宏华集团
HONGHUA GROUP

Honghua Group Limited
宏華集團有限公司

(a company incorporated in the Cayman Islands with limited liability)

(Stock code: 0196)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

FINANCIAL HIGHLIGHT

	Six months ended 30 June		
	2020	2019	Changes
	(Unaudited)	(Unaudited)	
Turnover *(RMB'000)*	**1,807,058**	2,048,478	-11.8%
Gross profit *(RMB'000)*	**607,887**	557,027	9.1%
Gross profit margin *(%)*	**33.6%**	27.2%	
Operating profit *(RMB'000)*	**173,489**	147,695	17.5%
Profit attributable to equity shareholders of the Company *(RMB'000)*	**31,161**	60,812	-48.8%
Earnings per share			
– Basic *(RMB cents)*	**0.59**	1.15	-48.7%
– Diluted *(RMB cents)*	**0.59**	1.15	-48.7%

The Board does not recommend payment of interim dividend for the six months ended 30 June 2020.

INTERIM RESULTS

The Board of the Company hereby announces the unaudited interim financial results of the Group for the six months ended 30 June 2020, together with the comparative figures for the corresponding period in 2019.

These interim results have also been reviewed by the Audit Committee, comprising solely the independent non-executive Directors, one of whom chairs the Audit Committee. The interim financial report for the six months ended 30 June 2020 is unaudited, but has been reviewed by PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2020

		Unaudited Half-year	
	Notes	**2020**	2019
		RMB'000	*RMB'000*
Revenue	*2*	**1,807,058**	2,048,478
Cost of sales		**(1,199,171)**	(1,491,451)
Gross profit		**607,887**	557,027
Distribution expenses		**(122,440)**	(158,545)
Administrative expenses		**(278,226)**	(180,132)
Net impairment losses on financial assets		**(65,626)**	(105,954)
Other income		**47,034**	24,740
Other (losses)/gains, net		**(15,140)**	10,559
Operating profit	*3*	**173,489**	147,695
Finance income		**16,309**	54,799
Finance expenses		**(126,256)**	(95,238)
Finance expenses – net		**(109,947)**	(40,439)
Share of net loss of investments accounted for using the equity method		**(11,500)**	(1,806)
Profit before income tax		**52,042**	105,450
Income tax expense	*4*	**(13,139)**	(34,451)
Profit for the half-year		**38,903**	70,999
Profit attributable to:			
– Owners of the Company		**31,161**	60,812
– Non-controlling interests		**7,742**	10,187
		38,903	70,999
Earnings per share for profit attributable to the ordinary equity holders of the Company (expressed in RMB cents per share)			
Basic and diluted	*5*	**0.59**	1.15

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 2020

	Unaudited Half-year	
	2020	2019
	RMB'000	*RMB'000*
Profit for the half-year	**38,903**	70,999
Other comprehensive income		
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	**6,593**	4,630
Other comprehensive income for the half-year, net of tax	**6,593**	4,630
Total comprehensive income for the half-year	**45,496**	75,629
Total comprehensive income for the half-year attributable to:		
Owners of the Company	**36,894**	68,813
Non-controlling interests	**8,602**	6,816
	45,496	75,629

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 2020

	Notes	**Unaudited 30 June 2020** *RMB'000*	Audited 31 December 2019 *RMB'000*
ASSETS			
Non-current assets			
Right of use assets		**187,510**	187,769
Property, plant and equipment	*6*	**1,752,735**	1,641,678
Intangible assets		**194,480**	180,342
Debt investments		**67,585**	97,906
Investments accounted for using the equity method		**29,829**	31,259
Deferred income tax assets		**278,341**	273,347
Financial assets at fair value through other comprehensive income		**87,129**	87,129
Trade and other receivables	*8*	**1,283,574**	1,281,354
Loan to an associate and other related party		**1,425,777**	1,450,181
Other non-current assets		**57,455**	67,502
Pledged bank deposits		**200,000**	–
Total non-current assets		**5,564,415**	5,298,467
Current assets			
Inventories		**1,247,730**	1,267,356
Contract assets		**404,657**	219,937
Trade and other receivables	*8*	**3,821,644**	3,593,152
Debt investments		**43,003**	24,915
Loan to an associate and other related party		**106,191**	88,278
Current tax recoverable		**8,241**	8,341
Financial assets at fair value through other comprehensive income		**77,989**	95,407
Pledged bank deposits		**52,194**	268,673
Cash and cash equivalents		**933,433**	889,802
Total current assets		**6,695,082**	6,455,861
Total assets		**12,259,497**	11,754,328

UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

As at 30 June 2020

	Notes	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
EQUITY			
Equity attributable to owners of the Company			
Share capital		**488,023**	488,023
Other reserves		**4,258,461**	4,253,108
Accumulated losses		**(444,010)**	(475,551)
		4,302,474	4,265,580
Non-controlling interests		**223,399**	214,797
Total equity		**4,525,873**	4,480,377
LIABILITIES			
Non-current liabilities			
Deferred income		**40,264**	54,464
Borrowings	7	**2,290,746**	2,091,779
Lease liabilities		**85,667**	94,299
Total non-current liabilities		**2,416,677**	2,240,542
Current liabilities			
Contract liabilities		**48,357**	163,799
Deferred income		**10,949**	10,497
Trade and other payables	9	**2,595,755**	2,826,518
Current income tax liabilities		**62,345**	46,297
Lease liabilities		**11,710**	16,673
Borrowings	7	**2,518,056**	1,917,590
Provisions for other liabilities and charges		**69,775**	52,035
Total current liabilities		**5,316,947**	5,033,409
Total liabilities		**7,733,624**	7,273,951
Total equity and liabilities		**12,259,497**	11,754,328

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

1 GENERAL INFORMATION

Honghua Group Limited ("the Company") and its subsidiaries (together "the Group") are principally engaged in manufacturing of drilling rigs, oil and gas exploitation equipment, providing drilling engineering services and facturing.

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.

The outbreak of the 2019 Novel Coronavirus ("COVID-19") have brought unprecedented challenges and added uncertainties to the economy. COVID-19 may affect the financial performance and position of the industry of Oil & Gas Equipment & Services. Since the outbreak of COVID-19, the Group has kept continuous attention on the situation of the COVID-19 and reacted actively to its impact on the financial position and operating results of the Group. The operating results of the Group for the six months ended 30 June 2020 has been adversely affected by COVID-19 to some extent.

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 26 August 2020.

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, drilling engineering services and fracturing) and geographically. In a manner consistent with the way in which information is reported internally to the Group's chief operating decision maker ("CODM") for the purposes of resource allocation and performance assessment, the Group has identified four reportable segments.

