宏华集团
HONGHUA GROUP

Honghua Group Limited
宏華集團有限公司

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

(Stock code: 0196)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2022

FINANCIAL HIGHLIGHT

	Six months ended 30 June		
	2022	2021	Changes
	(Unaudited)	(Unaudited)	
Turnover *(RMB'000)*	**1,509,177**	1,551,538	-2.7%
Gross profit *(RMB'000)*	**(71,172)**	318,471	-122.3%
Gross profit margin *(%)*	**(4.7%)**	20.5%	-25.2 percentage points
Operating loss *(RMB'000)*	**(416,369)**	(14,775)	2,718.1%
Loss attributable to equity shareholders of the Company *(RMB'000)*	**(523,382)**	(72,966)	617.3%
Loss per share			
－Basic *(RMB cents)*	**(9.88)**	(1.38)	615.9%
－Diluted *(RMB cents)*	**(9.88)**	(1.38)	615.9%

The Board does not recommend payment of interim dividend for the six months ended 30 June 2022.

INTERIM RESULTS

The Board of the Company hereby announces the unaudited interim financial results of the Group for the six months ended 30 June 2022, together with the comparative figures for the corresponding period in 2021. These interim results have not been reviewed or audited by the Company's auditors but have been reviewed by the Company's Audit Committee, which comprises solely the independent non-executive Directors, one of whom chairs the Audit Committee.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2022

		Unaudited Half-year	
		2022	2021
	Notes	***RMB'000***	*RMB'000*
Revenue	*2*	**1,509,177**	1,551,538
Cost of sales		**(1,580,349)**	(1,233,067)
Gross (loss)/profit		**(71,172)**	318,471
Distribution expenses		**(111,867)**	(83,557)
Administrative expenses		**(231,179)**	(251,746)
Net impairment losses on financial assets and contract assets		**(98,192)**	(69,389)
Other income,net		**32,783**	62,396
Other gains, net		**63,258**	9,050
Operating loss	*3*	**(416,369)**	(14,775)
Finance income		**16,442**	54,948
Finance expenses		**(162,454)**	(109,574)
Finance expenses – net		**(146,012)**	(54,626)
Share of net loss of investments accounted for using the equity method		**(1,157)**	(2,273)
Loss before income tax		**(563,538)**	(71,674)
Income tax credit	*4*	**14,856**	5,268
Loss for the half-year		**(548,682)**	(66,406)
Loss attributable to:			
– Owners of the Company		**(523,382)**	(72,966)
– Non-controlling interests		**(25,300)**	6,560
		(548,682)	(66,406)
Loss per share for profit attributable to the ordinary equity holders of the Company (expressed in RMB cents per share)			
Basic and diluted	*5*	**(9.88)**	(1.38)

The above condensed interim 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 2022

	Unaudited Half-year	
	2022	2021
	RMB'000	*RMB'000*
Loss for the half-year	**(548,682)**	(66,406)
Other comprehensive income		
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	**(10,285)**	2,427
Other comprehensive income for the half-year, net of tax	**(10,285)**	2,427
Total comprehensive income for the half-year	**(558,967)**	(63,979)
Total comprehensive income for the half-year attributable to:		
Owners of the Company	**(518,601)**	(70,451)
Non-controlling interests	**(40,366)**	6,472
	(558,967)	(63,979)

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 2022

	Notes	**Unaudited 30 June 2022** *RMB'000*	Audited 31 December 2021 *RMB'000*
ASSETS			
Non-current assets			
Right of use assets		**316,540**	323,561
Property, plant and equipment	*6*	**2,822,174**	2,921,864
Intangible assets		**239,912**	246,530
Debt investments		**2,606**	23,295
Investments accounted for using the equity method		**34,380**	34,037
Deferred income tax assets		**278,527**	256,730
Financial assets at fair value through other comprehensive income		**92,664**	92,664
Term deposit		**90,000**	90,000
Trade and other receivables	*8*	**814,518**	909,237
Other non-current assets		**96,007**	100,565
Total non-current assets		**4,787,328**	4,998,483
Current assets			
Inventories		**1,844,376**	1,822,660
Contract assets		**574,877**	448,825
Trade and other receivables	*8*	**3,517,305**	3,501,182
Debt investments		**11,947**	28,799
Loan to an associate and other related party		**5,182**	12,515
Current tax recoverable		**6,480**	780
Financial assets at fair value through other comprehensive income		**30,217**	26,609
Pledged bank deposits		**125,351**	204,640
Cash and cash equivalents		**347,194**	703,417
Total current assets		**6,462,929**	6,749,427
Total assets		**11,250,257**	11,747,910

UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEET
(CONTINUED)
As at 30 June 2022

	Notes	Unaudited 30 June 2022 RMB'000	Audited 31 December 2021 RMB'000
EQUITY			
Equity attributable to owners of the Company			
Share capital		**488,033**	488,023
Other reserves		**4,211,933**	4,206,583
Accumulated losses		**(1,680,819)**	(1,156,970)
		3,019,147	3,537,636
Non-controlling interests		**168,394**	208,760
Total equity		**3,187,541**	3,746,396
LIABILITIES			
Non-current liabilities			
Deferred income		**21,202**	21,779
Trade and other payables	*9*	**78,188**	136,795
Lease liabilities		**42,833**	49,697
Total non-current liabilities		**142,223**	208,271
Current liabilities			
Contract liabilities		**246,020**	154,348
Deferred income		**8,377**	10,028
Trade and other payables	*9*	**2,523,195**	2,394,391
Current income tax liabilities		**50,316**	41,877
Lease liabilities		**19,902**	18,783
Borrowings	*7*	**5,032,467**	5,145,838
Provisions for other liabilities and charges		**40,216**	27,978
Total current liabilities		**7,920,493**	7,793,243
Total liabilities		**8,062,716**	8,001,514
Total equity and liabilities		**11,250,257**	11,747,910

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

1 GENERAL INFORMATION

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

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

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

On 26 November 2021, the largest shareholder of the Company, Kehua Technology Co., Limited ("Kehua Technology"), a wholly-owned subsidiary of China Aerospace Science and Industry Corporation Limited (中國航天科工集團有限公司), entered into a gratuitous transfer agreement with Dongfang Electric International Investment Co., Ltd. ("Electric Investment Company"). According to the gratuitous transfer agreement, Kehua Technology intended to transfer its 1,606,000,000 shares of the Company (accounting for 29.98% of the total issued shares of the Company) to Electric Investment Company for nil consideration.

On 29 June 2022, Kehua Technology and Electric Investment Company completed the share transfer procedures for the transfer of 1,606,000,000 shares of the Company. After the completion of share transfer, Electric Investment Company, a wholly-owned subsidiary of Dongfang Electric Corporation (中國東方電氣集團有限公司) ("Dongfang Electric"), becomes the largest shareholder of the Company.

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 2022.

This interim condensed consolidated financial information has not been audited.

2 SEGMENT AND REVENUE INFORMATION

(i) Description of segments

The Group is a diversified group which derives its revenues and profits from a variety of sources. The Group's senior executive management is the Group's chief operating decision-maker. Management considers the business by divisions, which are organised by business lines (land drilling rigs, parts and components and others, drilling engineering services and fracturing) and geographically. In a manner consistent with the way in which information is reported internally to the Group's chief operating decision maker ("CODM") for the purposes of resource allocation and performance assessment, the Group has identified four reportable segments.

(ii) Segment information

The table below shows the segment information and the basis on which revenue is recognised regarding the Group's reportable segments for the half-year ended 30 June 2022 and 2021 respectively.

	Land drilling rigs Half-year		Parts and components and others Half-year		Drilling engineering services Half-year		Facturing Half-year		Total Half-year	
	2022	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Segment revenue	**171,579**	55,832	**729,384**	906,832	**198,865**	134,810	**443,559**	500,494	**1,543,387**	1,597,968
Inter-segment revenue	**–**	–	**(34,210)**	(46,430)	**–**	–	**–**	–	**(34,210)**	(46,430)
Revenue from external customers	**171,579**	55,832	**695,174**	860,402	**198,865**	134,810	**443,559**	500,494	**1,509,177**	1,551,538
Timing of revenue recognition										
At a point in time	**171,579**	55,832	**681,904**	851,768	**–**	–	**126,235**	270,804	**979,718**	1,178,404
Over time	**–**	–	**13,270**	8,634	**198,865**	134,810	**317,324**	229,690	**529,459**	373,134
	171,579	55,832	**695,174**	860,402	**198,865**	134,810	**443,559**	500,494	**1,509,177**	1,551,538
Reportable segment (loss)/profit	**(96,498)**	(38,822)	**(215,630)**	(41,939)	**(144,441)**	(25,102)	**(42,530)**	54,101	**(499,099)**	(51,762)

