宏华集团有限公司

HONGHUA GROUP LIMITED

(incorporated in the Cayman Islands with limited liability)

Stock Code: 196

2021

INTERIM REPORT

CONTENTS

Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Non-Executive Directors

Han Guangrong
Chen Wenle

Independent Non-Executive Directors

Liu Xiaofeng
Chen Guoming
Su Mei
Poon Chiu Kwok
Chang Qing
Wei Bin

SECRETARY OF BOARD OF DIRECTORS

Zhuang Wenmin

BOARD COMMITTEES

Audit Committee

Wei Bin *(Committee Chairman)*
Liu Xiaofeng
Chen Guoming
Su Mei
Poon Chiu Kwok
Chang Qing

Remuneration Committee

Liu Xiaofeng *(Committee Chairman)*
Zhang Mi
Jin Liliang
Su Mei
Wei Bin

Strategic Investment and Risk Control Committee

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

JOINT COMPANY SECRETARIES

Zhuang Wenmin
Lee Mei Yi

LEGAL ADVISOR AS TO HONG KONG LAW

Herbert Smith Freehills

PRINCIPAL BANKERS AND NON-BANK FINANCIAL INSTITUTIONS

Bank of China Limited
Industrial Bank Co., Ltd.
Agricultural Bank of China Limited
China Citic Bank Co., Ltd.
Ping An Bank Co., Ltd.
Evergrowing Bank Co., Ltd.
Industrial and Commercial Bank of China Limited
The Export-Import Bank of China
China Development Bank
Industrial and Commercial Bank of China (Asia) Limited
China Citic Bank International Limited
China Development Fund Co., Ltd.
Shanghai Pudong Development Bank Co., Ltd.

Corporate Information

AUDITOR

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

REGISTERED OFFICE

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

HEAD OFFICE

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

PLACE OF BUSINESS IN HONG KONG

Level 54, Hopewell Centre,
183 Queen's Road East
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Ocorian Trust (Cayman) Limited
Windward 3, Regatta Office Park
PO Box 1350
Grand Cayman, KY1-1108
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

STOCK CODE

The Stock Exchange of Hong Kong Limited: 0196

WEBSITE

http://www.hh-gltd.com

Financial Highlights

OPERATING RESULTS

	Six months ended 30 June		
	2021 **RMB'000**	2020 RMB'000	Changes
Turnover	**1,551,538**	1,807,058	-14.1%
Operating (loss)/profit	**(14,775)**	173,489	-108.5%
(Loss)/profit before income tax	**(71,674)**	52,042	-237.7%
(Loss)/profit attributable to equity shareholder of the company	**(72,966)**	31,161	-334.2%
Figures per Share			
(Loss)/earnings per share-Basic (RMB cents)	**(1.38)**	0.59	-333.9%
(Loss)/earnings per share-Diluted (RMB cents)	**(1.38)**	0.59	-333.9%

FINANCIAL POSITION

	30 June 2021 **RMB'000**	31 December 2020 RMB'000	Changes
Total non-current assets	**4,172,984**	4,240,975	-1.6%
Total current assets	**8,487,465**	7,771,402	9.2%
Total assets	**12,660,449**	12,012,377	5.4%
Total current liabilities	**5,810,296**	5,170,292	12.4%
Total non-current liabilities	**2,419,187**	2,347,458	3.1%
Total liabilities	**8,229,483**	7,517,750	9.5%
Total equity	**4,430,966**	4,494,627	-1.4%

Financial Highlights (Continued)

KEY FINANCIAL RATIOS*

	Six months ended 30 June		
	2021	2020	Changes
Gross profit margin	**20.5%**	33.6%	-13.1%
Net Margin	**-4.7%**	1.7%	-6.4%
Return on average assets	**-0.6%**	0.3%	-0.9%
Return on average equity	**-1.7%**	0.7%	-2.4%

	30 June 2021	31 December 2020	Changes
Current ratio	**1.46**	1.50	-2.7%
Quick ratio	**1.19**	1.24	-4.0%
Total debt/Total assets	**39.3%**	37.3%	2.0%
Total liabilities/Total assets	**65.0%**	62.6%	2.4%

* (Loss)/earnings exclude non-controlling interests
Equity excludes non-controlling interests

MANAGEMENT DISCUSSION AND ANALYSIS

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.

Management Discussion and Analysis

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

Management Discussion and Analysis

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.

Management Discussion and Analysis

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.

Management Discussion and Analysis

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.

Management Discussion and Analysis

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.

Management Discussion and Analysis

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 and being accelerated. 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.

Management Discussion and Analysis

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.

Management Discussion and Analysis

Turnover

During the Period, the Group's revenue amounted to approximately RMB1,552 million, representing a decrease of RMB255 million or 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.

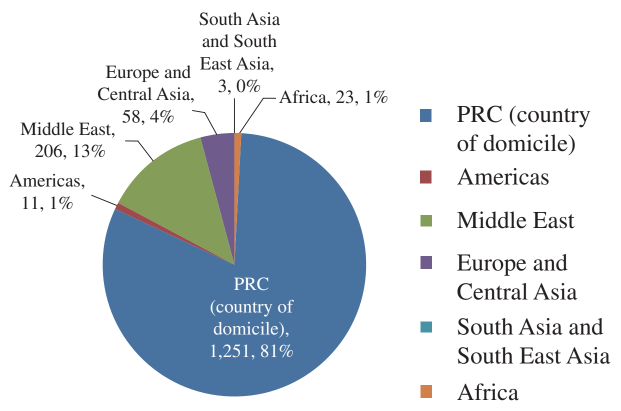
(i) Revenue by geographical locations

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.

