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 2021

FINANCIAL HIGHLIGHT

	Six months ended 30 June		
	2021	2020	Changes
	(Unaudited)	(Unaudited)	
Turnover *(RMB'000)*	**1,551,538**	1,807,058	-14.1%
Gross profit *(RMB'000)*	**318,471**	607,887	-47.6%
Gross profit margin *(%)*	**20.5%**	33.6%	-13.1%
Operating (loss)/profit *(RMB'000)*	**(14,775)**	173,489	-108.5%
(Loss)/profit attributable to equity shareholders of the Company *(RMB'000)*	**(72,966)**	31,161	-334.2%
(Loss)/earnings per share			
– Basic *(RMB cents)*	**(1.38)**	0.59	-333.9%
– Diluted *(RMB cents)*	**(1.38)**	0.59	-333.9%

The Board does not recommend payment of interim dividend for the six months ended 30 June 2021.

INTERIM RESULTS

The Board of the Company hereby announces the unaudited interim financial results of the Group for the six months ended 30 June 2021, together with the comparative figures for the corresponding period in 2020.

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 2021 is unaudited, but has been reviewed by PricewaterhouseCoopers, the auditor of the Company, 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 2021

	Notes	Unaudited Half-year 2021 RMB'000	2020 RMB'000
Revenue	2	**1,551,538**	1,807,058
Cost of sales		**(1,233,067)**	(1,199,171)
Gross profit		**318,471**	607,887
Distribution expenses		**(83,557)**	(122,440)
Administrative expenses		**(251,746)**	(278,226)
Net impairment losses on financial assets and contract assets		**(69,389)**	(65,626)
Other income		**62,396**	47,034
Other gains/(losses), net		**9,050**	(15,140)
Operating (loss)/profit	3	**(14,775)**	173,489
Finance income		**54,948**	16,309
Finance expenses		**(109,574)**	(126,256)
Finance expenses – net		**(54,626)**	(109,947)
Share of net loss of investments accounted for using the equity method		**(2,273)**	(11,500)
(Loss)/profit before income tax		**(71,674)**	52,042
Income tax credit/(expense)	4	**5,268**	(13,139)
(Loss)/profit for the half-year		**(66,406)**	38,903
(Loss)/profit attributable to:			
– Owners of the Company		**(72,966)**	31,161
– Non-controlling interests		**6,560**	7,742
		(66,406)	38,903
(Loss)/earnings per share for profit attributable to the ordinary equity holders of the Company (expressed in RMB cents per share)			
Basic and diluted	5	**(1.38)**	0.59

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 2021

	Unaudited Half-year	
	2021	2020
	RMB'000	*RMB'000*
(Loss)/profit for the half-year	**(66,406)**	38,903
Other comprehensive income		
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	**2,427**	6,593
Other comprehensive income for the half-year, net of tax	**2,427**	6,593
Total comprehensive income for the half-year	**(63,979)**	45,496
Total comprehensive income for the half-year attributable to:		
Owners of the Company	**(70,451)**	36,894
Non-controlling interests	**6,472**	8,602
	(63,979)	45,496

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 2021

	Notes	**Unaudited 30 June 2021 *RMB'000***	Audited 31 December 2020 *RMB'000*
ASSETS			
Non-current assets			
Right of use assets		**172,283**	185,008
Property, plant and equipment	*6*	**1,627,197**	1,736,605
Intangible assets		**245,938**	230,823
Debt investments		**39,135**	53,950
Investments accounted for using the equity method		**34,683**	28,785
Deferred income tax assets		**314,832**	287,900
Financial assets at fair value through other comprehensive income		**106,338**	89,204
Term deposit		**40,000**	40,000
Trade and other receivables	*8*	**766,375**	803,428
Loan to an associate and other related party		**731,035**	731,565
Other non-current assets		**95,168**	53,707
Total non-current assets		**4,172,984**	4,240,975
Current assets			
Inventories		**1,592,440**	1,346,818
Contract assets		**806,685**	687,791
Trade and other receivables	*8*	**4,391,841**	3,699,407
Debt investments		**44,686**	43,956
Loan to an associate and other related party		**683,337**	683,827
Current tax recoverable		**8,126**	4,985
Financial assets at fair value through other comprehensive income		**124,536**	72,071
Pledged bank deposits		**293,360**	280,163
Cash and cash equivalents		**542,454**	952,384
Total current assets		**8,487,465**	7,771,402
Total assets		**12,660,449**	12,012,377

UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

As At 30 June 2021

	Notes	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
EQUITY			
Equity attributable to owners of the Company			
Share capital		**488,023**	488,023
Other reserves		**4,223,474**	4,223,282
Accumulated losses		**(512,264)**	(441,939)
		4,199,233	4,269,366
Non-controlling interests		**231,733**	225,261
Total equity		**4,430,966**	4,494,627
LIABILITIES			
Non-current liabilities			
Deferred income		**17,201**	47,621
Borrowings	*7*	**2,153,201**	2,229,719
Trade and other payables	*9*	**188,388**	–
Lease liabilities		**60,397**	70,118
Total non-current liabilities		**2,419,187**	2,347,458
Current liabilities			
Contract liabilities		**152,881**	139,608
Deferred income		**14,309**	4,492
Trade and other payables	*9*	**2,721,142**	2,655,744
Current income tax liabilities		**52,667**	63,865
Lease liabilities		**18,365**	18,199
Borrowings	*7*	**2,818,004**	2,255,142
Provisions for other liabilities and charges		**32,928**	33,242
Total current liabilities		**5,810,296**	5,170,292
Total liabilities		**8,229,483**	7,517,750
Total equity and liabilities		**12,660,449**	12,012,377

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.

This interim condensed consolidated financial information is presented in Chinese Renminbi ("RMB"), unless otherwise stated, and was approved for issue by the Board of Directors of the Company on 30 August 2021.

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.

(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 2021 and 2020 respectively.

