宏华集团有限公司

HONGHUA GROUP LIMITED

(incorporated in the Cayman Islands with limited liability)

Stock Code: 196

Interim Report 2019

CONTENTS

Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Non-Executive Directors

Han Guangrong
Chen Wenle

Independent Non-Executive Directors

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

SECRETARY OF BOARD OF DIRECTORS

Zhuang Wenmin

BOARD COMMITTEES

Audit Committee

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

Remuneration Committee

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

Strategic Investment and Risk Control Committee

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

JOINT COMPANY SECRETARIES

Zhuang Wenmin
Lee Mei Yi

LEGAL ADVISOR AS TO HONG KONG LAW

Herbert Smith Freehills

PRINCIPAL BANKERS AND NON-BANK FINANCIAL INSTITUTIONS

Bank of China Limited
Industrial and Commercial Bank of China Limited
Industrial Bank Co., Ltd.
China CITIC Bank Co., Ltd.
Heng Feng Bank Co., Ltd.
The Export-Import Bank of China
China Development Bank
Industrial and Commercial Bank of China (Asia) Limited
China Development Fund Co., Ltd.
Aerospace Science & Industry Finance CORP
Bank SinoPac

Corporate Information

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
22nd Floor, Prince's Building
Central
Hong Kong

REGISTERED OFFICE

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

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		
	2019	2018	Changes
	RMB'000	*RMB'000*	
Turnover from continuing operations	**2,048,478**	1,146,723	78.6%
Operating profit/(loss) from continuing operations	**147,695**	(56,143)	363.1%
Profit/(loss) before income tax from continuing operations	**105,450**	(109,218)	196.6%
Profit/(loss) attributable to owners of the company	**60,812**	(118,414)	151.4%
Figures per Share			
Earnings/(Loss) per share-Basic (RMB cents)	**1.15**	(2.24)	151.3%
Earnings/(Loss) per share-Diluted (RMB cents)	**1.15**	(2.24)	151.3%

FINANCIAL POSITION

	30 June 2019	31 December 2018	Changes
	RMB'000	*RMB'000*	
Total non-current assets	**4,921,489**	4,772,175	3.1%
Total current assets	**6,318,917**	5,544,922	14.0%
Total assets	**11,240,406**	10,317,097	8.9%
Total current liabilities	**6,043,606**	5,374,100	12.5%
Total non-current liabilities	**801,776**	624,086	28.5%
Total liabilities	**6,845,382**	5,998,186	14.1%
Total equity	**4,395,024**	4,318,911	1.8%

Financial Highlights (Continued)

KEY FINANCIAL RATIOS*

	Six months ended 30 June		
	2019	2018	Changes
Gross profit margin from continuing operations	**27.2%**	16.2%	67.9%
Net Margin from continuing operations	**3.0%**	(10.3%)	129.1%
Return on average assets	**0.6%**	(1.1%)	154.5%
Return on average equity	**1.5%**	(3.0%)	150.0%

	30 June 2019	31 December 2018	Changes
Current ratio	**1.05**	1.03	0.02
Quick ratio	**0.78**	0.74	0.04
Total debt/Total assets	**33.0%**	30.2%	9.3%
Total liabilities/Total assets	**60.9%**	58.1%	4.8%

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

MANAGEMENT DISCUSSION AND ANALYSIS

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 the same period of last year. Gross profit was approximately RMB557 million, representing an increase of 198.9% from RMB186 million for the same period of last year. The profit attributable to owners of the company 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 geopolitics 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 is 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 huge space for development, especially for leading enterprises with excellent technology and production technology for developing unconventional clean energy.

Management Discussion and Analysis

BUSINESS REVIEW

In the first half of 2019, Honghua's revenue and net 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 expenditure. 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. For the six months ended 30 June 2019 (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 the significant growth of domestic business revenue, and the domestic business structure accounted for the highest level since Honghua'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 our 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 the trade and sales of parts and components, Honghua continued to implement the strategy 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 major 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, enabling to purchase 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 target of fracturing equipment towards the overall electric drive.

In terms of market development, Honghua was 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 Honghua'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 Honghua's 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 stages, 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, fault diagnosis and equipment management in time, 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 R&D 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 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.

Management Discussion and Analysis

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 programs 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 the Group'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 Honghua's brand effect and high-quality products and services, while strengthening efforts to explore emerging markets. We 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 of 2019, 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, which was mainly attributable to the continued improvement of the global oil and gas industry and the increase in upstream capital expenditure. Meanwhile, the Group 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.

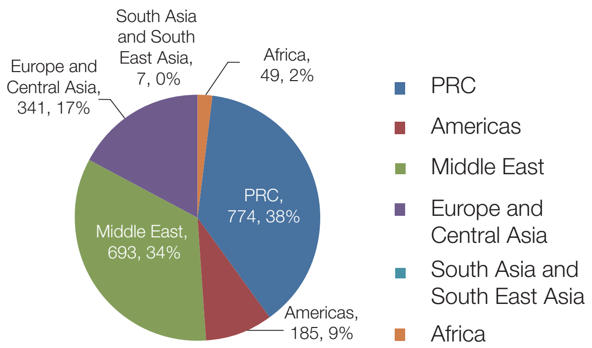
(i) Revenue by Geographical Area

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) Sales 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.

