宏华集团有限公司
HONGHUA GROUP LIMITED

(incorporated in the Cayman Islands with limited liability)
Stock Code: 196

Interim Report 2018

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Jin Liliang (*Chairman*, appointed with effect from 24 August 2018)
Chen Yajun (*Chairman*, resigned with effect from 24 August 2018)
Zhang Mi *(Vice Chairman)*
Ren Jie

Non-Executive Directors

Han Guangrong
Chen Wenle

Independent Non-Executive Directors

Liu Xiaofeng
Qi Daqing (Resigned with effect from 1 January 2018)
Chen Guoming
Su Mei
Poon Chiu Kwok
Chang Qing
Wu Yuwu (Appointed with effect From 1 January 2018)

SECRETARY OF BOARD OF DIRECTORS

Zhuang Wenmin (Appointed with effect from 24 August 2018)
He Bin (Resigned with effect from 24 August 2018)

BOARD COMMITTEES

Audit Committee

Wu Yuwu (*Committee Chairman*, appointed with effect from 1 January 2018)
Qi Daqing (*Committee Chairman*, resigned with effect from 1 January 2018)
Liu Xiaofeng
Chen Guoming
Su Mei
Poon Chiu Kwok
Chang Qing

Remuneration Committee

Liu Xiaofeng *(Committee Chairman)*
Zhang Mi
Qi Daqing (Resigned with effect from 1 January 2018)
Chen Yajun (Resigned with effect from 24 August 2018)
Jin Liliang (Appointed with effect from 24 August 2018)
Su Mei
Wu Yuwu (Appointed with effect from 1 January 2018)

Strategic Investment and Risk Control Committee

Jin Liliang (*Committee Chairman*, appointed with effect from 24 August 2018)
Chen Yajun *(Committee Chairman*, resigned with effect from 24 August 2018*)*
Zhang Mi
Ren Jie
Liu Xiaofeng
Poon Chiu Kwok
Chang Qing

JOINT COMPANY SECRETARIES

Zhuang Wenmin (Appointed with effect from 30 August 2018)
He Bin (Resigned with effect from 30 August 2018)
Lee Mei Yi

LEGAL ADVISOR

As To Hong Kong Law

Herbert Smith Freehills
(Appointed with effect from 1 June 2018)

PRINCIPAL BANKERS

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

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

REGISTERED OFFICE

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

HEAD OFFICE

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

PLACE OF BUSINESS IN HONG KONG

Room 2508, Harcourt House
39 Gloucester Road
Wan Chai
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Estera Trust (Cayman) Limited
Clifton House, 75 Fort Street
PO Box 1350
Grand Cayman, KY1-1108
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712–1716
17th Floor Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

STOCK CODE

The Stock Exchange of Hong Kong Limited: 0196

WEBSITE

http://www.hh-gltd.com

FINANCIAL HIGHLIGHTS

OPERATING RESULTS

	Six months ended 30 June 2018 RMB'000	2017 RMB'000	Changes
Revenue from continuing operations	1,146,723	701,006	63.6%
Operating Loss from continuing operations	-56,143	-285,964	-80.4%
Loss before income tax from continuing operations	-109,218	-380,270	-71.3%
Loss attributable to owners of Company	-118,414	-390,908	-69.7%
Figures per Share			
Basic loss per share (RMB cents)	-2.24	-9.64	-76.8%
Diluted loss per share (RMB cents)	-2.24	-9.64	-76.8%

FINANCIAL POSITION

	30 June 2018 RMB'000	31 December 2017 RMB'000	Changes
Total non-current assets	2,538,664	2,334,095	8.8%
Total current assets	8,051,334	7,732,449	4.1%
Total assets	10,589,998	10,066,544	5.20%
Total current liabilities	5,031,122	3,938,579	27.7%
Total non-current liabilities	1,453,036	1,950,315	-25.5%
Total liabilities	6,484,158	5,888,894	10.1%
Total equity	4,105,840	4,177,650	-1.7%

KEY FINANCIAL RATIOS*

	Six months ended 30 June		
	2018	2017	Changes
Gross Margin from continuing operations	**16.2%**	12.0%	35.0%
Net Margin from continuing operations	**-10.3%**	-55.8%	-81.5%
Return on average assets	**-1.1%**	-3.7%	-70.3%
Return on average equity	**-3.0%**	-8.9%	-66.3%

	30 June 2018	31 December 2017	Changes
Current ratio	**1.60**	1.96	-18.4%
Quick ratio	**1.16**	1.15	0.87%
Total debt/Total assets	**30.7%**	33.0%	-7.0%
Total liabilities/Total assets	**61.2%**	58.5%	4.6%

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

MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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.

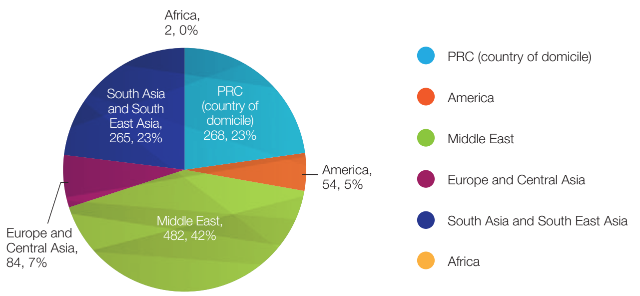
(a) Revenue by geographical locations

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.

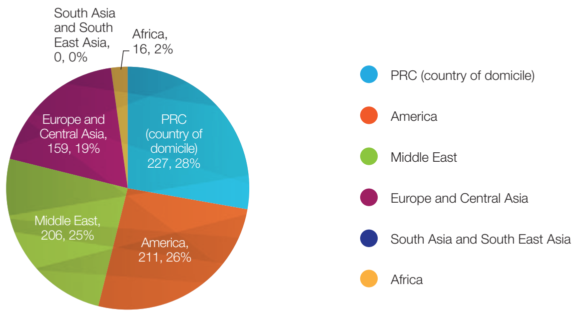
The revenues from different regions are affected by international oil and gas exploration activities. The Group will focus on the development of international business, keep on to improve the quality of products and services and strictly control the operating cost.

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.