	Land drilling rigs Half-year		Parts and components and others Half-year		Drilling engineering services Half-year		Facturing Half-year		Total Half-year	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Segment revenue	**55,832**	618,672	**906,832**	675,699	**134,810**	181,653	**500,494**	537,012	**1,597,968**	2,013,036
Inter-segment revenue	**–**	–	**(46,430)**	(205,978)	**–**	–	**–**	–	**(46,430)**	(205,978)
Revenue from external customers	**55,832**	618,672	**860,402**	469,721	**134,810**	181,653	**500,494**	537,012	**1,551,538**	1,807,058
Timing of revenue recognition										
At a point in time	**55,832**	618,672	**851,768**	463,670	**–**	–	**270,804**	274,973	**1,178,404**	1,357,315
Over time	**–**	–	**8,634**	6,051	**134,810**	181,653	**229,690**	262,039	**373,134**	449,743
	55,832	618,672	**860,402**	469,721	**134,810**	181,653	**500,494**	537,012	**1,551,538**	1,807,058
Reportable segment (loss)/profit	**(38,822)**	6,537	**(41,939)**	76,470	**(25,102)**	8,233	**54,101**	81,607	**(51,762)**	172,847

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

Given the manufacturing processes of the Group's business are in a form of vertical integration, the Group's chief operating decision maker considered segment assets and liabilities information was not relevant in assessing performance of and allocating resources to the operations segments. During the six months ended 30 June 2021, such information was not reviewed by the Group's chief operating decision maker. Accordingly, no segment assets and liabilities are presented.

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

	Half-year	
	2021	2020
	RMB'000	*RMB'000*
Segment (loss)/profit		
– for reportable segments	**(51,762)**	172,847
Elimination of inter-segment profit	**7,432**	(870)
Segment (loss)/profit derived from Group's external customers	**(44,330)**	171,977
Share of post-tax losses of joint ventures	**(2,273)**	(11,500)
Other income and other gains/(losses), net	**71,446**	31,894
Finance income	**54,948**	16,309
Finance expenses	**(109,574)**	(126,256)
Unallocated head office and corporate expenses	**(41,891)**	(30,382)
(Loss)/profit before income tax	**(71,674)**	52,042

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	
	2021	2020
	RMB'000	*RMB'000*
PRC (country of domicile)	**1,250,586**	1,001,667
Americas	**10,617**	16,351
Middle East	**206,808**	331,441
Europe and Central Asia	**57,889**	220,448
South Asia and South East Asia	**2,715**	97,214
Africa	**22,923**	139,937
	1,551,538	1,807,058

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

	30 June 2021 *RMB'000*	31 December 2020 *RMB'000*
PRC (country of domicile)	**1,802,311**	1,809,820
Americas	**1,488**	2,037
Middle East	**288,188**	351,146
Europe and Central Asia	**48,599**	43,140
Africa	**34,683**	28,785
	2,175,269	2,234,928

For the half-year ended 30 June 2021, revenues of approximately RMB223,805,000 and RMB183,020,000 were derived from two external customers respectively. These revenues were attributable to the sales of fracturing pumps and parts and components and others in PRC (country of domicile) respectively.

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.

3 OPERATING (LOSS)/PROFIT

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

	Half-year	
	2021 *RMB'000*	2020 *RMB'000*
Write down of inventories	**14,635**	30,533
Provision for impairment of financial assets	**58,493**	65,626
Provision for impairment of contract assets	**10,896**	879
(Gains)/losses on disposal of property, plant and equipment, lease prepayment and other intangible assets	**(1,525)**	3,453

4 INCOME TAX (CREDIT)/EXPENSE

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

	Half-year	
	2021	2020
	RMB'000	*RMB'000*
Current income tax		
– Hong Kong Profits Tax (i)	**(75)**	–
– the People's Republic of China (the "PRC") (ii)	**14,458**	12,319
– Other jurisdictions (iii)	**7,256**	5,814
Deferred income tax	**(26,907)**	(4,994)
	(5,268)	13,139

(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 2021 and 2020.

(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 2021 and 2020, 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 2021 and 2020.

(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. On 23 April 2020, the policy above has been extended to 2030. 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 2030.

(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 2021 and 2020. 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 2021 is 20%, compared to 20% for the six months ended 30 June 2020.

5 (LOSS)/EARNINGS PER SHARE

The calculation of basic loss per share for the half-year ended 30 June 2021 is based on the loss attributable to owners of the Company for the period of RMB72,966,000 (six months ended 30 June 2020: profit of RMB31,161,000) and the weighted average number of shares of 5,294,906,000 (six months ended 30 June 2020: 5,293,906,000 shares) in issue during the period.

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

	Half-year	
	2021	2020
(Loss)/profit attributable to owners of the Company *(RMB'000)*	**(72,966)**	31,161
Weighted average number of ordinary shares in issue *(thousands)*	**5,355,995**	5,355,995
Effect of the share award scheme *(thousands)*	**(61,089)**	(62,089)
Adjusted weighted average number of ordinary shares in issue *(thousands)*	**5,294,906**	5,293,906
Basic (loss)/earnings per share *(RMB cents per share)*	**(1.38)**	0.59

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 2020							
Cost	479	703,616	1,478,349	611,319	94,072	95,460	2,983,295
Accumulated depreciation and impairment	–	(272,201)	(517,678)	(400,417)	(55,503)	(891)	(1,246,690)
Net book amount	479	431,415	960,671	210,902	38,569	94,569	1,736,605
Half-year ended 30 June 2021							
Opening net book amount	479	431,415	960,671	210,902	38,569	94,569	1,736,605
Additions	–	–	8,676	7,550	402	5,594	22,222
Transfer from construction in progress	–	1,558	1,416	3,509	–	(6,483)	–
Transfer to investment properties	–	(44,286)	–	–	–	–	(44,286)
Disposals	–	(1,046)	(725)	(110)	(284)	–	(2,165)
Depreciation	–	(16,007)	(35,356)	(29,676)	(1,149)	–	(82,188)
Currency translation difference	(7)	(24)	(2,646)	252	12	(578)	(2,991)
Closing net amount	472	371,610	932,036	192,427	37,550	93,102	1,627,197
At 30 June 2021							
Cost	472	659,601	1,476,087	620,511	92,918	93,993	2,943,582
Accumulated depreciation and impairment	–	(287,991)	(544,051)	(428,084)	(55,368)	(891)	(1,316,385)
Net book amount	472	371,610	932,036	192,427	37,550	93,102	1,627,197