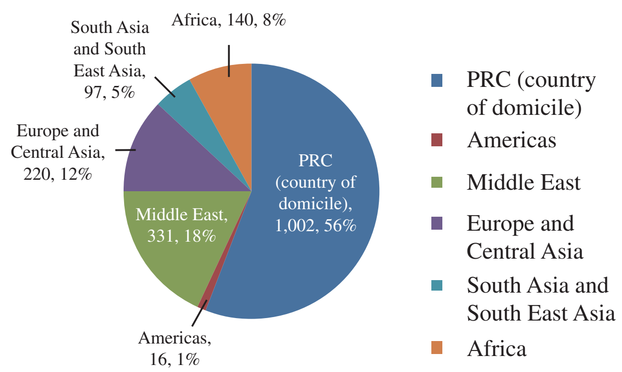
The regional distribution of the Group's sales revenue is influenced by the changes of oil and gas exploitation activities in various regions of the world. In the face of market shocks in the oil industry, the Group continues to adhere to technological innovation, improve the quality of products and services and strictly control operating costs. At the same time, leveraging CASIC's platform advantage to actively adjust the business structure, 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)



Management Discussion and Analysis

(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.

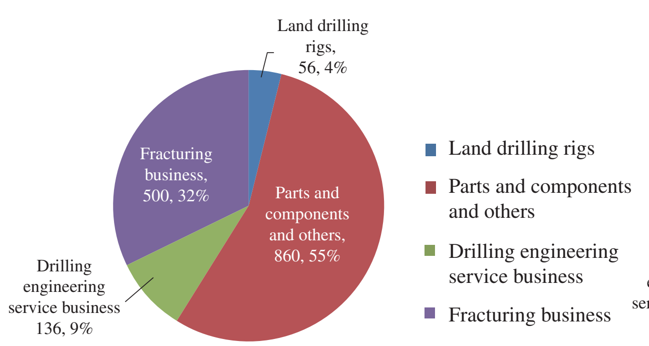
During the Period, external revenue from parts and components and others amounted to approximately RMB860 million, representing an increase of RMB390 million or 83.0% as compared to approximately RMB470 million in the same period of Previous Year.

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.

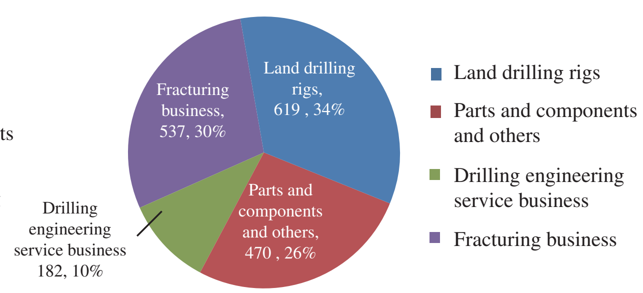
During the Period, revenue from fracturing business amounted to approximately RMB500 million, representing a decrease of RMB37 million or 6.9% as compared to approximately RMB537 million in the same period of Previous Year.

Revenue by operating segments

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



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



Management Discussion and Analysis

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.

Management Discussion and Analysis

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.

Management Discussion and Analysis

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 33.0% 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.

Corporate Governance Report

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

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

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

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

The Company has complied with the code provisions of the CG Code throughout the six months period from 1 January 2021 to 30 June 2021, except for the deviation of the Code Provision A.5.1 of the CG Code as mentioned below.

2. MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a set of code regarding Directors' dealings in the Company's securities (the "Code for Securities Trading") with terms no less exacting than that of the Model Code for Securities Transactions by Directors of Listed Issuer (the "Model Code") set out in Appendix 10 of the Listing Rules. After the specific enquiry made by the Company, all the Directors have confirmed that they have complied with the standards specified in both the Code for Securities Trading and the Model Code throughout the six months ended 30 June 2021.

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

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

Corporate Governance Report

3. INDEPENDENT NON-EXECUTIVE DIRECTORS

During the six months ended 30 June 2021, the Board at all times met the requirements of the Listing Rules relating to the appointment of independent non-executive directors representing at least one-third of the board.

The Board comprises six Independent Non-executive Directors with three of whom possessing appropriate professional qualifications or accounting or related financial management expertise, which meets the requirements of the Listing Rules relating to the appointment of independent non-executive directors representing one-third of the Board.

4. AUDIT COMMITTEE

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

The Audit Committee comprises six Independent Non-executive Directors, namely 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.

Corporate Governance Report

5. NOMINATION COMMITTEE

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

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

Report of the Directors

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

As at 30 June 2021, the interests and short positions of each Director and Chief Executive in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of the SFO), as recorded in the register required to be kept by the Company under Section 352 of Part XV of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code contained in Appendix 10 to the Listing Rules were as follows:

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

Name	Long/Short position	Nature of interest	Number of shares held	% of the issued share capital of the Company
Mr. Zhang Mi	Long	Personal interest, corporate interest and settlor of a discretionary trust	323,408,548 (1)	6.03%
Mr. Ren Jie	Long	Personal interest, corporate interest and settlor of a discretionary trust	124,530,240 (2)	2.32%
Ms. Su Mei	Long	Personal interest	150,000 (3)	0.002%

(1) Zhang Mi individually owns 3,050,000 Shares. Yi Langlin, spouse of Zhang Mi owns 2,156,000 Shares. Zhang Mi is the settlor of a discretionary trust, The ZYL Family Trust, whose trustee, through Wealth Afflux Limited, holds 318,202,548 Shares.

(2) Ren Jie individually owns 1,549,000 Shares. He is the settlor of a discretionary trust. The Trustee of The RJDJ Victory Trust owns 122,981,240 Shares.

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

Report of the Directors

(B) Share Options of the Company

Name	Long/Short Position	Number of options held – Personal interest
Mr. Zhang Mi	Long	1,190,000
Mr. Ren Jie	Long	2,885,000
Mr. Liu Xiaofeng	Long	1,450,000
Mr. Chen Guoming	Long	1,050,000

Save as disclosed above, as at 30 June 2021, none of the Directors and Chief Executives (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for Shares (or warrants or debentures, if applicable) of the Company and its associated corporations required to be disclosed pursuant to the SFO.