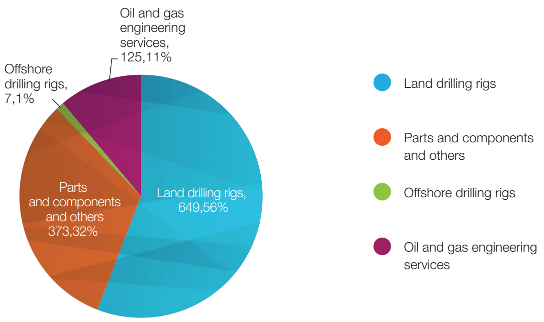
During the Period, external revenue from offshore drilling rigs amounted to approximately RMB7 million, representing a decrease of RMB111 million or 94.1% as compared to approximately RMB118 million in the same period last year.

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

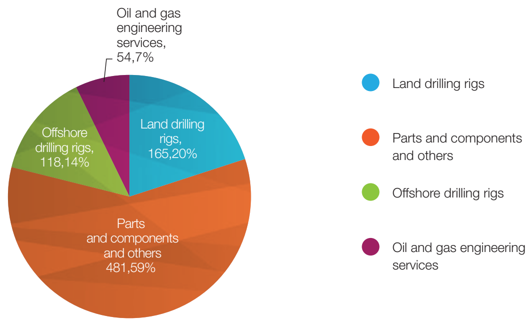
Six months ended 30 June 2018

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.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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.

1. OVERVIEW OF CORPORATE GOVERNANCE AND COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Group is committed to achieving high standards of corporate governance to safeguard the interests of Shareholders and to enhancing corporate value and accountability.

The Group strives to attain and maintain high standards of corporate governance to enhance Shareholder value and safeguard Shareholder interests. The Group's corporate governance principles emphasize a quality Board, effective internal controls and accountability to Shareholders.

The Company has applied the principles and code provisions as set out in the Corporate Governance Code (the "CG Code") as contained in Appendix 14 of the Listing Rules.

The Company has complied with most of the code provisions of the CG Code throughout the six months period from 1 January 2018 to 30 June 2018, except for the deviation of the Code Provision A.5.1 of the CG Code as mentioned below.

2. MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a set of Code for Securities Trading with terms no less exacting than that of the Model Code for Securities Transactions by Directors of Listed Issuer (the "Model Code") set out in Appendix 10 of the Listing Rules. 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.

The Company has also established written guidelines no less exacting than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of unpublished inside information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

3. INDEPENDENT NON-EXECUTIVE DIRECTORS

During the six months ended 30 June 2018, the Board at all times met the requirements of the Listing Rules relating to the appointment of independent non-executive directors representing at least one-third of the board. The Board comprises six Independent Non-executive Directors with three of whom possessing appropriate professional qualifications or accounting or related financial management expertise, which meets the requirements of the Listing Rules relating to the appointment of independent non-executive directors representing one-third of the board.

4. AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") with written terms of reference in compliance with Rules 3.21 and 3.22 of the Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Company and provide advices and comments 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 comprises six Independent Non-executive Directors, namely Wu Yuwu (Chairman), Liu Xiaofeng, Chen Guoming, Su Mei, Poon Chiu Kwok and Chang Qing. Three of Independent Non-executive Directors possess the appropriate professional qualifications or accounting or related financial management expertise.

The Audit Committee shall hold at least two meetings a year and review opinions of internal auditors, internal control, risk management and financial reporting. The Audit Committee has reviewed the unaudited financial interim reports for the six months ended 30 June 2018 of the Company and the Group.

5. NOMINATION COMMITTEE

Code Provision A.5.1 of the CG Code stipulates that Nomination Committee should be established with the Chairman of the Board or Independent Non-executive Director to be the chairman of the Nomination Committee.

For improving work efficiency, the Nomination Committee of the Group was dismissed with effect from 19 March 2013 and that its duties were taken over by the Board for reviewing its own structure, size and composition regularly (including taking into account of the board diversity policy of the Company) to ensure that it has a balance of expertise, skills and experience board members appropriate for the requirements of the business of the Company.

6. CHANGES IN DIRECTOR'S INFORMATION

Changes in Director's information since the disclosure made in the 2017 annual report of the Company, that are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules are set out below.

On 6 June 2018, Mr. Poon Chiu Kwok resigned as non-executive director of Chong Kin Group Holdings Limited, the shares of which are listed on the Stock Exchange.

Other than those disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

7. RESIGNATION AND APPOINTMENT OF CHAIRMAN OF THE BOARD

On 24 August 2018, Mr. Chen Yajun resigned as the Chairman of the Board and Mr. Jin Liliang was appointed as the Chairman of the Board.

8. RESIGNATION AND APPOINTMENT OF JOINT COMPANY SECRETARY

On 30 August 2018, Mr. He Bin resigned as the Joint Company Secretary and Ms. Zhuang Wenmin was appointed as the Joint Company Secretary of the Company. The current Joint Company Secretaries are Ms. Zhuang Wenmin and Ms. Lee Mei Yi.

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

As at 30 June 2018, the interests and short positions of each Director and Chief Executive in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of the SFO), as recorded in the register required to be kept by the Company under Section 352 of Part XV of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code contained in Appendix 10 to the Listing Rules were as follows:

(A) Ordinary Shares of HK$0.1 Each of the Company

	Long/Short position	Nature of interest	Number of shares held	% of the issued share capital of the Company
Mr. Zhang Mi	Long	Personal interest, corporate interest and settlor of a discretionary trust	1,083,554,363 [(1)]	20.23%
Mr. Ren Jie	Long	Personal interest, corporate interest and settlor of a discretionary trust	33,776,200 [(2)]	0.63%
Miss. Su Mei	Long	Personal interest	150,000 [(3)]	0.002%

(1) Zhang Mi individually owns 3,050,000 Shares. Yi Langlin, spouse of Zhang Mi owns 2,156,000 Shares. Zhang Mi is the settlor of a discretionary trust, The ZYL Family Trust,whose trustee, through Wealth Afflux Limited, holds 36% of the issued share capital of Ally Giant Limited which holds 920,548,363 Shares. The Trustee of The ZYL Family Trust owns 157,800,000 Shares.

(2) Ren Jie individually owns 1,549,000 Shares. He is the settlor of a discretionary trust. The Trustee of The RJDJ Victory Trust owns 32,227,200 Shares.

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

(B) Share Options of the Company

	Long/Short Position	Number of options held — Personal interest
Mr. Zhang Mi	Long	5,127,000
Mr. Ren Jie	Long	5,472,000
Mr. Qi Daqing (Resigned with effect from 1 January 2018)	Long	3,450,000
Mr. Liu Xiaofeng	Long	3,450,000
Mr. Chen Guoming	Long	2,550,000

Saved as disclosed above, as at 30 June 2018, none of the Directors and Chief Executives (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for Shares (or warrants or debentures, if applicable) of the Company and its associated corporations required to be disclosed pursuant to the SFO.