7 BORROWINGS

	30 June 2021	31 December 2020
	RMB'000	*RMB'000*
Bank loans		
Secured (i)		
– Current portion	**1,337,206**	611,732
– Non-current portion	**172,000**	173,000
	1,509,206	784,732
Unsecured		
– Current portion	**1,480,798**	1,533,373
– Non-current portion	**659,531**	723,862
	2,140,329	2,257,235
Total bank loans	**3,649,535**	3,041,967
Unsecured loans from related party		
– Current portion	**–**	110,037
	–	110,037
Other loans		
Senior notes (ii)		
– Non-current portion	**1,321,670**	1,332,857
	1,321,670	1,332,857
Current borrowings	**2,818,004**	2,255,142
Non-current borrowings	**2,153,201**	2,229,719
Total borrowings	**4,971,205**	4,484,861

(i) As at 30 June 2021, the bank loans were secured by letters of guarantee as collateral of RMB200,000,000, bills receivable of RMB249,766,000, accounts receivable of RMB134,652,000 and 20% equity interest of Honghua Company, a subsidiary of the Group.

As at 31 December 2020, the bank loans were secured by letters of guarantee as collateral of RMB200,000,000, bills receivable of RMB222,658,000, accounts receivable of RMB71,702,000 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 2021 *RMB'000*	31 December 2020 *RMB'000*
Fixed rate		
Expiring within one year (bank loans and bill facilities)	**4,640,918**	2,693,866

As at 30 June 2021 and 31 December 2020, 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 2021						
Trade and other payables (i)	**2,733,511**	**111,085**	**85,838**	**–**	**2,930,434**	**2,909,129**
Senior notes	**82,366**	**1,333,203**	**–**	**–**	**1,415,569**	**1,321,670**
Borrowings (excluding senior notes)	**2,909,656**	**619,824**	**230,179**	**–**	**3,759,659**	**3,649,535**
Lease liabilities	**22,811**	**21,712**	**42,632**	**–**	**87,155**	**78,762**
Total	**5,748,344**	**2,085,824**	**358,649**	**–**	**8,192,817**	**7,959,096**

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 2020						
Trade and other payables (i)	2,655,243	–	–	–	2,655,243	2,655,243
Senior notes	83,192	1,388,172	–	–	1,471,364	1,332,857
Borrowings (excluding senior notes)	2,317,614	550,806	382,807	–	3,251,227	3,152,004
Lease liabilities	22,304	21,942	53,855	–	98,101	88,317
Total	5,078,353	1,960,920	436,662	–	7,475,935	7,228,421

(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 2021 *RMB'000*	31 December 2020 *RMB'000*
Trade receivables (i)	**3,077,206**	2,981,797
Bills receivable	**525,334**	549,190
Less: provision for impairment of trade receivables	**(441,940)**	(435,724)
	3,160,600	3,095,263
Amount due from related parties		
Trade	**570,701**	400,473
Non-trade	**689,032**	359,785
Less: provision for impairment of trade receivables for amount due from related parties	**(94,094)**	(68,474)
	1,165,639	691,784
Finance lease receivable (ii)	**203,438**	254,830
Less: provision for impairment of finance lease receivable	**(75,271)**	(75,279)
Value-added tax recoverable	**67,661**	64,517
Prepayments	**496,576**	311,285
Less: provision for prepayments	**(32,751)**	(32,662)
Other receivables	**321,850**	319,198
Less: provision for impairment of other receivables	**(149,526)**	(126,101)
	5,158,216	4,502,835
Representing:		
Current portion	**4,391,841**	3,699,407
Non-current portion	**766,375**	803,428
	5,158,216	4,502,835

(i) As at 30 June 2021 and 31 December 2020, 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 2021	31 December 2020
	RMB'000	*RMB'000*
Within 3 months	**2,342,935**	2,283,515
3 to 12 months	**879,758**	584,314
Over 1 year	**414,514**	559,433
	3,637,207	3,427,262

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 2021, lease liabilities of RMB76,768,000 (as at 31 December 2020: RMB85,837,000) were secured by finance lease receivables of RMB73,362,000 (as at 31 December 2020: RMB81,899,000).

9 TRADE AND OTHER PAYABLES

	30 June 2021	31 December 2020
	RMB'000	*RMB'000*
Trade payables	**1,426,729**	1,421,207
Amounts due to related companies		
Trade	**81,455**	19,423
Non-trade	**44,191**	44,376
Bills payable	**815,659**	755,316
Receipts in advance	**401**	501
Other payables	**541,095**	414,921
	2,909,530	2,655,744
Representing:		
Current portion	**2,721,142**	2,655,744
Non-current portion	**188,388**	–
	2,909,530	2,655,744

As at 30 June 2021 and 31 December 2020, the ageing analysis of the trade payables and bills (including amounts due to related parties of trading in nature) is as follows:

	30 June 2021 *RMB'000*	31 December 2020 *RMB'000*
Within 3 months	**744,766**	567,463
3 to 6 months	**510,599**	532,146
6 to 12 months	**512,973**	766,736
Over 1 year	**555,505**	329,601
	2,323,843	2,195,946

10 BASIS OF PREPARATION OF HALF-YEAR REPORT

This interim condensed consolidated financial information for the half-year reporting period ended 30 June 2021 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 2020 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 2021:

Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

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 2021 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
IFRS 17	Insurance Contracts	1 January 2023
Amendments to IAS 1	Presentation of financial statements on classification of liabilities	1 January 2023
Amendments to IAS 16	Property, Plant and Equipment Proceeds before intended use	1 January 2022
Amendments to IFRS 3	Reference to the Conceptual Framework	1 January 2022
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Annual Improvements	Annual Improvements to IFRS Standards 2018-2020	1 January 2022

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 2021 (half-year ended 30 June 2020: Nil).