As the business of fracturing becomes large enough, the CODM requested changes to the internal management reporting to show separately the performance of fracturing. As a result of the changes, the segment of fracturing was established and the segment of oil and gas engineering service changed to drilling engineering services which only focuses on drilling engineering services without fracturing engineering services from 1 January 2020. The Group has also restated the comparative segment information.

(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 2020 and 2019 respectively.

	Land drilling rigs Half-year		Parts and components and others Half-year		Drilling engineering services Half-year		Facturing Half-year		Total Half-year	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Segment revenue	**618,672**	928,364	**675,699**	747,864	**181,653**	191,982	**537,012**	439,317	**2,013,036**	2,307,527
Inter-segment revenue	**–**	(98,880)	**(205,978)**	(160,169)	**–**	–	**–**	–	**(205,978)**	(259,049)
Revenue from external customers	**618,672**	829,484	**469,721**	587,695	**181,653**	191,982	**537,012**	439,317	**1,807,058**	2,048,478
Timing of revenue recognition										
At a point in time	**618,672**	829,484	**463,670**	575,032	**–**	–	**274,973**	318,584	**1,357,315**	1,723,100
Over time	**–**	–	**6,051**	12,663	**181,653**	191,982	**262,039**	120,733	**449,743**	325,378
	618,672	829,484	**469,721**	587,695	**181,653**	191,982	**537,012**	439,317	**1,807,058**	2,048,478
Reportable segment profit	**6,537**	37,819	**76,470**	60,054	**8,233**	14,138	**81,607**	75,776	**172,847**	187,787

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 loss of joint ventures, other income and other (losses)/gains, net. Finance income and expenses are not allocated to segments, as this type of activity is driven by the central treasury function, which manages the cash position of the Group. Other information provided, except as noted below, to the senior executive management is measured in a manner consistent with that in the financial statements.

Given the manufacturing processes of the Group's business are in a form of vertical integration, the Group's chief operating decision maker considered segment assets and liabilities information was not relevant in assessing performance of and allocating resources to the operations segments. During the six months ended 30 June 2020, 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 to profit before income tax is provided as follows:

	Half-year	
	2020	2019
	RMB'000	*RMB'000*
Segment profit		
– for reportable segments	**172,847**	187,787
Elimination of inter-segment profit	**(870)**	(32,575)
Segment profit derived from Group's external customers	**171,977**	155,212
Share of post-tax losses of joint ventures	**(11,500)**	(1,806)
Other income and other (losses)/gains, net	**31,894**	35,299
Finance income	**16,309**	54,799
Finance expenses	**(126,256)**	(95,238)
Unallocated head office and corporate expenses	**(30,382)**	(42,816)
Profit before income tax	**52,042**	105,450

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

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

	Half-year	
	2020	2019
	RMB'000	*RMB'000*
PRC (country of domicile)	**1,001,667**	774,333
Americas	**16,351**	184,507
Middle East	**331,441**	692,932
Europe and Central Asia	**220,448**	340,616
South Asia and South East Asia	**97,214**	7,146
Africa	**139,937**	48,944
	1,807,058	2,048,478

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

	30 June 2020 *RMB'000*	31 December 2019 *RMB'000*
PRC (country of domicile)	**1,781,259**	1,670,303
Americas	**3,973**	2,711
Middle East	**345,238**	342,140
Europe and Central Asia	**61,710**	62,137
Africa	**29,829**	31,259
	2,222,009	2,108,550

For the half-year ended 30 June 2020, revenues of approximately RMB274,973,000 and RMB226,165,000 were derived from two external customers respectively. These revenues were attributable to the sales of fracturing pumps in PRC (country of domicile) and the sales of land drilling rigs in Middle East respectively.

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.

3 OPERATING PROFIT

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

	Half-year	
	2020 *RMB'000*	2019 *RMB'000*
Write down of inventories	**30,533**	64,982
Provision for impairment of financial assets	**65,626**	105,954
Provision for impairment of contract assets	**879**	266
Provision for impairment of property, plant and equipment, lease prepayment and other intangible assets	**–**	7,648
Losses/(gains) on disposal of property, plant and equipment, lease prepayment and other intangible assets	**3,453**	(2,423)

4 INCOME TAX EXPENSE

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

	Half-year	
	2020	2019
	RMB'000	*RMB'000*
Current income tax		
– Hong Kong Profits Tax (i)	**–**	–
– the People's Republic of China (the "PRC") (ii)	**12,319**	20,900
– Other jurisdictions (iii)	**5,814**	5,512
Deferred income tax	**(4,994)**	8,039
	13,139	34,451

(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 2020 and 2019.

(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 2020 and 2019, except for the following companies:

(a) Sichuan Honghua Petroleum Equipment Co., Ltd. ("Honghua Company"), Honghua Oil & Gas Engineering Technology Services Limited ("Sichuan Oil & Gas Services") and Han Zheng Testing Technology Co., Ltd. ("Han Zheng Testing")

Corporate income tax ("CIT") of Honghua Company, Sichuan Oil & Gas Services and Han Zheng Testing 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 2020 and 2019.

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

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

(iii) Others

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

(iv) **Withholding tax**

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

The Company's directors revisited the dividend policy of the Group during the six months ended 30 June 2020 and 2019. 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 2020 is 20%, compared to 20% for the six months ended 30 June 2019.

5 EARNINGS PER SHARE

The calculation of basic earnings per share for the half-year ended 30 June 2020 is based on the profit attributable to owners of the Company for the period of RMB31,161,000 (six months ended 30 June 2019: profit of RMB60,812,000) and the weighted average number of shares of 5,293,906,000 (six months ended 30 June 2019: 5,293,828,000 shares) in issue during the period.

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

	Half-year	
	2020	2019
Profit attributable to owners of the Company *(RMB'000)*	**31,161**	60,812
Weighted average number of ordinary shares in issue *(thousands)*	**5,355,995**	5,355,905
Effect of the share award scheme *(thousands)*	**(62,089)**	(62,089)
Effect of share options exercised *(thousands)*	**–**	12
Adjusted weighted average number of ordinary shares in issue *(thousands)*	**5,293,906**	5,293,828
Basic earnings per share *(RMB cents per share)*	**0.59**	1.15