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

The register of substantial shareholders required to be kept under section 336 of Part XV of the SFO shows that, as at 30 June 2021, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors and Chief Executives of the Company.

		Number of shares held					
		Personal interest					
Name	Long/ Short Position	Share option	Shares Interest	Corporate interest	Corporate interest and settlor of a discretionary trust	Total	% of the issued share capital of the Company
Wealth Afflux Limited	Long	–	318,202,548	–	–	318,202,548 [1]	5.94%
Tricor Equity Trustee Limited	Long	–	–	–	919,390,005	919,390,005 [2]	17.16%
Yi Langlin	Long	–	2,156,000 322,442,548 (family interest)	–	–	324,598,548 [3]	6.06%
Kehua Technology Co., Limited	Long	–	1,606,000,000	–	–	1,606,000,000 [4]	29.98%
Shenzhen Aerospace Industry Technology Research Institute	Long	–	–	1,606,000,000	–	1,606,000,000 [4]	29.98%
China Aerospace Science and Industry Corporation Limited	Long	–	–	1,606,000,000	–	1,606,000,000 [4]	29.98%

Report of the Directors

Notes:

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

(2) Tricor Equity Trustee Limited, as the trustee of The ZYL Family Trust and the 8 other Trusts, holds 919,390,005 Shares in total.

(3) Yi Langlin, spouse of Zhang Mi, is deemed to be interested in 324,598,548 Shares in which Zhang Mi holds 1,190,000 share options.

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

Save as disclosed above, to the best of the Directors and the Chief Executives of the Company's knowledge, as at 30 June 2021, none of the persons, other than the Directors or the Chief Executives of the Company, had interests or short positions in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or recorded in the register as required under Section 336 of the SFO.

SHARE OPTION SCHEME

(A) Share Option Scheme

Upon conditional approval by resolution in writing by all shareholders of the Company on 21 January 2008, the Company adopted a share option scheme (the "Share Option Scheme"). The vesting period of the Pre-IPO Share Option Scheme is ten years from the date of grant until 20 January 2018. Details of the grant share options under the Share Option Scheme in the validity period ended 30 June 2021 were as follows:

Date of grant	Number of grant *(shares)*	Exercise price per Share *(HK$)*	Exercise period of share options	Valid period of the share options
5 April 2012	15,400,000	1.19	Up to 30% of the share options granted to each grantee from 5 April 2013 to 4 April 2014; up to 60% of the share options granted to each grantee on or before 4 April 2015; all the remaining share options granted to each grantee on or after 5 April 2015	up to 4 April 2022

Report of the Directors

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

Report of the Directors

Particulars and movements of share options under the Share Option Scheme during the six months ended 30 June 2021 were as follows:

Name or category of participant	Number of share options: Outstanding as at 01/01/2021	Granted during the six months ended 30 June 2021	Exercised during the six months ended 30 June 2021	Lapsed during the six months ended 30 June 2021	Cancelled during the six months ended 30 June 2021	Outstanding as at 30/06/2021	Date of grant (DD/MM/YY)	Exercise period (DD/MM/YY)	Exercise price per Share *HK$*	Price immediately preceding the grant date of share options *HK$*
Directors										
Mr. Zhang Mi	1,190,000	–	–	–	–	1,190,000	02/07/2014	02/07/2014-01/07/2024	1.96	1.92
Mr. Ren Jie	885,000	–	–	–	–	885,000	02/07/2014	02/07/2014-01/07/2024	1.96	1.92
	2,000,000	–	–	–	–	2,000,000	21/09/2016	21/09/2017-20/09/2026	0.44	0.435
Mr. Chen Guoming	750,000	–	–	750,000	–	–	20/06/2011	19/07/2011-19/06/2021	0.83	0.79
	550,000	–	–	–	–	550,000	24/03/2014	24/04/2014-23/03/2024	2.024	2.02
	500,000	–	–	–	–	500,000	21/09/2016	21/09/2017-20/09/2026	0.44	0.435
Mr. Liu Xiaofeng	1,000,000	–	–	1,000,000	–	–	20/06/2011	19/07/2011-19/06/2021	0.83	0.79
	750,000	–	–	–	–	750,000	24/03/2014	24/04/2014-23/03/2024	2.024	2.02
	700,000	–	–	–	–	700,000	21/09/2016	21/09/2017-20/09/2026	0.44	0.435
Sub-total	**8,325,000**	**–**	**–**	**1,750,000**	**–**	**6,575,000**				

Report of the Directors

Name or category of participant	Number of share options: Outstanding as at 01/01/2021	Granted during the six months ended 30 June 2021	Exercised during the six months ended 30 June 2021	Lapsed during the six months ended 30 June 2021	Cancelled during the six months ended 30 June 2021	Outstanding as at 30/06/2021	Date of grant (DD/MM/YY)	Exercise period (DD/MM/YY)	Exercise price per Share HK$	Price immediately preceding the grant date of share options HK$
Other										
Employee	5,543,000	–	–	5,543,000	–	–	20/06/2011	19/07/2011-19/06/2021	0.83	0.79
Employee	10,906,000	–	–	110,000	–	10,796,000	05/04/2012	05/04/2013-04/04/2022	1.19	1.20
Employee	1,900,000	–	–	–	–	1,900,000	24/03/2014	24/04/2014-23/03/2024	2.024	2.02
Employee	13,566,536	–	–	458,808	–	13,107,728	02/07/2014	02/07/2014-01/07/2024	1.96	1.92
Employee	33,302,000	–	–	500,000	–	32,802,000	21/09/2016	21/09/2017-20/09/2026	0.44	0.435
Sub-total	**65,217,536**	**–**	**–**	**6,611,808**	**–**	**58,605,728**				
Total	**73,542,536**	**–**	**–**	**8,361,808**	**–**	**65,180,728**				

(B) Share Option Scheme of 2017

The 2017 Share Option Scheme is conditionally adopted by the Shareholders at the annual general meeting proposed to be held on 14 June 2017. As at 30 June 2021, no options were granted under the 2017 Share Option Scheme.