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

Given the manufacturing processes of the Group's business are in a form of vertical integration, the Group's chief operating decision maker considered segment assets and liabilities information was not relevant in assessing performance of and allocating resources to the operations segments. During the six months ended 30 June 2022, 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 to loss before income tax is provided as follows:

	Half-year	
	2022	2021
	RMB'000	*RMB'000*
Segment loss		
– for reportable segments	**(499,099)**	(51,762)
Elimination of inter-segment (profit)/loss	**(3,779)**	7,432
Segment loss derived from Group's external customers	**(502,878)**	(44,330)
Share of post-tax losses of joint ventures	**(1,157)**	(2,273)
Other income and other gains, net	**96,041**	71,446
Finance income	**16,442**	54,948
Finance expenses	**(162,454)**	(109,574)
Unallocated head office and corporate expenses	**(9,532)**	(41,891)
Loss before income tax	**(563,538)**	(71,674)

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

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

	Half-year	
	2022	2021
	RMB'000	*RMB'000*
PRC (country of domicile)	**946,650**	1,250,586
Americas	**27,980**	10,617
Middle East	**124,112**	206,808
Europe and Central Asia	**33,573**	57,889
South Asia and South East Asia	**925**	2,715
Africa	**375,937**	22,923
	1,509,177	1,551,538

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

	30 June 2022 *RMB'000*	31 December 2021 *RMB'000*
PRC (country of domicile)	**3,110,739**	3,117,061
Americas	**168**	280
Middle East	**447,513**	447,005
Europe and Central Asia	**21,161**	28,174
Africa	**34,380**	34,037
	3,613,961	3,626,557

For the half-year ended 30 June 2022, revenues of approximately RMB163,226,000 was derived from one external customer. This revenue was attributable to the sales of parts and components and others in Africa.

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.

3 OPERATING LOSS

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

	Half-year	
	2022 *RMB'000*	2021 *RMB'000*
Write down of inventories	**115,322**	14,635
Provision for impairment of financial assets	**82,485**	58,493
Provision for impairment of contract assets	**15,707**	10,896
Provision for impairment of property, plant and equipment, lease prepayment and other intangible assets	**17,646**	–
Gains on disposal of property, plant and equipment, lease prepayment and other intangible assets	**(1,660)**	(1,525)

4 INCOME TAX CREDIT

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

	Half-year	
	2022	2021
	RMB'000	*RMB'000*
Current income tax		
– Hong Kong Profits Tax (i)	**–**	(75)
– the People's Republic of China (the "PRC") (ii)	**2,376**	14,458
– Other jurisdictions (iii)	**9,787**	7,256
Deferred income tax	**(27,019)**	(26,907)
	(14,856)	(5,268)

(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 2022 and 2021.

(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 2022 and 2021, except for the following companies:

(a) Sichuan Honghua Petroleum Equipment Co., Ltd. ("Honghua Company"), Gansu Hongteng Oil & Gas Equipment Co., Ltd. ("Gansu Hongteng"), Honghua Offshore Oil and Gas Equipment (Jiangsu) Co., Ltd. ("Honghua (Jiangsu)") and Han Zheng Testing Technology Co., Ltd. ("Han Zheng Testing").

Corporate income tax ("CIT") of Honghua Company, Honghua (Jiangsu) 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 2022 and 2021. Gansu Hongteng 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 2022.

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

On 23 April 2020, State Taxation Administration issued Notice 23(2020) in respect of favourable CIT policy applicable to qualified enterprises located in western China. Honghua Electric applied and obtained an approval from in-charge tax authority under the policy for the 15% preferential CIT rate and is qualified for the 15% preferential CIT rate from 2021 to 2030.

(iii) Others

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

(iv) Withholding tax

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

The Company's directors revisited the dividend policy of the Group during the six months ended 30 June 2022 and 2021. 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.

5 LOSS PER SHARE

The calculation of basic loss per share for the half-year ended 30 June 2022 is based on the loss attributable to owners of the Company for the period of RMB523,382,000 (six months ended 30 June 2021: loss of RMB72,966,000) and the weighted average number of shares of 5,294,906,000(six months ended 30 June 2021: 5,294,906,000 shares) in issue during the period.

