	1,542,145
Borrowings (excluding finance leases and senior notes)	612,591	876,300	54,180	579,540	–	2,122,611	2,014,745
Finance leases liabilities	–	5,205	2,479	–	–	7,684	6,581
Senior Notes	48,680	48,680	1,404,200	–	–	1,501,560	1,294,690
Total	2,203,416	930,185	1,460,859	579,540	–	5,174,000	4,858,161

Financing arrangements

The Group's undrawn borrowing facilities were as follows:

	30 June 2018 *RMB'000*	31 December 2017 *RMB'000*
Floating rate		
Expiring within one year (bank loans and bill facility)	**4,881,216**	5,381,290
Expiring beyond one year (bank loans)	**500,000**	–
	5,381,216	5,381,290

8 TRADE AND OTHER RECEIVABLES

	30 June 2018 *RMB'000*	31 December 2017 *RMB'000*
Trade receivables (i)	**1,967,540**	2,145,069
Bills receivable (i)	**22,950**	32,187
Less: provision for impairment of trade receivables	**(155,868)**	(265,086)
	1,834,622	1,912,170
Amount due from related parties		
— Trade (i)	**88,231**	74,072
— Non-trade	**63,330**	37,248
Finance lease receivable	**270,453**	157,113
Less: provision for impairment of finance lease receivable	**(59,817)**	(48,291)
Value-added tax recoverable	**146,566**	222,503
Prepayments	**475,770**	202,777
Other receivables	**200,106**	101,134
Less: provision for impairment of other receivables	**(93,235)**	(92,552)
	2,926,026	2,566,174
Representing:		
Current portion	**2,846,947**	2,559,988
Non-current portion	**79,079**	6,186
Total	**2,926,026**	2,566,174

(i) As at 30 June 2018 and 31 December 2017, 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 2018 *RMB'000*	31 December 2017 *RMB'000*
Within 3 months	**1,237,365**	937,417
3 to 12 months	**151,743**	352,453
Over 1 year	**533,745**	696,372
	1,922,853	1,986,242

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 TRADE AND OTHER PAYABLES

	30 June 2018 *RMB'000*	31 December 2017 *RMB'000*
Trade payables	**1,154,198**	870,457
Amounts due to related companies		
— Trade	**5,457**	15,128
— Non-trade	**265**	258
Bills payable	**440,715**	269,165
Receipts in advance	**–**	218,821
Other payables	**127,884**	387,137
	1,728,519	1,760,966

As at 30 June 2018 and 31 December 2017, the ageing analysis of the trade payables and bills payable (including amounts due to related parties of trading in nature) based on invoice date were as follows:

	30 June 2018 *RMB'000*	31 December 2017 *RMB'000*
Within 3 months	**779,621**	458,110
3 to 6 months	**354,016**	123,525
6 to 12 months	**234,484**	119,192
Over 1 year	**232,249**	453,923
	1,600,370	1,154,750

10 DISCONTINUED OPERATIONS

(a) Description

According to the announcement dated 27 December 2017, the Group intends to dispose of, through public tender to be conducted on the Shanghai United Assets and Equity Exchange, (a) its 100% indirect equity interest in Honghua Offshore Oil and Gas Equipment (Jiangsu) Co., Ltd., a wholly-owned subsidiary of the Group, (b) its 100% indirect equity interest in Shanghai Honghua Offshore Oil & Gas Equipment Co., Ltd., a wholly-owned subsidiary of the Group, (c) its entire 70% indirect equity interest in Hong Kong Tank Tek Limited, and the Group's indirect creditor's rights against them. The assets and liabilities related to those entities have been presented as disposal group classified as held for sale, so the consolidated statement of profit or loss and the consolidated statement of comprehensive income for the six months ended 30 June 2017 were restated accordingly.

Financial information relating to the discontinued operations for the six months ended 30 June 2018 is set out below. For further information about the discontinued operations, please refer to note 37 in the Group's annual financial statements for the year ended 31 December 2017.

(b) Financial performance and cash flow information

The financial performance and cash flow information presented reflects the operations for the six months ended 30 June 2018.

	Half-year	
	2018	2017
	RMB'000	*RMB'000*
Revenue	**6,626**	118,217
Cost of sales	**(2,760)**	(157,106)
Gross profit/(loss)	**3,866**	(38,889)
Distribution expenses	**(449)**	(441)
Administrative expenses	**(12,089)**	(23,850)
Net impairment losses on financial assets	**10,078**	–
Other losses, net	**(790)**	(17)
Other income	**2,431**	2,173
Operating profit/(loss)	**3,047**	(61,024)
Finance income	**447**	268
Finance expenses	**(9,520)**	(6,831)
Finance expenses, net	**(9,073)**	(6,563)
Loss before income tax of discontinued operations	**(6,026)**	(67,587)
Income tax expense	**891**	6,556
Loss after income tax of discontinued operations	**(5,135)**	(61,031)
Loss from discontinued operations attributable to:		
— Owners of the Company	**(3,570)**	(59,702)
— Non-controlling interests	**(1,565)**	(1,329)
	(5,135)	(61,031)
Other comprehensive income from discontinued operations	**(558)**	594
Net cash flow from operating activities	**636**	(29,587)
Net cash flow from investing activities	**(39,688)**	(28,791)
Net cash flow from financing activities	**37,965**	59,211
Net (decrease)/increase in cash generated by discontinued operations	**(1,087)**	833
	Cents	*Cents*
Basic earnings per share from discontinued operations	**(0.07)**	(1.47)
Diluted earnings per share from discontinued operations	**(0.07)**	(1.47)