The board of directors does not recommend the payment of an interim dividend for the half-year ended 30 June 2021 (half-year ended 30 June 2020: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2021, Honghua's revenue amounted to RMB1,552 million, representing a decrease of 14.1% from RMB1,807 million for the same period of Previous Year. Gross profit was approximately RMB318 million, representing a decrease of 47.6% from RMB608 million for the same period of Previous Year. The loss attributable to shareholders was approximately RMB73 million.

MARKET REVIEW

In the first half of 2021, global oil prices rose gradually despite fluctuations. In January and February, oil prices were significantly boosted due to the medical verification of vaccine efficacy, the deployment of global mass vaccinations, sufficient market liquidity under loose monetary policies and oil production cut in Saudi Arabia. From March to May, oil prices were subject to fluctuations as major oil producing countries "OPEC+" gradually put the increase in oil production on the agenda and the outbreak of the disease flared up again in some countries. From late May to the end of June, oil prices rose due to the mitigation of the pandemic in the world and the expected improvement in oil consumption. With the continuous recovery of global crude oil demand, the balance between supply and demand of crude oil has been further restored. In the first half of the year, the annual average spot price of West Texas Intermediate Crude Oil (WTI) was USD62.2 per barrel, representing an increase of 70.0% as compared with the same period of Previous Year; the annual average spot price of North Sea Brent Crude was USD65.0 per barrel, representing an increase of 62.7% as compared with the same period of Previous Year. According to the U.S. oil services firm Baker Hughes Inc., the number of active oil drilling rigs in the United States stood at 372 at the end of June, hitting a record high in the past year, but remaining at the historically low level based on historical data.

Under the background of traditional energy transition to new energy, countries have successively put forward the goals of reaching carbon emissions peak and realizing carbon neutrality. Thus, the oil and gas industry has moved towards environmental protection, high efficiency and green energy development. As natural gas is the fossil energy with the least carbon emission, the development of natural gas plays an important role in energy transition. According to the Gas 2021: Analysis and Forecast to 2024 published by the International Energy Agency, it is expected that the global natural gas demand will rebound by 3.6% in 2021 and reach approximately 4.3 trillion cubic meters by 2024, which is 7% higher than the pre-pandemic level.

The year 2021 is the third year to implement the Seven-Year E&P Action Plan of China, and the oil and gas exploration and development remains active. The National Energy Administration of China convened a work progression meeting for significantly enhancing oil and gas exploration and development in 2021, it promoted the increase in the reserves and production of oil and gas and developed plans to overcome ingrained technical issues. Crude oil production has been increased and stabilized. Natural gas reserve and production continued to increase rapidly. In the upstream market, the diversification of oil and gas market further improved. At the beginning of the year, at the shale oil exploration and development promotion meeting for 2021, the National Energy Administration proposed the continued strengthening of shale oil exploration and development, the inclusion of shale oil exploration and development in the "14th Five-Year Plan" for energy, oil and gas development, encouragement of the exploration of new financing models in shale oil exploration and development, and continued development of new technologies and equipment suitable for shale oil exploration and development. As the third-largest country by shale oil reserve in the world, in comprehensive consideration of the national tone, enterprise development and current situation of resources, it is expected that China will focus on enlarging the production of unconventional oil and gas represented by shale oil and gas. In the first half of the year, the crude oil production of China was 99.32 million tons, representing a year-on-year increase of 2.4%. Imported crude oil was 260.66 million tons, representing a year-on-year decrease of 3.0%; natural gas production of China was 104.5 billion cubic meters, representing a year-on-year increase of 10.9%. Imported natural gas was 59.82 million tons, representing a year-on-year increase of 23.8%[1].

In the wind energy market, in the first half of the year, the total installed capacity of wind power in China was 292 million kW, including 281 million kW of installed capacity of onshore wind power and 11.134 million kW of installed capacity of offshore wind power, representing a year-on-year increase of 59.3%. The installed capacity of offshore wind power accounted for 3.8% of the total installed capacity of wind power, representing an increase of 0.6% as compared with the same period of Previous Year[2].

BUSINESS REVIEW

In the first half of 2021, oil and gas companies were reluctant to increase upstream investment despite the gradual increase in oil prices, and capital expenditure did not return to the pre-pandemic level. As a result, it takes a while for overseas sales of drilling rigs and other equipment to recover, but there are highlights in the oil services business that are recovering first. Honghua Oil & Gas, a subsidiary of the Group, successively signed long-term rig service agreements with world-renowned oil service enterprises. The rig service agreement with Schlumberger signed in the Middle East has a term of 54 months, the longest service term in the oil service history of Honghua, and is the highest value contract Honghua has signed.

With the consensus on global energy structural reform and transition, the markets for clean and low-carbon natural gas and unconventional gas are expected to grow exponentially. Honghua seized the opportunity of accelerating shale gas development and provided 2,539 stages of electric pumping service in the first half of the year, representing an increase of 26.4% compared with the same period of Previous Year, despite a large service base. In addition, in line with the trend of digital transformation in the industry, Honghua actively promoted automation and intelligent upgrade of equipment, and achieved full process automation of electric fracturing for the first time. The company launched the first "one-key linkage" automatic machine tool system and new equipment including electric coiled tubing in China, which were widely recognized in the market, consolidating its leading position in the drilling and fracturing market.

1 National Bureau of Statistics
2 National Energy Administration

1. Drilling Rigs and Related Product Businesses Segment

In the first half of 2021, Honghua recorded the total number of 3 drilling rigs sold with an aggregate amount of approximately RMB56 million, a decrease of 91.0% from RMB619 million for the same period of Previous Year. Total sales of parts and components amounted to RMB860 million, an increase of 83.0% from RMB470 million for the same period of Previous Year.

In the first half of 2021, despite a steady rise in global oil prices, international customers kept a tight rein on upstream capital expenditures in the oil and gas industry, which dampened sales of complete sets of drilling rigs in the international market. With the development of oil and gas industry towards digitalization, Honghua has made relevant digitized work arrangements ahead of time. The digital drilling system has been upgraded to UNISON2.0, including the digital drilling rig control platform OPERA, the drilling expert cloud platform DrillStudio and other software. The system can integrate various complicated mechanical control and operation procedures into the control system, and provide access to users with real-time data through client software to control the construction work on site.