RESTRICTED SHARE AWARD SCHEME

On 30 December 2011, the Board approved and adopted a restricted share award scheme in which Selected Participant(s) including any Employee or Director (including, without limitation, any Executive Directors, Non-executive Directors or Independent Non-executive Directors), any consultant or adviser (whether on any employment or contractual or honorary basis and whether paid or unpaid) of the Company or any member of the Group, who in the absolute opinion of the Board, have contributed to the Company or the Group. Pursuant to the Scheme Rules, existing Shares will be purchased by the Trustee from the market out of cash contributed by the Company and be held in trust for the relevant Selected Participant until such Shares are vested with the relevant Selected Participants in accordance with the Scheme Rules. The Scheme shall be effective for a term of 10 years commencing on the Adoption Date subject to any early termination as may be determined by the Board. The Board will implement the Scheme in accordance with the Scheme Rules including providing necessary funds

Report of the Directors

to the Trustee to purchase for Shares up to 5% of the issued share capital of the Company from time to time. The Selected Participant is not entitled to receive any income or distribution, such as dividend derived from the Restricted Shares allocated to him, prior to the vesting of the Restricted Shares in the Selected Participants. As at 30 June 2021, the Trustee has purchased 97,817,000 of the Company's Shares, accounting for 1.82% of the issued share capital of the Company and total of 36,917,700 shares were granted to the Selected Participants and out of which 190,000 Shares were subsequently cancelled.

Particulars and movements of the Restricted Share Award Scheme during the six months ended 30 June 2021 were as follows:

	Number of Shares					
	Outstanding as at 01/01/2021	Purchased during the six months ended 30 June 2021	Granted during the six months ended 30 June 2021	Vested during the six months ended 30 June 2021	Cancelled during the six months ended 30 June 2021	Outstanding as at 30/06/2021
Total	**61,089,300**	**–**	**–**	**–**	**–**	**61,089,300**

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or bought back any of the Company's Shares during the six months ended 30 June 2021.

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

PRC, 30 August 2021

Review Report

羅兵咸永道

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

INTRODUCTION

We have reviewed the interim financial information set out on pages 31 to 68, which comprises the interim condensed consolidated balance sheet of Honghua Group Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2021 and the interim condensed consolidated statement of profit or loss, the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 30 August 2021

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Unaudited Interim Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2021

		Unaudited Half-year	
	Notes	**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	14	**(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 interim 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 interim 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	7	**172,283**	185,008
Property, plant and equipment	8	**1,627,197**	1,736,605
Intangible assets	9	**245,938**	230,823
Debt investments	15	**39,135**	53,950
Investments accounted for using the equity method	14	**34,683**	28,785
Deferred income tax assets		**314,832**	287,900
Financial assets at fair value through other comprehensive income	17	**106,338**	89,204
Term deposit		**40,000**	40,000
Trade and other receivables	18	**766,375**	803,428
Loan to an associate and other related party	13	**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	18	**4,391,841**	3,699,407
Debt investments	15	**44,686**	43,956
Loan to an associate and other related party	13	**683,337**	683,827
Current tax recoverable		**8,126**	4,985
Financial assets at fair value through other comprehensive income	17	**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	11	**2,153,201**	2,229,719
Trade and other payables	19	**188,388**	–
Lease liabilities	7	**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	19	**2,721,142**	2,655,744
Current income tax liabilities		**52,667**	63,865
Lease liabilities	7	**18,365**	18,199
Borrowings	11	**2,818,004**	2,255,142
Provisions for other liabilities and charges	10	**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 interim condensed consolidated balance sheet should be read in conjunction with the accompanying notes.

Unaudited Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2021

	Unaudited											
	Attributable to owners of the Company											
	Share capital *RMB'000*	Share premium *RMB'000*	Other reserve *RMB'000*	Capital reserve *RMB'000*	Surplus reserve *RMB'000*	Exchange reserve *RMB'000*	Fair value reserve *RMB'000*	Shares held for share award scheme *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
Balance at 1 January 2021	488,023	3,597,179	60,204	520,189	469,696	(308,366)	8,998	(124,618)	(441,939)	4,269,366	225,261	4,494,627
Comprehensive income												
Loss for the half-year	-	-	-	-	-	-	-	-	(72,966)	(72,966)	6,560	(66,406)
Other comprehensive income	-	-	-	-	-	2,515	-	-	-	2,515	(88)	2,427
Total comprehensive income	-	-	-	-	-	2,515	-	-	(72,966)	(70,451)	6,472	(63,979)
Transactions with owners												
Contribution from shareholder	-	-	318	-	-	-	-	-	-	318	-	318
Options lapsed under share option schemes	-	-	-	(2,641)	-	-	-	-	2,641	-	-	-
Total transactions with owners, recognised directly in equity	-	-	318	(2,641)	-	-	-	-	2,641	318	-	318
Balance at 30 June 2021	488,023	3,597,179	60,522	517,548	469,696	(305,851)	8,998	(124,618)	(512,264)	4,199,233	231,733	4,430,966

Unaudited Interim Condensed Consolidated Statement of Changes in Equity (Continued)

For the six months ended 30 June 2021

	Unaudited											
	Attributable to owners of the Company											
	Share capital *RMB'000*	Share premium *RMB'000*	Other reserve *RMB'000*	Capital reserve *RMB'000*	Surplus reserve *RMB'000*	Exchange reserve *RMB'000*	Fair value reserve *RMB'000*	Shares held for share award scheme *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
Balance at 1 January 2020	488,023	3,597,179	60,588	520,424	453,413	(263,777)	9,899	(124,618)	(475,551)	4,265,580	214,797	4,480,377
Comprehensive income												
Profit for the half-year	–	–	–	–	–	–	–	–	31,161	31,161	7,742	38,903
Other comprehensive income	–	–	–	–	–	5,733	–	–	–	5,733	860	6,593
Total comprehensive income	–	–	–	–	–	5,733	–	–	31,161	36,894	8,602	45,496
Transactions with owners												
Options lapsed under share option schemes	–	–	–	(380)	–	–	–	–	380	–	–	–
Total transactions with owners, recognised directly in equity	–	–	–	(380)	–	–	–	–	380	–	–	–
Balance at 30 June 2020	488,023	3,597,179	60,588	520,044	453,413	(258,044)	9,899	(124,618)	(444,010)	4,302,474	223,399	4,525,873