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

The register of substantial shareholders required to be kept under section 336 of Part XV of the SFO shows that, as at 30 June 2018, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors and Chief Executives of the Company.

		Number of shares held						
		Personal interest						
Name	Long/ Short Position	Share option	Shares Interest	Corporate interest	Corporate interest and settlor of a discretionary trust	Interest of the Concert Group	Total	% of the issued share capital of the Company
Ally Giant Limited	Long	–	920,548,363	–	–	–	920,548,363 (1)	17.18%
Wealth Afflux Limited	Long	–	157,800,000	920,548,363	–	–	1,078,348,363 (2)	20.13%
Equity Trustee Limited	Long	–	–	–	1,237,305,763	–	1,237,305,763 (3)	23.10%
Yi Langlin	Long	–	2,156,000 1,086,525,363 (family interest)		–	–	1,088,681,363 (4)	20.32%
Kehua Technology Co., Limited	Long	–	1,606,000,000	–	–	–	1,606,000,000 (5)	29.98%
Shenzhen Aerospace Industry Technology Research Institute	Long	–	–	1,606,000,000	–	–	1,606,000,000 (5)	29.98%
China Aerospace Science and Industry Corporation Limited	Long	–	–	1,606,000,000	–	–	1,606,000,000 (5)	29.98%

(1) Ally Giant Limited is owned by Wealth Afflux Limited and others 33 shareholders, holding 920,548,363 Shares in total.

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

(3) Equity Trustee Limited, as the trustee of The ZYL Family Trust and the 9 other Trusts, holds 1,237,305,763 Shares in total.

(4) Yi Langlin, spouse of Zhang Mi, is deemed to be interested in 1,088,681,363 Shares in which Zhang Mi holds 5,127,000 share options.

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

Save as disclosed above, to the best of the Directors and the Chief Executives of the Company's knowledge, as at 30 June 2018, none of the persons, other than the Directors or the Chief Executives of the Company, had interests or short positions in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or recorded in the register as required under Section 336 of the SFO.

SHARE OPTION SCHEME

(A) Pre-IPO Share Option Scheme

The principal terms of Pre-IPO share option scheme have been approved by resolutions in writing by all the Shareholders on 21 January 2008. A total of 270 eligible participants have been conditionally granted share options to subscribe for an aggregate of 60,000,000 Shares at an exercise price of offer price of HK$3.83 per Share. The vesting period of the Pre-IPO share option scheme is ten years from the date of grant until 20 January 2018. As at 20 January 2018, none of the grantees has exercised the share options granted to him under the Pre-IPO share option scheme, the total number of the share options granted have been cancelled or lapsed.

(B) Share Option Scheme after Listing

Upon conditional approval by resolution in writing by all Shareholders of the Company on 21 January 2008, the Company adopted a share option scheme (the "Share Option Scheme"). Details of the grant under the Share Option Scheme ended 30 June 2018 were as follows:

Date of grant	Number of grant (shares)	Exercise price per Share (HK$)	Exercise period of share options	Valid period of the share options
15 April 2009	60,000,000	1.27	up to 30% of the share options granted to each grantee from 1 December 2009 to 14 April 2010; up to 60% of the share options granted to each grantee on or before 14 April 2011; all the remaining share options granted to each grantee on or after 15 April 2011	up to 14 April 2019
11 October 2010	2,200,000	1.05	up to 40% of the share options granted to each grantee from 25 October 2010 to 10 October 2011; up to 70% of the share options granted to each grantee on or before 10 October 2012; all the remaining share options granted to each grantee on or after 11 October 2012	up to 10 October 2020
20 June 2011	7,600,000	0.83	up to 30% of the share options granted to each grantee from 19 July 2011 to 19 June 2012; up to 60% of the share options granted to each grantee on or before 19 June 2013; all the remaining share options granted to each grantee on or after 20 June 2013	up to 19 June 2021

Date of grant	Number of grant (shares)	Exercise price per Share (HK$)	Exercise period of share options	Valid period of the share options
5 April 2012	15,400,000	1.19	up to 30% of the share options granted to each grantee from 5 April 2013 to 4 April 2014; up to 60% of the share options granted to each grantee on or before 4 April 2015; all the remaining share options granted to each grantee on or after 5 April 2015	up to 4 April 2022
24 March 2014	3,200,000	2.024	up to 30% of the share options granted to each grantee from 24 April 2014 to 23 April 2015; up to 60% of the share options granted to each grantee on or before 23 April 2016; all the remaining share options granted to each grantee on or after 24 April 2016	up to 23 March 2024
2 July 2014	40,575,000	1.96	vesting of the share options is conditional upon the achievement of corporate goals of the Company and the individual performance of the respective Grantees. The share options or any portion thereof shall lapse if the relevant corporate goals cannot be achieved. Up to 30% of the share options granted to each grantee after April 2015; up to 60% of the share options granted to each grantee after April 2016; all the remaining share options granted to each grantee after April 2017	up to 1 July 2024
21 September 2016	41,350,000	0.44	up to 30% of the Share Options granted to each Grantee from 21 September 2017 to 20 September 2018 ;up to 60% of the Share Options granted to each Grantee on or before 20 September 2019 ;all the remaining Share Options granted to each Grantee on or after 21 September 2019	up to 20 September 2026

Particulars and movements of share options under the Share Option Scheme during the six months ended 30 June 2018 were as follows:

