宏华集团
HONGHUA GROUP

Honghua Group Limited
宏華集團有限公司
(a company incorporated in the Cayman Islands with limited liability)
(Stock code: 0196)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

FINANCIAL HIGHLIGHT

	Six months ended 30 June		
	2019	2018	Changes
	(Unaudited)	(Unaudited)	
Turnover from continuing operations *(RMB'000)*	**2,048,478**	1,146,723	78.6%
Gross profit from continuing operations *(RMB'000)*	**557,027**	186,330	198.9%
Gross profit margin from continuing operations *(%)*	**27.2%**	16.2%	
Operating profit/(loss) from continuing operations *(RMB'000)*	**147,695**	(56,143)	363.1%
Profit/(loss) attributable to owners of the Company *(RMB'000)*	**60,812**	(118,414)	151.4%
Earnings/(Loss) per share			
– Basic (RMB cents)	**1.15**	(2.24)	151.3%
– Diluted (RMB cents)	**1.15**	(2.24)	151.3%

The Board does not recommend payment of interim dividend for the six months ended 30 June 2019.

INTERIM RESULTS

The Board of the Company hereby announces the unaudited interim financial results of the Group for the six months ended 30 June 2019, together with the comparative figures for the corresponding period in 2018.

The interim financial report for the six months ended 30 June 2019 is unaudited, but has been reviewed by PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants whose unmodified review report is included in the interim financial report to be sent to shareholders of the Company.

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

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2019

		Unaudited Half-year	
	Notes	**2019**	2018
		RMB'000	*RMB'000*
Continuing operations			
Revenue	*2*	**2,048,478**	1,146,723
Cost of sales		**(1,491,451)**	(960,393)
Gross profit		**557,027**	186,330
Distribution expenses		**(158,545)**	(88,696)
Administrative expenses		**(180,132)**	(201,332)
Net impairment losses on financial assets		**(105,954)**	(53,354)
Other income		**24,740**	41,634
Other gains, net		**10,559**	59,275
Operating profit/(loss)	*3*	**147,695**	(56,143)
Finance income		**54,799**	10,155
Finance expenses		**(95,238)**	(48,172)
Finance expenses – net		**(40,439)**	(38,017)
Share of net loss of investments accounted for using the equity method		**(1,806)**	(15,058)
Profit/(loss) before income tax		**105,450**	(109,218)
Income tax expense	*4*	**(34,451)**	410
Profit/(loss) from continuing operations		**70,999**	(108,808)
Loss from discontinued operations	*10*	**–**	(5,135)
Profit/(loss) for the half-year		**70,999**	(113,943)

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (CONTINUED)
For the six months ended 30 June 2019

	Notes	**Unaudited Half-year 2019** **RMB'000**	2018 *RMB'000*
Profit/(loss) attributable to:			
– Owners of the Company		**60,812**	(118,414)
– Non-controlling interests		**10,187**	4,471
		70,999	(113,943)
Earnings/(loss) per share for profit/(loss) from continuing operations attributable to the ordinary equity holders of the Company (expressed in RMB cents per share)			
Basic and diluted	*5*	**1.15**	(2.17)
Earnings/(loss) per share for profit/(loss) attributable to the ordinary equity holders of the Company (expressed in RMB cents per share)			
Basic and diluted	*5*	**1.15**	(2.24)

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 2019

	Unaudited Half-year	
	2019	2018
	RMB'000	*RMB'000*
Profit/(loss) for the half-year	**70,999**	(113,943)
Other comprehensive income		
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	**4,630**	41,409
Exchange differences on translation of discontinued operations	**–**	(558)
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	**4,630**	41,174
Total comprehensive income for the half-year	**75,629**	(72,769)
Total comprehensive income for the half-year attributable to:		
Owners of the Company	**68,813**	(77,474)
Non-controlling interests	**6,816**	4,705
	75,629	(72,769)
Total comprehensive income for the half-year attributable to owners of the Company arises from:		
Continuing operations	**68,813**	(73,513)
Discontinued operations	**–**	(3,961)
	68,813	(77,474)

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 2019

	Notes	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
ASSETS			
Non-current assets			
Lease prepayments		**189,967**	192,242
Property, plant and equipment	*6*	**1,544,867**	1,518,266
Payment for acquisition of leasehold prepayment		**–**	10,000
Intangible assets		**178,498**	161,186
Investments accounted for using the equity method		**34,041**	35,135
Deferred income tax assets		**253,593**	261,632
Financial assets at fair value through other comprehensive income		**89,475**	74,053
Trade and other receivables	*8*	**1,015,354**	907,304
Loan to an associate and other related party		**1,542,338**	1,584,192
Other non-current assets		**73,356**	28,165
Total non-current assets		**4,921,489**	4,772,175
Current assets			
Inventories		**1,576,038**	1,564,797
Contract assets		**57,874**	42,758
Trade and other receivables	*8*	**3,868,245**	2,939,969
Loan to an associate and other related party		**59,991**	79,982
Current tax recoverable		**6,583**	46
Assets classified as held for sale		**–**	684
Financial assets at fair value through other comprehensive income		**51,764**	93,884
Pledged bank deposits		**71,362**	137,302
Cash and cash equivalents		**627,060**	685,500
Total current assets		**6,318,917**	5,544,922
Total assets		**11,240,406**	10,317,097

UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

As at 30 June 2019

	Notes	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
EQUITY			
Equity attributable to owners of the Company			
Share capital		**488,023**	488,015
Other reserves		**4,216,857**	4,223,911
Accumulated losses		**(506,840)**	(583,183)
		4,198,040	4,128,743
Non-controlling interests		**196,984**	190,168
Total equity		**4,395,024**	4,318,911
LIABILITIES			
Non-current liabilities			
Deferred income		**42,931**	49,086
Borrowings	*7*	**665,000**	575,000
Lease liabilities	*12*	**93,845**	–
Total non-current liabilities		**801,776**	624,086
Current liabilities			
Contract liabilities		**253,629**	241,082
Deferred income		**14,880**	45,450
Trade and other payables	*9*	**2,581,150**	2,340,886
Current income tax liabilities		**66,783**	56,041
Lease liabilities	*12*	**27,051**	–
Borrowings	*7*	**3,047,969**	2,545,450
Provisions for other liabilities and charges		**52,144**	145,191
Total current liabilities		**6,043,606**	5,374,100
Total liabilities		**6,845,382**	5,998,186
Total equity and liabilities		**11,240,406**	10,317,097

The above condensed consolidated balance sheet 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, oil and gas exploitation equipment and providing drilling services.

The Company was incorporated in the Cayman Islands on 15 June 2007 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman, KY1-1108, Cayman Islands.

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

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 28 August 2019.

This interim condensed consolidated financial information has not been audited.

2 SEGMENT AND REVENUE INFORMATION

(i) 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.

The Group intended to dispose offshore drilling rigs segment in 2017 and the disposal was completed as at 31 December 2018. The results of this segment were presented as discontinued operations for the half-year ended 30 June 2018 (Note 10).

(ii) 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 2019 and 2018 respectively. The segment information below included the discontinued operations as disclosed in Note 10.