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

Unaudited Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2021

	Unaudited Half-year	
	2021	2020
	RMB'000	*RMB'000*
Cash flows from operating activities		
Cash used in operations	**(795,306)**	(556,506)
Income tax paid	**(28,184)**	(25,554)
Cash flows used in operating activities – net	**(823,490)**	(582,060)
Cash flows from investing activities		
Proceeds from financing lease as lessor	**54,104**	10,994
Payment for additions of property, plant and equipment and construction in progress	**(13,934)**	(53,577)
Dividends received	**–**	441
Proceeds on disposal of property, plant and equipment	**3,690**	8,021
Payment for additional investment to a joint venture	**–**	(9,350)
Receipts of debt investments	**13,151**	12,233
Expenditure on development projects and other intangible assets	**(23,815)**	(24,834)
Interest received	**2,832**	2,855
Cash flows generated from/(used in) investing activities – net	**36,028**	(53,217)
Cash flows from financing activities		
Repayments of borrowings	**(1,400,551)**	(997,478)
Payments of lease liabilities	**(11,905)**	(11,538)
Proceeds from borrowings	**1,902,124**	1,757,496
Interest paid	**(110,026)**	(72,176)
Cash flows generated from financing activities – net	**379,642**	676,304
Net (decrease)/increase in cash and cash equivalents	**(407,820)**	41,027
Cash and cash equivalents at the beginning of the period	**952,384**	889,802
Exchange (losses)/gains	**(2,110)**	2,604
Cash and cash equivalents at end of the period	**542,454**	933,433

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

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2021

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.

Notes to the Unaudited Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2021

2 SEGMENT AND REVENUE INFORMATION (CONTINUED)

(ii) Segment information

The table below shows the segment information and the basis on which revenue is recognised regarding the Group's reportable segments for the half-year ended 30 June 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.

Notes to the Unaudited Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2021

2 SEGMENT AND REVENUE INFORMATION (CONTINUED)

(ii) Segment information (continued)

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

Notes to the Unaudited Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2021

2 SEGMENT AND REVENUE INFORMATION (CONTINUED)

(ii) Segment information (continued)

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

	Half-year	
	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	31 December 2020
	RMB'000	*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

Notes to the Unaudited Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2021

2 SEGMENT AND REVENUE INFORMATION (CONTINUED)

(ii) Segment information (continued)

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	2020
	RMB'000	*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

Notes to the Unaudited Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2021

4 INCOME TAX (CREDIT)/EXPENSE (CONTINUED)

(i) Hong Kong

The provision for Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits of the subsidiaries of the Group incorporated in Hong Kong during the six months ended 30 June 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.

Notes to the Unaudited Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2021

4 INCOME TAX (CREDIT)/EXPENSE (CONTINUED)

(iv) Withholding tax (continued)

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 DIVIDENDS

No dividend was approved or paid in respect of the previous year during the half-year ended 30 June 2021 (half-year ended 30 June 2020: Nil).

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

Notes to the Unaudited Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2021

7 LEASES

This note provides information for leases where the Group is a lessee.

(i) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	30 June 2021 ***RMB'000***	31 December 2020 *RMB'000*
Right-of-use assets		
Lease prepayments for land use rights	**170,116**	181,447
Buildings and equipment	**2,167**	3,561
	172,283	185,008
Lease liabilities		
Current	**18,365**	18,199
Non-current	**60,397**	70,118
	78,762	88,317

There was no addition to the right-of-use assets during the six months ended 30 June 2021 (six months ended 30 June 2020: RMB2,585,000).

(ii) Amounts recognised in the statement of profit or loss

The statement of profit or loss shows the following amounts relating to leases:

	Half-year	
	2021	2020
Depreciation charge of right-of-use assets		
Lease prepayments for land use rights	**5,307**	2,297
Buildings and equipment	**1,118**	547
Interest expense (included in finance cost)	**2,370**	3,124
Expense relating to short-term and low-value assets leases (included in cost of goods sold and distribution expenses)	**8,054**	9,716

The total cash outflow for leases during the six months ended 30 June 2021 was RMB11,905,000 (six months ended 30 June 2020: RMB11,538,000).

Notes to the Unaudited Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2021

8 PROPERTY, PLANT AND EQUIPMENT

	Freehold land *RMB'000*	Buildings held for own use *RMB'000*	Plant and machinery *RMB'000*	Furniture, fittings and equipment *RMB'000*	Motor vehicles *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
At 31 December 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**

Notes to the Unaudited Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2021

9 INTANGIBLE ASSETS

	Development cost and others RMB'000
At 31 December 2020	
Cost	643,993
Accumulated amortisation and impairment	(413,170)
Net book amount	230,823
Half-year ended 30 June 2021	
Opening net book amount	**230,823**
Additions	**25,727**
Amortisation	**(10,612)**
Closing net book amount	**245,938**
At 30 June 2021	
Cost	**669,720**
Accumulated amortisation and impairment	**(423,782)**
Net book amount	**245,938**

During the half-year ended 30 June 2021, the Group capitalised development cost of approximately RMB25,682,000 (half-year ended 30 June 2020: RMB21,072,000).