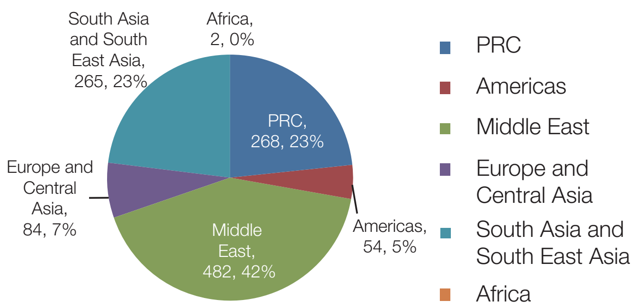
The Group's sales revenue by region is affected by changes in oil and gas exploration activities across different areas of the world. The Group continued to focus on technology innovation, improved the quality of products and services, and concentrated on international business development while strictly 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 Business Sector

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.

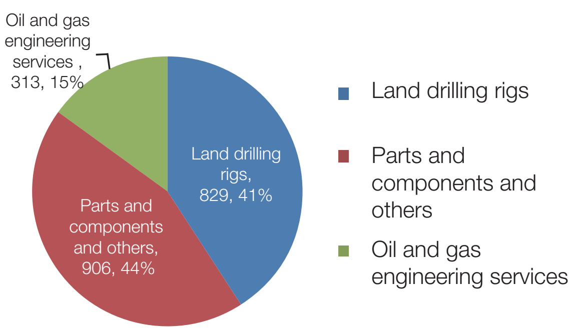
During the Period, revenue from oil and gas engineering services amounted to approximately RMB313 million, representing an increase of RMB188 million or 150.4% as compared to approximately RMB125 million in the same period last year.

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 Business Sector

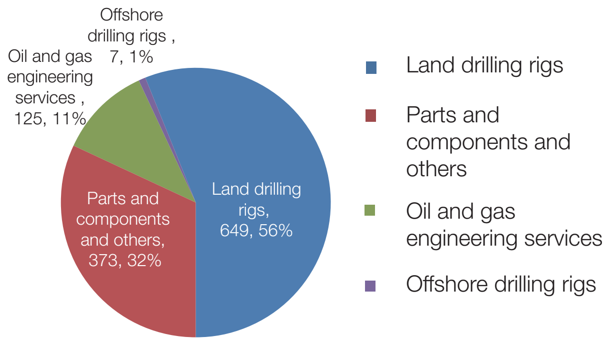
Six months ended 30 June 2019

(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 continued to reduce costs and improve efficiency, strictly control cost, 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 from continuing operations 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.

Management Discussion and Analysis

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 approximately 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 Group's 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 owners 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 owners 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 approximately 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. The EBITDA margin was 11.3%, as compared to 2.2% in the same period last year.

Dividends

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

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 borrowings 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 activities amounted to approximately RMB25 million; and net cash inflow from financing activities amounted to approximately RMB529 million.

Management Discussion and Analysis

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 approximately 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 approximately 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, total current liabilities amounted to approximately RMB6,044 million, accounting for approximately 88.3% of total liabilities, representing an increase of RMB670 million as compared to 31 December 2018; and total 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 owners of the Company amounted to approximately RMB4,198 million, representing an increase of RMB69 million as compared to 31 December 2018. Total non-controlling interests amounted to approximately RMB197 million, representing an increase of RMB7 million as compared to 31 December 2018. During the Period, the Company'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.

Corporate Governance Report

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 2019 to 30 June 2019, except for the deviation of the Code Provision A.5.1 of the CG Code and Rules 3.21 and 3.25 of the Listing Rules 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 2019.

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

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

3. INDEPENDENT NON-EXECUTIVE DIRECTORS

During the six months ended 30 June 2019, 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.

During the period from 1 January 2019 to 28 May 2019, the Company had six Independent Non-executive Directors with three of whom possessing appropriate professional qualifications or accounting or related financial management expertise so that there is a strong independent element on the Board, which can effectively make independent judgment.

On 29 May 2019, Mr. Wu Yuwu, the Independent Non-executive Director, has passed away.

On 28 August 2019, Mr. Wei Bin was appointed as the Independent Non-executive Director, the appointment has been effective from 29 August 2019. Mr. Wei will retire by rotation and being eligible, offer himself for re-election at 2020 annual general meeting.

The Board currently 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.

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, the appointment has been effective from 29 August 2019. The Company has complied 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.

The Audit Committee currently comprises six Independent Non-executive Directors, namely Mr. Wei Bin (Chairman), Mr. Liu Xiaofeng, Mr. Chen Guoming, Ms. Su Mei, Mr. Poon Chiu Kwok and Mr. Chang Qing. Three of Independent Non-executive Directors possess the appropriate professional qualifications or accounting or related financial management expertise.

The 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 2019 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. REMUNERATION COMMITTEE

Rule 3.25 of the Listing Rules stipulates that Remuneration Committee must comprise a majority of independent non-executive directors.