11 BASIS OF PREPARATION OF HALF-YEAR REPORT

This interim condensed consolidated financial information for the half-year reporting period ended 30 June 2018 has been prepared in accordance with Accounting Standard IAS 34 Interim Financial Reporting.

The interim financial information does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2017 and any public announcements made by the Group during the interim reporting period.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the adoption of new and amended standards as set out below.

(a) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies and make modified retrospective adjustments as a result of adopting the following standards:

- IFRS 9 Financial Instruments, and
- IFRS 15 Revenue from Contracts with Customers.

The impact of the adoption of these standards and the new accounting policies are disclosed in note 12 below.

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

(i) IFRS 16 Leases

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

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB7,731,000. 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. The Group does not intend to adopt the standard before its effective date.

12 CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* on the Group's financial statements and also discloses the new accounting policies that have been applied from 1 January 2018, where they are different to those applied in prior periods.

(a) Impact on the financial statements

As explained in note 12(b) below, IFRS 9 was generally adopted without restating comparative information. The reclassifications are therefore not reflected in the balance sheet as at 31 December 2017, but are recognised in the opening balance sheet on 1 January 2018.

The following table shows the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail by standard below.

Balance sheet (extract)	**31 December 2017 As originally presented**	**IFRS 9**	**1 January 2018 Restated**
	RMB'000	*RMB'000*	*RMB'000*
Non-current assets			
Financial assets at fair value through other comprehensive income (FVOCI)	–	90,192	90,192
Available-for-sale financial assets	90,192	(90,192)	–
Current assets			
Other current assets	–	21,337	21,337
Trade and other receivables	2,559,988	(21,337)	2,538,651
Total assets	2,650,180	–	2,650,180

(b) IFRS 9 Financial Instruments — Impact of adoption

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in note 12(c) below. In accordance with the transitional provisions in IFRS 9(7.2.15) and (7.2.26), comparative figures have not been restated.

The adoption has no impact on the Group's retained earnings as at 1 January 2018.

(i) Classification and measurement

On 1 January 2018 (the date of initial application of IFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate IFRS 9 categories. The main effects resulting from this reclassification are as follows:

Financial assets — 1 January 2018	*Notes*	**Other current assets** *RMB'000*	**FVOCI (Available-for-sale 2017)** *RMB'000*	**Amortised cost (Receivables 2017)** *RMB'000*
Closing balance 31 December 2017 — IAS 39	*(a)*	–	90,192	2,566,174
Reclassify bank acceptance bill receivables from receivables to other current asset (FVOCI to be settled within 12 months)	*(b)*	21,337	–	(21,337)
Opening balance 1 January 2018 — IFRS 9		21,337	90,192	2,544,837

The impact of these changes on the Group's equity is as follows:

	Notes	**Effect on AfS reserves** *RMB'000*	**Effect on FVOCI reserves** *RMB'000*
Opening balance — IAS 39		1,423	–
Reclassify non-trading equities from available-for-sale to FVOCI	*(a)*	(1,423)	1,423
Opening balance — IFRS 9		–	1,423

(a) Equity investments previously classified as available-for-sale

The Group elected to present in OCI changes in the fair value of its unlisted equity investments previously classified as available-for-sale, because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. As a result, assets with a fair value of RMB90,192,000 were reclassified from available-for-sale financial assets to financial assets at FVOCI and fair value gains of RMB1,423,000 were reclassified from the available-for-sale financial assets reserves to the FVOCI reserves on 1 January 2018.

(b) Reclassification from amortised cost to FVOCI

Bank acceptance bill receivables were reclassified from receivables at mortised cost to FVOCI, as the Group's business model is achieved both by collecting contractual cash flows and selling of these assets. The contractual cash flows of these investments are solely principal and interest. As a result, bank acceptance bill receivables with a fair value of RMB21,337,000 were reclassified from receivables at mortised cost to FVOCI. As these assets are expected to be settled within 12 months, they are reclassified as other current assets.

(ii) ***Impairment of financial assets***

The Group has three types of financial assets that are subject to IFRS 9's new expected credit loss model:

- trade receivables for sales of inventory and provision of services;
- contract assets relating to offshore drilling rigs contracts; and
- bank acceptance bill receivables carried at FVOCI.