10 PROVISION FOR OTHER LIABILITIES AND CHARGES

	Product warranties *RMB'000*	Compensation to shareholder *RMB'000*	Legal claims *RMB'000*	Total *RMB'000*
At 31 December 2020	**14,713**	**15,919**	**2,610**	**33,242**
Provisions during the period	**5,506**	**–**	**–**	**5,506**
Utilised during the period	**(5,794)**	**–**	**–**	**(5,794)**
Currency translation difference	**–**	**–**	**(26)**	**(26)**
At 30 June 2021	**14,425**	**15,919**	**2,584**	**32,928**

Notes to the Unaudited Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2021

11 BORROWINGS

	30 June 2021 *RMB'000*	31 December 2020 *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 (Note 16)		
– 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

Notes to the Unaudited Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2021

11 BORROWINGS (CONTINUED)

(i) As at 30 June 2021, the bank loans 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, were RMB1,021,206,000. As at 30 June 2021, the bank loans secured by cross guarantees among the Group were RMB488,000,000.

As at 31 December 2020, the bank loans 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 were RMB784,732,000.

(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**

Notes to the Unaudited Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2021

11 BORROWINGS (CONTINUED)

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.

12 EQUITY SECURITIES ISSUED

No security was issued by the Group during the half-year ended 30 June 2021 (half-year ended 30 June 2020: Nil).

13 LOAN TO AN ASSOCIATE AND OTHER RELATED PARTY

In 2018, the Group signed agreements with Jiangsu Hongjieding Energy Technology Co., Ltd. ("Jiangsu Hongjieding") and Shanghai Honghua Offshore Oil & Gas Equipment Co., Ltd. ("Honghua (Shanghai)") with the following key transaction terms and disposed offshore drilling rigs segment accordingly:

i) The Group agreed to sell its 51% equity interests in both Honghua Offshore Oil and Gas Equipment (Jiangsu) Co., Ltd. ("Honghua (Jiangsu)") and Honghua (Shanghai) for a cash consideration of RMB1 respectively;

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

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

The Group also entered debt repayment agreements with Honghua (Jiangsu) and HK Tank respectively, pursuant to which Honghua (Jiangsu) and HK Tank shall repay the existing debt, together with relevant interest to the Group after the completion of the above equities transfer. These debts are secured by the interest of above entities held by Jiangsu Hongjieding as well as the total assets of Honghua (Jiangsu) and Honghua (Shanghai). The interest of the loans to Honghua (Jiangsu) and HK Tank are 4.75% and 6% respectively. The Group recorded these debts as "loan to an associate and other related party".

As at 30 June 2021, the current loan to an associate and other related party is RMB683,337,000 (as at 31 December 2020: RMB683,827,000) and non-current loan to an associate and other related party is RMB731,035,000, which will be due after 1 year but within 3 years (as at 31 December 2020: RMB731,565,000). The Group made no provision for the credit risk during the six months ended 30 June 2021 (six months ended 30 June 2020: RMB9,331,000) and the balance of the provision for the loan to an associate and other related party was RMB72,642,000 as at 30 June 2021 (as at 31 December 2020: RMB72,663,000).

Notes to the Unaudited Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2021

14 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The carrying amount of equity-accounted investments has changed as follows in the half-year ended 30 June 2021:

	Half-year ended 30 June 2021 ***RMB'000***
Beginning of the period	**28,785**
Loss for the period	**(2,273)**
Currency translation difference	**8,171**
End of the period	**34,683**

15 DEBT INVESTMENTS AT AMORTISED COST

	30 June 2021 ***RMB'000***	31 December 2020 *RMB'000*
Loan to a joint venture	**67,585**	80,736
Loan to a third party	**17,170**	17,170
Less: provision for impairment of debt investments	**(934)**	–
	83,821	97,906
Current	**44,686**	43,956
Non-current	**39,135**	53,950
	83,821	97,906

The loan to a joint venture, Honghua (Shenzhen), is for a period of 4 years, repayable in quarterly instalments at effective annual interest rate of 7.51% per annum. The loan is repayable in full on 19 July 2023. During the six months ended 30 June 2021, the Group received repayments from Honghua (Shenzhen) with the amount of RMB13,151,000 (six months ended 30 June 2020: RMB12,233,000).

The loan to a third party is for a period of 16 months with effective annual interest rate of 6% and is repayable in full on 31 March 2021. In March and June 2021, the Group signed supplemental contracts with this third party to extend the due date to 31 December 2021. On 13 August 2021, the Group received both the principal and interest of the loan in cash.

16 RELATED-PARTY TRANSACTIONS

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

The following is a summary of the significant related party transactions carried out between the Group and its related parties in the ordinary course of business during the six months ended 30 June 2021 and 2020, and balances arising from related party transactions as at 30 June 2021 and 31 December 2020.

Notes to the Unaudited Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2021

16 RELATED-PARTY TRANSACTIONS (CONTINUED)

Name of party	Relationship
China Aerospace Science and Industry Corporation (中國航天科工集團有限公司) ("CASIC")	Shareholder
Kehua Technology Co., Limited (科華技術有限公司) ("Kehua Technology")	Shareholder
Guanghan Hongtai Business Trading Co., Ltd. (廣漢市宏泰商貿有限公司) ("Hongtai")	Hongtai is a party of which spouses of certain directors and management have equity interests
Sichuan Deep & Fast Oil Drilling Tools Co., Ltd. (四川深遠石油鑽井工具有限公司) ("Sichuan Shenyuan")	Sichuan Shenyuan is a party of which the spouse of a director has equity interests
Aerospace Science & Industry Financial Leasing Co,. Ltd. (航天科工金融租賃有限公司) ("ASIFL")	ASIFL is a joint venture of CASIC
Aerospace Science & Industry Finance CORP (航天科工財務有限責任公司) ("ASIFC")	ASIFC is a subsidiary of CASIC
Egyptian Petroleum HH Rigs Manufacturing Co. S.A.E. ("HH Egyptian Company")	Joint venture
Honghua (Shenzhen)	Joint venture
Honghua (Jiangsu)	Associate
Honghua (Shanghai)	Associate
Jiangsu Hongjieding	Jiangsu Hongjieding is controlled by a director of the Group
HK Tank	HK Tank is a subsidiary of Jiangsu Hongjieding
Aerospace Jiangnan Group Co., Ltd. (航天江南集團有限公司) ("AJG")	AJG is a subsidiary of CASIC
Aerospace Sanjiang Group Co., Ltd. (中國航天三江集團有限公司) ("ASG")	ASG is a subsidiary of CASIC
Aerospace Cloud Technology Development Co., Ltd. (航天雲網科技發展有限責任公司) ("ACTD")	ACTD is a subsidiary of CASIC
Aerospace Construction Group Co., Ltd. (中國航天建設集團有限公司) ("ACG")	ACG is a subsidiary of CASIC