On 29 May 2019, Mr. Wu Yuwu, the Independent Non-executive Director, has passed away. Following the passing away of Mr. Wu, the Company failed to meet the requirement set out in Rule 3.25 of the Listing Rules that a remuneration committee must comprise a majority of independent non-executive directors for the period from 29 May 2019 to 28 August 2019.

On 28 August 2019, Mr. Wei Bin was appointed as the member of the Remuneration Committee, the appointment has been effective from 29 August 2019. The Company has complied with the Rule 3.25 of the Listing Rules that a remuneration committee must comprise a majority of independent non-executive directors with effect from 29 August 2019.

The Remuneration Committee currently comprises three Independent Non-executive Directors, namely Mr. Liu Xiaofeng (Chairman), Ms. Su Mei and Mr. Wei Bin and two Executive Directors, namely Mr. Zhang Mi and Mr. Jin Liliang.

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 2019, the interests and short positions of each Director and Chief Executive in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of the SFO), as recorded in the register required to be kept by the Company under Section 352 of Part XV of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code contained in Appendix 10 to the Listing Rules were as follows:

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

	Long/Short position	Nature of interest	Number of shares held	% of the issued share capital of the Company
Mr. Zhang Mi	Long	Personal interest, corporate interest and settlor of a discretionary trust	608,568,632 (1)	11.36%
Mr. Ren Jie	Long	Personal interest, corporate interest and settlor of a discretionary trust	89,357,526 (2)	1.66%
Ms. Su Mei	Long	Personal interest	150,000 (3)	0.002%

(1) Zhang Mi individually owns 3,050,000 Shares. Yi Langlin, spouse of Zhang Mi owns 2,156,000 Shares. Zhang Mi is the settlor of a discretionary trust, The ZYL Family Trust, whose trustee, through Wealth Afflux Limited, holds 36% of the issued share capital of Ally Giant Limited which holds 445,562,632 Shares. The Trustee of The ZYL Family Trust is deemed to be interested in 603,362,632 Shares.

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

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

B) Share Options of the Company

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

Save as disclosed above, as at 30 June 2019, none of the Directors and Chief Executives (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for Shares (or warrants or debentures, if applicable) of the Company and its associated corporations required to be disclosed pursuant to the SFO.

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

The register of substantial shareholders required to be kept under section 336 of Part XV of the SFO shows that, as at 30 June 2019, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors and Chief Executives of the Company.

		Number of shares held					
		Personal interest					
Name	Long/ Short Position	Share option	Shares Interest	Corporate interest	Corporate interest and settlor of a discretionary trust	Total	% of the issued share capital of the Company
Ally Giant Limited	Long	–	445,562,632	–	–	445,562,632(1)	8.31%
Wealth Afflux Limited	Long	–	157,800,000	445,562,632	–	603,362,632(2)	11.26%
Tricor Equity Trustee Limited (Formerly known as "Equity Trustee Limited")	Long	–	–	–	1,022,599,049	1,022,599,049(3)	19.09%
Yi Langlin	Long	–	2,156,000 607,602,632 (family interest)		–	609,758,632(4)	11.38%
Kehua Technology Co., Limited	Long	–	1,606,000,000	–	–	1,606,000,000(5)	29.98%
Shenzhen Aerospace Industry Technology Research Institute	Long	–	–	1,606,000,000	–	1,606,000,000(5)	29.98%
China Aerospace Science and Industry Corporation Limited	Long	–	–	1,606,000,000	–	1,606,000,000(5)	29.98%

Notes:

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

(2) Wealth Afflux Limited is held by Tricor Equity Trustee Limited (formerly known as "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 Tricor Equity Trustee Limited (as the trustee). The beneficiaries under The ZYL Family Trust are Zhang Mi and his family members.

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

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

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

Save as disclosed above, to the best of the Directors and the Chief Executives of the Company's knowledge, as at 30 June 2019, none of the persons, other than the Directors or the Chief Executives of the Company, had interests or short positions in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or recorded in the register as required under Section 336 of the SFO.

SHARE OPTION SCHEME

(A) Share Option Scheme After Listing

Upon conditional approval by resolution in writing by all shareholders of the Company on 21 January 2008, the Company adopted a share option scheme (the "Share Option Scheme"). Details of the grant under the Share Option Scheme ended 30 June 2019 were as follows:

Date of grant	**Number of grant** *(shares)*	**Exercise price per Share** *(HK$)*	**Exercise period of share options**	**Valid period of the share options**
15 April 2009	60,000,000	1.27	up to 30% of the share options granted to each grantee from 1 December 2009 to 14 April 2010; up to 60% of the share options granted to each grantee on or before 14 April 2011; all the remaining share options granted to each grantee on or after 15 April 2011	up to 14 April 2019