The Group was required to revise its impairment methodology under IFRS 9 for each of these classes of assets.

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.

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.

Based on the assessments undertaken, the Group does not identify material change to the loss allowance for trade receivables.

Trade receivables and contract assets are written off when there is no reasonable expectation of recovery.

Bank acceptance bill receivables at FVOCI

The restatement of the loss allowance for debt investments at FVOCI on transition to IFRS 9 as a result of applying the expected credit risk model was immaterial.

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

(c) IFRS 9 Financial Instruments — Accounting policies applied from 1 January 2018

Investments and other financial assets

Classification

From 1 January 2018, 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.

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.

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 revenue 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.

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.

Impairment

From 1 January 2018, 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.

(d) IFRS 15 Revenue from Contracts with Customers — Impact of adoption

The Group has adopted HKFRS 15 using the modified retrospective approach, under which the cumulative impact of the adoption (if any) was recognised in retained earnings as of 1 January 2018 and no comparative figures were restated.

IFRS 15 establishes a new framework for revenue recognition. This replaces IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard introduces a five-step model to determine when to recognise revenue and at what amount. Under the five-step model, revenue is recognised when control of goods or services is transferred to a customer and at the amount to which the entity expects to be entitled. Depending on the nature of the contracts, revenue is either recognised over time or at a point in time. The new standard also sets out new capitalisation criteria for contract acquisition costs which are incremental and the entity is expected to recover them.

For the contract of LNG vessels construction which was accounted for under IAS 11 in previous years, the over-time revenue recognition criteria is not fulfilled under IFRS 15. Thus, revenue and costs relating to the construction of vessels should be recognised at a point of time. As this contract recorded negative margin, this change of timing of revenue recognition does not have any impact on the retained earnings.

Considering the nature of the Group's principal activities (i.e. manufacturing drilling rigs, offshore engeering, and oil and gas exploitation equipment and providing drilling services), the adoption of IFRS 15 does not have material impact on the Group's revenue recognition except certain reclassification of contract assets, contract liabilities and the contract of LNG vessels construction disclosed above.

The following table illustrates the amounts by each financial statements line item affected in current period with the application of IFRS 15 as compared to IAS 18 and IAS 11 that were previously in effect before the adoption of IFRS 15:

		As at 30 June 2018		
		Balance with the adoption of IFRS 15	**Effect under IFRS 15**	**Balance without the adoption of IFRS 15**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	*(a)*	2,926,026	(70,604)	2,996,630
Contract assets	*(a)*	70,604	70,604	–
Trade and other payables	*(b)*	1,728,519	(668,189)	2,396,708
Contract liabilities	*(b)*	668,189	668,189	–

(a) Contract assets recognised in relation to oil and gas engeering services contracts were previously presented as part of trade receivables.

(b) Contract liabilities recognised in relation to advance from customers were previously presented as part of trade and other payables.

(e) IFRS 15 Revenue from Contracts with Customers — Accounting policies applied from 1 January 2018

(i) Sale of goods

Revenue from the sale of goods is recognised when control of the goods has transferred, being when the goods are delivered to the ultimate customers, dealers or parties designated by the dealers, and there is no unfulfilled obligation that could affect the customers' acceptance of the goods. Delivery occurs when the goods have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customers, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

A 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.

(ii) Sale of services

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

MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2018, the Company's revenue reached RMB1.147 billion, up by 63.6% from RMB701 million during the same period of the previous year; its gross profit was approximately RMB186 million, up by 122.0% from RMB84 million during the same period of the previous year; and the loss attributable to shareholders was approximately RMB118 million.

MARKET REVIEW

In the first half ("1H") of 2018, the continuous recovery of the international oil prices created a good atmosphere for the business environment of the world's oil industry. However, despite an increase in their capital expenditures, global oil companies also simultaneously strictly controlled the costs. As a result, the sales of new drilling equipment and the profit margin of oilfield service contracts have not recovered back to its peak level. This continues to pose serious challenges for the industry. In 1H, US crude oil inventories saw a decline, and US President Trump decided to withdraw from the Iranian nuclear deal and re-implement sanctions on Iran. The supply shrinkage brought by a constant rise in the implementation rate of the OPEC production reduction plan, as well as the increased geopolitical risk in the Middle East and the impact of the rebound of the global economic growth are stimulating the continuous growth of international oil prices. In June, Brent oil futures prices once exceeded $80/barrel. The Barclays Global Oil and Gas Industry Capital Expenditure Survey Index recorded a year-on-year increase of 7% in 2017 and is expected to increase up to 8% year-on-year in 2018. The market expects the tight supply of crude oil to be maintained and to drive oil prices to continue rising, while creating a sustained momentum for the future stable growth of the global oil and gas drilling equipment market.