	Land drilling rigs Half-year		Parts and components and others Half-year		Oil and gas engineering services Half-year		Offshore drilling rigs Half-year		Total Half-year	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Segment revenue	**928,364**	649,264	**1,066,448**	565,733	**312,715**	124,649	**–**	15,640	**2,307,527**	1,355,286
Inter-segment revenue	**(98,880)**	–	**(160,169)**	(192,923)	**–**	–	**–**	(9,014)	**(259,049)**	(201,937)
Revenue from external customers	**829,484**	649,264	**906,279**	372,810	**312,715**	124,649	**–**	6,626	**2,048,478**	1,153,349
Timing of revenue recognition										
At a point in time	**829,484**	649,264	**893,616**	372,810	**–**	2,907	**–**	6,626	**1,723,100**	1,031,607
Over time	**–**	–	**12,663**	–	**312,715**	121,742	**–**	–	**325,378**	121,742
	829,484	649,264	**906,279**	372,810	**312,715**	124,649	**–**	6,626	**2,048,478**	1,153,349
Reportable segment profit/(loss)	**37,819**	(71,390)	**154,918**	24,792	**(4,950)**	(58,419)	**–**	1,410	**187,787**	(103,607)

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 gains, 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 2019, such information was not reviewed by the Group's chief operating decision maker. Accordingly, no segment assets and liabilities are presented.

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

	Half-year	
	2019	2018
	RMB'000	*RMB'000*
Segment profit/(loss)		
– for reportable segments	**187,787**	(103,607)
Elimination of inter-segment (profit)/loss	**(32,575)**	14,929
Segment profit/(loss) derived from Group's external customers	**155,212**	(88,678)
Share of post-tax losses of associates	**–**	(10,940)
Share of post-tax losses of joint ventures	**(1,806)**	(4,118)
Other income and other gains, net	**35,299**	102,550
Finance income	**54,799**	10,602
Finance expenses	**(95,238)**	(57,692)
Unallocated head office and corporate expenses	**(42,816)**	(66,968)
Profit/(loss) before income tax	**105,450**	(115,244)

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

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

	Half-year	
	2019	2018
	RMB'000	*RMB'000*
PRC (country of domicile)	**774,333**	267,990
Americas	**184,507**	53,592
Middle East	**692,932**	481,599
Europe and Central Asia	**340,616**	83,778
South Asia and South East Asia	**7,146**	264,754
Africa	**48,944**	1,636
	2,048,478	1,153,349

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

	30 June 2019 *RMB'000*	31 December 2018 *RMB'000*
PRC (country of domicile)	**1,726,398**	1,501,686
Americas	**39,810**	174,377
Middle East	**162,190**	171,398
Europe and Central Asia	**58,290**	62,398
Africa	**34,041**	35,135
	2,020,729	1,944,994

For the half-year ended 30 June 2019, revenues of approximately RMB363,058,000, RMB339,240,000, RMB318,584,000 and RMB248,985,000 were derived from four external customers respectively. These revenues were attributable to the sales of land drilling rigs in Europe and Central Asia, the sales of land drilling rigs in Middle East, the sales of parts and components in PRC (country of domicile) and the sales of land drilling rigs in Middle East respectively.

For the six months ended 30 June 2018, revenue of approximately RMB330,000,000 was derived from one external customer. The revenue was attributable to the sales of land drilling rigs in Middle East.

3 OPERATING PROFIT/(LOSS)

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

	Half-year	
	2019 *RMB'000*	2018 *RMB'000*
Write down of inventories	**64,982**	3,203
Provision for impairment of trade and other receivables	**105,954**	53,354
Provision for impairment of contract assets	**266**	–
Provision for impairment of property, plant and equipment, lease prepayment and other intangible assets	**7,648**	–
Gains on disposal of property, plant and equipment, lease prepayment and other intangible assets	**(2,423)**	(145)

4 INCOME TAX EXPENSE

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

	Half-year	
	2019	2018
	RMB'000	*RMB'000*
Current income tax		
– Hong Kong Profits Tax (i)	**–**	76
– the People's Republic of China (the "PRC") (ii)	**20,900**	15,032
– Other jurisdictions (iii)	**5,512**	5,360
Deferred income tax	**8,039**	(20,878)
	34,451	(410)

(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 2019 and 2018.

(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 2019, except for the following companies:

a) 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 2019 and 2018.

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

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

(iii) Others

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

(iv) **Withholding tax**

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

The Company's directors revisited the dividend policy of the Group during the six months ended 30 June 2019 and 2018. In order to retain the fundings for operations and future development, it was resolved that the Group's PRC subsidiaries will not distribute dividend to the offshore holding companies in the foreseeable future. Any dividends to be declared by the Company will be distributed from the share premium account.

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 2019 is 20%, compared to 20% for the six months ended 30 June 2018.

5 EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings per share for the half-year ended 30 June 2019 is based on the profit attributable to owners of the Company for the period of RMB60,812,000 (half-year ended 30 June 2018: loss of RMB118,414,000) and the weighted average number of shares of 5,293,828,000 (six months ended 30 June 2018: 5,293,500,000 shares) in issue during the period.

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

	Half-year	
	2019	2018
Profit/(loss) attributable to owners of the Company (RMB'000)	**60,812**	(118,414)
From continuing operations	**60,812**	(114,844)
From discontinued operations	**–**	(3,570)
Weighted average number of ordinary shares in issue (thousands)	**5,355,905**	5,355,521
Effect of the share award scheme (thousands)	**(62,089)**	(62,089)
Effect of share options exercised (thousands)	**12**	68
Adjusted weighted average number of ordinary shares in issue (thousands)	**5,293,828**	5,293,500
Basic earnings/(loss) per share (RMB cents per share)	**1.15**	(2.24)
From continuing operations (RMB cents per share)	**1.15**	(2.17)
From discontinued operations (RMB cents per share)	**–**	(0.07)

6 PROPERTY, PLANT AND EQUIPMENT

	Freehold land	Buildings held for own use	Plant and machinery	Furniture, fittings and equipment	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2018							
Cost	5,835	695,026	1,550,078	490,067	107,022	193,117	3,041,145
Disposal of subsidiaries	–	(12,899)	(10,966)	(1,386)	(608)	(101,804)	(127,663)
Accumulated depreciation and impairment	–	(238,633)	(755,800)	(340,871)	(59,021)	(891)	(1,395,216)
Net book amount	5,835	443,494	783,312	147,810	47,393	90,422	1,518,266
Half-year ended 30 June 2019							
Opening net book amount	5,835	443,494	783,312	147,810	47,393	90,422	1,518,266
Additions	–	1,154	8,622	2,430	579	5,754	18,539
Transfer from construction in progress	–	–	2,179	–	–	(2,179)	–
Transfer from inventories	–	–	90,220	3,556	7,440	–	101,216
Disposals	–	–	(10,853)	(5,357)	(6)	–	(16,216)
Depreciation	–	(16,089)	(46,148)	(10,960)	(2,397)	–	(75,594)
Currency translation difference	10	699	5,379	101	115	–	6,304
Impairment	–	–	(7,648)	–	–	–	(7,648)
Closing net amount	5,845	429,258	825,063	137,580	53,124	93,997	1,544,867
At 30 June 2019							
Cost	5,845	683,980	1,606,670	481,820	113,599	94,888	2,986,802
Accumulated depreciation and impairment	–	(254,722)	(781,607)	(344,240)	(60,475)	(891)	(1,441,935)
Net book amount	5,845	429,258	825,063	137,580	53,124	93,997	1,544,867

Bank loans and secured loan from related party were secured by certain buildings and machinery of the Group with a net book value of approximately RMB28,001,000 as at 30 June 2019 (31 December 2018: RMB29,747,000) (Note 7).