As for sales of parts and components, Honghua adheres to technological innovation as its core competency, and continuously launches various breakthrough products in China. During the Period, Honghua launched the first "one-key linkage" automatic machine tool system in China, which converts the distributed operation of traditional machine tool systems by multiple people to automatic processing of the work flow by program, significantly improving the efficiency of rig lifting and lowering. The system has been successfully tested at PetroChina and Sinopec and has been recognized by customers. Meanwhile, breakthroughs have been made in the sales of a number of new products launched by Honghua: the first deployment of a 1600HP mud pump unit on an offshore drilling platform, a series of signing new orders for new-generation five-cylinder pumps, the sale of set of fracturing manifold, and the signing of orders for the rotary running casing. In specialty power, in the first half of the year, Honghua Electric completed the construction of various special and temporary lines, meeting the power needs for drilling and all-electric fracturing and laying a good grid electricity foundation for the full rollout of all-electric fracturing.

In the first half of 2021, the newly signed orders for the offshore wind power project of Honghua amounted to approximately RMB110 million. Under the philosophy of onshore manufacturing of offshore equipment and with the support of Honghua's onshore manufacturing base, Honghua set records in offshore wind power equipment manufacturing. For example, Qingzhou III Offshore Wind Power Project, in which Honghua participated, is currently the tallest deep-water offshore wind power jacket in Asia and the largest offshore booster station in China. For the first time in China, Honghua adopted the method of vertical joining of an onshore gantry crane to build a suction jacket, which helped to effectively reduce the project duration and safety risks.

As at 30 June 2021, Honghua's backlog order of drilling rigs and related products amounted to a total value of approximately RMB1,170 million.

2. Fracturing

In the first half of 2021, the Group had a total of 16 pumping teams providing 2,539 stages of pumping service during the Period, representing an increase of 26.4% for the same period of Previous Year. The total realized sales of equipment and engineering services provided during the Period amounted to approximately RMB500 million, representing a decrease of 6.9% from RMB537 million for the same period of Previous Year.

In terms of fracturing equipment for unconventional oil and gas development, Honghua carried out a comprehensive digital upgrade of the first-generation electric fracturing pumps and related equipment, and sold the upgraded equipment with sales of approximately RMB250 million. In line with the concept of "all-electric, intelligent fracturing", Honghua launched the first electric coiled tubing unit in China, and it began the sale of the new product after industrial testing. The electric coiled tubing unit features excellent performance and efficiency, a high degree of automation and strong synchronous control. With the accelerated development of unconventional oil and gas, there is a huge market for the electric coiled tubing unit. In addition, Honghua has established a digital fracturing simulation laboratory, which can equip fracturing software products with a simulation environment corresponding to the practice for thoroughly test products in various aspects, and can meet the needs of digital and intelligent research and development of fracturing equipment. In terms of pumping services, all-electric fracturing has been widely recognized in the market, with a year-on-year increase of 41% in the sum of newly signed orders for fracturing engineering services and a year-on-year increase of 24% in the sum of newly signed orders for pumping services. In the first half of the year, Honghua provided 2,539 stages of pumping services, representing an increase of 26.4% as compared with the same period of Previous Year, despite a large service base.

In response to the digital and intelligent development trend in the industry, Honghua promotes the upgrading of the whole-process electric automation of electric fracturing equipment. In the first half of the year, Honghua became the first company in China to use the fully electric automated fracturing technology, completing 28 stages of fracturing operations in 9 days on a platform in Chongqing, deploying the technology on a large scale, solving the problem of the time lag between construction instruction and the response in field operations, improving the overall construction efficiency and safety, and reducing the workload of personnel. In addition to using the power grid for power supply, the Honghua model for shale gas development using gas-fired power generation equipment has been maturely implemented. After successfully providing pumping services with gas-fired generation in Weiyuan, Honghua has built new gas-fired generating units in Chongqing to provide sufficient power for shale gas development. Gas-fired generation can not only meet the power consumption of electric fracturing equipment but also cover the surrounding electrical platforms, adding to the benefits of regional power grids.

In terms of operating records, Honghua completed 223 stages of pumping in 43 days on a platform in Jiaoye, Fuling block, Chongqing City, under a 24-hour continuous operation model, setting a new record with more than 6 stages of pumping completed in 18 days; Honghua assisted a client to implement the first model of a combination of shale gas whole-well infinite fracturing sliding sleeve and all-electric fracturing in China on a platform in Nanchuan, Chongqing, making the record for fracturing construction speed in China, 12 fracturing stages per day per well per machine in respect of horizontal shale gas well. In a block in Nanchuan, Chongqing, Honghua applied new-generation reservoir reconstruction technology to implement "zipper" fracturing method, and helped customers complete phased fracturing construction with a total length of 3,583 meters and a total of 50 stages, hitting a new record for the longest horizontal shale gas well in China.

As at 30 June 2021, Honghua's backlog order of fracturing business amounted to a total value of approximately RMB190 million.

3. Drilling Engineering Service Business

In the first half of 2021, Honghua's 10 drilling crews completed approximately 13,739 meters, representing a decrease of 75.6% for the same period of Previous Year, and provided engineering services with a total sales amount of approximately RMB136 million, representing a decrease of 25.3% from RMB182 million for the same period of Previous Year.

Regarding the China market, Honghua drilling team set five new records for operations in the drilling project in Changning Block: the average penetration rate of 28.6m/h for a 215.9mm well section, the average penetration rate of 22.27m/h for a well, 3,700m footage from the deviated section to the horizontal section on Longma Formation in one run of 215.9mm borehole and 3,955m section, drilling duration of 11.95 days, and the average penetration rate of 37.21m/h for the horizontal section. With the strategic goal of developing high value-added business, many breakthroughs have been achieved in Honghua's directional well business. The directional well project of Qinghai had to consider the complicated geology in Qinghai working area and the numerous downhole pressure gradients in the wellbore. Honghua completed the extremely difficult sidetracking and achieved success in a single pass. In providing directional well services in a block in Changning, Honghua overcame various difficulties including lack of experience with new drilling fluids, unstable power supply and heavy snowfall, and achieved outstanding results with the completion rate of 182.86% in weekly footage and drilling a 1,500m horizontal section in one run.