Date of grant	Number of grant *(shares)*	Exercise price per Share *(HK$)*	Exercise period of share options	Valid period of the share options
11 October 2010	2,200,000	1.05	up to 40% of the share options granted to each grantee from 25 October 2010 to 10 October 2011; up to 70% of the share options granted to each grantee on or before 10 October 2012; all the remaining share options granted to each grantee on or after 11 October 2012	up to 10 October 2020
20 June 2011	7,600,000	0.83	up to 30% of the share options granted to each grantee from 19 July 2011 to 19 June 2012; up to 60% of the share options granted to each grantee on or before 19 June 2013; all the remaining share options granted to each grantee on or after 20 June 2013	up to 19 June 2021
5 April 2012	15,400,000	1.19	Up to 30% of the share options granted to each grantee from 5 April 2013 to 4 April 2014; up to 60% of the share options granted to each grantee on or before 4 April 2015; all the remaining share options granted to each grantee on or after 5 April 2015	up to 4 April 2022
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

Date of grant	Number of grant *(shares)*	Exercise price per Share *(HK$)*	Exercise period of share options	Valid period of the share options
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 2019 were as follows:

	Number of share options									
Name or category of participant	Outstanding as at 01/01/2019	Granted during the six months ended 30 June 2019	Exercised during the six months ended 30 June 2019	Lapsed during the six months ended 30 June 2019	Cancelled during the six months ended 30 June 2019	Outstanding as at 30/06/2019	Date of grant (DD/MM/YY)	Exercise period (DD/MM/YY)	Exercise price per Share *HK$*	Price immediately preceding the grant date of share options *HK$*
Directors										
Mr. Zhang Mi	3,937,000	–	–	3,937,000	–	–	15/04/2009	01/12/2009-14/04/2019	1.27	1.29
	1,190,000	–	–	–	–	1,190,000	02/07/2014	02/07/2014-01/07/2024	1.96	1.92
Mr. Ren Jie	2,587,000	–	–	2,587,000	–	–	15/04/2009	01/12/2009-14/04/2019	1.27	1.29
	885,000	–	–	–	–	885,000	02/07/2014	02/07/2014-01/07/2024	1.96	1.92
	2,000,000	–	–	–	–	2,000,000	21/09/2016	21/09/2017-20/09/2026	0.44	0.435
Mr. Chen Guoming	750,000	–	–	750,000	–	–	15/04/2009	01/12/2009-14/04/2019	1.27	1.29
	750,000	–	–	–	–	750,000	20/06/2011	19/07/2011-19/06/2021	0.83	0.79
	550,000	–	–	–	–	550,000	24/03/2014	24/04/2014-23/03/2024	2.024	2.02
	500,000	–	–	–	–	500,000	21/09/2016	21/09/2017-20/09/2026	0.44	0.435
Mr. Liu Xiaofeng	1,000,000	–	–	1,000,000	–	–	15/04/2009	01/12/2009-14/04/2019	1.27	1.29
	1,000,000	–	–	–	–	1,000,000	20/06/2011	19/07/2011-19/06/2021	0.83	0.79
	750,000	–	–	–	–	750,000	24/03/2014	24/04/2014-23/03/2024	2.024	2.02
	700,000	–	–	–	–	700,000	21/09/2016	21/09/2017-20/09/2026	0.44	0.435
Sub-total	**16,599,000**	**–**	**–**	**8,274,000**	**–**	**8,325,000**				

Name or category of participant	Outstanding as at 01/01/2019	Granted during the six months ended 30 June 2019	Exercised during the six months ended 30 June 2019	Lapsed during the six months ended 30 June 2019	Cancelled during the six months ended 30 June 2019	Outstanding as at 30/06/2019	Date of grant (DD/MM/YY)	Exercise period (DD/MM/YY)	Exercise price per Share *HK$*	Price immediately preceding the grant date of share options *HK$*
	Number of share options									
Other										
Employee	29,768,500	–	–	29,768,500	–	–	15/04/2009	01/12/2009-14/04/2019	1.27	1.29
Employee	5,543,000	–	–	–	–	5,543,000	20/06/2011	19/07/2011-19/06/2021	0.83	0.79
Employee	10,906,000	–	–	–	–	10,906,000	05/04/2012	05/04/2013-04/04/2022	1.19	1.20
Employee	1,900,000	–	–	–	–	1,900,000	24/03/2014	24/04/2014-23/03/2024	2.024	2.02
Employee	14,222,036	–	–	80,600	–	14,141,436	02/07/2014	02/07/2014-01/07/2024	1.96	1.92
Employee	34,842,000	–	90,000	550,000	–	34,202,000	21/09/2016	21/09/2017-20/09/2026	0.44	0.435
Sub-total	**97,181,536**	**-**	**90,000**	**30,399,100**	**-**	**66,692,436**				
Total	**113,780,536**	**-**	**90,000**	**38,673,100**	**-**	**75,017,436**				

(B) Share Option Scheme of 2017

The 2017 Share Option Scheme is conditionally adopted by the Shareholders at the annual general meeting proposed to be held on 14 June 2017. As at 30 June 2019, no options were granted under the 2017 Share Option Scheme.