7 BORROWINGS

	30 June 2019	31 December 2018
	RMB'000	*RMB'000*
Bank loans		
Secured (i)		
– Current portion	**60,500**	524,886
– Non-current portion	**95,000**	95,000
	155,500	619,886
Unsecured		
– Current portion	**1,654,202**	1,059,368
– Non-current portion	**90,000**	–
	1,744,202	1,059,368
Total bank loans	**1,899,702**	1,679,254
Unsecured loans from related party		
– Current portion	**422,673**	50,000
– Non-current portion	**480,000**	480,000
	902,673	530,000
Other loans		
Secured loan from related party (i)	**70,907**	72,878
Senior notes (ii)	**839,687**	838,318
	910,594	911,196
Current borrowings	**3,047,969**	2,545,450
Non-current borrowings	**665,000**	575,000
Total borrowings	**3,712,969**	3,120,450

(i) As at 30 June 2019, the bank loans and secured loan from related party were secured by interest in land use rights of approximately RMB25,035,000, property, plant and equipment of approximately RMB28,001,000, bill receivables of approximately RMB12,000,000, letters of credit of approximately RMB43,500,000 and 20% equity interest of Honghua Company, a subsidiary of the Group.

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

(ii) On 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. On 12 February 2018, principle amount of USD77,000,000 were redeemed at a redemption price of 103.725% of the principle amount, plus accrued and unpaid interest, if any, to the redemption date. Upon completion of the redemption, the outstanding principle amount is USD123,000,000.

The Senior Notes are guaranteed by the Group's existing subsidiaries, including Honghua Holdings Limited, Newco (H.K) Limited, Honghua Oil & Gas Engineering Services Limited and Honghua Golden Coast Equipment FZE as stated in the Company's offering memorandum on 25 September 2014.

The Group had the undrawn borrowing facilities at respective end of the period/year were set out as follows:

	30 June 2019 *RMB'000*	31 December 2018 *RMB'000*
Fixed rate		
Expiring within one year (bank loans and bill facilities)	**4,567,840**	3,219,977

Movements in borrowings are analysed as follows:

	RMB'000
Half-year ended 30 June 2019	
Opening amount as at 1 January 2019	3,120,450
Additions	1,406,778
Repayments	(792,909)
Currency translation differences	(21,350)
Closing amount as at 30 June 2019	3,712,969

As at 30 June 2019 and 31 December 2018, 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 2019							
Non-derivatives							
Trade and other payables (excluding payroll and welfare payables, other tax payables)	**2,480,852**	**–**	**–**	**–**	**–**	**2,480,852**	**2,480,852**
Borrowings (excluding senior notes)	**1,001,071**	**1,328,767**	**512,957**	**119,855**	**50,996**	**3,013,646**	**2,873,282**
Senior notes	**855,539**	**–**	**–**	**–**	**–**	**855,539**	**839,687**
Lease liabilities	**15,325**	**11,725**	**23,415**	**91,480**	**–**	**141,945**	**120,896**
Total	**4,352,787**	**1,340,492**	**536,372**	**211,335**	**50,996**	**6,491,982**	**6,314,717**

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 2018							
Non-derivatives							
Trade and other payables (excluding payroll and welfare payables, other tax payables)	2,195,750	–	–	–	–	2,195,750	2,195,750
Borrowings (excluding finance leases and senior notes)	901,351	862,631	504,180	47,940	51,297	2,367,399	2,279,254
Finance leases liabilities	–	2,944	–	–	–	2,944	2,878
Senior notes	15,723	854,108	–	–	–	869,831	838,318
Total	3,112,824	1,719,683	504,180	47,940	51,297	5,435,924	5,316,200

8 TRADE AND OTHER RECEIVABLES

	30 June 2019 *RMB'000*	31 December 2018 *RMB'000*
Trade receivables (i)	**3,484,493**	2,627,384
Bills receivable	**136,029**	33,637
Less: provision for impairment of trade receivables	**(212,340)**	(169,007)
	3,408,182	2,492,014
Amount due from related parties		
Trade	**211,985**	349,870
Non-trade	**183,441**	122,858
Amount due from certain shareholders	**42,380**	42,380
Finance lease receivable (ii)	**343,612**	254,832
Less: provision for impairment of finance lease receivable	**(85,044)**	(65,816)
Value-added tax recoverable	**110,900**	123,623
Prepayments	**474,950**	374,168
Less: provision for prepayments	**(28,291)**	(28,291)
Other receivables	**338,882**	298,937
Less: provision for impairment of other receivables	**(117,398)**	(117,302)
	4,883,599	3,847,273
Representing:		
Current portion	**3,868,245**	2,939,969
Non-current portion	**1,015,354**	907,304
	4,883,599	3,847,273

(i) As at 30 June 2019 and 31 December 2018, the ageing analysis of the net amount of trade receivables and bills receivable (including amounts due from related parties of trading in nature) is as follows:

	30 June 2019 *RMB'000*	31 December 2018 *RMB'000*
Within 3 months	**1,652,535**	2,028,514
3 to 12 months	**1,310,173**	102,487
Over 1 year	**657,459**	710,883
	3,620,167	2,841,884

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

(ii) As at 30 June 2019, the lease liabilities of amount RMB116,528,000 were secured by finance lease receivables of amount RMB108,897,000.

9 TRADE AND OTHER PAYABLES

	30 June 2019 *RMB'000*	31 December 2018 *RMB'000*
Trade payables	**1,468,444**	1,198,420
Amounts due to related companies		
Trade	**1,271**	603
Non-trade	**15,763**	230
Bills payable	**554,894**	638,282
Other payables	**540,778**	503,351
	2,581,150	2,340,886

As at 30 June 2019 and 31 December 2018, the ageing analysis of the trade payables and bills (including amounts due to related parties of trading in nature) is as follows:

	30 June 2019	31 December 2018
	RMB'000	*RMB'000*
Within 3 months	**792,653**	948,322
3 to 6 months	**212,057**	502,994
6 to 12 months	**778,015**	136,991
Over 1 year	**241,884**	248,998
	2,024,609	1,837,305

10 DISCONTINUED OPERATIONS

(i) Description

According to the announcement dated 27 December 2017, the Group intended to dispose offshore drilling rigs segment, through public tender to be conducted on the Shanghai United Assets and Equity Exchange, (a) its 100% indirect equity interest in Honghua Offshore Oil and Gas Equipment (Jiangsu) Co., Ltd ("Honghua (Jiangsu)"), a wholly-owned subsidiary of the Group, (b) its 100% indirect equity interest in Shanghai Honghua Offshore Oil & Gas Equipment Co., Ltd ("Honghua (Shanghai)"), 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.