In the domestic market, due to the rise in the people's environmental awareness and the promotion of the Chinese government's favorable clean energy policy, the future growth potential of the clean energy market is expected to be immense. On 25 May 2018, the National Development and Reform Commission (NDRC) launched a household gas price reform plan and decided to rationalize household gas station prices, improve the price mechanism and fully realize the docking of the price mechanism and price level of household gas with those of non-household gas, so as to establish a household gas price system that reflects market supply-demand changes and resource scarcity. This is another major reform measure in the field of natural gas price reform after the recent years of continuous promotion of non-household gas price reform. In addition, the Chinese Ministry of Finance and the State Administration of Taxation issued an announcement stating that, in order to promote the development and utilization of shale gas and effectively increase the supply of natural gas, with the approval of the State Council, from 1 April 2018 to 31 March 2021, the shale gas resource tax (a current prescribed tax rate of 6%) will be reduced by 30%. Previously, the shale gas resource tax rate was consistent with the conventional natural gas tax rate. Meanwhile, the new tax policy clearly shows the government's support for the development of upstream unconventional natural gas resources and complements the plans of the three major state-owned oil companies (CNPC, Sinopec and CNOOC) to increase natural gas production to meet the rapidly growing demand for natural gas and to alleviate the supply shortage.

According to the "Thirteenth Five-Year Plan", China's natural gas consumption is expected to reach 360 billion cubic meters in 2020, representing a compound annual increase of 14.9% compared to 2017. In future natural gas production, the biggest increase will be seen in Shale gas. According to the "13th Five-Year Plan", China's shale gas output is expected to reach 30 billion cubic meters by 2020, representing a compound annual increase of 44.2% compared to 2017. Sichuan province's shale gas, which has huge reserves but is difficult to mine, has become a development focus. The huge development of the overall natural gas industry is driven by the trend of the times. This is expected to create huge development space for the oil and gas drilling, storage and transportation equipment manufacturing industry as well as leading enterprises with excellent technology and manufacturing techniques in the industry.

BUSINESS REVIEW

1. Land drilling equipment and related product businesses

In 1H 2018, under the combined action of the modest global oil demand growth, the reduction in OPEC production and increase in shale oil production, the rebalancing of the global oil market fundamentals will still need time to be determined, while geo-risk and macro-risk factors are further triggering the dramatic volatility of oil prices. Under the turbulent situation of the industry, the Group actively plows the existing markets, explores new businesses, taps business opportunities in the industry chain, and seeks new strategic cooperation. In 1H, we sold a total of 6 sets of rigs, with sales amounting to approximately RMB649 million, and we also achieved a total parts and components sales income of RMB373 million.

During the Period, the Group achieved a breakthrough in the Ukrainian market and successfully signed contracts to sell several sets of rigs and renovate 15 sets of rigs, with a total of US$216 million in revenue; at the same time, the Group achieved its first ever sales in the Romanian market and signed a parts and components contract with Romanian customers, further expanding our international market share and improving our market layout; the Group signed a US$137 million land rig and parts sales contract with ADC, a high-end user in Saudi, for which the Group has already delivered some rigs. Combined with the new organizational structure, the European regional overseas center takes Honghua's traditional superior products as the tool to seek breakthroughs and combines technology-based marketing with them. In 1H, it achieved a sales breakthrough in the new market and found a new support point for the Company's regional business in Europe. Based on the existing drilling rig, rig renovation and parts sales businesses in the new markets, we will continue to further expand our services, geophysical exploration and EPC businesses, etc. With sales breakthroughs in new products, new markets and key customers, we have not only further consolidated the Group's market share, but also have greatly helped the Company continue expanding its high-end market businesses.

In terms of the trade and sales of parts and components, we have implemented the Group's "rig-to-component" evolution strategy and shifted our key operations from complete rigs to core components. While consolidating our existing rig market, we have shifted from rig sales to component sales, so as to get rid of the Group's dependence on the rig sales model. Combined with the support of business model innovation and financial platforms, we will accelerate the market promotion of self-developed core parts and components, expand the pipeline sales scale and create star product series including top drives, drilling pumps, automatic machinery, draw works and control systems.

In terms of new equipment research and development, the Group increased its investment in R&D, and all of its R&D programs unfolded in an all-round way. In 1H, we were granted as the "Member of Natural Gas Hydrate Technology Innovation Alliance" by CNOOC Group, which is home to the State Key Laboratory of Natural Gas Hydrate.

During the Period, Honghua was committed to deeply exploring the equipment leasing market. Due to the relatively cautious attitudes of users in investing on the market, the Group was keenly aware that more users tend to rent equipment, so the Group adopted the lease mode to obtain the market share and orders and to improve the utilization rate of its inventory materials and the gross margin of related equipment revenue. The Group sold its original 6000HP electrical fracturing pump system of more than US$10 million to Tops, a US company by way of leasing.

In 1H, we also participated in the OTC exhibition for the 16th year in a row. With the theme of total solutions for shale gas and micro mobile liquefaction devices and top-drive products, we used a combination of sandboxes and videos to give a brilliant showcase at the exhibition. The showcase received wide attention and favor from visiting customers.