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

	Half-year	
	2022	2021
Loss attributable to owners of the Company *(RMB'000)*	**(523,382)**	(72,966)
Weighted average number of ordinary shares in issue *(thousands)*	**5,355,995**	5,355,995
Effect of the share award scheme *(thousands)*	**(61,089)**	(61,089)
Adjusted weighted average number of ordinary shares in issue *(thousands)*	**5,294,906**	5,294,906
Basic loss per share *(RMB cents per share)*	**(9.88)**	(1.38)

6 PROPERTY, PLANT AND EQUIPMENT

	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 2021						
Cost	1,667,865	1,750,982	659,191	93,956	127,898	4,299,892
Accumulated depreciation and impairment	(294,772)	(570,982)	(455,750)	(55,633)	(891)	(1,378,028)
Net book amount	1,373,093	1,180,000	203,441	38,323	127,007	2,921,864
Half-year ended 30 June 2022						
Opening net book amount	1,373,093	1,180,000	203,441	38,323	127,007	2,921,864
Additions	1,311	6,524	4,176	20	27,647	39,678
Transfer from investment properties	462	–	–	–	–	462
Transfer from inventory	–	21,087	423	–	–	21,510
Transfer from construction in progress	1,274	392	10,795	–	(12,461)	–
Transfer to inventory	–	(33,110)	(13,932)	–	–	(47,042)
Transfer to investment properties	(30)	–	–	–	–	(30)
Disposals	(173)	(1,824)	(2,069)	(14)	–	(4,080)
Depreciation	(48,587)	(40,004)	(33,159)	(934)	–	(122,684)
Currency translation difference	2,660	13,865	13,232	363	22	30,142
Impairment provision of fixed assets	–	(3,381)	(14,265)	–	–	(17,646)
Closing net amount	1,330,010	1,143,549	168,642	37,758	142,215	2,822,174
At 30 June 2022						
Cost	1,674,609	1,763,419	689,847	94,430	143,106	4,365,411
Accumulated depreciation and impairment	(344,599)	(619,870)	(521,205)	(56,672)	(891)	(1,543,237)
Net book amount	1,330,010	1,143,549	168,642	37,758	142,215	2,822,174

7 BORROWINGS

	30 June 2022 RMB'000	31 December 2021 RMB'000
Bank loans		
Secured (i)		
– Current portion	**1,517,925**	1,359,083
Unsecured		
– Current portion	**2,136,988**	2,480,264
Total bank loans	**3,654,913**	3,839,347
Other loans		
Senior notes (ii)		
– Current portion	**1,377,554**	1,306,491
Current borrowings	**5,032,467**	5,145,838
Total borrowings	**5,032,467**	5,145,838

(i) As at 30 June 2022, the bank loans were secured by pledged bank deposits as collateral of RMB91,590,000, letters of guarantee as collateral of RMB90,000,000, bills receivables as collateral of RMB57,454,000, trade receivables as collateral of RMB469,636,000 and 20% equity interest of Honghua Company, a subsidiary of the Group.

As at 31 December 2021, the bank loans were secured by pledged bank deposits as collateral of RMB83,592,000, letters of guarantee as collateral of RMB90,000,000, bills receivables as collateral of RMB152,856,000, trade receivables as collateral of RMB463,651,000 and 20% equity interest of Honghua Company, a subsidiary of the Group.

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

	30 June 2022 *RMB'000*	31 December 2021 *RMB'000*
Fixed rate		
Expiring within one year (bank loans and bill facilities)	**3,241,312**	3,381,860

As at 30 June 2022 and 31 December 2021, 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 2022						
Trade and other payables (i)	2,511,248	85,838	–	–	2,597,086	2,589,436
Senior notes	1,385,065	–	–	–	1,385,065	1,377,554
Borrowings (excluding senior notes)	3,753,700	–	–	–	3,753,700	3,654,913
Lease liabilities	23,088	22,192	22,145	–	67,425	62,735
Total	7,673,101	108,030	22,145	–	7,803,276	7,684,638

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 2021						
Trade and other payables (i)	2,397,708	111,085	30,296	–	2,539,089	2,530,553
Senior notes	1,356,430	–	–	–	1,356,430	1,306,491
Borrowings (excluding senior notes)	3,911,741	–	–	–	3,911,741	3,839,347
Lease liabilities	22,574	21,698	31,556	–	75,828	68,480
Total	7,688,453	132,783	61,852	–	7,883,088	7,744,871