In 2018, the Group signed agreements with Jiangsu Hongjieding Energy Technology Co., Ltd.("Jiangsu Hongjieding") and Honghua (Shanghai) with the following key transaction terms:

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

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

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

The Group also entered debt repayment agreements with Honghua (Jiangsu) and Hong Kong Tank Tek Limited respectively, pursuant to which Honghua (Jiangsu) and Hong Kong Tank Tek Limited shall repay the existing debt, together with relevant interest to the Group after the completion of the above equities transfer. The debts are secured by equity interests held by Jiangsu Hongjieding in offshore drilling rigs segment as well as total assets of Honghua (Jiangsu) and Honghua (Shanghai). The interests of the loans to Honghua (Jiangsu) and Hong Kong Tank Tek Limited are 4.75% and 6% respectively. Honghua (Jiangsu) and Hong Kong Tank Tek Limited should repay the debts within 5 years. The Group recorded these debts as "loan to an associate and other related party".

The disposal was completed on 31 December 2018. Both Honghua (Jiangsu) and Honghua (Shanghai) have become associates of the Group with zero net book value as at 31 December 2018. The offshore drilling rigs segment was reported in the financial statements for the half-year ended 30 June 2018 as a discontinued operations.

(ii) Financial performance and cash flow information

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

	Half-year **2018** *RMB'000*
Revenue	6,626
Other losses, net	(790)
Expenses	(11,862)
Loss before income tax of discontinued operations	(6,026)
Income tax expense	891
Loss after income tax of discontinued operations	(5,135)
Loss from discontinued operations attributable to:	
Owners of the Company	(3,570)
Non-controlling interests	(1,565)
	(5,135)
Other comprehensive income from discontinued operations	(558)
Net cash inflow from operating activities	636
Net cash outflow from investing activities	(39,688)
Net cash inflow from financing activities	37,965
Net decrease in cash generated by discontinued operations	(1,087)
	RMB Cents
Basic loss per share from discontinued operations	(0.07)
Diluted loss per share from discontinued operations	(0.07)

11 BASIS OF PREPARATION OF HALF-YEAR REPORT

This interim condensed consolidated financial information for the half-year reporting period ended 30 June 2019 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 2018 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.

(i) 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 as a result of adopting IFRS 16 Leases.

The impact of the adoption of IFRS 16 Leases is disclosed in Note 12 below. The other standards, amendments and interpretation did not have a material impact or are not relevant to the Group.

12 CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of IFRS 16 Leases on the Group's financial statements and discloses the new accounting policies that have been applied from 1 January 2019.

The Group has adopted IFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

(i) Adjustments recognised on adoption of IFRS 16

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

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

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

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following types of assets:

	30 June 2019 *RMB'000*	1 January 2019 *RMB'000*
Offices and warehouses	**2,120**	–
Equipment	**3,656**	10,872
Motor vehicles	**67**	88
Total right-of-use assets	**5,843**	10,960

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

- right-of-use assets – increase by RMB10,960,000
- deferred tax assets – increase by RMB33,000
- lease liabilities – increase by RMB10,733,000.

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

(a) Impact on earnings per share

Earnings per share increased by RMB0.003 cents per share for the six months to 30 June 2019 as a result of the adoption of IFRS 16.

(b) Practical expedients applied

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

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- reliance on previous assessments on whether leases are onerous
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

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

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

The Group leases land and various offices, warehouses, equipment and motor vehicles. Rental contracts are typically made for fixed periods. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

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

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

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

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

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

As at 30 June 2019, the right-of -use assets were included in "other non-current assets".

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

13 DIVIDENDS

No dividend was approved or paid in respect of the previous financial year during the half-year ended 30 June 2019 (half-year ended 30 June 2018: Nil).

The board of directors does not recommend the payment of an interim dividend for the half-year ended 30 June 2019 (half-year ended 30 June 2018: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2019, Honghua's revenue amounted to RMB2,048 million, representing an increase of 78.6% from RMB1,147 million for same period of Last Year. Gross profit was approximately RMB557 million, representing an increase of 198.9% from RMB186 million for same period of Last Year. The profit attributable to shareholders was approximately RMB61 million.

MARKET REVIEW

In the first half of 2019, affected by multiple factors such as geopolitics and global trade condition, the international oil price continued to rise in shocks: the prices of Brent and WTI crude oil have increased accumulatively by 20% and 28% respectively since the beginning of this year. Following the high international crude oil price retracement in May, the current international oil price was affected by the support of the turbulence of geopolitical and global trade and the maintenance of the current production reduction by the Organization of Petroleum Exporting Countries "OPEC" and the extension of the production reduction agreement for 9 months. The oil price has rebounded and the market expects that the tight supply of crude oil is expected to be maintained, and the oil price will continue to rise, while creating a sustained momentum for the stable growth of the global oil and gas drilling equipment market in the future.

The International Energy Agency (IEA) released the "Natural Gas Market Report 2019", stating that with the significant increase in natural gas consumption in Asian economies and the gradual improvement of the international natural gas trading system, global natural gas demand will continue to grow in the next five years. Specifically, in 2018, global natural gas demand increased by 4.6% year-on-year, and the growth rate reached a new high since 2010. At the same time, global natural gas consumption accounted for about half of the primary energy increase. In the next five years, global natural gas demand will grow at an average annual rate of more than 10%. By 2024, the annual global natural gas consumption will reach more than 4.3 trillion cubic meters.

In the domestic market, CNPC's capital expenditure in exploration and production in 2018 was RMB196.1 billion, an increase of 21.06% year-on-year. The estimated expenditure in 2019 was RMB228.2 billion, an increase of 16.36% year-on-year. Sinopec's capital expenditure in exploration and production in 2018 was RMB42.2 billion, an increase of 34.49% year-on-year. The capacity construction of Fuling and Weirong shale gas is an important part of capital expenditure. The estimated expenditure in 2019 is RMB59.6 billion, which will increase 41.23% year on year.

In the first half of 2019, in order to further promote the development and utilization of shale gas and effectively increase the supply of unconventional oil and gas, based on a 30% cut in the shale gas resource tax (according to the 6% prescribed tax rate), the Ministry of Finance issued a Supplementary Notice on the Interim Measures for the Management of Special Funds for Renewable Energy Development on 20 June 2019, saying that the fund continued to support the development of unconventional natural gas such as shale gas, and since the beginning of this year, unconventional natural gas will receive more funding support. In addition, for mining and utilization amount exceeds the previous year, certain award will be granted according to the excess amount. For those that have not reached the exploitation and utilization of the previous year, the bonus funds will be deducted according to the degree of non-compliance. In this regard, Honghua believe that in order to further reduce the external dependence of energy and ensure energy security, the future oil and gas drilling, storage and transportation equipment manufacturing industry will have good space for development, especially for leading enterprises with excellent technology and production technology for developing unconventional clean energy.