In view of the development prospects for the second half of 2018, under the turbulent recovery of the oil and gas industry, the Group will continue to focus on the oil and gas equipment manufacturing industry and carry out technological innovation, operational upgrading and development mode transformation centered on the oil and gas industry. We will take the product (business) structure optimization as the leading idea to create our business layout, striving to put more resources on the core product lines, to consolidate the market share of our main equipment and products and to achieve the market breakthrough of new technologies and high value-added products through a number of initiatives.

2. Oil and gas engineering service business

The oilfield and gasfield service sector has understood the market law that the proportion of service in the oil and gas industry has increased to drive the shift of our focus from products to the "product + service" strategy. During the Period, the signed oilfield service projects were made successful advancements, the work performance continued to increase, and the Company's qualifications continued to grow. In 1H, the Changning shale gas service project of Honghua oilfield service sector launched the second batch of platform + drilling well-integrated package services, of which one was actually drilled. The project covers the shale gas integrated platform service workload of 3 platforms and 12 wells and realizes the leap frog breakthrough shift of the Group's oilfield services business from oilfield engineering services including drilling and fracturing only to the general contract of platforms. Sichuan Changning-Weiyuan national shale gas industry demonstration zone is the first national shale gas demonstration zone in China, which has also created many records in the country. In this operation, Honghua oilfield service sector will further enhance the Company's qualifications and brand awareness in China. After nearly three years of industrial testing and application, the performance of our shale gas electric fracturing system has continually become more perfect. As at August 2018, in the domestic market, the Group completed nearly 300 stages of fracturing operations in shale gas development blocks in the Nanchuan District of Chongqing municipality as well as in Weiyuan, Changning and Rongxian in Sichuan province; and in foreign markets, the Group completed about 600 R&D fracturing operations in an oilfield block in Wyoming, the USA. At present, the Company is also negotiating with CNPC, Sinopec and US users on future electric fracturing pumping services in oil and gas development areas such as Sichuan province and Chongqing municipality, Mahu area (in Xinjiang region), Zhaotong area (in Yunnan province), Zunyi area (in Guizhou province) and New Mexico (the USA).

Our new automatic rig (Chaoyue rig) has realized operations in shale gas development blocks in Sichuan province. Moreover, automatic operating machinery, top-drive draw works, five-cylinder high-pressure drilling pumps, hydraulic interactive climbers and other new supporting components as well as drilling wells have been integrated with the control software system, thus achieving the automation and informationization of operations; and the aggressive parameter drilling well was applied to greatly improve the drilling speeds and depth at the horizontal shale gas section.

The development of downhole tools and rotary guide systems has achieved phase results, and the serialized design and manufacture of hydraulic interactive thrusters and oil-seal screws have been completed. Among them, the hydraulic interactive thrusters and the oil-seal screws have achieved small-batch application and achieved good application results. For the intelligent trajectory rotation and guiding tools, we have completed the manufacturing and procurement of the main components. The final assembly of all the tools plans to be completed by October 2018, and their downhole tests expects to be archived by the end of the year.

We will continue to build our integrated service capability and cultivate the core competitiveness of our oilfield and gasfield engineering and technological service business as well as our oilfield and gasfield ground engineering construction general contracting service business.

3. Marine engineering equipment and related product businesses

In 1H, faced with the new oil and gas industry situation, the marine engineering equipment and related product business sector ("marine business sector" for short) focused on the construction of related equipment and facilities for the offshore LNG industry chain.During the Period, we completed the manufacturing and delivery of all equipment for the deep sea mining project and completed the design of the crane compensation and riser tensioning system of the offshore drilling system, the scheme design of the seventh-generation offshore drilling system and the overall design of the scheme and principle prototype of underwater mining machinery for the fluidized mining of natural gas hydrate.

Due to the recent years of sharp decline in international oil prices and the cyclic downturn of the marine engineering equipment manufacturing industry, the marine business sector in which the Group has heavily invested after its listing has not performed as well as expected. Although the Group's marine business sector strategically aims at the very promising natural gas and LNG industry according to the 13th Five-Year Plan, the Group as a newcomer in the LNG industry needs to invest more resources in the marine business sector before it can rely on the marine business sector to successfully boost its LNG business. As a result, the Group plans to sell the marine business sector and focus on the well-established equipment manufacturing and oilfield service businesses, so as to enhance the Group's core competitiveness and profitability while optimizing the Group's capital structure, resource allocation and financial performance.

QUALITY MANAGEMENT AND R&D

During the Period, the Group continued to enhance its own comprehensive competitiveness, successfully passed the external audit of the HSE system of DNV•GL organization, and obtained the audit report. The HSE management system certification is still valid. At present, we are a second-level enterprise (of industry and trade category) in terms of production safety standardization. We plan to complete the second-level production safety standardization construction of China Aerospace Science and Industry Corporation Limited (CASIC) in 2018. The Group will also continue to enhance and strengthen relevant intrinsic safety transformation and compliance construction and management.