Notes to the Unaudited Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2021

16 RELATED-PARTY TRANSACTIONS (CONTINUED)

(i) Significant related party transactions

	Half-year	
	2021	2020
	RMB'000	*RMB'000*
Purchases of parts and components		
– Honghua (Jiangsu)	**284,798**	–
– Other related companies	**1,859**	–
– HH Egyptian Company	**–**	267
	286,657	267
Sales of drilling rigs, parts and components and others		
– Honghua (Shenzhen) (a)	**225,682**	–
– Honghua (Jiangsu)	**3,452**	–
– HH Egyptian Company	**1,358**	9,134
– Other related companies	**582**	51
	231,074	9,185

(a) According to the agreements signed by Honghua Electric and Honghua (Shenzhen), for six months ended 30 June 2021, Honghua Electric sold products and provided upgrading services for products amounted to approximately RMB223,805,000 to Honghua (Shenzhen), meanwhile, Honghua (Shenzhen) sold those upgraded products to third party leasing companies.

Notes to the Unaudited Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2021

16 RELATED-PARTY TRANSACTIONS (CONTINUED)

(i) Significant related party transactions (continued)

After the completion of the above transactions, those third party leasing companies and Honghua Electric have entered into operating lease agreements which leased the above mentioned products to Honghua Electric, and then Honghua Electric has leased those products to third party companies.

	Half-year	
	2021	2020
	RMB'000	*RMB'000*
Detection service provided to		
– Honghua (Jiangsu)	**539**	7
Consulting service provided from		
– Honghua (Shenzhen)	**16,710**	17,288
Lease expenses		
– Honghua (Shenzhen) (b)	**215,704**	182,616

(b) Besides the related party sales transactions as disclosed above, according to the tripartite agreements signed by the Group, Honghua (Shenzhen) and ASIFL before 2020, the Group sold products amounted to approximately RMB517,241,000 to ASIFL, meanwhile, ASIFL has provided finance lease and operating lease to Honghua (Shenzhen).

According to the tripartite agreements signed by the Group, Honghua (Shenzhen) and third party leasing companies before 2020, the Group sold products amounted to approximately RMB960,177,000 to those third party leasing companies, meanwhile, those third party leasing companies have provided finance lease to Honghua (Shenzhen), and the risk and rewards of those products have been transferred to Honghua (Shenzhen).

After the completion of the above transactions, Honghua (Shenzhen) and the subsidiaries of the Group have entered into operating lease agreements which leased the above mentioned products to the subsidiaries of the Group, and then the subsidiaries of the Group have leased those products to third party companies.

For the six months ended 30 June 2021, the total operating lease expense incurred and charged to the profit or loss from the above mentioned lease agreements was approximately RMB215,704,000 (six months ended 30 June 2020: RMB182,616,000).

Notes to the Unaudited Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2021

16 RELATED-PARTY TRANSACTIONS (CONTINUED)

(i) Significant related party transactions (continued)

	Half-year	
	2021	2020
	RMB'000	*RMB'000*
Receipts of loans to related parties		
– Honghua (Shenzhen)	**13,151**	12,233
Proceeds from borrowings		
– ASIFC	**–**	180,000
Repayments of borrowings		
– ASIFC	**110,037**	372,673
Interest expense		
– ASIFC	**1,146**	11,226
– CASIC	**–**	11,457
	1,146	22,683
Interest income		
– Honghua (Shenzhen)	**2,521**	3,629
– ASIFC	**39**	6
	2,560	3,635

Compensation to shareholder

Pursuant to the agreement signed in 2020 between the Company and Kehua Technology, the Company paid compensation of RMB16,112,000 to shareholder for certain litigations and issues which cause losses and recognised the amount in profit or loss as other losses for the six months ended 30 June 2020.

Notes to the Unaudited Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2021

16 RELATED-PARTY TRANSACTIONS (CONTINUED)

(ii) Amounts due from related parties

	30 June 2021 *RMB'000*	31 December 2020 *RMB'000*
Trade		
– Joint ventures	**355,734**	222,405
– Associates	**120,186**	104,483
– Other related companies	**687**	5,111
	476,607	331,999
Non-trade		
– Associates (a)	**1,654,655**	1,359,941
– Joint ventures (b)	**413,626**	392,157
– Other related companies (a)	**102,032**	103,815
	2,170,313	1,855,913

(a) As at 30 June 2021, the current loan to an associate and other related party (Note 13) was RMB683,337,000 (as at 31 December 2020: RMB683,827,000) and non-current loan to an associate and other related party was RMB731,035,000 (as at 31 December 2020: RMB731,565,000).

(b) As at 30 June 2021, the current portion and non-current portion of debt investments to joint venture is RMB27,774,000 (as at 31 December 2020: RMB26,786,000) and RMB39,135,000 (as at 31 December 2020: RMB53,950,000) respectively (Note 15). The Group made provisions against the debt investments for the credit risk of RMB676,000 (2020:nil).

The other amounts due from other related companies are unsecured, interest-free and repayable on demand. The balance of the provision for the other amount due from related companies was RMB27,116,000 (as at 31 December 2020: RMB3,345,000).