Regarding the overseas market, Honghua began to provide oil and gas engineering services in Middle East in 2012, and Honghua oil service team HH029 also became the only operation team in Zubair oil field that never suspended operation during the outbreak. With excellent operating capacity, Honghua signed long-term service contracts with various internationally renowned oil service enterprises. In the first half of the year, the value of new orders signed for overseas oil and gas engineering services of Honghua amounted to about US$120 million, reaching a new record high in recent years. The rig service agreement with Schlumberger has a term of 54 months, the longest service term in the oil service history of Honghua, and is the highest value contract Honghua has signed. The project is expected to commence successively in the second half of the year, which will generate stable and continuous cash flow for Honghua.

As at 30 June 2021, Honghua's backlog order of drilling engineering service business amounted to a total value of approximately RMB780 million.

QUALITY MANAGEMENT AND RESEARCH & DEVELOPMENT

During the Period, Honghua has continuously optimized and improved the quality management system, and in the first half of the year, all external audits of the industry system and product certification were passed; Honghua also obtained API 6A Monogram Licenses for tees and crosses, further expanding its product range; Honghua continued to improve product quality, and effectively solve the bottleneck problems of key products through technical and process research; Honghua continuously improved its quality management capabilities, and promoted the use of advanced statistical quality analysis tools and methods; Honghua continuously strengthened the quality control of the supply chain, significantly increasing the incoming inspection success rate.

As the industry goes through the digital transformation phase, the Group has carried out research and development work regarding the intelligent upgrade of drilling and fracturing equipment. The smart drilling rig project has entered the prototype manufacturing stage with some technologies being accepted by users. In terms of unconventional oil and gas development equipment, hardware equipment and platforms for automation and informationization has been built, and the iFrac intelligent electric fracturing series software and other projects have been carried out successfully. As for the research and development of natural gas hydrate projects, the prototype for hydrate pilot production technology and exploitation, a project in the key research plan of the Ministry of Science and Technology in 2018 undertaken by Honghua, passed the quality examination; the research and development and construction of the prototype for hydrate crushing and separation technology and equipment, a project under the main research plan of the Ministry of Science and Technology in 2020, were completed. In the field of deep-sea mineral resources, China's first automatic pipe processing system for deep-sea mining vessels was delivered to the owner from China Ocean Mineral Resources R&D Association; the basic design of the self-developed submarine lifting system was completed. In addition, Honghua's "Vertical Lifting Rig" project won the 22nd China Patent Excellence Award issued by the State Intellectual Property Office.

As at 30 June 2021, the Group has applied for 49 new patents, including 7 authorized patents and 7 invention patents.

HUMAN RESOURCES MANAGEMENT

During the Period, Honghua has continuously improved its human resource structure and talent training. As at 30 June 2021, the total number of employees of Honghua reached 3,282, representing a decrease of 12.7% as compared with the same period of Previous Year. The research and development department employed 668 personnel, down 4.2% from the same period of Previous Year. In the first half of the year, Honghua mainly increased the talent reserve for product research and development, process design, production operation and other positions, in electrical, automation and mechanical fields. In terms of employee training programs, in the first half of 2021, the Group organized a total of over 300 training programs, with a focus on supply chain system management, enterprise operation and management skills improvement and business professional skills. Honghua has established Honghua College, an online knowledge management platform, to build a learning organization.

In the second half of 2021, Honghua will further improve talent development for "14th Five-Year Plan", promote the talent introduction plan, and improve the construction of internal trainer teams and curriculum system. In the future, the Group will continuously introduce and build a pool of professional and technical talents and multidisciplinary talents in electrical engineering, automation, intelligentization, well completion, etc., and focus on industry development to achieve strategic business objectives.

OUTLOOK

In the second half of 2021, supply and demand in the oil and gas market will be in a tight equilibrium due to expected subdued production growth from OPEC+, slow recovery of shale oil and gas production in the United States and recovery of oil and gas demand. As oil prices remain at mid-high levels, upstream capital expenditure is expected to recover gradually, and the equipment market that lags behind the recovery of the oil price will rebound in the near term. Honghua will continue to fully play the role of a leading drilling rig company, and promote the transformation and sales growth of complete drilling rigs product set overseas from the aspects of service and equipment upgrading. In the second half of the year, with the successive commencement of operations of overseas oil service orders, the Company is expected to generate long-term and stable cash flow.

Due to the needs of the global energy transition, the economic efficiency, operating efficiency and intelligence of equipment in the oil and gas industry need to be further improved. With its technological research and development advantages, Honghua will accelerate the automation and intelligent iteration of drilling and fracturing equipment, actively promote the sales of new products including the "one-key connection" automatic machine tool system, electric coiled tubing and new-generation five-cylinder pumps, and further consolidate its leading position in the drilling rig and fracturing markets. In response to China's goal of reaching carbon emissions peak, carbon neutrality and national energy security, Honghua will seize the opportunities arising from the development of the unconventional oil and gas market in China, enhance all-electric fracturing equipment and services, and focus on shale oil and other markets with great development potential. Honghua will continue to expand business in the wind power industry in China and promote the development of the offshore wind power industry chain.

In addition, based on its business development and management, Honghua will make efforts to address historical risks, continuously promote supply chain optimization, improve asset operation efficiency, enhance management and control of trade receivables and inventories, strengthen operating cash flow evaluation, and improve its free cash flow.

FINANCIAL REVIEW

During the Period, the Group's gross profit and loss attributable to shareholders of the Company amounted to approximately RMB318 million and RMB73 million respectively, and gross margin and net loss margin amounted to approximately 20.5% and 4.7% respectively. In the same period of Previous Year, the gross profit and profit attributable to shareholders of the Company amounted to approximately RMB608 million and RMB31 million respectively, and gross margin and net profit margin amounted to approximately 33.6% and 1.7% respectively. The loss attributable to shareholders of the Company is primarily due to the combined impact of the COVID-19 pandemic and the fluctuation in the international oil price. Major international oil companies made huge cuts in their capital expenditure. The exports of petroleum equipment (especially drilling rigs) of the Group which had advantages traditionally bore the brunt in terms of number of orders, thus the operating revenue still recorded a year-on-year decrease despite our proactive adjustment to the business structure during the year.