As of 30 June 2018, we had applied for 24 patents, including 12 invention patents; and we were granted 20 patents, including 12 invention patents. After completing the assessment of the national intellectual property advantage cultivation enterprise, we applied for the national intellectual property benchmark enterprise.

HUMAN RESOURCE MANAGEMENT

During the Period, the Group continued to improve its HR structure, strengthen the introduction of technical professionals and achieve the strategic strategy of optimizing the allocation of human resources and the improvement in HR efficiency. As of 30 June 2018, the total number of the Group's employees was 3,749, up by 1.76% compared to the same period of the previous year. Among them, a total of 439 were R&D personnel, up by 27.98% compared to the same period of the previous year. The Group focuses on adjusting its staff structure, strengthening its training system construction and improving its staff effectiveness. In terms of staff training programs, the Group organized a total of 367 training programs in 1H, attracting the participation of 11,967 person-times. The training programs covered a wide range of content and boldly used innovative training methods such as seminars, task training and outward bounds.

After CASIC purchased some of Honghua's equity, combined with the needs of its own strategic business layout, the Group's HR department focused on introducing high-level technological and management professionals versed in equipment technology, engineering project management, international operations, internal operations and risk control and building an internal innovative and entrepreneurial talent development platform, and the HR department has achieved continuous breakthroughs through the specialized training development mechanism and the diversified incentive mechanism. By making use of the platform and influence of CASIC as well as the HR management system of the CASIC system, the Group will work with CASIC to jointly build a talent platform to attract high-end professionals to join the Group.

FUTURE PROSPECTS

In the second half of 2018, the Group will focus on "disposing historical issues, realizing to turn losses into profits and plotting transformation and upgrading", namely, the rapid and effective disposal of a series of loss-making enterprises; we will struggle for orders, enhance production and control costs to ensure that we achieve the year's profit goal by the end of the year; we will deploy the medium and long-term strategies for upgrading our market competitiveness and transforming our development mode through making breakthroughs in the core equipment technology in the oil and gas industry and integrating information technology.

As of 30 June 2018, the contract amount of orders already received by our land equipment business sector was approximately RMB5.873 billion, of which the contract amount of orders for land drilling rigs was about RMB2.34 billion.

As of 30 June 2018, the contract amount of orders already received by our marine oil and gas equipment business sector was approximately RMB286 million.

As of 30 June 2018, the contract amount of orders already received by our oilfield service business sector was approximately RMB754 million.

FINANCIAL REVIEW

According to the announcement dated 27 December 2017, the Group intends to dispose of its entire equity interest on the major entities of the offshore drilling rigs segment, and the results of those entities have been presented as discontinued operations and operation activities of the Group's other entities are still presented as continuing operations.

During the Period, the Group's gross profit and loss attributable to shareholders of the Company amounted to approximately RMB186 million and RMB118 million, respectively, and gross margin and net margin amounted to approximately 16.2% and -10.3%, respectively. In the same period last year, gross profit and loss attributable to shareholders of the Company amounted to approximately RMB84 million and RMB391 million, respectively, gross margin and net margin amounted to approximately 12.0% and -55.8%, respectively. During the Period, the gross margin and the net margin of the Group increased significantly, which was attributed to the substantial increase in the Group's revenue during the six month ended 30 June 2018 as compared with the same period last year thanks to the gradual rebound in oil price along with accelerated recovery of oil drilling equipment demand. The increase of production helped reduce idle cost, which led to smaller losses of the Group's business segments during the Period.

Turnover

During the Period, the Group's revenue from continuing operations amounted to approximately RMB1,147 million, representing an increase of RMB446 million or 63.6% as compared to RMB701 million in the same period last year.During the Period, the gradual rebound in oil price and the recovery of demand for global oil and gas led to substantially increased sales volume and hiking price of the drilling rigs and parts segment and the oil and gas services segment.

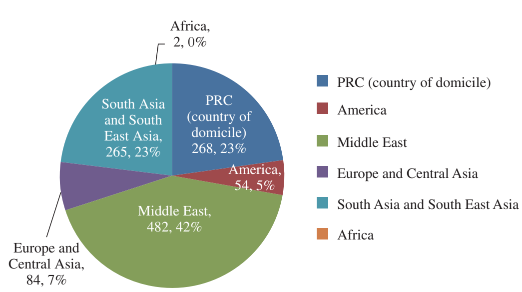
(a) *Revenue by geographical locations*

The Group's revenue by geographical segment during the Period: (1) The Group's export revenue amounted to approximately RMB885 million, accounting for approximately 76.8% of the total revenue, representing a increase of RMB293 million as compared to the same period last year; (2) revenue generated from the PRC amounted to approximately RMB268 million, accounting for approximately 23.2% of the total revenue, representing a increase of RMB41 million as compared to the same period last year.