RESTRICTED SHARE AWARD SCHEME

On 30 December 2011, the Board approved and adopted a restricted share award scheme in which Selected Participant(s) including any Employee or Director (including, without limitation, any Executive Directors, Non-executive Directors or Independent Non-executive Directors), any consultant or adviser (whether on any employment or contractual or honorary basis and whether paid or unpaid) of the Company or any member of the Group, who in the absolute opinion of the Board, have contributed to the Company or the Group. Pursuant to the Scheme Rules, existing Shares will be purchased by the Trustee from the market out of cash contributed by the Company and be held in trust for the relevant Selected Participant until such Shares are vested with the relevant Selected Participants in accordance with the Scheme Rules. The Scheme shall be effective for a term of 10 years commencing on the Adoption Date subject to any early termination as may be determined by the Board. The Board will implement the Scheme in accordance with the Scheme Rules including providing necessary funds to the Trustee to purchase for Shares up to 5% of the issued share capital of the Company from time to time. The Selected Participant is not entitled to receive any income or distribution, such as dividend derived from the Restricted Shares allocated to him, prior to the vesting of the Restricted Shares in the Selected Participants. As at 30 June 2019, the Trustee has purchased 97,817,000 of the Company's Shares, accounting for 1.82% of the issued share capital of the Company and total of 36,917,700 shares were granted to the Selected Participants and out of which 190,000 Shares were subsequently cancelled.

Particulars and movements of the Restricted Share Award Scheme during the six months ended 30 June 2019 were as follows:

	Number of Shares					
	Outstanding as at 01/01/2019	Purchased during the six months ended 30 June 2019	Granted during the six months ended 30 June 2019	Vested during the six months ended 30 June 2019	Cancelled during the six months ended 30 June 2019	Outstanding as at 30/06/2019
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 2019.

By the order of the Board
Honghua Group Limited
Jin Liliang
Chairman

PRC, 28 August 2019

Review Report

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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 31 to 76, which comprises the interim condensed consolidated balance sheet of Honghua Group Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2019 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 International Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 August 2019

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Unaudited Interim Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2019

		Unaudited Half-year	
	Notes	**2019** **RMB'000**	2018 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	14	**(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	13	**–**	(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

		Unaudited Half-year	
	Notes	**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 RMB'000	Unaudited Half-year 2018 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	7	**189,967**	192,242
Property, plant and equipment	8	**1,544,867**	1,518,266
Payment for acquisition of leasehold prepayment		**–**	10,000
Intangible assets	9	**178,498**	161,186
Investments accounted for using the equity method	14	**34,041**	35,135
Deferred income tax assets		**253,593**	261,632
Financial assets at fair value through other comprehensive income	16	**89,475**	74,053
Trade and other receivables	17	**1,015,354**	907,304
Loan to an associate and other related party	13	**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	17	**3,868,245**	2,939,969
Loan to an associate and other related party	13	**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	16	**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	12	**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	11	**665,000**	575,000
Lease liabilities	20	**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	18	**2,581,150**	2,340,886
Current income tax liabilities		**66,783**	56,041
Lease liabilities	20	**27,051**	–
Borrowings	11	**3,047,969**	2,545,450
Provisions for other liabilities and charges	10	**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.

Unaudited Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2019

		Unaudited											
		Attributable to owners of the Company											
	Notes	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 losses RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2019		488,015	3,597,096	60,588	535,560	437,655	(283,255)	885	(124,618)	(583,183)	4,128,743	190,168	4,318,911
Comprehensive income													
Profit for the half-year		-	-	-	-	-	-	-	-	60,812	60,812	10,187	70,999
Other comprehensive income		-	-	-	-	-	8,001	-	-	-	8,001	(3,371)	4,630
Total comprehensive income		-	-	-	-	-	8,001	-	-	60,812	68,813	6,816	75,629
Transactions with owners													
Equity-settled share-based transactions		-	-	-	450	-	-	-	-	-	450	-	450
Share issued under share option schemes	12	8	83	-	(57)	-	-	-	-	-	34	-	34
Options lapsed under share option schemes		-	-	-	(15,531)	-	-	-	-	15,531	-	-	-
Total transactions with owners, recognised directly in equity		8	83	-	(15,138)	-	-	-	-	15,531	484	-	484
Balance at 30 June 2019		488,023	3,597,179	60,588	520,422	437,655	(275,254)	885	(124,618)	(506,840)	4,198,040	196,984	4,395,024

		Unaudited											
		Attributable to owners of the Company											
	Notes	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 losses *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
Balance at 1 January 2018		487,983	3,596,927	50,525	534,251	429,697	(307,597)	1,423	(124,618)	(657,876)	4,010,715	166,935	4,177,650
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	12	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