6 PROPERTY, PLANT AND EQUIPMENT

	Freehold land RMB'000	Buildings held for own use RMB'000	Plant and machinery RMB'000	Furniture, fittings and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At 31 December 2019							
Cost	512	689,954	1,598,197	490,708	113,077	147,935	3,040,383
Accumulated depreciation and impairment	–	(235,458)	(759,190)	(341,135)	(62,031)	(891)	(1,398,705)
Net book amount	512	454,496	839,007	149,573	51,046	147,044	1,641,678
Half-year ended 30 June 2020							
Opening net book amount	512	454,496	839,007	149,573	51,046	147,044	1,641,678
Additions	–	6,942	20,266	16,588	256	53,687	97,739
Transfer from construction in progress	–	1,666	58,690	19,876	–	(80,232)	–
Transfer from inventories	–	–	–	–	–	111,339	111,339
Disposals	–	(12)	(11,126)	(289)	(47)	–	(11,474)
Depreciation	–	(17,114)	(26,045)	(35,518)	(2,702)	–	(81,379)
Currency translation difference	–	(612)	(873)	(3,596)	(87)	–	(5,168)
Closing net amount	512	445,366	879,919	146,634	48,466	231,838	1,752,735
At 30 June 2020							
Cost	512	697,938	1,659,372	520,867	112,204	232,729	3,223,622
Accumulated depreciation and impairment	–	(252,572)	(779,453)	(374,233)	(63,738)	(891)	(1,470,887)
Net book amount	512	445,366	879,919	146,634	48,466	231,838	1,752,735

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 RMB19,532,000 as at 30 June 2020 (as at 31 December 2019: Nil) (Note 7).

7 BORROWINGS

	30 June 2020 *RMB'000*	31 December 2019 *RMB'000*
Bank loans		
Secured (i)		
– Current portion	**136,532**	125,231
– Non-current portion	**490,000**	490,000
	626,532	615,231
Unsecured		
– Current portion	**1,621,524**	839,686
– Non-current portion	**387,682**	218,000
	2,009,206	1,057,686
Total bank loans	**2,635,738**	1,672,917
Unsecured loans from related party		
– Current portion	**690,000**	952,673
	690,000	952,673
Other loans		
Secured loan from related party (i)	**70,000**	–
Senior notes (ii)	**1,413,064**	1,383,779
	1,483,064	1,383,779
Current borrowings	**2,518,056**	1,917,590
Non-current borrowings	**2,290,746**	2,091,779
Total borrowings	**4,808,802**	4,009,369

(i) As at 30 June 2020, the bank loans and the secured loan from related party were secured by letters of guarantee as collateral of RMB200,000,000, property, plant and equipment of approximately RMB19,532,000, trade receivable of RMB56,865,000, bills receivable of RMB3,000,000 and 20% equity interest of Honghua Company, a subsidiary of the Group.

As at 31 December 2019, the bank loans and the secured loan from related party were secured by letters of guarantee as collateral of RMB200,000,000, bills receivable of RMB31,700,000 and 20% equity interest of Honghua Company, a subsidiary of the Group.

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

The Senior Notes are guaranteed by the Group's existing subsidiaries, Honghua Holdings Limited, Newco (H.K.) Limited, Honghua Oil & Gas Engineering Services Limited, Honghua Golden Coast Equipment FZE as stated in the Company's offering memorandum on 25 July 2019.

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

	30 June 2020 *RMB'000*	31 December 2019 *RMB'000*
Fixed rate		
Expiring within one year (bank loans and bill facilities)	**4,759,987**	6,318,289

Movements in borrowings are analysed as follows:

	RMB'000
Half-year ended 30 June 2020	
Opening amount as at 1 January 2020	4,009,369
Additions	1,757,496
Amortised cost changes based on effective interest rate	2,080
Repayments	(997,478)
Currency translation differences	37,335
Closing amount as at 30 June 2020	4,808,802

As at 30 June 2020 and 31 December 2019, the contractual maturities of the Group's financial liabilities were as follows:

Contractual maturities of financial liabilities	**Less than 1 year** *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 2020						
Trade and other payables (i)	**2,517,190**	**–**	**–**	**–**	**2,517,190**	**2,517,190**
Senior notes	**90,264**	**90,264**	**1,461,032**	**–**	**1,641,560**	**1,413,064**
Borrowings (excluding senior notes)	**2,626,059**	**513,090**	**327,526**	**50,293**	**3,516,968**	**3,395,738**
Lease liabilities	**24,634**	**24,634**	**70,079**	**–**	**119,347**	**97,377**
Total	**5,258,147**	**627,988**	**1,858,637**	**50,293**	**7,795,065**	**7,423,369**

Contractual maturities of financial liabilities	Less than 1 year *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 2019						
Trade and other payables (i)	2,826,117	–	–	–	2,826,117	2,826,117
Senior notes	88,947	88,947	1,484,187	–	1,662,081	1,383,779
Borrowings (excluding senior notes)	2,005,442	449,297	238,313	50,600	2,743,652	2,625,590
Lease liabilities	24,275	24,275	70,313	–	118,863	110,972
Total	4,944,781	562,519	1,792,813	50,600	7,350,713	6,946,458

(i) Trade and other payables include trade payables, bills payable, amounts due to related companies and other payables.

8 TRADE AND OTHER RECEIVABLES

	30 June 2020 *RMB'000*	31 December 2019 *RMB'000*
Trade receivables (i)	**3,751,198**	3,501,437
Bills receivable	**246,893**	266,165
Less: provision for impairment of trade receivables	**(320,831)**	(266,775)
	3,677,260	3,500,827
Amount due from related parties		
Trade	**278,728**	211,449
Non-trade	**316,637**	311,738
Less: provision for impairment of trade receivables for amount due from related parties	**(27,782)**	(27,711)
	567,583	495,476
Finance lease receivable (ii)	**294,204**	315,371
Less: provision for impairment of finance lease receivable	**(77,239)**	(77,239)
Value-added tax recoverable	**63,212**	74,929
Prepayments	**402,640**	425,549
Less: provision for prepayments	**(36,695)**	(36,970)
Other receivables	**349,768**	299,408
Less: provision for impairment of other receivables	**(135,515)**	(122,845)
	5,105,218	4,874,506
Representing:		
Current portion	**3,821,644**	3,593,152
Non-current portion	**1,283,574**	1,281,354
	5,105,218	4,874,506

(i) As at 30 June 2020 and 31 December 2019, 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 2020	31 December 2019
	RMB'000	*RMB'000*
Within 3 months	**2,277,616**	2,517,145
3 to 12 months	**905,170**	564,943
Over 1 year	**745,420**	602,477
	3,928,206	3,684,565

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 2020, lease liabilities of RMB84,550,000 (as at 31 December 2019: RMB94,025,000) were secured by finance lease receivables of RMB82,196,000 (as at 31 December 2019: RMB88,999,000).