Notes to the Unaudited Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2021

16 RELATED-PARTY TRANSACTIONS (CONTINUED)

(iii) Amounts due to related parties

	30 June 2021 ***RMB'000***	31 December 2020 *RMB'000*
Trade		
– Associates	**66,592**	7,177
– Joint ventures	**6,468**	6,531
– Other related companies	**8,395**	5,715
	81,455	19,423
Non-trade		
– Joint ventures	**3,187**	4,239
– Associates	**985**	123
– Other related companies	**40,019**	40,014
	44,191	44,376

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

(iv) Cash and cash equivalents

	30 June 2021 ***RMB'000***	31 December 2020 *RMB'000*
– ASIFC	**8,151**	9,868

Notes to the Unaudited Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2021

16 RELATED-PARTY TRANSACTIONS (CONTINUED)

(v) Borrowings

	30 June 2021 *RMB'000*	31 December 2020 *RMB'000*
– ASIFC (a)	**–**	110,037

(a) As at 31 December 2020, the loans from ASIFC bear fixed interest rate of 4.35% and 4.45% and were repaid during the six months ended 30 June 2021.

(vi) Contract liabilities

	30 June 2021 *RMB'000*	31 December 2020 *RMB'000*
– Joint ventures	**878**	–

(vii) Key management compensation

	Half-year	
	2021 *RMB'000*	2020 *RMB'000*
Basic salaries, allowances and other benefits in kind	**3,203**	10,345
Contributions to defined contribution retirement schemes	**299**	184
Discretionary bonus	**1,294**	–
	4,796	10,529

Notes to the Unaudited Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2021

17 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

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

(i) Fair value hierarchy

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

The following table presents the Group's financial assets measured and recognised at fair value at 30 June 2021 and 31 December 2020 on a recurring basis:

At 30 June 2021	**Level 1** *RMB'000*	**Level 2** *RMB'000*	**Level 3** *RMB'000*	**Total** *RMB'000*
Financial assets				
Financial assets at fair value through other comprehensive income				
– Investment in unlisted companies	**–**	**–**	**106,338**	**106,338**
– Bank acceptance bill receivables	**–**	**–**	**124,536**	**124,536**
	–	**–**	**230,874**	**230,874**

At 31 December 2020	Level 1 *RMB'000*	Level 2 *RMB'000*	Level 3 *RMB'000*	Total *RMB'000*
Financial assets				
Financial assets at fair value through other comprehensive income				
– Investment in unlisted companies	–	–	106,338	106,338
– Bank acceptance bill receivables	–	–	54,937	54,937
	–	–	161,275	161,275

There were no transfers among levels 1, 2 and 3 for the six months ended 30 June 2021 and 2020. There were no other changes in valuation techniques for the six months ended 30 June 2021 and 2020.

Notes to the Unaudited Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2021

17 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

(i) Fair value hierarchy (continued)

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

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

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

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

(ii) Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

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

Notes to the Unaudited Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2021

17 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

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

	FVOCI – Investment in unlisted companies *RMB'000*
Opening balance 31 December 2020	106,338
Changes in fair value	–
Closing balance 30 June 2021	**106,338**

	FVOCI – Bank acceptance bill receivables *RMB'000*
Opening balance 31 December 2020	54,937
Additions	121,966
Disposals	(52,367)
Closing balance 30 June 2021	**124,536**

(a) Valuation inputs

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

Notes to the Unaudited Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2021

17 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

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

(b) Valuation process

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

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

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

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

	30 June 2021 *RMB'000*	31 December 2020 *RMB'000*
Carrying amount		
Bank loans	**3,649,535**	3,041,967
Unsecured loans from related party	**–**	110,037
Senior notes	**1,321,670**	1,332,857
Fair value		
Bank loans	**3,648,371**	3,011,531
Unsecured loans from related party	**–**	110,059
Senior notes	**1,261,800**	1,278,880

Notes to the Unaudited Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2021

18 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

Notes to the Unaudited Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2021

18 TRADE AND OTHER RECEIVABLES (CONTINUED)

(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 *RMB'000*	31 December 2020 *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).

Notes to the Unaudited Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2021

19 TRADE AND OTHER PAYABLES

	30 June 2021 *RMB'000*	31 December 2020 *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

Notes to the Unaudited Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2021

20 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 condensed consolidated 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

Notes to the Unaudited Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2021

20 BASIS OF PREPARATION OF HALF-YEAR REPORT (CONTINUED)

(ii) New standards and amendments not yet effective for the financial period beginning on 1 January 2021 and not early adopted by the Group (continued)

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.

21 SEASONALITY OF OPERATIONS

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

22 COMMITMENTS

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

	30 June 2021 *RMB'000*	31 December 2020 *RMB'000*
Contracted for	**4,308**	3,479
Authorised but not contracted for	**624**	–
	4,932	3,479

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

	30 June 2021 *RMB'000*	31 December 2020 *RMB'000*
Within 1 year	**258,192**	5,897
After 1 year but within 5 years	**8,792**	–
	266,984	5,897

Notes to the Unaudited Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2021

23 CONTINGENCIES

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

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

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

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

On 17 May 2019, Honghua (Jiangsu) filed an appeal to Shanghai Maritime Court and requested to terminate the purchase agency contract with the Plaintiff as there was serious quality problem on the equipment and materials purchased by Honghua (Jiangsu) from the Plaintiff, which resulted the progress of the shipbuilding was delayed.

On 7 November 2019, the first judgement was issued by Shanghai Maritime Court of Appeals that Honghua (Jiangsu) should pay an aggregate amount of RMB336,621,000 and the late payment penalty thereon from 15 February 2018 which is calculated at 1.3 times of the Renminbi benchmark loan interest rate for financial institutions of the same terms published by the People's Bank of China up to the date of actual payment.

On 11 November 2019, Honghua (Jiangsu) and the Group filed an appeal to the Shanghai Higher People's Court. The judgement was made on 24 December 2020 and it upheld the result of the first judgement.

On 17 June 2021, the Plaintiff, Honghua (Jiangsu) and Honghua China signed a tripartite agreement and agreed that Honghua (Jiangsu) should pay an aggregate amount of RMB336,621,000 by instalments within 3 years.

宏华集团有限公司
HONGHUA GROUP LIMITED