Name or category of participant	Outstanding as at 01/01/2018	Number of share options Granted during the six months ended 30 June 2018	Exercised during the six months ended 30 June 2018	Lapsed during the six months ended 30 June 2018	Cancelled during the six months ended 30 June 2018	Outstanding as at 30/06/2018	Date of grant (DD/MM/YY)	Exercise period (DD/MM/YY)	Exercise price per Share HK$	Price immediately preceding the grant date of share options HK$
Directors										
Mr. Zhang Mi	3,937,000	–	–	–	–	3,937,000	15/04/2009	01/12/2009 – 14/04/2019	1.27	1.29
	1,190,000					1,190,000	02/07/2014	02/07/2014 – 01/07/2024	1.96	1.92
Mr. Ren Jie	2,587,000	–	–	–	–	2,587,000	15/04/2009	01/12/2009 – 14/04/2019	1.27	1.29
	885,000					885,000	02/07/2014	02/07/2014 – 01/07/2024	1.96	1.92
	2,000,000					2,000,000	21/09/2016	21/09/2017 – 20/09/2026	0.44	0.435
Mr. Chen Guoming	750,000	–	–	–	–	750,000	15/04/2009	01/12/2009 – 14/04/2019	1.27	1.29
	750,000		–	–	–	750,000	20/06/2011	19/07/2011 – 19/06/2021	0.83	0.79
	550,000					550,000	24/03/2014	24/04/2014 – 23/03/2024	2.024	2.02
	500,000					500,000	21/09/2016	21/09/2017 – 20/09/2026	0.44	0.435
Mr. Liu Xiaofeng	1,000,000	–	–	–	–	1,000,000	15/04/2009	01/12/2009 – 14/04/2019	1.27	1.29
	1,000,000		–	–	–	1,000,000	20/06/2011	19/07/2011 – 19/06/2021	0.83	0.79
	750,000					750,000	24/03/2014	24/04/2014 – 23/03/2024	2.024	2.02
	700,000					700,000	21/09/2016	21/09/2017 – 20/09/2026	0.44	0.435
Mr. Qi Daqing (Resigned with effect from 1 January 2018)	1,000,000	–	–	–	–	1,000,000	15/04/2009	01/12/2009 – 14/04/2019	1.27	1.29
	1,000,000		–	–	–	1,000,000	20/06/2011	19/07/2011 – 19/06/2021	0.83	0.79
	750,000					750,000	24/03/2014	24/04/2014 – 23/03/2024	2.024	2.02
	700,000					700,000	21/09/2016	21/09/2017 – 20/09/2026	0.44	0.435
Sub-total	**20,049,000**	**-**	**-**	**-**	**-**	**20,049,000**				
Other										
Employee	28,939,500	–		27,000	–	28,912,500	15/04/2009	01/12/2009 – 14/04/2019	1.27	1.29
Employee	4,543,000	–	–	–	–	4,543,000	20/06/2011	19/07/2011 – 19/06/2021	0.83	0.79
Employee	11,056,000	–		150,000	–	10,906,000	05/04/2012	05/04/2013 – 04/04/2022	1.19	1.20
Employee	1,150,000					1,150,000	24/03/2014	24/04/2014 – 23/03/2024	2.024	2.02
Employee	14,698,592			256,336		14,442,256	02/07/2014	02/07/2014 – 01/07/2024	1.96	1.92
Employee	35,551,000		219,000	255,000		35,077,000	21/09/2016	21/09/2017 – 20/09/2026	0.44	0.435
Sub-total	**95,938,092**		**219,000**	**688,336**		**95,030,756**				
Total	**115,987,092**		**219,000**	**688,336**		**115,079,756**				

(C) Share Option Scheme of 2017

The 2017 Share Option Scheme is conditionally adopted by the Shareholders at the annual general meeting proposed to be held on 14 June 2017. As at 30 June 2018, no options were granted under the 2017 Share Option Scheme.

RESTRICTED SHARE AWARD SCHEME

On 30 December 2011, the Board approved and adopted a restricted share award scheme in which Selected Participant(s) including any Employee or Director (including, without limitation, any Executive Directors, Non-executive Directors or Independent Non-executive Directors), any consultant or adviser (whether on any employment or contractual or honorary basis and whether paid or unpaid) of the Company or any member of the Group, who in the absolute opinion of the Board, have contributed to the Company or the Group. Pursuant to the Scheme Rules, existing Shares will be purchased by the Trustee from the market out of cash contributed by the Company and be held in trust for the relevant Selected Participant until such Shares are vested with the relevant Selected Participants in accordance with the Scheme Rules. The Scheme shall be effective for a term of 10 years commencing on the Adoption Date subject to any early termination as may be determined by the Board. The Board will implement the Scheme in accordance with the Scheme Rules including providing necessary funds to the Trustee to purchase for Shares up to 5% of the issued share capital of the Company from time to time. The Selected Participant is not entitled to receive any income or distribution, such as dividend derived from the Restricted Shares allocated to him, prior to the vesting of the Restricted Shares in the Selected Participants. As at 30 June 2018, the Trustee has purchased 97,817,000 of the Company's Shares, accounting for 1.83% of the issued share capital of the Company and total of 36,917,700 shares were granted to the Selected Participants and out of which 190,000 Shares were subsequently cancelled.

Particulars and movements of the Restricted Share Award Scheme during the six months ended 30 June 2018 were as follows:

	Number of Shares					
	Outstanding as at 01/01/2018	Purchased during the period	Granted during the period	Vested during the period	Cancelled during the period	Outstanding as at 30/06/2018
Total	**61,089,300**	**–**	**–**	**–**	**–**	**61,089,300**

PURCHASE, SALE OR REDEMPTION 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.

On behalf of the Board of
Honghua Group Limited
Jin Liliang
Chairman

Hong Kong, 30 August 2018

pwc

羅兵咸永道

Report on Review of Interim Financial Information
To the Board of Directors of Honghua Group Limited
(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 28 to 74, which comprises the interim condensed consolidated balance sheet of Honghua Group Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2018 and the interim condensed consolidated statement of profit or loss, the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review 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. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Group is not prepared, in all material respects, in accordance with the International Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 30 August 2018

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

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	14	(15,058)	(1,615)
Loss before income tax		(109,218)	(380,270)
Income tax expense	4	410	44,010
Loss from continuing operations		(108,808)	(336,260)
Loss from discontinued operations	13	(5,135)	(61,031)
Loss for the half-year		(113,943)	(397,291)

	Note	Unaudited Half-year 2018 RMB'000	2017 Restated RMB'000
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)

The above condensed consolidated statement of profit or loss should be read in conjunction with the accompanying notes.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	Unaudited Half-year 2018 RMB'000	2017 Restated 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)

The above condensed consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

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	7	216,523	218,742
Property, plant and equipment	8	1,661,103	1,516,225
Investment properties	8	1,999	–
Payment for acquisition of leasehold prepayments		37,510	37,510
Intangible assets	9	140,174	146,906
Investments accounted for using the equity method	14	62,502	77,558
Deferred tax assets		253,468	232,057
Financial assets at fair value through other comprehensive income	16	74,053	–
Available-for-sale financial assets	16	–	90,192
Trade and other receivables	17	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	17	2,846,947	2,559,988
Current tax recoverable		5,083	6,595
Other current assets	16	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	13	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	11	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	17	1,728,519	1,760,966
Current income tax liabilities		43,079	67,175
Borrowings	11	1,860,480	1,434,325
Provisions for other liabilities and charges	10	86,893	115,671
		4,397,354	3,419,405
Liabilities of disposal group classified as held for sale	13	633,768	519,174
Total current liabilities		5,031,122	3,938,579
Total liabilities		6,484,158	5,888,894
EQUITY			
Share capital	12	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