9 TRADE AND OTHER PAYABLES

	30 June 2020	31 December 2019
	RMB'000	*RMB'000*
Trade payables	**1,424,329**	1,538,066
Amounts due to related companies		
Trade	**10,364**	8,681
Non-trade	**74,837**	43,216
Bills payable	**603,295**	689,010
Receipts in advance	**–**	401
Other payables	**482,930**	547,144
	2,595,755	2,826,518

As at 30 June 2020 and 31 December 2019, the ageing analysis of the trade payables and bills (including amounts due to related parties of trading in nature) is as follows:

	30 June 2020	31 December 2019
	RMB'000	*RMB'000*
Within 3 months	**632,654**	446,514
3 to 6 months	**553,334**	492,896
6 to 12 months	**760,211**	747,348
Over 1 year	**91,789**	548,999
	2,037,988	2,235,757

10 BASIS OF PREPARATION OF HALF-YEAR REPORT

This interim condensed consolidated financial information for the half-year reporting period ended 30 June 2020 has been prepared in accordance with International 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 2019 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

The following amendments to standards have been adopted by the Group for financial period beginning on 1 January 2020:

IAS 1 and IAS 8 (Amendment)	Definition of Material
IFRS 3 (Amendment)	Definition of a Business
Conceptual Framework	Revised conceptual Framework for Financial Reporting

The adoption of these standards and new accounting policies disclosed did not have any significant impact on the Group's accounting policies and did not require retrospective adjustments.

(ii) New standards and amendments not yet effective for the financial period beginning on 1 January 2020 and not early adopted by the Group

Up to the date of issuance of this report, the following new standards and amendments to existing standards have been issued which are not yet effective and have not been early adopted by the Group:

Standards, Amendments or Interpretations	Subject	Effective for annual accounting periods beginning on or after
Amendment to IFRS 16	Leases-Covid-19 related rent concessions	1 June 2020
Amendments to IAS 1	Presentation of financial statements on classification of liabilities	1 January 2022
Amendments to IFRS 3	Business combinations	1 January 2022
Amendments to IAS 16	Property, plant and equipment	1 January 2022
Amendments to IAS 37	Provisions, contingent liabilities and contingent assets	1 January 2022
Annual improvements to IFRS 9	Financial instruments	1 January 2022
IFRS 10 and IAS 28 (Amendment)	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

The Group has already commenced an assessment of the impact of these new or revised standards, interpretation and amendments. According to the preliminary assessment made by the directors, no significant impact on the financial performance and position of the Group is expected when they become effective.

11 DIVIDENDS

No dividend was approved or paid in respect of the previous financial year during the half-year ended 30 June 2020 (half-year ended 30 June 2019: Nil).

The board of directors does not recommend the payment of an interim dividend for the half-year ended 30 June 2020 (half-year ended 30 June 2019: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2020, Honghua's revenue amounted to RMB1,807 million, representing a decrease of 11.8% from RMB2,048 million for the same period of last year. Gross profit was approximately RMB608 million, representing an increase of 9.1% from RMB557 million for the same period of last year. The profit attributable to owners of the company was approximately RMB31 million.

MARKET REVIEW

In the first half of 2020, the international crude oil prices took a roller-coaster ride. At the beginning of the year, the intensification of the US-Iraq conflict and the progress of Sino-US talks provided transitory positive support for the oil prices. However, due to the impact of the COVID-19 pandemic and the "Oil Price War" between the major oil-producing countries, Brent and WTI spot crude oil prices began to plunge from the beginning of March, with a cumulative decline of 39.4% and 34.9% respectively, for the first half of this year. At the end of April, the Organization of Petroleum Exporting Countries (OPEC) entered into a joint production reduction agreement with non-OPEC oil-producing countries, as a result of which the international oil prices began to stabilize and recover. In June, OPEC announced its decision to extend the term of the crude oil production reduction agreement to July in an attempt to further stabilize crude oil prices. However, the concern about market demand has resulted in growing pressure on oil prices.

According to the "Natural Gas Market Report 2020" released by the International Energy Agency (IEA), in recent years, the natural gas industry witnessed a strong growth in demand due to the substitutability of natural gas as a clean energy source for coal. In 2020, the global natural gas market suffered the greatest hit in its history, with the significant decline in demand for natural gas due to the prolonged warm winter and the lock-down imposed globally as a result of the COVID-19 pandemic, and thus, the natural gas consumption for the year is estimated to decline by 4%, and expected to recover gradually in 2021.

As for the domestic market, demand for petrochemical and chemical products shrank significantly in the first quarter due to the outbreak of COVID-19 pandemic. In the second quarter, the COVID-19 prevention and control efforts led to initial success, resulting in gradual but slow recovery of consumer demand, due to the worldwide spread of the COVID-19 pandemic. While the demand was shrinking, efforts to increase oil and gas reserve and production continued to enjoy top priority in the domestic market, benefiting from the national energy security strategy. In the first half of the year, crude oil and natural gas production witnessed a steady and rapid growth, respectively. In the first half of 2020, crude oil production amounted to 96.5 million tons, representing a year-on-year increase of 1.5%; apparent consumption of refined oil was 153.86 million tons, representing a year-on-year decrease of 6%; natural gas production amounted to 94.96 billion cubic meters, representing a year-on-year increase of 9.9%; China imported a total of 66.74 billion cubic meters of natural gas, representing a year-on-year increase of 3.3%, with an apparent consumption of natural gas of 155.61 billion cubic meters, representing a year-on-year increase of 4%.[1]

1 National Development and Reform Commission of the People's Republic of China

The Guiding Opinions on Energy Security for 2020 (《關於做好2020年能源安全保障工作的指導意見》) proposed to vigorously boost energy production and supply, promote steady increase in domestic oil and gas production, maintain vigorous efforts in enhancing domestic oil and gas exploration and development, and speed up exploration and development of unconventional oil and gas resources. According to the Guiding Opinions on Energy Work for 2020 (《2020年能源工作指導意見》) issued by the National Energy Administration (NEA), the production targets for 2020 were as follows: 193 million tons of oil, 181 billion cubic meters of natural gas, and 900 million kilowatts of installed power generation with non-fossil energy. Despite the significant volatility of international crude oil prices, China continued to attach top priority to its national energy security. China's efforts to encourage oil and gas exploration and its support in increasing reserve and production are bound to create new opportunities for the energy equipment manufacturers and service providers.

As for the wind power market, in the first half of this year, 6.32 million kilowatts of installed wind power capacity was added to China's national power grid, including 5.26 million kilowatts of onshore wind power and 1.06 million kilowatts of offshore wind power, representing a year-on-year increase of 165%. In the first half of the year, 237.9 billion kWh was generated from wind power, representing a year-on-year increase of 10.9%.[2]

BUSINESS REVIEW

In the first half of 2020, the global COVID-19 pandemic and the plunge in crude oil prices have posed numerous new challenges to the Group's operations. Accordingly, the Group firmly grasped the market trends, adopted a flexible and diversified marketing approach, and adjusted its industrial structure by increasing the proportion of high added-value parts and components in its sales mix. The Group cooperated with its largest shareholder, China Aerospace Science and Industry Corporation ("Aerospace Science"), to fully integrate its internal resources and aggressively penetrate the offshore wind power new energy industry by leveraging its technology research and development and equipment manufacturing expertise.