BUSINESS REVIEW

In the first half of 2019, Honghua's revenue and profit both recorded significant growths, reaching the highest level since the same period in 2016. This was mainly attributable to the continued improvement of the global oil and gas industry and the increase in upstream capital. Meanwhile, Honghua actively grasped the market trends, adopted a flexible and diversified marketing approach, and cooperated with the largest shareholder, China Aerospace Science and Industry Corporation ("Aerospace Science"), to fully integrate the internal resources of the Group, and propose business model innovation by virtue of the cornerstone of technology research and development to create innovative sales model of platform economy. During the period, sales of drilling and mining equipment and related products and oil and gas engineering services business increased significantly.

During the period, Honghua's domestic shale gas drilling and well business developed rapidly, boosting domestic business revenue growth, and the domestic business structure accounted for the highest level since the Group's listing. Honghua seized the golden period of the development of the domestic shale gas market and was committed to building a "shale gas integrated wellbore engineering service model". Taking the 6,000-horsepower electric fracturing equipment as the core, the Group promoted the overall green development solution for shale gas characterized by "network first, gas-fired, gas-electricity combination, streamlined operation and factory production", to continuously improve the business value chain and enhance Honghua's comprehensive competitiveness.

1. DRILLING AND MINING EQUIPMENT AND RELATED PRODUCT BUSINESS SEGMENT

In the first half of 2019, Honghua recorded a total sale of 10 drilling rigs with an aggregate amount of approximately RMB829 million, an increase of 27.7% from RMB649 million for the same period of Last Year. The total sales of parts and components amounted to RMB906 million, an increase of 142.9% from RMB373 million for the same period of Last Year.

During the period, Honghua continued to deepen the traditional advantageous location market, further tapping the deep-rooted needs of customers, and solidified its position in the international market with high-quality products and services. In the Middle East and Russian regional markets, Honghua continued to deepen our cooperation with our old customers and signed orders for multiple drilling rigs and workover rigs, and has achieved re-sales to and signed drilling contracts with existing customers in the Middle East since 2008, providing a good basis for follow-up cooperation. In the South American region, affected by the turmoil in Venezuela, Honghua quickly adjusted its sales strategy to focus on the Colombian market and turn into low-risk countries. Columbia rig sales achieved breakthroughs and inventory rigs were sold out successfully. In the domestic market, Honghua successfully won the bid for a drilling rig order worth RMB110 million from an important domestic customer. This is the first public tender for the customer since 2008. All the six domestic rig manufacturers were involved in the tender. This successful bid fully reflected the customer's trust in the quality and service of Honghua's products and supported subsequent expansion of the PRC market share. During the period, Honghua continued to follow the needs of our customers while actively exploring high-quality EPC projects and "equipment + services" projects to synergize the equipment manufacturing business with the oil and gas engineering services business and create new performance growth point through new business development.

In terms of parts and components sales, Honghua continued to implement the strategic of "machine-to-component". During the period, the sales of parts and components recorded a significant increase. The sales of core parts (top drives) increased by 492% compared with the same period of Last Year, which was mainly due to Honghua's flexible sales strategy by adopting methods such as "leasing instead of selling", "finance lease" and "operating lease" to continue to meet customer needs and ultimately achieve a major breakthrough in sales. Parts and components such as five-cylinder drilling pumps and hydraulic catwalks also achieved several independent sales during the period. In terms of sales of supporting characteristic equipment of shale gas, Honghua sold a total of 3 sets of fracturing pumps in the first half of the year. Besides, the sales of flexible liquid tanks for fracturing equipment achieved a breakthrough. The major customers of new orders were domestic oil companies, and the products were mainly used in the development of conventional and unconventional oil and gas in Xinjiang and Sichuan. As the outstanding performance of flexible liquid tank, it has been recognized by customers as a standard drilling equipment and been purchased in bulk. It is worth mentioning that the electric fracturing sand mixing shovel used for shale gas development during the period has completed industrial tests and is being used in the well site. The Intelligent Command and Control Center has completed the second-generation product update, marking another step forward in the development goal of fracturing equipment towards the overall electric drive.

In terms of market development, Honghua were committed to adopting flexible strategies to meet the needs of different customers. In view of the prudent investment of some customers, Honghua expanded the market share and orders by way of leasing, and increased the utilization rate of inventory materials and the gross profit margin of related equipment. In order to further improve marketing efficiency and expand sales market, Honghua provided a new sales platform and sales model for the Group's international sales by virtue of the online sales platform of International Cloud of Aerospace Science. In order to further enhance Honghua's product quality and high-end service capabilities, and to seek diversification of business, Honghua established Hanzheng Testing Technology Co., Ltd.* (漢正檢測技術有限公司) ("Hanzheng Testing"), which is committed to providing customers with comprehensive laboratory testing, engineering service testing and intelligent detection services. The full life cycle safety inspection system of oil drilling rig can monitor, predict and diagnose the operation status of rig equipment and working condition, promptly propose suggestion of optimizing operations and improving machine design, which greatly improve the safety and economy of oil drilling rigs throughout their life cycle. In addition, Hanzheng Testing actively expanded its foreign business and has now provided a full range of testing services for several well-known international oil companies, which are widely recognized by the owners.

2. OIL AND GAS ENGINEERING SERVICE BUSINESS

In the first half of 2019, the workload of oil and gas engineering services continued to increase. Honghua added two engineering drilling teams to meet the growing demand for operations. As at 30 June 2019, Honghua's 11 drilling crews completed a footage of approximately 40,790 meters during the period, providing engineering services with a total sales amount of approximately RMB313 million, representing an increase of 150.4% from RMB125 million in the same period of Last Year.

In terms of the domestic market, Honghua performed well in the shale gas block in Sichuan, Chongqing and Guizhou. During the period, two platforms in Changning Block have successfully completed drilling and completion integration and oil and gas testing project. The project is Honghua's first integrated project, marking the leap-forward breakthrough in oil and gas engineering services from drilling and fracturing single engineering services to platform turnkeys. During the period, Honghua's oil service team adopted the technical measures of differential pressure drilling and aggressive parameter drilling, which cut the drilling cycle in half compared with the same period of Last Year. Based on the good reputation and brand effect of Changning, Honghua successfully won the bid for the engineering project worth RMB210 million in Changning Block. Currently, three shale gas drilling platforms are operating in this block, and the future workload will continue to increase. Based on the original project, Guizhou shale gas block successfully won the bid for the national shale gas development demonstration project in Guizhou, providing good performance support for continuing to take root in the block. In the first half of the year, Honghua obtained a one-year workload in the directional well drilling business in Qinghai Plateau. The project is the first independent directional drilling business of Honghua's directional well project department, which provides support for our directional well business to further enhance its visibility and increase the workload. During the period, Honghua made a major breakthrough in the qualification of engineering services, and obtained the network access qualifications for four drilling rigs from Southwest Oil and Gas Field Branch of PetroChina Company Limited ("Southwest Oil and Gas Field"). The network access qualification is a stepping stone to provide oil and gas engineering services. The qualifications obtained will provide a strong guarantee for the future improvement of service team size and increase of drilling operations.

In the international market, Honghua has made major breakthroughs in the Middle East market after accumulation in the early stage, and successfully obtained project orders worth USD30 million from internationally renowned oil service enterprises, which is of great strategic importance to Honghua, and provides a strong guarantee for our subsequent work in the region. The two started drilling projects in the Middle East are still in the midst of intense operations, and the annual workload is saturated, which continues to provide Honghua with stable income.