The above condensed consolidated balance sheet should be read in conjunction with the accompanying notes.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	Unaudited											
	Attributable to owners of the Company											
	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000	Capital reserve RMB'000	Surplus reserve RMB'000	Exchange reserve RMB'000	Fair value reserve RMB'000	Shares held for share award scheme RMB'000	Accumulated deficits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2018	487,983	3,596,927	50,525	534,251	429,697	(307,597)	1,423	(124,618)	(657,876)	4,010,715	166,935	4,177,650
Comprehensive income												
(Loss)/profit for the half-year	–	–	–	–	–	–	–	–	(118,414)	(118,414)	4,471	(113,943)
Other comprehensive income	–	–	–	–	–	40,617	323	–	–	40,940	234	41,174
Total comprehensive income	–	–	–	–	–	40,617	323	–	(118,414)	(77,474)	4,705	(72,769)
Transactions with owners												
Equity-settled share-based transactions	–	–	–	897	–	–	–	–	–	897	–	897
Share issued under share option schemes	18	56	–	(17)	–	–	–	–	–	57	–	57
Options lapsed under share option schemes	–	–	–	(249)	–	–	–	–	249	–	–	–
Total transactions with owners, recognised directly in equity	18	56	–	631	–	–	–	–	249	954	–	954
Balance at 30 June 2018	488,001	3,596,983	50,525	534,882	429,697	(266,980)	1,746	(124,618)	(776,041)	3,934,195	171,640	4,105,835

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 June 2018

	Unaudited											
	Attributable to owners of the Company											
	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000	Capital reserve RMB'000	Surplus reserve RMB'000	Exchange reserve RMB'000	Fair value reserve RMB'000	Shares held for share award scheme RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2017	300,983	2,349,292	47,075	533,067	418,281	(216,034)	–	(124,618)	590,864	3,898,910	184,542	4,083,452
Loss for the half-year	–	–	–	–	–	–	–	–	(390,908)	(390,908)	(6,383)	(397,291)
Other comprehensive income	–	–	–	–	–	(10,903)	–	–	–	(10,903)	(484)	(11,387)
Total comprehensive income	–	–	–	–	–	(10,903)	–	–	(390,908)	(401,811)	(6,867)	(408,678)
Transactions with owners												
Issue of new ordinary shares	186,961	1,247,436	–	–	–	–	–	–	–	1,434,397	–	1,434,397
Equity-settled share-based transactions	–	–	–	1,250	–	–	–	–	–	1,250	–	1,250
Options lapsed under share option schemes	–	–	–	(521)	–	–	–	–	521	–	–	–
Acquisition of non-controlling interests	–	–	2,251	–	–	–	–	–	–	2,251	(21,401)	(19,150)
Total transactions with owners, recognised directly in equity	186,961	1,247,436	2,251	729	–	–	–	–	521	1,437,898	(21,401)	1,416,497
Balance at 30 June 2017	487,944	3,596,728	49,326	533,796	418,281	(226,937)	–	(124,618)	200,477	4,934,997	156,274	5,091,271

The above condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	Unaudited Half-year 2018 RMB'000	2017 RMB'000
Cash flows from operating activities		
Cash (used in)/generated from operations	**(276,996)**	235,712
Income tax paid	**(2,116)**	(11,189)
Cash flows from operating activities — net	**(279,112)**	224,523
Cash flows from investing activities		
Proceeds from government grants related to assets	**–**	17,985
Payment for additions of property, plant and equipment and construction in progress	**(50,785)**	(28,909)
Proceeds on disposal of property, plant and equipment and other intangible assets	**11,278**	4,354
Net deduction of available-for-sale financial assets	**–**	(2,715)
Interest received	**4,264**	6,373
Expenditure on development project and other intangible assets	**(76,604)**	(12,837)
Decrease in bank deposits maturing over three months	**–**	31,351
Cash flows from investing activities — net	**(111,847)**	15,602
Cash flows from financing activities		
Issue of ordinary shares	**–**	1,434,397
Payment for acquisition of non-controlling interests	**–**	(17,152)
Proceeds from share issued under share option scheme	**54**	–
Repayments of borrowings	**(494,803)**	(1,009,909)
Repayment of senior notes	**(505,533)**	–
Proceeds from borrowings	**922,603**	766,952
Interest paid	**(82,961)**	(97,125)
Cash flows from financing activities — net	**(160,640)**	1,077,163
Net (decrease)/increase in cash and cash equivalents	**(551,599)**	1,317,288
Cash and cash equivalents at the beginning of the period	**1,124,806**	544,360
Exchange gains/(losses)	**9,382**	(11,615)
Cash and cash equivalents at end of the period	**582,589**	1,850,033

The above condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.

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 13).

2 SEGMENT AND REVENUE INFORMATION (continued)

(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 13:

	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 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 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.

2 SEGMENT AND REVENUE INFORMATION (continued)

(b) Segment information (continued)

A reconciliation of segment loss to loss before income tax is provided as follows:

	Half-year 2018 RMB'000	Half-year 2017 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.

2 SEGMENT AND REVENUE INFORMATION (continued)

(b) Segment information (continued)

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	31 December 2017
	RMB'000	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 Asia	**–**	–
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	2017
	RMB'000	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)

4 INCOME TAX EXPENSE (continued)

(i) Hong Kong

The provision for Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits of the subsidiaries of the Group incorporated in Hong Kong 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 DIVIDENDS

No dividend was approved or paid in respect of the previous financial year during the six months ended 30 June 2018 (2017: Nil).

The board of directors does not recommend the payment of an interim dividend for the six months ended 30 June 2018 (2017: Nil).

7 LEASE PREPAYMENTS

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

	RMB'000
At 31 December 2017	
Cost	252,720
Accumulated amortisation	(33,978)
Net book amount	218,742
Six months ended 30 June 2018	
Opening net book amount	**218,742**
Additions	**110**
Amortisation	**(2,329)**
Closing net book amount	**216,523**
At 30 June 2018	
Cost	**252,830**
Accumulated amortisation	**(36,307)**
Net book amount	**216,523**

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

(b) As at 30 June 2018, bank borrowings are secured by land use rights with the carrying amount of approximately RMB25,707,000 (31 December 2017: RMB26,043,000) (Note 11).