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 2019

	Unaudited Half-year	
	2019	2018
	RMB'000	*RMB'000*
Cash flows from operating activities		
Cash used in operations	**(547,914)**	(276,996)
Income tax paid	**(15,458)**	(2,116)
Cash flows used in operating activities – net	**(563,372)**	(279,112)
Cash flows from investing activities		
Payment for additions of property, plant and equipment and construction in progress	**(38,940)**	(50,785)
Proceeds on disposal of property, plant and equipment and other intangible assets	**18,639**	11,278
Expenditure on development projects and other intangible assets	**(22,517)**	(76,604)
Receipts of loans to related parties	**20,999**	–
Loans to related parties	**(2,802)**	–
Interest received	**–**	4,264
Cash flows used in investing activities – net	**(24,621)**	(111,847)
Cash flows from financing activities		
Proceeds from share issued under share option scheme	**–**	54
Repayments of borrowings	**(792,909)**	(494,803)
Repayment of senior notes	**–**	(505,533)
Proceeds from borrowings	**1,406,778**	922,603
Interest paid	**(85,322)**	(82,961)
Cash flows generated from/(used in) financing activities – net	**528,547**	(160,640)
Net decrease in cash and cash equivalents	**(59,446)**	(551,599)
Cash and cash equivalents at the beginning of the period	**685,500**	1,124,806
Exchange gains	**1,006**	9,382
Cash and cash equivalents at end of the period	**627,060**	582,589

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 of drilling rigs, oil and gas exploitation equipment and providing drilling services.

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

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

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 13).

2 SEGMENT AND REVENUE INFORMATION (CONTINUED)

(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 13.

	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.

2 SEGMENT AND REVENUE INFORMATION (CONTINUED)

(ii) Segment information (continued)

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.

2 SEGMENT AND REVENUE INFORMATION (CONTINUED)

(ii) Segment information (continued)

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	31 December 2018
	RMB'000	*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

2 SEGMENT AND REVENUE INFORMATION (CONTINUED)

(ii) Segment information (continued)

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	2018
	RMB'000	*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 and 2018, 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 during 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.

4 INCOME TAX EXPENSE (CONTINUED)

(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.

5 EARNINGS/(LOSS) PER SHARE (CONTINUED)

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 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).

7 LEASE PREPAYMENTS

The prepaid lease payments for land use rights are recognised as right-of-use assets (Note 20), the net book values of which are analysed as follows:

	RMB'000
At 31 December 2018	
Cost	196,846
Accumulated amortisation	(4,604)
Net book amount	192,242
Half-year ended 30 June 2019	
Opening net book amount	**192,242**
Amortisation	**(2,275)**
Closing net book amount	**189,967**
At 30 June 2019	
Cost	**192,242**
Accumulated amortisation	**(2,275)**
Net book amount	**189,967**

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

(b) As at 30 June 2019, bank borrowings are secured by land use rights with the carrying amount of approximately RMB25,035,000 (31 December 2018: RMB25,371,000) (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	Construction in progress RMB'000	Total 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 11).

9 INTANGIBLE ASSETS

	Development cost and others *RMB'000*
At 31 December 2018	
Cost	203,876
Disposal of subsidiaries	(6,210)
Accumulated amortisation and impairment	(36,480)
Net book amount	161,186
Half-year ended 30 June 2019	
Opening net book amount	**161,186**
Additions	**23,874**
Amortisation	**(6,564)**
Currency translation difference	**2**
Closing net book amount	**178,498**
At 30 June 2019	
Cost	**221,542**
Accumulated amortisation and impairment	**(43,044)**
Net book amount	**178,498**

During the half-year ended 30 June 2019, the Group capitalised development cost of approximately RMB23,874,000 (30 June 2018: RMB14,501,000).

10 PROVISION FOR OTHER LIABILITIES AND CHARGES

	Legal claims of former shareholders(i) *RMB'000*	Legal claims of sales agency(ii) *RMB'000*	Product warranties *RMB'000*	Total *RMB'000*
At 31 December 2018	**42,380**	**47,353**	**55,458**	**145,191**
Provisions during the period	–	–	320	320
Utilised during the period	(42,380)	(47,353)	(3,634)	(93,367)
At 30 June 2019	**–**	**–**	**52,144**	**52,144**

(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.

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.

10 PROVISION FOR OTHER LIABILITIES AND CHARGES (CONTINUED)

(i) (Continued)

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

During the year ended 31 December 2014, Sichuan Higher People's Court issued an order (the "Order") ((2012) Chua Ming Zhong Zi No. 442) that the judgement made by Chengdu Intermediate Court of ((2008) Cheng Min Chu Zi No. 53) is set aside and retrial is ordered. The retrial by the court was held in February 2015. On 24 December 2015, Honghua Company received the judgement ((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 judgement, Honghua Company shall pay to the plaintiffs' other economic loss of RMB130,000; and (3) the plaintiffs' other claims were dismissed. For the court proceeding fee of RMB1,790,273, RMB300,000 of which shall be borne by the plaintiffs, and RMB1,490,273 of which shall be borne by Honghua Company.

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

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

In June 2017, the Group filed an appeal pursuant to the Union Supreme Court of the United Arab Emirates. The final judgement was made in February 2019 and the Group paid the legal claim of USD7,457,000 in June 2019.