Turnover

During the Period, the Group's revenue amounted to approximately RMB1,552 million, representing a decrease of 14.1% from RMB1,807 million for the same period of Previous Year. Due to the influence of the COVID-19 epidemic, overseas orders for rigs and business performance in international markets decreased, resulting in a decrease compared with the same period of Previous Year.

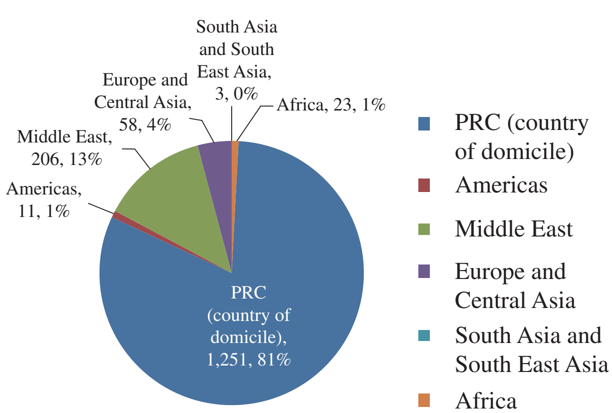
(i) Revenue by geographical locations

The Group's revenue by geographical segment during the Period: (1) revenue generated from the PRC amounted to approximately RMB1,251 million, accounting for approximately 80.6% of the total revenue, representing an increase of RMB249 million as compared with the same period of Previous Year; (2) The Group's export revenue amounted to approximately RMB301 million, accounting for approximately 19.4% of the total revenue, representing a decrease of RMB504 million as compared with the same period of Previous Year.

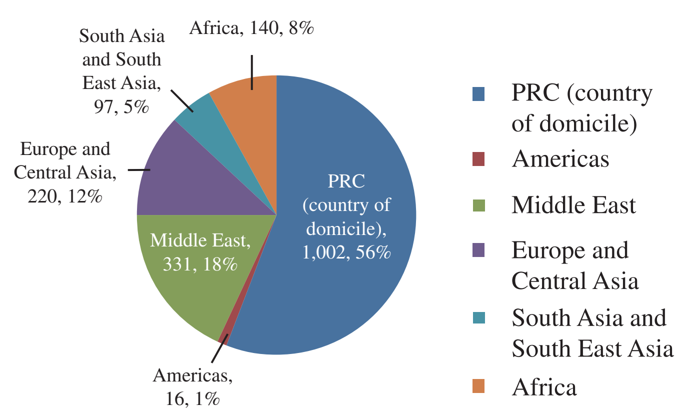
The regional distribution of the Group's sales revenue is influenced by the changes of oil and gas exploitation activities in various regions of the world. The Group continues to adhere to technological innovation, improve the quality of products and services and strictly control operating costs. At the same time, the Group adheres to promote sustained growth in the domestic market and become the new performance cornerstone, by continuously expanding the domestic market, the domestic shale gas market and offshore wind power projects.

Revenue by geographical locations

Six months ended 30 June 2021
(Expressed in RMB'million)



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



(ii) Revenue by operating segments

The Group's business are divided into four segments, namely, land drilling rigs, parts and components and others, drilling engineering service business and fracturing business.

During the Period, external revenue from land drilling rigs amounted to approximately RMB56 million, representing a decrease of RMB563 million or 91.0% as compared to approximately RMB619 million in the same period of Previous Year.

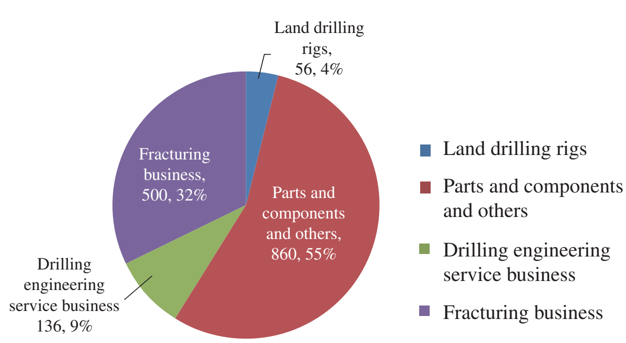
During the Period, external revenue from parts and components and others amounted to approximately RMB860 million, representing an increase of RMB390 million or 83.0% as compared to approximately RMB470 million in the same period of Previous Year.

During the Period, external revenue from drilling engineering service business amounted to approximately RMB136 million, representing a decrease of RMB46 million or 25.3% as compared to approximately RMB182 million in the same period of Previous Year.

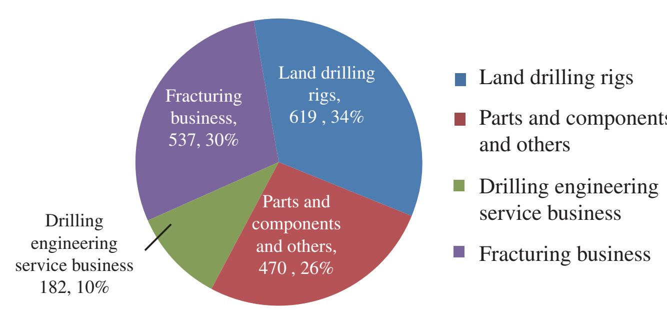
During the Period, revenue from fracturing business amounted to approximately RMB500 million, representing a decrease of RMB37 million or 6.9% as compared to approximately RMB537 million in the same period of Previous Year.

Revenue by operating segments

Six months ended 30 June 2021
(Expressed in RMB'million)



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



Cost of Sales

During the Period, the Group's cost of sales amounted to approximately RMB1,233 million, representing an increase of RMB34 million or approximately 2.8% as compared to RMB1,199 million in the same period of Previous Year. The group continues to promote cost-cutting and efficiency-improving work, strictly control cost and expenses, and optimize the cost structure. However, due to the impact of the group's business structure adjustment, the increase in the proportion of products with low gross margins led to an increase in the cost of sales.