8 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 and impairment	–	(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
Six months 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 and impairment	–	(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 11).

9 INTANGIBLE ASSETS

	Technical know-how RMB'000	Development Cost and others RMB'000	Total RMB'000
At 31 December 2017			
Cost	348,604	151,739	500,343
Accumulated amortisation and impairment	(325,320)	(28,117)	(353,437)
Net book amount	23,284	123,622	146,906
Six months ended 30 June 2018			
Opening net book amount	23,284	123,622	146,906
Additions	–	14,501	14,501
Amortisation charge	(16,988)	(3,820)	(20,808)
Currency translation difference	(425)	–	(425)
Closing net book amount	5,871	134,303	140,174
At 30 June 2018			
Cost	348,179	166,240	514,419
Accumulated amortisation and impairment	(342,308)	(31,937)	(374,245)
Net book amount	5,871	134,303	140,174

(i) During the six months ended 30 June 2018, the Group capitalised development cost of approximately RMB14,501,000 (30 June 2017: RMB19,242,000).

10 PROVISIONS FOR OTHER LIABILITIES AND CHARGES

	30 June 2018 RMB'000	31 December 2017 RMB'000
Legal claims of former shareholders (i)	32,317	32,317
Legal claims of sales agency (ii)	49,338	48,725
Other legal claims	–	29,824
Product warranties	5,238	4,805
	86,893	115,671

(i) As of 31 December 2005, 728 employees of Oil Drilling Plant (the "original investors"), through 11 representatives who were registered shareholders of Honghua Company, held collectively, 33.63% of Honghua Company's share capital. On 7 January 2006, Honghua Company proceed a shareholder resolution to reduce its registered capital and buy-out the equity interests from these 11 registered shareholders.

Honghua Company entered into a share purchase agreement with the 11 registered shareholders on 12 January 2006, under which, with the written consent of the 11 registered shareholders, it agreed to pay the share purchase price directly to the 728 original investors. The capital reduction process with the competent PRC government authority was completed on 26 April 2006. 64 of the 728 original investors, who collectively invested RMB651,385, refused to accept the payment from Honghua Company and claimed that they were still shareholders.

On 11 December 2007, 57 out of the 64 original investors initiated legal proceedings at the Intermediate Peoples' Court of Chengdu City, Sichuan Province ("Chengdu Intermediate Court"). A deed of indemnity in respect of the dispute and risk dated 15 February 2008 was entered into between some beneficiary owners of the Company (herein as defined "Indemnifiers") in favour of the Group pursuant to which each of the Indemnifiers jointly and severally provide an indemnity to any members of the Group for potential damages that the Company may suffer as result of the legal proceedings initiated by the 57 plaintiffs or the dispute with the 64 individuals.

10 PROVISIONS FOR OTHER LIABILITIES AND CHARGES (continued)

(i) On 18 April 2012, Honghua Company received the first instance judgment ((2008) Cheng Min Chu Zi no. 53) from Chengdu Intermediate Court as follows: (1) Honghua Company shall pay to the plaintiffs' the economic loss of RMB20,728,750 and dividend of RMB296,125 together with their respective interests thereon (for the period from 26 April 2006 to the date when the payment is fully paid, based on the current interest rate of one year term loan of the People's Bank of China); (2) Honghua Company shall pay to the plaintiffs' other economic loss of RMB100,000; (3) the plaintiffs' other claims were dismissed. For the proceedings acceptance fee of RMB1,751,549, RMB200,000 shall be borne by the plaintiffs, and RMB1,551,549 shall be borne by Honghua Company.

The management take the view that Honghua Company's repurchase of the equity interest and capital reduction were conducted under the PRC law. Honghua Company therefore filed an appeal to the Sichuan Higher People's Court on 3 May 2012. As a result of the unfavourable judgement made by the court, a provision for the above legal claim of RMB32,317,000 has been made during 2012. Pursuant to the deed of indemnity, the Group has the right to claim from the Indemnifiers the same amount of loss suffered from the legal claim. Accordingly, receivables from the Indemnifiers of the same amount and the corresponding credit to capital reserve (net of tax) have been recognised in the financial statements. There is no impact on both the net assets and cash flow of the Group.

During the year ended 31 December 2014, Sichuan Higher People's Court issued an order ((2012) Chua Ming Zhong Zi No. 442) that the judgement made by Chengdu Intermediate Court of ((2008) Cheng Min Chu Zi No. 53) is set aside and retrial is ordered. The retrial by the court was held in February 2015. On 24 December 2015, Honghua Company received the judgment ((2014) Cheng Min Chu Zi No. 1058 from Chengdu Intermediate Court as follows: (1) within 30 days from the effective date of the judgment, Honghua Company shall pay to the plaintiffs' the economic loss of RMB22,410,740 and dividend of RMB296,125 together with their respective interests thereon; (2) within 30 days from the effective date of the judgment, Honghua Company shall pay to the plaintiffs' other economic loss of RMB130,000; and (3) the plaintiffs' other claims were dismissed. For the court proceeding fee of RMB1,790,273, RMB300,000 of which shall be borne by the plaintiffs, and RMB1,490,273 of which shall be borne by Honghua Company.

The management take the view that Honghua Company's repurchase of the equity interest and capital reduction were conducted in accordance with the applicable PRC law. Therefore, Honghua Company filed an appeal to Sichuan Higher People's Court in April 2016 again. Honghua Company received the judgement (2016) Chua Min Zhong Zi No. 257 from Sichuan Higher People's Court on 22 June 2018, and this judgement basically affirmed the original judgment of (2014) Cheng Min Chu Zi No. 1058, except that for the second-instance court proceeding fee of RMB1,784,100, RMB892,050 of which shall be borne by the plaintiffs, and RMB892,050 of which shall be borne by Honghua Company.

10 PROVISIONS FOR OTHER LIABILITIES AND CHARGES (continued)

(ii) The legal claims provision of approximately RMB49,338,000 relates to certain legal claims brought against a subsidiary of the Group by a sales agency. The sales agency alleged that it was owed commission in excess of USD18,000,000 in relation to their services to the Group. On 11 April 2017, new judgement was issued by Abu Dhabi Federal Court of Appeals that the Group shall pay approximately USD7,457,000 to such sales agency. The provision was recognised in profit or loss within other losses in 2017.