11 BORROWINGS

	30 June 2019 ***RMB'000***	31 December 2018 *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 (Note 15)		
– 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) (Note 15)	**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

11 BORROWINGS (CONTINUED)

(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 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

11 BORROWINGS (CONTINUED)

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**

11 BORROWINGS (CONTINUED)

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

12 EQUITY SECURITIES ISSUED

	2019 Shares *(thousands)*	2018 Shares *(thousands)*	**2019 *RMB'000***	2018 *RMB'000*
Ordinary shares, issued and fully paid during the half-year				
Shares issued under share option scheme	**90**	219	**8**	18

13 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.

13 DISCONTINUED OPERATIONS (CONTINUED)

(i) Description (continued)

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 interest 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 discontinued operations.

13 DISCONTINUED OPERATIONS (CONTINUED)

(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)

14 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The carrying amount of equity-accounted investments has changed as follows in the half-year ended 30 June 2019:

	Half-year ended 30 June 2019 RMB'000
Beginning of the period	**35,135**
Loss for the period	**(1,806)**
Exchange differences	**712**
End of the period	**34,041**

15 RELATED-PARTY TRANSACTIONS

Related parties are those parties that have the ability to control the other party or exercise significant influence in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

15 RELATED-PARTY TRANSACTIONS (CONTINUED)

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the six months ended 30 June 2019 and 2018, and balances arising from related party transactions as at 30 June 2019 and 31 December 2018.

Name of party	**Relationship**
China Aerospace Science and Industry Corporation (中國航天科工集團有限公司) ("CASIC")	Shareholder
Guanghan Hongtai Business Trading Co., Ltd. (廣漢市宏泰商貿有限公司) ("Hongtai")	Hongtai is a party of which spouses of certain directors and management have equity interests
Sichuan Deep & Fast Oil Drilling Tools Co., Ltd. (四川深遠石油鑽井工具有限公司) ("Sichuan Shenyuan")	Sichuan Shenyuan is a party of which the spouse of a director has equity interests
Aerospace Science & Industry Finance CORP (航天科工財務有限責任公司) ("ASFIC")	ASFIC is the subsidiary of CASIC
Egyptian Petroleum HH Rigs Manufacturing Co. S.A.E. ("HH Egyptian Company")	Joint venture
Honghua Financial Leasing(Shenzhen) Co., Ltd. ("Honghua (Shenzhen)")	Joint venture
Honghua (Jiangsu)	Associate
Honghua (Shanghai)	Associate

(i) Significant related party transactions

	Half-year	
	2019	2018
	RMB'000	*RMB'000*
Purchases of parts and components		
– HH Egyptian Company	**166**	–
– Sichuan Shenyuan	**–**	5,680
	166	5,680
Sales of drilling rigs, parts and components		
– HH Egyptian Company	**1,045**	857

15 RELATED-PARTY TRANSACTIONS (CONTINUED)

(i) Significant related party transactions (continued)

	Half-year	
	2019	2018
	RMB'000	*RMB'000*
Detection service provided to		
– Honghua (Jiangsu)	**134**	–
– Honghua (Shanghai)	**114**	–
	248	–
Consulting service provided from		
– Honghua (Shenzhen)	**4,194**	1,258
Lease expenses		
– Honghua (Shenzhen)	**82,999**	2,303
Loans to related parties		
– HH Egyptian Company	**934**	–
– Honghua(Jiangsu)	**1,868**	–
	2,802	–
Receipts of loans to related parties		
– HH Egyptian Company	**244**	–
– Hongtai	**185**	–
– Honghua(Jiangsu)	**20,570**	–
	20,999	–
Proceeds from borrowings		
– ASFIC	**372,673**	–
Repayments of borrowings		
– Honghua (Shenzhen)	**1,971**	2,000
Interest expense		
– CASIC	**11,425**	11,470
– ASFIC	**2,958**	–
– Honghua (Shenzhen)	**67**	312
	14,450	11,782
Interest income		
– Honghua (Jiangsu) (Note 13)	**48,469**	–

15 RELATED-PARTY TRANSACTIONS (CONTINUED)

(ii) Amounts due from related parties

	30 June 2019 *RMB'000*	31 December 2018 *RMB'000*
Trade		
– Joint ventures	**131,062**	110,821
– Associates	**71,298**	79,049
– Other related companies	**9,625**	160,000
	211,985	349,870
Non-trade (a)		
– Associates (a)	**1,506,929**	1,565,023
– Joint ventures	**127,114**	108,327
– Other related companies (a)	**151,727**	113,682
	1,785,770	1,787,032

(a) As at 30 June 2019, the current loan to an associate and other related party (Note 13) was RMB59,991,000 (31 December 2018: RMB79,982,000) and non-current loan to an associate and other related party was RMB1,542,338,000 (31 December 2018: RMB1,584,192,000). The other amounts due from other related companies are unsecured, interest-free and repayable on demand.