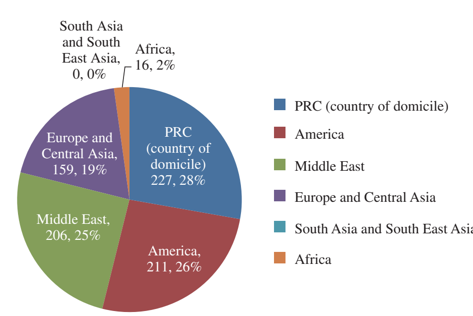
The revenues from different regions are affected by international oil and gas exploration activities. The Group will focus on the development of international business, keep on to improve the quality of products and services and strictly control the operating cost.

Revenue by geographical locations

Six months ended 30 June 2018
Expressed in RMB'million



Six months ended 30 June 2017
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 RMB649 million, representing an increase of RMB484 million or 293.3% as compared to approximately RMB165 million in the same period last year.

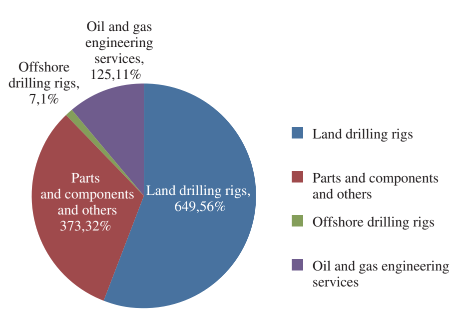
During the Period, external revenue from parts and components and others amounted to approximately RMB373 million, representing a decrease of RMB108 million or 22.5% as compared to approximately RMB481 million in the same period last year.

During the Period, external revenue from offshore drilling rigs amounted to approximately RMB7 million, representing a decrease of RMB111 million or 94.1% as compared to approximately RMB118 million in the same period last year.

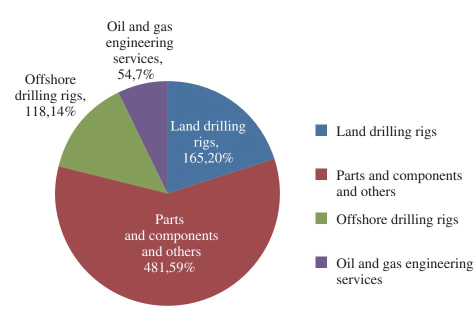
During the Period, revenue from oil and gas engineering services amounted to approximately RMB125 million, representing an increase of RMB71 million or 131.5% as compared to approximately RMB54 million in the same period last year.

Revenue by operating segments

Six months ended 30 June 2018
Expressed in RMB'million



Six months ended 30 June 2017
Expressed in RMB'million



Cost of Sales

During the Period, the Group's cost of sales from continuing operations amounted to approximately RMB960 million, representing an increase of RMB343 million or approximately 55.6% as compared to RMB617 million in the same period last year, which was 8 percentage points lower than the growth rate of revenue. The increase was mainly due to the increased cost of sales as a result of the significant growth in business volume of the land drilling segment and the oil and gas services segment of the Group thanks to the increase in sales, as well as the reduction in idle cost of the Group's business segments as a result of improved production capacity, which led to the higher growth rate of the Group's revenue than that of its cost of sales during the Period.

Gross Profit and Gross Margin

During the Period, the Group's gross profit from continuing operations amounted to approximately RMB186 million, representing an increase of RMB102 million or 122.0% as compared to RMB84 million in the same period last year.

During the Period, the Group's overall gross margin was 16.2%, representing an increase of 4.2 percentage points compared with the same period last year of 12.0%. The increase was mainly due to the year-on-year reduction in fixed costs and improvement in gross profit of unit product of the Group's segments, especially the land drilling rigs segment and the oil and gas services segment, in the context of the gradual recovery of domestic and overseas demand, the gradual increase in orders and the significant growth in revenue as compared to the same period last year.

Expenses in the Period

During the Period, the Group's distribution expenses from continuing operations amounted to approximately RMB89 million, representing a decrease of RMB78 million or 46.7% as compared to RMB167 million in the same period last year. The decrease was mainly due to the substantial decrease in commission or agency fee as affected by the Group's exercise of strict cost control, and the significant year-on-year decrease in service fee, warranty fee and other expenses as a result of the continuous improvement in product quality.

During the Period, the Group's administrative expenses and net impairment losses on financial assets from continuing operations amounted to approximately RMB255 million, representing an increase of RMB50 million or 24.4% as compared to RMB205 million in the same period last year. The increase was mainly due to the recognition of larger amount of impairment of assets as a result of revaluation of assets for the reason of prudent consideration, coupled with the slight year-on-year increase in labor cost, service fee, travel expenses and other related items in line with the significant increase in revenue.