With the acceleration of shale gas development, the development trend of the electrification direction is gradually becoming clear. As a leader in electric fracturing systems and services, Honghua's shale gas electric fracturing systems have undergone nearly four years of industrial testing and a large number of customer applications. In the first half of the year, Honghua carried out construction work of all-electric fracturing equipment in the shale gas development block in Sichuan for the first time, achieving breakthroughs in the development of shale gas ultra-deep high-pressure wells and creating a number of national first records. During the period, due to high-quality service and market recognition, Honghua's workload has increased significantly. In the first half of the year, we added the Gulin-Xuyong fracturing operation block. In the domestic market, the fracturing operation reached more than 1,100 segments, a year-on-year increase of more than 3 times. Honghua's electric fracturing system has created a record of eight-stage fracturing construction in the Mahu shale oil block in Xinjiang, and has created a record of five-stage fracturing construction in the core block of shale gas development such as Changning and Weiyuan in Sichuan, higher than the industry average and has repeatedly set new records for shale gas fracturing operations. In order to enhance the operation efficiency, Honghua established a remote information center during the period, which can realize remote data and on-site real-time monitoring of drilling and fracturing platforms, provide expert decision support in time, conduct fault diagnosis and equipment management, and further improve the informationization, automation and intelligence level of products and services. With the introduction of a complete set of electric drive fracturing equipment such as electric sand mixers, electric hybrids, electric drive continuous tubes, flexible liquid tanks and intelligent command and control centers, Honghua's shale gas overall solution will contribute more wisdom to the development of shale gas and promote the new wave of global shale gas development.

QUALITY MANAGEMENT AND RESEARCH & DEVELOPMENT

During the period, Honghua continued to adhere to the continuous enhancement of quality management and safety production standardization and continued to strengthen the Company's comprehensive competitiveness through the strict quality management standards, timely information technology monitoring and improved safety production preventive measures.

Honghua has always adhered to technology-based concept. During the period, product and technology R&D projects were mainly focused on the fields of fully automatic, intelligent equipment, intelligent manufacturing, unconventional oil and gas development equipment, downhole tools and marine resource development equipment, which have achieved phased results. The ongoing intelligent drilling rig project aims to develop a new rig structure and research and develop operation mode, which will enable the future drilling process to develop in the direction of automation, intelligence and remote operation. In the development of downhole tools, the intelligent trajectory guidance system with independent intellectual property rights is undergoing downhole testing. In the research and development of natural gas hydrate projects, the world's first subsea surface hydrate mining robot has completed in-plant testing.

Approved by the State Council, the R&D staff Lv Lan as a professional technician of Honghua was included in the 2018 government special allowance list.

As at 30 June 2019, Honghua has applied for 30 new patents, including 16 authorized patents and 4 invention patents.

HUMAN RESOURCES MANAGEMENT

During the period, Honghua continued to improve the structure of human resources, strengthened the introduction of technical talents, and achieved the strategic deployment of optimizing the allocation of human resources and improving efficiency. As at 30 June 2019, Honghua had a total of 3,611 employees, decreasing by 3.68% compared to same period of Last Year, with 506 being R&D staff, increasing by 15.26% compared to same period of Last Year. Honghua focused on adjusting the personnel structure, and strived to strengthen the establishment and cultivation of high-end scientific and technological innovation talents centered on the new economic growth point of the Company's intelligent manufacturing and technology services. In terms of staff training program, Honghua organized a total of 263 training projects in the first half of 2019, mainly focusing on personnel-specific skills training and management ability training, which contributed to the promotion of the professional knowledge and skills of Honghua's personnel.

In 2019, Honghua will continue to follow the talent thriving enterprise strategy, and strive to cultivate high-quality professional management talents, strategic science and technology talents and leading talents, as well as high-skilled talents. Based on the four cores of high-end, cutting-edge, innovation and leading, we will scientifically propose and build an attractive business platform, incentive mechanism and safeguard measures to ensure the formation of a high-quality talent team for Honghua.

OUTLOOK

In the second half of 2019, Honghua will continue to target the advantageous locations in the Middle East and Russian regions, and take advantage of the Group's brand effect and high-quality products and services, while strengthening efforts to explore emerging markets. Honghua will accelerate the negotiation of orders in Europe, the Middle East and China, and strive to sign contracts in the second half of the year to lay a solid foundation for business growth next year. At the same time, Honghua will strengthen the management and control of each business line, and ensure the timely delivery of products such as drilling rigs and parts and components while ensuring the quality of products and services.

In the second half, Honghua will continue to deepen the adjustment of industrial structure around the three innovation principles of "Technology Innovation, Business Model Innovation, Management Innovation", drive development with technology, drive sales growth with business model innovation, and create a new business system that is synergistic in manufacturing and service, online sales and offline sales, innovation and creation to ensure the improvement of competitiveness and the implementation and advancement of medium and long-term strategies for transformation of development patterns.

As at 30 June 2019, Honghua had land rigs and related product backlogs of approximately RMB4,995 million, which included land drilling rigs backlogs of approximately RMB1,641 million.

As at 30 June 2019, Honghua had oil and gas engineering service backlogs of approximately RMB161 million.

FINANCIAL REVIEW

During the Period, the Group's gross profit and profit attributable to owners of the Company amounted to approximately RMB557 million and RMB61 million, respectively, and gross margin and net margin amounted to approximately 27.2% and 3.0% respectively. In the same period last year, gross profit of the Group and loss attributable to owners of the Company amounted to approximately RMB186 million and RMB118 million, respectively, gross margin and net margin amounted to approximately 16.2% and -10.3%, respectively. During the Period, the gross margin and the net margin of the Group increased significantly, This was mainly attributable to the continued improvement of the global oil and gas industry and the increase in upstream capital. Meanwhile, Honghua actively grasped the market trends, adopted a flexible and diversified marketing approach,, which led to the significant growth of sales in all sectors of the Group.

Turnover

During the Period, the Group's revenue from continuing operations amounted to approximately RMB2,048 million, representing an increase of RMB901 million or 78.6% as compared to RMB1,147 million in the same period last year. Benefitting from the continuous growth of shale gas and natural gas exploitation activities, the Group's businesses like oil and gas engineering services,6000 HP electric fracturing equipment, and top drive and pumping services, have maintained a positive growth trend, while the traditional drilling rig business and parts and components business have also been improved steadily.

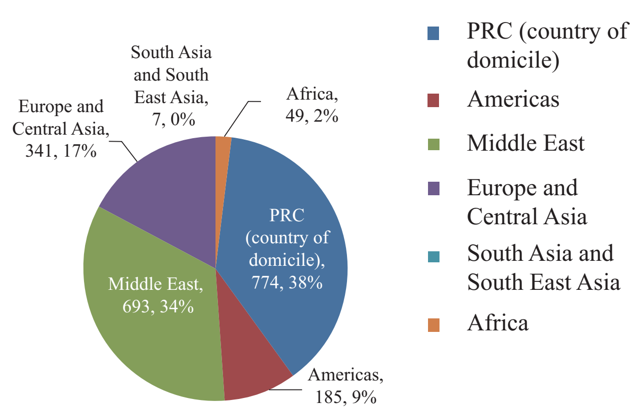
(i) Revenue by Geographical Area

The Group's revenue by geographical area during the Period: (1) The Group's export revenue amounted to approximately RMB1,274 million, accounting for approximately 62.2% of the total revenue, representing an increase of RMB389 million as compared to the same period last year; (2) revenue generated from the PRC amounted to approximately RMB774 million, accounting for approximately 37.8% of the total revenue, representing an increase of RMB506 million as compared to the same period last year.