Gross Profit and Gross Margin

During the Period, the Group's gross profit amounted to approximately RMB318 million, representing a decrease of RMB290 million or 47.6% as compared to RMB608 million in the same period of Previous Year.

During the Period, the Group's overall gross margin was 20.5%, representing a decrease of 13.1% as compared with the same period last year of 33.6%. These were mainly due to the restructuring of the group's business and the decrease in drilling rig sales.

Expenses in the Period

During the Period, the Group's distribution expenses amounted to approximately RMB84 million, representing a decrease of RMB38 million or 31.1% as compared to RMB122 million in the same period of Previous Year. This was mainly due to the decrease in related project expenses affected by decrease in sales revenues.

During the Period, the Group's administrative expenses amounted to approximately RMB252 million, representing a decrease of RMB26 million or 9.4% as compared to RMB278 million in the same period of Previous Year. This was mainly due to the continuing effect of the Group's cost-cutting and efficiency-improving measures and the strict control and management of administrative expenses.

During the Period, the Group's net finance expenses amounted to approximately RMB55 million, representing a decrease of RMB55 million or 50.0% as compared to net finance expense of RMB110 million in the same period of Previous Year. Affected by the fluctuations of the exchange rate,the exchange income in the period increased compared with the same period of Previous Year.

Loss before Income Tax

During the Period, the Group's loss before income tax amounted to approximately RMB72 million, representing a decrease of RMB124 million or 238.5% as compared to the profit before income tax of RMB52 million in the same period of Previous Year.

Income Tax Credit

During the Period, the Group's income tax credit amounted to approximately RMB5 million, compared to the income tax expense of approximately RMB13 million in the same period of Previous Year.

Loss for the Period

During the Period, the loss for the Period amounted to approximately RMB66 million as compared to the profit of approximately RMB39 million in the same period of Previous Year. Specifically, loss attributable to equity shareholders of the Company was approximately RMB73 million, and the profit attributable to non-controlling interests was approximately RMB7 million. During the Period, the net loss margin was 4.7%, as compared to the net profit margin of 1.7% in in the same period of Previous Year.

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

During the Period, EBITDA amounted to RMB82 million, as compared to approximately RMB255 million in the same period of Previous Year. This was mainly attributable to the reduction in oversea orders and sales revenues due to the COVID-19 epidemic and the oil prices. The EBITDA margin was 5.3%, as compared to 14.1% in the same period of Previous Year.

Dividends

As at 30 June 2021, the Board does not recommend payment of interim 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 2021, the Group's bank borrowings and senior notes amounted to approximately RMB4,971 million, representing an increase of RMB486 million as compared to the amount as at 31 December 2020. Specifically, borrowings repayable within one year amounted to approximately RMB2,818 million, representing an increase of RMB563 million or 25.0%, as compared to 31 December 2020.

Deposits and Cash Flow

As at 30 June 2021, the Group's cash and cash equivalents amounted to approximately RMB542 million, representing a decrease of approximately RMB410 million as compared to 31 December 2020.

During the Period, the Group's net cash outflow from operating activities amounted to approximately RMB823 million; net cash inflow from investing activities amounted to approximately RMB36 million; and net cash inflow from financing activities amounted to approximately RMB380 million.

Assets Structure and Changes

As at 30 June 2021, the Group's total assets amounted to approximately RMB12,660 million. Specifically, current assets amounted to approximately RMB8,487 million, accounting for 67.0% of total assets, representing an increase of RMB716 million as compared to the amount as at 31 December 2020. This was mainly due to the increase in contract assets, receivables and other receivables. Non-current assets amounted to approximately RMB4,173 million, accounting for 33 % of total assets, representing a decrease of approximately RMB68 million as compared to the amount as at 31 December 2020. This was mainly due to the decreases in real estates, plant and equipment and long-term receivables.

Liabilities

As at 30 June 2021, the Group's total liabilities amounted to approximately RMB8,229 million. Specifically, current liabilities amounted to approximately RMB5,810 million, accounting for approximately 70.6% of total liabilities, representing an increase of approximately RMB640 million as compared to 31 December 2020. And non-current liabilities amounted to approximately RMB2,419 million, accounting for approximately 29.4% of total liabilities, representing an increase of approximately RMB72 million as compared to 31 December 2020. As at 30 June 2021, the Group's total liabilities/total assets ratio was 65.0%, representing an increase of 2.4 percentage points as compared to 31 December 2020.

Equity

As at 30 June 2021, the total equity amounted to approximately RMB4,431 million, representing a decrease of RMB64 million as compared to 31 December 2020. The total equity attributable to equity shareholders of the company amounted to approximately RMB4,199 million, representing a decrease of RMB71 million as compared to 31 December 2020. Non-controlling interests amounted to approximately RMB232 million, representing an increase of RMB7 million as compared to 31 December 2020. During the Period, the Group's basic loss per share was RMB1.38 cent, and diluted loss per share was RMB1.38 cent.

Capital Expenditure, Major Investment and Capital Commitments

During the Period, capital expenditure of the Group on infrastructure and technical improvements amounted to approximately RMB48 million, representing a decrease of approximately RMB73 million as compared to the same period of Previous Year.

As at 30 June 2021, the capital commitment of the Group amounted to approximately RMB5 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 2021.

AUDIT COMMITTEE

The Company has established the Audit Committee with written terms of reference in compliance with Rules 3.21 and 3.22 of the Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Company and provide advices and comments to the Board. The Audit Committee is also responsible for reviewing the compliance of the corporate governance issues, the corporate governance report and the corporate governance policy.

The Audit Committee comprised 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 2021 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 2021 to 30 June 2021, 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 was dismissed with effect from 19 March 2013. The Board shall review its own structure, size and composition (including taking into account of the board diversity policy of the Company) regularly to ensure that it has a balance of expertise, skills, experience and diversity of board members appropriate for the requirements of the business of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a set of Code for Securities Trading with terms no less exacting than that of the Model Code. After the specific enquiry made by the Company, all the Directors have confirmed that they have complied with the standards specified in both the Code for Securities Trading and the Model Code throughout the six months ended 30 June 2021.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2021

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 2021 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 2021
"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 of Previous Year"	the six months ended 30 June 2020
"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, 30 August 2021

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.