During the Period, the Group's net finance expenses from continuing operations amounted to approximately RMB38 million, representing a decrease of RMB55 million, or 59.1% as compared to net finance expense of RMB93 million in the same period last year. The decrease was mainly due to the significant decrease in interest expense, which was attribute to the decreased borrowings and optimized structure, during this period, the exchange gains also significantly increased affected by the depreciation of RMB.

Loss before Income Tax

During the Period, the Group's loss before income tax from continuing operations amounted to approximately RMB109 million, representing a decrease of RMB271 million or 71.3% as compared to loss before income tax of RMB380 million in the same period last year.

Income Tax Expense

During the Period, the Group's income tax expense from continuing operations amounted to approximately RMB0.4 million as compared to the income tax expense of approximately RMB44 million in the same period last year.

Loss for the Period

During the Period, the loss for the Period amounted to approximately RMB114 million as compared to the loss of approximately RMB397 million in the same period last year. Specifically, loss attributable to equity shareholders of the Company was approximately RMB118 million, while profit attributable to non-controlling interests was approximately RMB4 million. During the Period, net margin was -10.3%, as compared to a net margin of -55.8% in the same period last year.

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

During the Period, EBITDA amounted to RMB25 million, as compared to approximately RMB-209 million in the same period last year, which was mainly attributable to the substantial increase of revenue in the land drilling rigs segment and the oil and gas services segment of the Group and the decrease in loss from its offshore business segment as a result of the improvement in market environment. The EBITDA margin was 2.2%, as compared to -25.6% in the same period last year.

Dividends

As at 30 June 2018, 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 2018, the Group's bank borrowings and senior notes amounted to approximately RMB3,254 million, representing a decrease of RMB62 million as compared to 31 December 2017. Among which, borrowings repayable within one year amounted to approximately RMB1,860 million, representing an increase of RMB426 million or 29.7%, as compared to 31 December 2017.

Deposits and Cash Flow

As at 30 June 2018, the Group's cash and cash equivalents amounted approximately RMB572 million, representing a decrease of approximately RMB528 million as compared to 31 December 2017.During the Period, the Group's net cash outflow from operating activities amounted to approximately RMB279 million; net cash outflow from investing assets amounted to approximately RMB112 million; and net cash outflow from financing activities amounted to approximately RMB161 million.

Assets Structure and Changes

As at 30 June 2018, the Group's total assets amounted to approximately RMB10,590 million, representing an increase of approximately RMB523 million or 5.2% as compared to 31 December 2017. Specifically, current assets amounted to approximately RMB8,051 million, accounting for 76.0% of total assets, representing an increase of RMB319 million as compared to 31 December 2017; and non-current assets amounted to approximately RMB2,539 million, accounting for 24.0% of total assets, representing an increase of approximately RMB204 million as compared to 31 December 2017.

Liabilities

As at 30 June 2018, the Group's total liabilities amounted to approximately RMB6,484 million, representing an increase of approximately RMB595 million as compared to 31 December 2017. Specifically, current liabilities amounted to approximately RMB5,031 million, accounting for approximately 77.6% of total liabilities, representing an increase of approximately RMB1,092 million as compared to 31 December 2017; and non-current liabilities amounted to approximately RMB1,453 million, accounting for approximately 22.4% of total liabilities, representing a decrease of approximately RMB497 million as compared to 31 December 2017. As at 30 June 2018, the Group's total liabilities/total assets ratio was 61.2%, representing an increase of 2.7 percentage points as compared to 31 December 2017.

Equity

As at 30 June 2018, total equity amounted to approximately RMB4,106 million, representing a decrease of RMB72 million as compared to 31 December 2017. Total equity attributable to equity shareholders of the Company amounted to approximately RMB3,934 million, representing a decrease of RMB77 million as compared to 31 December 2017. Non-controlling interests amounted to approximately RMB172 million, representing an increase of RMB5 million as compared to 31 December 2017. During the Period, the Group's basic loss per share was RMB0.0224, and diluted loss per share was RMB0.0224.

Capital Expenditure, Major Investment and Capital Commitments

During the Period, capital expenditure of the Group on infrastructure and technical improvements amounted to approximately RMB56 million, representing a decrease of approximately RMB8 million as compared to the same period last year, which was mainly used for the maintenance of the equipment and manufacturing base of the land drilling rigs segment as well as the optimization of the Group's business and 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 2018.

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 management system and associated procedures and providing advice 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 2018.

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 2018 to 30 June 2018, except for the deviation as mentioned below.

Code Provision A.5.1 of the CG Code stipulates that the issuers should establish a nomination committee. 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 2018.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2018

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 2018 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 2018
"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 2017
"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
Jin Liliang
Chairman

Hong Kong, 30 August 2018

As at the date of this announcement, the executive directors of the Company are Mr. Jin Liliang (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. Chen Guoming, Ms. Su Mei, Mr. Poon Chiu Kwok, Mr. Chang Qing and Mr. Wu Yuwu.