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

8 TRADE AND OTHER RECEIVABLES

	30 June 2022	31 December 2021
	RMB'000	*RMB'000*
Trade receivables (i)	**3,005,510**	3,008,452
Bills receivable	**423,700**	574,413
Less: provision for impairment of trade receivables	**(557,748)**	(466,121)
	2,871,462	3,116,744
Amount due from related parties		
Trade	**261,571**	319,116
Non-trade	**222,232**	222,457
Less: provision for impairment of trade receivables for amount due from related parties	**(18,874)**	(17,947)
	464,929	523,626
Finance lease receivable (ii)	**157,188**	160,763
Less: provision for impairment of finance lease receivable	**(78,166)**	(78,123)
Value-added tax recoverable	**135,770**	140,689
Prepayments	**639,858**	399,466
Less: provision for prepayments	**(34,206)**	(32,679)
Other receivables	**312,892**	316,673
Less: provision for impairment of other receivables	**(137,904)**	(136,740)
	4,331,823	4,410,419
Representing:		
Current portion	**3,517,305**	3,501,182
Non-current portion	**814,518**	909,237
	4,331,823	4,410,419

(i) As at 30 June 2022 and 31 December 2021, 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 2022 RMB'000	31 December 2021 RMB'000
Within 3 months	**2,135,457**	2,325,772
3 to 12 months	**725,142**	782,534
Over 1 year	**253,560**	309,607
	3,114,159	3,417,913

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 2022, lease liabilities of RMB61,776,000 (as at 31 December 2021: RMB67,400,000) were secured by finance lease receivables of RMB59,900,000(as at 31 December 2021: RMB65,025,000).

9 TRADE AND OTHER PAYABLES

	30 June 2022 RMB'000	31 December 2021 RMB'000
Trade payables	**1,304,765**	1,354,667
Amounts due to related companies		
Trade	**186,858**	57,929
Non-trade	**51,410**	3,610
Bills payable	**439,225**	590,496
Receipts in advance	**11,947**	633
Other payables	**607,178**	523,851
	2,601,383	2,531,186
Representing:		
Current portion	**2,523,195**	2,394,391
Non-current portion	**78,188**	136,795
	2,601,383	2,531,186

As at 30 June 2022 and 31 December 2021, the ageing analysis of the trade payables and bills (including amounts due to related parties of trading in nature) is as follows:

	30 June 2022 *RMB'000*	31 December 2021 *RMB'000*
Within 3 months	**747,554**	746,413
3 to 6 months	**175,301**	353,430
6 to 12 months	**739,753**	344,259
Over 1 year	**268,240**	558,990
	1,930,848	2,003,092

10 BASIS OF PREPARATION OF HALF-YEAR REPORT

This interim condensed consolidated financial information for the half-year reporting period ended 30 June 2022 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 2021 and any public announcements made by the Group during the interim reporting period.

For the six months ended 30 June 2022, the Group reported a net loss of approximately RMB548,682,000 and an operating cash outflow of approximately RMB446,501,000. As at 30 June 2022, the Group's current liabilities exceeded its current assets by RMB1,457,564,000. At the same date, the Group's borrowings presented as current liabilities amounted to RMB5,032,467,000, including a senior note of USD200,000,000 due for repayment in August 2022 (the "Senior Notes"), while its cash and cash equivalents amounted to RMB347,194,000.

For the six months ended 30 June 2022, a subsidiary within the Group failed to meet the requirements of financial indicators agreed in certain loan contracts, which constituted the subsidiary's failure to comply certain agreed terms of the relevant loan contracts and triggered default and cross-default clauses in several other bank loan contracts within the Group (hereinafter collectively referred to as "the Default Matters").

The Default Matters caused the relevant banks and financial institutions to have rights to request the Group to immediately repay all principals and interests of the relevant borrowings. As at 30 June 2022, the balances of such borrowings under default and cross-default were RMB584,291,000 and RMB2,782,797,000, respectively, totalling RMB3,367,088,000. These balances included principals and interests of short-term borrowings and long-term borrowings due within one year amounting to RMB1,861,853,000, and principals of long-term borrowings due after 30 June 2023 as agreed in original loan contracts amounting to RMB1,505,235,000 (which have been reclassified as borrowings presented as current liabilities).

The conditions and events described in the above paragraphs may cast significant doubt on the Group's ability to continue as a going concern.