In June 2017, the Group filed an appeal pursuant to the Union Supreme Court of the United Arab Emirates, and the judgement has not yet to be made as at 30 June 2018. In the directors' opinion, after taking appropriate legal advice, the outcome of the legal claims will not give rise to any significant loss beyond the amounts provided for at 30 June 2018.

	Legal claims of former shareholders RMB'000	Legal claims of sales agency RMB'000	Other legal claims RMB'000	Product warranties RMB'000	Total RMB'000
Current					
Carrying amount at 1 January 2018	32,317	48,725	29,824	4,805	115,671
Provisions during the period	–	–	–	2,659	2,659
Exchange differences	–	613	–	–	613
Utilised during the period	–	–	–	(2,226)	(2,226)
Disposal of subsidiary	–	–	(29,824)	–	(29,824)
Carrying amount at 30 June 2018	**32,317**	**49,338**	**–**	**5,238**	**86,893**

11 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

11 BORROWINGS (continued)

(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

11 BORROWINGS (continued)

(ii) 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

11 BORROWINGS (continued)

Financing arrangements

The Group's undrawn borrowing facilities were as follows:

	30 June 2018 RMB'000	31 December 2017 RMB'000
Fixed 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

12 EQUITY SECURITIES ISSUED

	2018 Shares (thousands)	2017 Shares (thousands)	2018 RMB'000	2017 RMB'000
Ordinary shares, issued and fully paid during the half-year				
Proceeds from shares issued	–	2,114,000	–	186,961
Shares issued under share option scheme	219	–	18	–
	219	2,114,000	18	186,961

13 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.

13 DISCONTINUED OPERATIONS (continued)

(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)

13 DISCONTINUED OPERATIONS (continued)

(b) Financial performance and cash flow information (continued)

	Half-year	
	2018	2017
	RMB'000	RMB'000
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)

14 INTERESTS IN ASSOCIATES AND JOINT VENTURES

The carrying amount of equity-accounted investments has changed as follows in the six months ended June 2018:

	Six months ended 30 June 2018 RMB'000
Beginning of the period	**77,558**
Loss for the period	**(15,058)**
Exchange differences	**2**
End of the period	**62,502**

15 RELATED-PARTY TRANSACTIONS

In addition to the related party information disclosed elsewhere in the interim condensed consolidated financial information, transactions with the following parties are considered as related party transactions:

Name of party	Relationship
China Aerospace Science and Industry Corporation (中國航天科工集團有限公司) ("CASIC")	Shareholder of the Group
Guanghan Hongtai Business Trading Co., Ltd. (廣漢市宏泰商貿有限公司) ("Hongtai")	Hongtai is a party over which spouses of certain directors and management have equity interests
Luzhou City Jianming Decorating Design Company (瀘州市劍鳴裝飾設計公司) ("Luzhou Jianming")	Luzhou Jianming is a party of which the brother of the spouse of a subsidiary's director is its legal representative
Sichuan Deep & Fast Oil Drilling Tools Co., Ltd. (四川深遠石油鑽井工具有限公司) ("Sichuan Shenyuan")	Sichuan Shenyuan is a party of which spouse of a director has equity interests
Egyptian Petroleum HH Rigs Manufacturing Co. S.A.E. ("HH Egyptian Company")	Joint venture
Honghua Financial Leasing (Shenzhen) Co., Ltd. ("Honghua (Shenzhen)")	Associate
Prime FSP, LLC ("Prime FSP")	Associate
Aerospace Science and Industry Financial CORP. (航天科工財務有限責任公司) ("ASFIC")	ASFIC is the subsidiary of CASIC

15 RELATED-PARTY TRANSACTIONS (continued)

(a) Significant related party transactions

	Half-year	
	2018 RMB'000	2017 RMB'000
Purchases of parts and components		
— Sichuan Shenyuan	5,680	–
— Hongtai	–	1,519
	5,680	1,519
Sale of drilling rigs, parts and components		
— HH Egyptian Company	857	2,667
Consulting service provided from		
— Honghua (Shenzhen)	1,258	2,464
Operating lease		
— Honghua (Shenzhen)	2,303	–

15 RELATED-PARTY TRANSACTIONS (continued)

(b) Amounts due from related companies

	30 June 2018 RMB'000	31 December 2017 RMB'000
Trade		
— Joint ventures	46,570	48,560
— Other related companies	41,661	25,512
	88,231	74,072
Non-trade		
— Joint ventures	502	323
— Other related companies	62,828	36,925
	63,330	37,248

(c) Amounts due to related companies

	30 June 2018 RMB'000	31 December 2017 RMB'000
Trade		
— Joint ventures	45	308
— Other related companies	5,412	14,820
	5,457	15,128
Non-trade		
— Joint ventures	265	258

15 RELATED-PARTY TRANSACTIONS (continued)

(d) Borrowings

	30 June 2018 RMB'000	31 December 2017 RMB'000
— ASFIC	480,000	480,000
— Honghua (Shenzhen)	4,624	6,581
	484,624	486,581

(e) Amounts due from certain shareholders

The amounts due from certain shareholders as at 30 June 2018 is an amount of RMB32,317,000 (31 December 2017: RMB32,317,000), being the amount indemnified by certain shareholders in relation to a legal claim.

(f) Key management compensation

	Half-year	
	2018 RMB'000	2017 RMB'000
Basic salaries, allowances and other benefits in kind	2,388	4,683
Contributions to defined contribution retirement schemes	143	204
Share-based payments	–	208
	2,531	5,095

16 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

This note provides an update on the judgements and estimates made by management of the Group in determining the fair values of the financial instruments since the last annual financial report.

(a) Fair value hierarchy

To provide an indication about the reliability of the inputs used in determining fair value, the Group classifies its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

The following table presents the Group's financial assets and financial liabilities measured and recognised at fair value at 30 June 2018 and 31 December 2017 on a recurring basis:

At 30 June 2018	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets				
Financial assets at fair value through other comprehensive income (FVOCI)				
— Investment in unlisted companies	–	–	74,053	74,053
FVOCI classified as other current assets				
— Investment in unlisted companies	–	–	16,570	16,570
— Bank acceptance bill receivables	–	–	14,130	14,130
Total financial assets	–	–	104,753	104,753

At 31 December 2017	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets				
Available-for-sale financial assets				
— Investment in unlisted companies	–	–	90,192	90,192
Total financial assets	–	–	90,192	90,192

* See note 19(b) for details regarding the restatement as a result of a change in accounting policy.

16 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

(a) Fair value hierarchy (continued)

The Group did not measure any financial assets or financial liabilities at fair value on a non-recurring basis as at 30 June 2018.