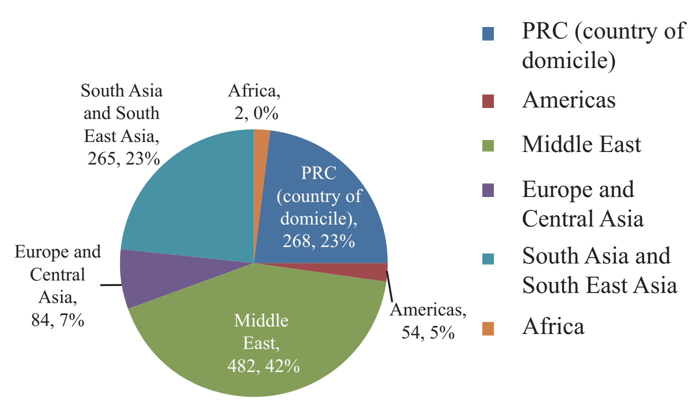
The Group's sales revenue by region is affected by oil and gas exploration activities across different areas of the world. The Group continued to focus on technology innovation, improved the quality of products and services, and concentrated on international business development while strictly controlling operating costs. Meanwhile, the rapid development of the domestic shale gas market has promoted the significant growth of the Group's domestic business.

Revenue by Geographical Area

Six months ended 30 June 2019
(Expressed in RMB'million)



Six months ended 30 June 2018
(Expressed in RMB'million)



(ii) Revenue by operating segments

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

During the Period, external revenue from land drilling rigs amounted to approximately RMB829 million, representing an increase of RMB180 million or 27.7% as compared to approximately RMB649 million in the same period last year.

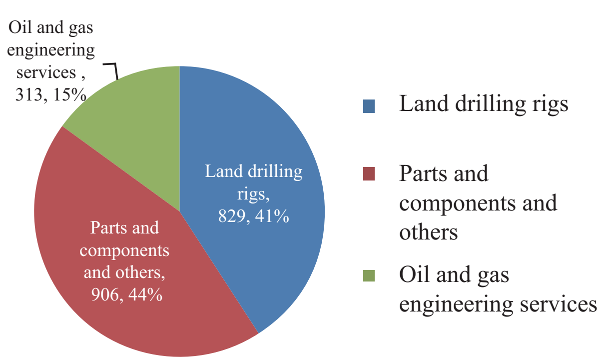
During the Period, external revenue from parts and components and others amounted to approximately RMB906 million, representing an increase of RMB533 million or 142.9% as compared to approximately RMB373 million in the same period last year.

During the Period, revenue from oil and gas engineering services amounted to approximately RMB313 million, representing an increase of RMB188 million or 150.4% as compared to approximately RMB125 million in the same period last year.

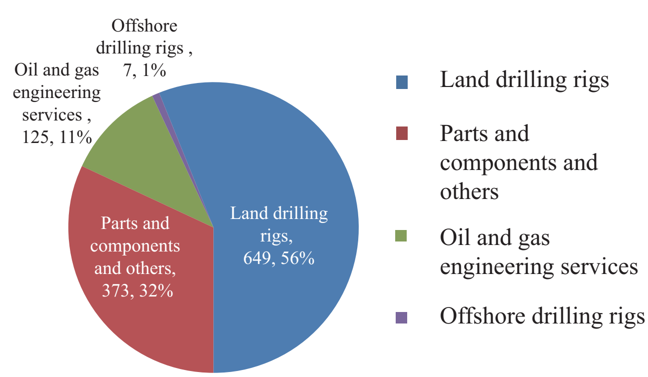
The Group has completed the disposal of the offshore drilling rigs on 31 December 2018, and the sales revenue of the same period last year was about RMB7 million.

Revenue by operating segments

Six months ended 30 June 2019
(Expressed in RMB'million)



Six months ended 30 June 2018
(Expressed in RMB'million)



Cost of Sales

During the Period, the Group's cost of sales from continuing operations amounted to approximately RMB1,491 million, representing an increase of RMB531 million or approximately 55.3% as compared to RMB960 million in the same period last year, which was 23.3 percentage points lower than the growth rate of revenue. Such increase was mainly attributed to the expansion of sales scale, the cost of sales of each segment also increased. Meanwhile, the Group will make an effort to reduce costs and improve efficiency, and promote the continuous improvement of operating standards.

Gross Profit and Gross Margin

During the Period, the Group's gross profit from continuing operations amounted to approximately RMB557 million, representing an increase of RMB371 million or 198.9% as compared to RMB186 million in the same period last year.

During the Period, the Group's overall gross margin was 27.2%, representing an increase of 11 percentage points compared with the same period last year of 16.2%. The main reason was that the Group actively promoted new products with high added value. In addition, under the influence of the Group's positive measures such as cost reduction and expense control, the gross profit of each sector has increased.

Expenses in the Period

During the Period, the Group's distribution expenses from continuing operations amounted to approximately RMB159 million, representing an increase of RMB70 million or 78.7% as compared to RMB89 million in the same period last year. This was mainly due to the increase of project related expenses caused by the substantial increase of sales revenue.

During the Period, the Group's administrative expenses amounted to approximately RMB180 million, representing a decrease of RMB21 million or 10.4% as compared to RMB201 million in the same period last year. This was mainly because that the Group's measures to reduce costs and improve efficiency began to bear fruit. Besides, the service fee and business entertainment fee of the Period have been reduced.

During the Period, the Group's net finance expenses from continuing operations amounted to approximately RMB40 million, representing an increase of RMB2 million or 5.3% as compared to net finance expense of RMB38 million in the same period last year. The increase was mainly due to the Group's debt structure optimization under the financial support of China Aerospace Science and Industry Corporation (CASIC).

Profit/(Loss) before Income Tax

During the Period, the Group's profit before income tax from continuing operations amounted to approximately RMB105 million, representing an increase of RMB214 million or 196.3% as compared to loss before income tax of RMB109 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 RMB34 million as compared to the income tax expense of approximately RMB-0.4 million in the same period last year. The main reason was that the number of profitable subsidiaries in the current period increased year on year, and the corresponding income tax was calculated and raised.

Profit/(Loss) for the Period

During the Period, the profit for the Period amounted to approximately RMB71 million as compared to the loss of approximately RMB114 million in the same period last year. Specifically, profit attributable to equity shareholders of the Company was approximately RMB61 million, while profit attributable to non-controlling interests was approximately RMB10 million. During the Period, net margin attributable to equity shareholders of the Company was 3.0%, as compared to a net margin of -10.3% in the same period last year.