15 RELATED-PARTY TRANSACTIONS (CONTINUED)

(iii) Amounts due to related parties

	30 June 2019 *RMB'000*	31 December 2018 *RMB'000*
Trade		
– Joint ventures	**166**	–
– Other related companies	**1,105**	603
	1,271	603
Non-trade		
– Associates	**188**	188
– Other related companies	**15,575**	42
	15,763	230

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

(iv) Borrowings

	30 June 2019 *RMB'000*	31 December 2018 *RMB'000*
ASFIC (a)	**972,673**	600,000
Honghua (Shenzhen) (b)	**907**	2,878
	973,580	602,878

(a) As at 30 June 2019, the loans from ASFIC were secured by property, plant and equipment of approximately RMB20,359,000 (31 December 2018: RMB21,185,000). The loans from ASFIC bear fixed interest rate of 4.35%, of which RMB120,000,000 will be due for repayment in 2019, and RMB852,673,000 will be due for repayment in 2020.

15 RELATED-PARTY TRANSACTIONS (CONTINUED)

(iv) Borrowings (continued)

(b) As at 30 June 2019, the loans from Honghua (Shenzhen) were secured by property, plant and equipment of approximately RMB4,303,000 (31 December 2018: RMB5,100,000). The loans from Honghua (Shenzhen) bear fixed interest rate of 1.75% and are due for repayment in August 2019.

(v) Amounts due from certain shareholders

The amounts due from certain shareholders as at 30 June 2019 is an amount of approximately RMB42,380,000 (31 December 2018: RMB42,380,000), being the amount indemnified by certain shareholders in relation to a legal claim (Note 10).

(vi) Key management compensation

	Half-year	
	2019 ***RMB'000***	2018 *RMB'000*
Basic salaries, allowances and other benefits in kind	**3,508**	2,388
Contributions to defined contribution retirement schemes	**388**	143
	3,896	2,531

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.

(i) 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.

16 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

(i) Fair value hierarchy (continued)

The following table presents the Group's financial assets measured and recognised at fair value at 30 June 2019 and 31 December 2018 on a recurring basis:

At 30 June 2019	**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				
– Investment in unlisted companies	**–**	**–**	**89,475**	**89,475**
– Bank acceptance bill receivables	**–**	**–**	**51,764**	**51,764**
	–	**–**	**141,239**	**141,239**

At 31 December 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				
– Investment in unlisted companies	–	–	89,475	89,475
– Bank acceptance bill receivables	–	–	78,462	78,462
	–	–	167,937	167,937

There were no transfers among levels 1, 2 and 3 for the six months ended 30 June 2019 and 2018. There were no other changes in valuation techniques for the six months ended 30 June 2019 and 2018.

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

Level 1: The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

16 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

(i) Fair value hierarchy (continued)

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

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

(ii) Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

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

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

	FVOCI – Investment in unlisted companies *RMB'000*
Opening balance 31 December 2018	89,475
Changes in fair value	–
Closing balance 30 June 2019	89,475

16 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

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

	FVOCI – Bank acceptance bill receivables *RMB'000*
Opening balance 31 December 2018	78,462
Additions	210,153
Disposals	(236,851)
Closing balance 30 June 2019	**51,764**

(a) 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.

(b) Valuation process

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

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

16 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

(iv) 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 2019 *RMB'000*	31 December 2018 *RMB'000*
Carrying amount		
Bank loans	**1,899,702**	1,679,254
Unsecured loans from related party	**902,673**	530,000
Secured loan from related party	**70,907**	72,878
Senior notes	**839,687**	838,318
Fair value		
Bank loans	**1,919,388**	1,663,859
Unsecured loans from related party	**909,487**	533,995
Secured loan from related party	**70,889**	72,884
Senior notes	**843,125**	850,176

17 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 (Note 10)	**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

17 TRADE AND OTHER RECEIVABLES (CONTINUED)

(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.

18 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

18 TRADE AND OTHER PAYABLES (CONTINUED)

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 *RMB'000*	31 December 2018 *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

19 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 20 below. The other standards, amendments and interpretation did not have a material impact or are not relevant to the Group.

20 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

20 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(i) Adjustments recognised on adoption of IFRS 16 (continued)

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 following types of assets:

	30 June 2019	1 January 2019
	RMB'000	*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.

20 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(i) Adjustments recognised on adoption of IFRS 16 (continued)

(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.

20 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

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

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

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- 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.

21 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.

22 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 2019 *RMB'000*	31 December 2018 *RMB'000*
Contracted for	**6,397**	10,346
Authorised but not contracted for	**9,134**	1,455
	15,531	11,801

23 CONTINGENCIES

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

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

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

23 CONTINGENCIES (CONTINUED)

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

On 17 May 2019, Honghua (Jiangsu) filed an appeal to Shanghai Maritime Court and requested to terminate the purchase agency contract with the Plaintiff as there was serious quality problem on the equipment and materials purchased by Honghua (Jiangsu) from the Plaintiff, which resulted the progress of the shipbuilding was delayed. The judgement has not yet to be made as at 30 June 2019.

As at 30 June 2019, Honghua (Jiangsu) has already made the liabilities for the above materials and equipment procurement costs and agency fee of RMB302,140,000. Based on the assessment of the management of the Company, the Group believed that the possibility of paying the liabilities arising from the guarantee provided by Honghua China was relatively low.

24 EVENTS OCCURRING AFTER REPORTING PERIOD

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

宏华集团有限公司
HONGHUA GROUP LIMITED