During the Period, benefiting from China's energy security strategy, the Group's domestic business revenue continued to grow, with its percentage in the business structure once again hitting the record high since its listing. The Group took the opportunities arising from the state's efforts to increase oil and gas reserve and production while focusing on promoting its "Total Solution for Unconventional Power Generation with Oil and Gas", under which it is to gradually launch the complete electricity-powered fracturing equipment with the 6,000-HP electric fracturing pump as the key model; extend the fracturing industry value chain by promoting services associated with equipment, and create new growth drivers for its business.

[2] National Energy Administration

1. Drilling Rigs and Related Product Business Segment

In the first half of 2020, Honghua recorded a total sale of 11 drilling rigs with an aggregate amount of approximately RMB619 million, a decrease of 25.3% from RMB829 million for the same period of last year. The total sales of parts and components amounted to RMB470 million, a decrease of 20.1% from RMB588 million for the same period of last year.

In the first half of 2020, due to the worldwide spread of COVID-19 pandemic and depressed oil price, overseas sales of Honghua's complete sets of drilling rigs registered a decline. However, leveraging the Group's market influence in areas with long-established strongholds, Honghua secured new orders from the existing customers in the Middle East and Russian-speaking regions for the design of CNC drilling rigs for water depth of up to 7,000 meters and the retrofitting of the existing drilling rigs, which also brought along bundled sale of top drives and mud pumps. For the domestic market, orders for drilling rigs increased significantly compared with the previous year, with new orders for complete sets of drilling rigs amounting to RMB0.28 billion for the first half of the year.

For the sale of parts and components, the Group took full advantage of its global customer resources and adopted a flexible approach to meet different needs of its customers in the times of high oil price fluctuation. Honghua successfully secured a framework agreement for procurement of oilfield production-boosting equipment valued at US$30 million from a long-standing customer in Central Asia, a drilling rig maintenance and improvement service contract from a European customer, and a spare parts procurement contract from an Omani customer. In the domestic market, Honghua's customers were basically comprised of the subsidiaries of the two major oil companies in China, thanks to its excellent product quality and years of successful brand building. During the Period, Separate sales of top drive and mud pumps, which are core components of the drilling rigs developed and manufactured by the Group, amounted to RMB59 million and RMB34 million respectively. In addition, Honghua also possesses special electrical engineering qualifications which allow us to provide customers with medium and high voltage power distribution equipment and EPC projects, helping customers to realize their planned operation model that features "prioritizing distribution network, exploring gas by electricity".

In the first half of 2020, taking full advantage of its manufacturing expertise and background as a state-owned enterprise, Honghua secured contracts from state-owned enterprises, such as Huadian Heavy Industries and Guangzhou Salvage Bureau, for the construction of offshore wind power monopiles and conduit frames, with orders worth RMB580 million for the first half of the year. In recent years, new energy projects involving offshore wind power have been supported by favorable national policies, rendering bright market prospects. Building on the existing orders, the Group will continue to penetrate the relevant markets.

As at 30 June 2020, Honghua's total contract backlog of drilling rigs and mining equipment and related products amounted to approximately RMB1,490 million, including onshore drilling rigs of approximately RMB394 million.

2. Fracturing

In the first half of 2020, the Group had a total of 16 pumping teams to provide 2009 stages for pumping service during the Period. The total realized sales of equipment and engineering services provided during the Period amounted to approximately RMB537 million.

In terms of non-conventional oil and gas development and fracturing equipment, in the first half of 2020, Honghua sold two sets of electric fracturing pumps, and made the first sale of electric sand-mixing skid. During the Period, electric automatic sand conveying and storing device was successfully rolled out and deployed for its first well site operation. The Group has successively launched complete set of electric fracturing equipment linked to the key product electric fracturing pump, including electric sand-mixing skid, electric fluid supply skid, intelligent command and control centers, flexible tanks, high pressure manifold and electric automatic sand conveying and storing device, which are all under intensive use at the well site now.

As domestic unconventional oil and gas development accelerates, the trend of electrification in the fracturing industry is becoming more and more pronounced, and the industry is moving toward large-scale, piecemeal development. Despite the COVID-19 outbreak control which resulted in operational downtime, fracturing pumping service experienced explosive growth. In the first half of the year, the number of electric fracturing pumping service provided in the domestic market reaching over 2000 stages, representing an increase of 70.4% over the same period last year. The rapid growth was partly due to the fast growth in demand for unconventional fracturing service in the domestic market and the market's appreciation of the high efficiency and environmental protection feature of electric fracturing. During the Period, at a certain platform in Nanchuan, Chongqing, the Group realized the construction of seven fracturing stages in a single day under the working pressure of 84MPa and the working capacity of 12 cubic meters per minute, which once again touched the highest record of fracturing construction in the Sichuan-Chongqing area. In the shale gas block in Fuling, Chongqing, the Group's fracturing pumping service achieved the record of five fracturing stages per day, which accelerated the fracturing speed of single platform by 70%, making the platform to have the fastest fracturing construction speed in Fuling shale gas field. On the other hand, after being offered the chance to serve a platform under a shale gas fracturing project in Changning in 2019, Honghua was awarded projects on another platform in the same area again. The shale gas fracturing engineering service has enabled the Group to expand its business scope from pumping service only to a full range of fracturing services, including pumping, sand mixing and field command and scheduling. During the Period, the electric sand conveying and storing skid has been applied on site and the electric fracturing equipment package has been further expanded. So far, the Group has launched complete sets of electric fracturing equipment with electric fracturing pump as the key product which are deployed for fracturing operation at various well sites in Sichuan and Chongqing, with the equipment-driven service strategy.

As at 30 June 2020, Honghua's contracts on hand for fracturing business and service business amounted to a total value of approximately RMB254 million.

3. Drilling Engineering Service Business

In the first half of 2020, Honghua's 12 drilling crews completed a footage of approximately 56,280 meters during the Period, representing an increase of 38.0% for the same period of last year, providing engineering services with a total sales amount of approximately RMB182 million, representing a decrease of 5.2% from RMB192 million in the same period of last year.