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted (unadjusted) market prices at the end of the reporting period. The quoted marked price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

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

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities and bank acceptance bill receivables held by the Group.

(b) Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

- The use of quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of foreign currency forwards is determined using forward exchange rates at the balance sheet date.
- The fair value of the remaining financial instruments is determined using discounted cash flow analysis.

16 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

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

The following table presents the changes in level 3 instruments for the six months ended 30 June 2018:

	FVOCI — Investment in unlisted companies RMB'000
Opening balance 31 December 2017	90,192
Gains recognised in other comprehensive income	431
Closing balance 30 June 2018	**90,623**

	FVOCI — Bank acceptance bill receivables RMB'000
Opening balance 31 December 2017	21,337
Additions	200,955
Disposals	(207,982)
Closing balance 30 June 2018	**14,130**

(i) Transfers between levels and changes in valuation techniques

During the six months ended 30 June 2018 and 30 June 2017, there were no transfers among levels 1, 2 and 3. There were no other changes in valuation techniques during the period.

(ii) Valuation inputs

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

16 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

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

(iii) Valuation processes

The Group has an established control framework with respect to the measurement of fair values. The finance department of the Group has overall responsibility for overseeing all significant fair value measurements, including level 3 fair values and reports directly to the management.

Management of the Group regularly reviews significant unobservable inputs and valuation adjustments. If third-party information is used to measure fair values, then management of the Group assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

(d) Fair values of other financial instruments (unrecognised)

The Group also has a number of financial instruments which are not measured at fair value in the balance sheet. For the majority of these instruments, the fair values are not materially different to their carrying amounts, since the interest receivable/payable is either close to current market rates or the instruments are short-term in nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments. The fair value of the borrowings is disclosed below.

	30 June 2018 RMB'000	31 December 2017 RMB'000
Carrying amount		
Bank loans	1,960,856	1,534,745
Unsecured loan from related party	480,000	480,000
Secured loan from related party	4,624	6,581
Senior notes	808,347	1,294,690
Fair value		
Bank loans	1,992,088	1,557,168
Unsecured loan from related party	502,527	479,450
Secured loan from related party	4,741	7,552
Senior notes	787,001	1,270,048

17 RECEIVABLES AND PAYABLES

(a) 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

17 RECEIVABLES AND PAYABLES (continued)

(a) Trade and other receivables (continued)

(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.

(b) 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

17 RECEIVABLES AND PAYABLES (continued)

(b) Trade and other payables (continued)

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

18 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 19 below.

18 BASIS OF PREPARATION OF HALF-YEAR REPORT (continued)

(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.

19 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 19(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 RMB'000	IFRS 9 RMB'000	**1 January 2018 Restated 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 19(c) below. In accordance with the transitional provisions in IFRS 9(7.2.15) and (7.2.26), comparative figures have not been restated.

19 CHANGES IN ACCOUNTING POLICIES (continued)

(b) IFRS 9 Financial Instruments — Impact of adoption (continued)

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

19 CHANGES IN ACCOUNTING POLICIES (continued)

(b) IFRS 9 Financial Instruments — Impact of adoption (continued)

(i) Classification and measurement (continued)

(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 amortised 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 amortised 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.

19 CHANGES IN ACCOUNTING POLICIES (continued)

(b) IFRS 9 Financial Instruments — Impact of adoption (continued)

(ii) Impairment of financial assets (continued)

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.

19 CHANGES IN ACCOUNTING POLICIES (continued)

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

Debt instruments

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

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

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest 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.

19 CHANGES IN ACCOUNTING POLICIES (continued)

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

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 IFRS 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 engineering, 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.

19 CHANGES IN ACCOUNTING POLICIES (continued)

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

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		
	Notes	Balance with the adoption of IFRS 15 RMB'000	Effect under IFRS 15 RMB'000	Balance without the adoption of IFRS 15 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 engineering 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.

20 SEASONALITY OF OPERATIONS

The Group experiences higher sales in the second half of the year compared to the first half of the year. It is the general practice for the Group's customers, engaging in oil and gas drilling industry, to place larger amounts of purchase orders at the beginning of the year. Having considered the production and delivery schedule, the finished goods related to these purchase orders are delivered in the second half of the year. Revenue from the sale of finished goods is recognised when the customer has accepted the related risks and rewards of ownership. Accordingly, the Group anticipates the inventories would gradually build up before the delivery of finished goods in the second half of the year. As a result, the first half year typically reports lower revenues, than the second half.

21 COMMITMENTS

(a) Capital commitments

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

	30 June 2018 RMB'000	31 December 2017 RMB'000
Contracted for	41,948	42,479
Authorised but not contracted for	3,394	3,700
	45,342	46,179

(b) Operating lease commitments

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

	30 June 2018 RMB'000	31 December 2017 RMB'000
Within 1 year	3,202	39,610
After 1 year but within 5 years	4,529	119,337
	7,731	158,947

The Group is the lessee in respect of a number of properties, machinery and equipment under operating leases. None of the leases includes contingent rentals.

"Articles of Association"	the Articles of Association of the Company, approved at extraordinary shareholders' meetings of the Company on 21 January 2008, revised and approved at annual general meeting of the Company on 3 June 2009
"Board of Directors" or "Board"	the Board of Directors of the Company
"Companies Ordinance"	the Company Ordinance (Chapter 622 of the laws of Hong Kong) and the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the laws of Hong Kong), as the case may be
"Company" or "our Company"	Honghua Group Limited (宏華集團有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 15 June 2007
"Director(s)"	member(s) of the Board of Directors of the Company
"Period"	For the six months ended 30 June 2018
"Group" or "we" or "us"	the Company and its subsidiaries, and, for the period before the Company became the holding company for such subsidiaries, the entities which carried on the business of the Group
"HK$" or "HK dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
"PRC" or "China"	the People's Republic of China and, except where the context requires and only for the purpose of this Interim Report, references in this Interim Report to the PRC or China do not apply to Taiwan or Hong Kong and Macau Special Administrative Regions
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary shares issued by the Company, with a nominal value of HK$0.10 each
"Shareholder(s)"	holder(s) of our Share(s)
"Stock Exchange" or "HKSE"	The Stock Exchange of Hong Kong Limited

"Substantial Shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"United States", or "USA" or "U.S."	the United States of America, including its territories and possessions
"US$" or "U.S. dollars" or "USD"	United States dollars, the lawful currency of the United States

宏华集团有限公司
HONGHUA GROUP LIMITED