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

During the Period, EBITDA amounted to RMB230 million, as compared to approximately RMB25 million in the same period last year, which was mainly attributable to the recovery of the market environment, and the Group's revenue of each business segment has increased significantly. The EBITDA margin was 11.3%, as compared to 2.2% in the same period last year.

Dividends

As at 30 June 2019, the Board does not recommend payment of dividend.

Source of Capital and Borrowings

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

As at 30 June 2019, the Group's bank borrowings and senior notes amounted to approximately RMB3,713 million, representing an increase of RMB593 million as compared to 31 December 2018. Among which, borrowings repayable within one year amounted to approximately RMB3,048 million, representing an increase of RMB503 million or 19.8% as compared to 31 December 2018.

Deposits and Cash Flow

As at 30 June 2019, the Group's cash and cash equivalents amounted approximately RMB627 million, representing a decrease of approximately RMB59 million as compared to 31 December 2018. During the Period, the Group's net cash outflow from operating activities amounted to approximately RMB563 million; net cash outflow from investing assets amounted to approximately RMB25 million; and net cash inflow from financing activities amounted to approximately RMB529 million.

Assets Structure and Changes

As at 30 June 2019, the Group's total assets amounted to approximately RMB11,240 million, representing an increase of approximately RMB923 million or 8.9% as compared to 31 December 2018. Specifically, current assets amounted to approximately RMB6,319 million, accounting for 56.2% of total assets, representing an increase of RMB774 million as compared to 31 December 2018; and non-current assets amounted to approximately RMB4,921 million, accounting for 43.8% of total assets, representing an increase of RMB149 million as compared to 31 December 2018.

Liabilities

As at 30 June 2019, the Group's total liabilities amounted to approximately RMB6,845 million, representing an increase of approximately RMB847 million as compared to 31 December 2018. Specifically, current liabilities amounted to approximately RMB6,044 million, accounting for approximately 88.3% of total liabilities, representing an increase of approximately RMB670 million as compared to 31 December 2018; and non-current liabilities amounted to approximately RMB802 million, accounting for approximately 11.7% of total liabilities, representing an increase of approximately RMB178 million as compared to 31 December 2018. As at 30 June 2019, the Group's total liabilities/total assets ratio was 60.9%, representing an increase of 2.8 percentage points as compared to 31 December 2018.

Equity

As at 30 June 2019, total equity amounted to approximately RMB4,395 million, representing an increase of RMB76 million as compared to 31 December 2018. Total equity attributable to equity shareholders of the Company amounted to approximately RMB4,198 million, representing an increase of RMB69 million as compared to 31 December 2018. Non-controlling interests amounted to approximately RMB197 million, representing an increase of RMB7 million as compared to 31 December 2018. During the Period, the Group's basic earnings per share was RMB0.0115, and diluted earnings per share was RMB0.0115.

Capital Expenditure, Major Investment and Capital Commitments

During the Period, the Group's total capital expenditure on infrastructure and technical improvements amounted to approximately RMB42 million, representing a decrease of approximately RMB14 million as compared to the same period last year, which was mainly used for the maintenance of the equipment and manufacturing base of the land drilling rigs segment as well as the optimization of the Group's business and production capacity.

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

Neither the Company nor any of its subsidiaries has purchased, sold or bought back any of the Company's Shares during the six months ended 30 June 2019.

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 Audit Committee is responsible for reviewing and supervising the adequacy and effectiveness of the Group's financial reporting system, internal control systems and risk management system and associated procedures and providing advices and recommendations to the Board. The Audit Committee is also responsible for reviewing the compliance of the corporate governance issues, the corporate governance report and the corporate governance policy.

During the period from 1 January 2019 to 28 May 2019, the Audit Committee comprised six Independent Non-executive Directors, namely Mr. Wu Yuwu (Chairman), Mr. Liu Xiaofeng, Mr. Chen Guoming, Ms. Su Mei, Mr. Poon Chiu Kwok and Mr. Chang Qing. Three of Independent Non-executive Directors possess the appropriate professional qualifications or accounting or related financial management expertise.

On 29 May 2019, Mr. Wu Yuwu, the Independent Non-executive Director, has passed away. Following the passing away of Mr. Wu, there was a vacancy in the position of the Chairman of the Audit Committee and the Company failed to meet the requirement set out in Rule 3.21 of the Listing Rules that the audit committee must be chaired by an independent non-executive director for the period from 29 May 2019 to 28 August 2019.

On 28 August 2019, Mr. Wei Bin was appointed as the Chairman of the Audit Committee, and the appointment will take effect from 29 August 2019. The Company will comply with the Rule 3.21 of the Listing Rules that the audit committee must be chaired by an independent non-executive director with effect from 29 August 2019.

With effect from 29 August 2019, the Audit Committee will comprise six Independent Non-executive Directors, namely Mr. Wei Bin (Chairman), Mr. Liu Xiaofeng, Mr. Chen Guoming, Ms. Su Mei, Mr. Poon Chiu Kwok and Mr. Chang Qing. Three of Independent Non-executive Directors possess the appropriate professional qualifications or accounting or related financial management expertise.

The Audit Committee shall hold at least two meetings a year and review opinions of auditors, internal control, risk management and financial reporting. The Audit Committee has reviewed the interim results for the six months ended 30 June 2019 of the Company and the Group.

COMPLIANCE WITH THE CG CODE

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

The Company has complied with the code provisions of the CG Code throughout the six months period from 1 January 2019 to 30 June 2019, except for the deviation as mentioned below.

Code Provision A.5.1 of the CG Code stipulates that the issuers should establish a nomination committee. For improving work efficiency, the nomination committee was dismissed with effect from 19 March 2013. The Board shall review its own structure, size and composition (including taking into account of the board diversity policy of the Company) regularly to ensure that it has a balance of expertise, skills, experience and diversity of board members appropriate for the requirements of the business of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a set of Code for Securities Trading with terms no less exacting than that of the Model Code. After the specific enquiry made by the Company, all the Directors have confirmed that they have complied with the standards specified in both the Code for Securities Trading and the Model Code throughout the six months ended 30 June 2019.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2019

This announcement will be published on both the websites of the Company (www.hh-gltd.com) and the Stock Exchange (www.hkexnews.hk). The interim report of the Company for the six months ended 30 June 2019 will be dispatched to shareholders of the Company and published on the aforesaid websites in due course.

DEFINITION

"Audit Committee"	the audit committee of the Company
"Board"	the Board of Directors of the Company
"CG Code"	Corporate Governance Code set out in Appendix 14 to the Listing Rules
"Code for Securities Trading"	code for securities trading adopted by the Company since 21 January 2008
"Company"	Honghua Group Limited
"Directors"	directors of the Company
"Group" or "Honghua"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange (as amended from time to time)
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules
"Period"	the six months ended 30 June 2019
"PRC" or "China"	the People's Republic of China, unless the context requires otherwise, reference in this announcement of the PRC or China excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"RMB"	Renminbi, the lawful currency of the PRC

"same period last year"	the six months ended 30 June 2018
"Share(s)"	ordinary shares issued by the Company, with a nominal value of HK$0.10 each
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"US$"	United States of America dollars, the lawful currency of the United States of America

On behalf of the Board
Honghua Group Limited
Jin Liliang
Chairman

PRC, 28 August 2019

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