In the first half of the year, the domestic market was dealt with heavy blows such as pandemic control and plummeting oil prices, and drilling services met great challenges. However, Honghua's oil service team overcame the difficulties in personnel control and well site scheduling. During the Period, Honghua made a major breakthrough in the directional well services market, winning bids for directional well services in Sichuan and Qinghai, with total contract value amounting to approximately RMB30 million. In terms of operation, the Group drilled and completed a well in a certain block in Changning with a depth of 4,850 meters, a vertical depth of 2,146 meters, a horizontal section displacement of 3,397 meters, a horizontal section length of 3,100 meters and a maximum well slope of 80.53 degrees, which was a new record for an ultra-long horizontal section of shale gas in China. During the Period, Honghua obtained qualifications from four drilling teams of shale gas companies in Sichuan, providing the basis for further workloads.

In the international market, Honghua continued to focus on the Middle East market. In the first half of the year, the COVID-19 pandemic spread around the world and somewhat affected oil service operations. However, the Group still overcame numerous difficulties and achieved growth in operating volume against the adversity while ensuring that no one employee working overseas was infected. During the strict control period for the pandemic, some oil fields in the Middle East market were suspended. However, with the easing of control of the pandemic, oil fields in the market have been resuming work. During the Period, the Group's frontline operation team continuously set new records. HH023 operation team set a new record of 1,400m open-hole section, 43 degrees slope and zero risk for six sets of high-end logging wells. HH029 operation team performed well in an oil field project in the Middle East, where the well drilled broke the completion cycle record for the last four years, making it the only drilling team to remain in operation.

As at 30 June 2020, Honghua had contracted drilling engineering service business of approximately RMB284 million.

QUALITY MANAGEMENT AND RESEARCH & DEVELOPMENT

During the Period, Honghua continued to adhere to the continuous enhancement of quality management and safety production standardization and the Group passed all the quality system audits and product certification audits such as API, ISO, CCC and CSA. Through carrying out professional training on quality data statistics and analysis, the ability of quality data analysis was improved. By virtue of quality planning and on-site supervision in respect of critical parts of key products, critical processes and critical materials, the quality control of the supply chain was strengthened and the competitiveness and profitability of our products were enhanced.

The Group has always adhered to the technology-based concept. During the Period, product and technology R&D projects were mainly focused on the fields of full automation, intelligent equipment, intelligent manufacturing, unconventional oil and gas development equipment, downhole tools and marine resource development equipment, which have achieved certain milestones. The ongoing intelligent drilling rig project is currently going through expert assessment as to the intelligent drilling rig integration and drilling processes automation solution. In respect of unconventional oil and gas development equipment, the electric sand conveying and storage device was launched in the first half of this year and is currently put into industrial application. Detailed design of efficient sand removal device for shale gas is underway. In the development of downhole tools, the guiding head of the intelligent trajectory guidance system which has independent intellectual property rights was further improved and is being prepared for testing. In the research and development of natural gas hydrate projects, the underwater mining robot has been upgraded to conduct a 100m water depth test, and the design and R&D of related electronic control system and hydraulic system have started. In terms of deep-sea mineral resources, after completing the key research project of the Ministry of Science and Technology in 2019, Honghua will again undertake the research and development of deep-sea natural gas hydrates this year.

As at 30 June 2020, the Group has applied for 69 new patents, including 26 authorized patents and 1 invention patent.

HUMAN RESOURCES MANAGEMENT

During the Period, the Group 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 2020, Honghua had a total of 3,760 employees, increasing by 4.1% compared to same period of last year, with 697 being R&D staff, increasing by 37.8% compared to same period of last year. Based on the strategic planning layout of Honghua Group and guided by digitalization and intelligence transformation and upgrade, the Group will further expand its talent pool through acquiring leading talents in the industry and young technology talents in intelligent manufacturing, big data, software systems and from the fracturing industry, and increase the reserve of international sales elites and senior project management talents in the future. As for staff training project, the Group organized a total of 309 training projects in the first half of 2020, mainly focusing on personnel-specific skills training, management ability training and technology-marketing cross-training, which contributed to the promotion of the professional knowledge and skills of the Group's personnel.

In 2020, in order to ensure the availability of talents and intellectual support for the strategic development of Honghua Group, Honghua will continue to improve the talent introduction, cultivation and allocation mechanism, focus on the promotion of duty performance capabilities and the performance appraisal assessment of management talents, strengthen the organizational capabilities construction and the reserve of quality talents, vigorously integrate strategic science and technology talents resources, build high-skilled talents practice platforms, and unleash the power of innovative development.

OUTLOOK

In the second half of 2020, Honghua will continue to seize the industry opportunities arising from increasing oil and gas reserves and production under the national energy security strategy, adopt a flexible and market-oriented operation approach, and strengthen the R&D and sales of core products of drilling and completion equipment. We will drive services associated with equipment and continues to increase the business scale and workload of oil and gas engineering services. At the same time, we will ensure satisfactory delivery of offshore wind power project and pursue subsequent market expansion, so as to promote the Group's high-quality sustainable development.

In the second half of the year, facing the risks of oil price fluctuations and economic slowdown, Honghua will further enhance cost control, optimize supply chain management, and improve cash turnover efficiency. During the period of low/medium levels of oil prices, the Group will leverage flexible market response mechanisms and endogenous innovation momentum. While consolidating existing businesses, we will actively explore new market businesses, look for new opportunities that lie in crisis, and open up new prospects amid changes.

FINANCIAL REVIEW

During the Period, the Group's gross profit and profit attributable to shareholders of the Company amounted to approximately RMB608 million and RMB31 million, respectively, and gross margin and net margin amounted to approximately 33.6% and 1.7% respectively. In the same period last year, gross profit and profit attributable to shareholders of the Company amounted to approximately RMB557 million and RMB61 million, respectively, gross margin and net margin amounted to approximately 27.2% and 3.0%, respectively. During the Period, due to the COVID-19 pandemic and the significant fluctuation in the international oil price, the global oil and gas service market demand declined. In order to strengthen the capital reserve in special period, the Group moderately increased the borrowing scale, and the financial cost increased compared with last year. At the same time, based on the principle of prudence, the impact of non-recurring gains and losses such as financial asset impairment losses and other losses is fully considered, which makes the Group's net profit margin decrease. In addition, the Group continued to reduce costs and increase efficiency, strictly control product costs, and optimize the cost structure, resulting in a significant increase in the gross profit margin of the Group.

Turnover

During the Period, the Group's revenue amounted to approximately RMB1,807 million, representing a decrease of RMB241 million or 11.8% as compared to RMB2,048 million in the same period last year. The decrease in revenue mainly came from the international market. Affected by the COVID-19 pandemic and oil price fluctuation, overseas drilling rig orders decreased and some projects were delayed, resulting in a decrease compared with the same period last year in sales revenue of the Group.

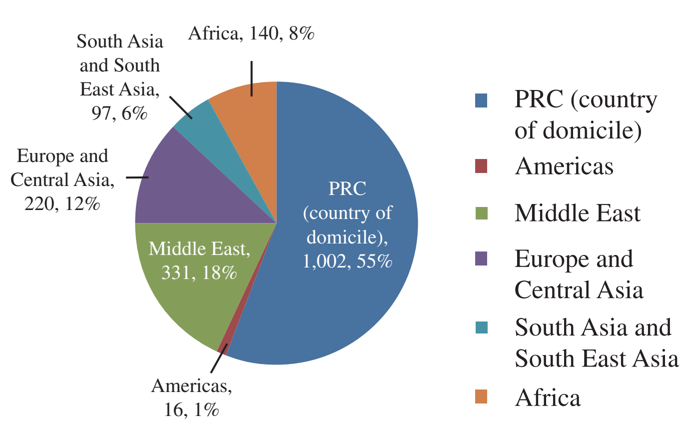
(i) Revenue by geographical locations

The Group's revenue by geographical segment during the Period: (1) The Group's export revenue amounted to approximately RMB805 million, accounting for approximately 44.6% of the total revenue, representing a decrease of RMB469 million as compared to the same period last year; (2) revenue generated from the PRC amounted to approximately RMB1,002 million, accounting for approximately 55.4% of the total revenue, representing an increase of RMB228 million as compared to the same period last year.

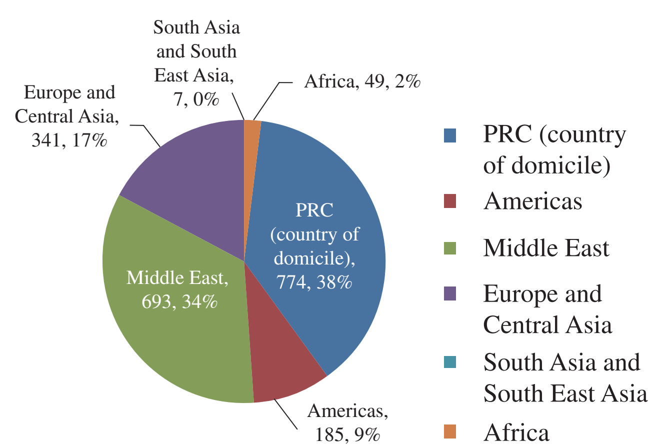
The regional distribution of the Group's sales revenue is affected by changes in oil and gas production activities in various regions of the world. Confronted with the market shocks in the oil industry, the Group continues to adhere to technological innovation, improve the quality of products and services, strictly control operating costs, and focus on developing international business; at the same time, the domestic shale gas market has developed rapidly, promoting the continuous growth of the domestic market.

Revenue by geographical locations

Six months ended 30 June 2020
(Expressed in RMB'million)



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



(ii) Revenue by operating segments

During the Period, external revenue from land drilling rigs amounted to approximately RMB619 million, representing a decrease of RMB210 million or 25.3% as compared to approximately RMB829 million in the same period last year.

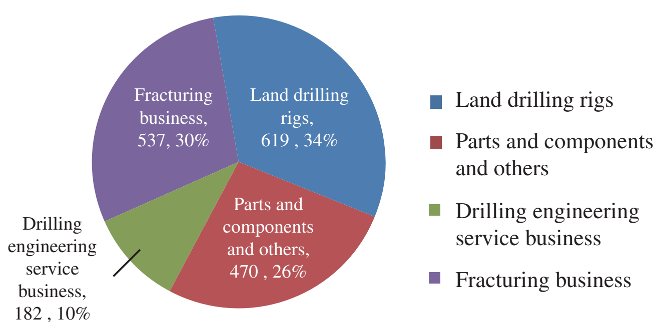
During the Period, external revenue from parts and components and others amounted to approximately RMB470 million, representing a decrease of RMB118 million or 20.1% as compared to approximately RMB588 million in the same period last year.

During the Period, external revenue from drilling engineering service business amounted to approximately RMB182 million, representing a decrease of RMB10 million or 5.2% as compared to approximately RMB192 million in the same period last year.

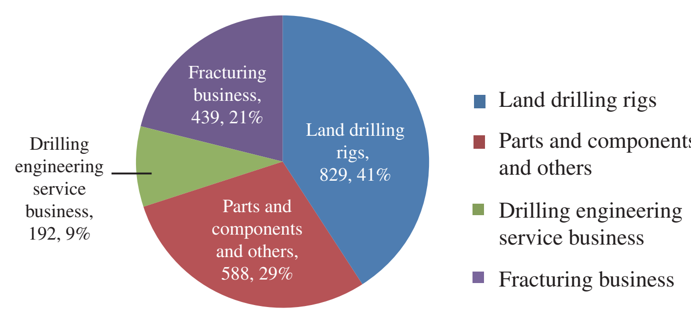
During the Period, external revenue from fracturing business amounted to approximately RMB537 million, representing an increase of RMB98 million or 22.3% as compared to approximately RMB439 million in the same period last year.

Revenue by operating segments

Six months ended 30 June 2020
(Expressed in RMB'million)



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



Cost of Sales

During the Period, the Group's cost of sales amounted to approximately RMB1,199 million, representing a decrease of RMB292 million or approximately 19.6% as compared to RMB1,491 million in the same period last year, which was 7.8 percentage points higher than the drop of revenue. Mainly affected by the reduction of sales scale, the cost of sales of each sector has also decreased; meanwhile, the Group has continued to promote cost-cutting and efficiency-improving work, strictly controlled the cost and expenses, optimized the cost structure, and continuously improved the operating level.

Gross Profit and Gross Margin

During the Period, the Group's gross profit amounted to approximately RMB608 million, representing an increase of RMB51 million or 9.1% as compared to RMB557 million in the same period last year.

During the Period, the Group's overall gross margin was 33.6%, representing an increase of 6.4 percentage points compared with the same period last year of 27.2%. The main reason is that the Group actively promote new products with high added value. In addition, under the influence of positive measures such as cost reduction, cost control and cost structure optimization, the gross profit has increased.

Expenses in the Period

During the Period, the Group's distribution expenses amounted to approximately RMB122 million, representing a decrease of RMB37 million or 23.3% as compared to RMB159 million in the same period last year. It is mainly due to the decrease of sales revenue that leads to the decrease of project related expenses.

During the Period, the Group's administrative expenses amounted to approximately RMB278 million, representing an increase of RMB98 million or 54.4% as compared to RMB180 million in the same period last year. This is mainly due to the adjustment of cost structure and the increase of R&D investment.

During the Period, the Group's net finance expenses amounted to approximately RMB110 million, representing an increase of RMB70 million, or 175% as compared to net finance expense of RMB40 million in the same period last year. The main reason is that the increase of loan scale in the period leads to the increase of interest cost; at the same time, affected by the fluctuation of the exchange rate, the exchange income in the period decreased compared with the same period last year.

Profit before Income Tax

During the Period, the Group's profit before income tax amounted to approximately RMB52 million, representing a decrease of RMB53 million or 50.6% as compared to profit before income tax of RMB105 million in the same period last year.

Income Tax Expense

During the Period, the Group's income tax expense amounted to approximately RMB13 million as compared to the income tax expense of approximately RMB34 million in the same period last year. It is mainly due to the decrease in sales revenue, and the income tax expenses decrease accordingly.

Profit for the Period

During the Period, the profit for the Period amounted to approximately RMB39 million as compared to the profit of approximately RMB71 million in the same period last year. Specifically, profit attributable to equity shareholders of the Company was approximately RMB31 million, while profit attributable to non-controlling interests was approximately RMB8 million. During the Period, net margin was 1.7%, as compared to a net margin of 3.0% in the same period last year.

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

During the Period, EBITDA amounted to RMB255 million, as compared to approximately RMB230 million in the same period last year, which was mainly attributable to the improvement of operation, leading to the increase of overall operating income. The EBITDA margin was 14.1%, as compared to 11.3% in the same period last year.

Dividends

As at 30 June 2020, the Board does not recommend payment of dividend.

Source of Capital and Borrowings

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

As at 30 June 2020, the Group's bank borrowings and senior notes amounted to approximately RMB4,809 million, representing an increase of RMB799 million as compared to 31 December 2019. Among which, borrowings repayable within one year amounted to approximately RMB2,518 million, representing an increase of RMB600 million or 31.3%, as compared to 31 December 2019.

Deposits and Cash Flow

As at 30 June 2020, the Group's cash and cash equivalents amounted approximately RMB933 million, representing an increase of approximately RMB43 million as compared to 31 December 2019. During the Period, the Group's net cash outflow from operating activities amounted to approximately RMB582 million; net cash outflow from investing assets amounted to approximately RMB53 million; and net cash inflow from financing activities amounted to approximately RMB676 million.

Assets Structure and Changes

As at 30 June 2020, the Group's total assets amounted to approximately RMB12,259 million, representing an increase of approximately RMB505 million or 4.3% as compared to 31 December 2019. Specifically, current assets amounted to approximately RMB6,695 million, accounting for 54.6% of total assets, representing an increase of RMB239 million as compared to 31 December 2019; and non-current assets amounted to approximately RMB5,564 million, accounting for 45.4% of total assets, representing an increase of approximately RMB266 million as compared to 31 December 2019.

Liabilities

As at 30 June 2020, the Group's total liabilities amounted to approximately RMB7,734 million, representing an increase of approximately RMB460 million as compared to 31 December 2019. Specifically, current liabilities amounted to approximately RMB5,317 million, accounting for approximately 68.7% of total liabilities, representing an increase of approximately RMB284 million as compared to 31 December 2019; and non-current liabilities amounted to approximately RMB2,417 million, accounting for approximately 31.3% of total liabilities, representing an increase of approximately RMB176 million as compared to 31 December 2019. As at 30 June 2020, the Group's total liabilities/total assets ratio was 63.1%, representing an increase of 1.9 percentage points as compared to 31 December 2019.

Equity

As at 30 June 2020, total equity amounted to approximately RMB4,526 million, representing an increase of RMB46 million as compared to 31 December 2019. Total equity attributable to equity shareholders of the Company amounted to approximately RMB4,302 million, representing an increase of RMB36 million as compared to 31 December 2019. Non-controlling interests amounted to approximately RMB223 million, representing an increase of RMB8 million as compared to 31 December 2019. During the Period, the Group's basic earnings per share was RMB0.0059, and diluted earnings per share was RMB0.0059.

Capital Expenditure, Major Investment and Capital Commitments

During the Period, capital expenditure of the Group on infrastructure and technical improvements amounted to approximately RMB121 million, representing a increase of approximately RMB79 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 production capacity of the Group's drilling engineering service and fracturing business.

As at 30 June 2020, capital commitment of the Group amounted to approximately RMB12 million, which was used to optimize and adjust the Group's business and production capacity.

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

Neither the Company nor any of its subsidiaries has purchased, sold or bought back any of the Company's Shares during the six months ended 30 June 2020.

AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") with written terms of reference in compliance with Rules 3.21 and 3.22 of the Listing Rules. The Audit Committee is responsible for reviewing and supervising the adequacy and effectiveness of the Group's financial reporting system, internal control systems and risk management system and associated procedures and provide advices and comments to the Board. The Audit Committee is also responsible for reviewing the compliance of the corporate governance issues, the corporate governance report and the corporate governance policy.

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

The Audit Committee shall hold at least two meetings a year and review opinions of auditors, internal control, risk management and financial reporting. The Audit Committee has reviewed the unaudited financial interim reports for the six months ended 30 June 2020 of the Company and the Group.

COMPLIANCE WITH THE CG CODE

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

The Company has complied with the code provisions of the CG Code throughout the six months period from 1 January 2020 to 30 June 2020, except for the deviation as mentioned below.

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.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a set of Code for Securities Trading with terms no less exacting than that of the Model Code. After the specific enquiry made by the Company, all the Directors have confirmed that they have complied with the standards specified in both the Code for Securities Trading and the Model Code throughout the six months ended 30 June 2020.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2020

This announcement will be published on both the websites of the Company (www.hh-gltd.com) and the Stock Exchange (www.hkexnews.hk). The interim report of the Company for the six months ended 30 June 2020 will be dispatched to shareholders of the Company and published on the aforesaid websites in due course.

DEFINITION

"Audit Committee"	the audit committee of the Company
"Board"	the Board of Directors of the Company
"CG Code"	Corporate Governance Code set out in Appendix 14 to the Listing Rules
"Code for Securities Trading"	code for securities trading adopted by the Company since 21 January 2008
"Company"	Honghua Group Limited

"Directors"	directors of the Company
"Group" or "Honghua"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange (as amended from time to time)
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules
"Period"	the six months ended 30 June 2020
"PRC" or "China"	the People's Republic of China, unless the context requires otherwise, reference in this announcement of the PRC or China excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"RMB"	Renminbi, the lawful currency of the PRC
"same period last year"	the six months ended 30 June 2019
"Share(s)"	ordinary shares issued by the Company, with a nominal value of HK$0.10 each
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"US$"	United States of America dollars, the lawful currency of the United States of America

On behalf of the Board
Honghua Group Limited
Jin Liliang
Chairman

PRC, 26 August 2020

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