In view of such circumstances, the Directors have given careful consideration to the future liquidity and performance of the Group and its available sources of financing in assessing whether the Group will have sufficient financial sources to continue as a going concern for a period of not less than 12 months from 30 June 2022. The following plans and measures are formulated to mitigate the liquidity pressure and to improve the financial position of the Group:

(a) The Group has actively communicated with relevant banks and financial institutions to explain and clarify the causes of the Default Matters. The Directors are confident to convince the relevant banks and financial institutions not to exercise their rights to demand the Group's immediate repayment of the borrowings prior to their scheduled contractual repayment dates. The relevant banks and financial institutions have not required the Group to repay relevant borrowings immediately as of the date of reporting the financial statements.

(b) The Group is also actively negotiating with several existing banks and financial institutions on the renewal of certain borrowings due after 30 June 2022 as agreed in original loan contracts, and on the arrangement of new borrowings. Based on the good long-term business relationship between the Group and its major cooperative banks and financial institutions, the Group is confident that it will continue to obtain necessary credit lines from the banks and financial institutions and renew existing borrowings or obtaining new borrowings as and when necessary. The Group has renewed a facility agreement with a maturity date to 20 June 2023 without any requirement of financial indicators on 23 June 2022. As at 30 June 2022, the balance of undrawn facilities under this facility agreement was RMB1,070,760,000. Subsequent to 30 June 2022, the Group has renewed or obtained new borrowings totalling approximately RMB1,649,473,000, although the loan contracts for these renewed and new borrowings contain terms that cause such borrowings to be subject to immediate repayment if requested by relevant banks as a result of the Default Matters.

(c) Dongfang Electric has planned to provide financial support to the Group.

(d) The Group will take active measures to continue to promote business growth, speed up the collection of outstanding sales proceeds and other receivables, accelerate inventory turnover and control administrative costs and maintain containment of capital expenditures.

The Board of Directors of the Company have reviewed the Group's cash flow forecast prepared by management covering a period of not less than twelve months from 30 June 2022. They are of the opinion that, taking into account the plans and measures mentioned above, the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within twelve months from 30 June 2022. Accordingly, the Directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

Notwithstanding the above, material uncertainty exists as to whether the Group is able to achieve its plans and measures as described above. Whether the Group will be able to continue as a going concern would depend upon the following:

(a) the successful maintenance of a continuing and normal business relationship with the Group's existing banks and financial institutions such that no action will be taken by the relevant banks and financial institutions to exercise their contractual rights to demand immediate repayment of the relevant borrowings;

(b) the successful negotiations with the banks and financial institutions for renewal of outstanding borrowings when due for repayment or obtaining of new borrowings and facilities as and when needed;

(c) the successful and timely obtaining of adequate financial support from Dongfang Electric; and

(d) the successful and timely implementation of the plans to promote business growth, speed up the collection of outstanding sales proceeds and other receivables, accelerate inventory turnover and control costs and contain capital expenditure so as to generate adequate net operating cash inflows.

Should the Group be unable to achieve the above-mentioned plans and measures and operate as a going concern, adjustments would have to be made to write down the carrying values of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in these consolidated financial statements.

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 2022:

Standards, Amendments or Interpretations	**Subject**	**Effective for annual accounting periods beginning on or after**
Amendments to IAS 16	Property, Plant and Equipment Proceeds before intended use	1 January 2022
Amendments to IFRS 3	Reference to the Conceptual Framework	1 January 2022
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Annual Improvements	Annual Improvements to IFRS Standards 2018 – 2020	1 January 2022

The 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 2022 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 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023
Amendments to IAS 8	Definition of Accounting Estimates	1 January 2023
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
Hong Kong Interpretation 5 (2020) Presentation of Financial Statements	Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2023
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

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

11 DIVIDENDS

No dividend was approved or paid in respect of the previous year during the half-year ended 30 June 2022 (half-year ended 30 June 2021: Nil).

The board of directors of the Company does not recommend the payment of an interim dividend for the half-year ended 30 June 2022 (half-year ended 30 June 2021: Nil).

12 EVENTS OCCURRING AFTER REPORTING PERIOD

On 1 August 2022, the Company repaid the principal of the Senior Notes of amount of USD200,000,000.

MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2022, the Company's turnover was RMB1,509 million, representing a decrease of 2.7% as compared with RMB1,552 million in the corresponding period of Previous Year. Gross loss was approximately RMB71 million, representing a decrease of 122.3% as compared with RMB318 million in the corresponding period of Previous Year. The loss attributable to shareholders was approximately RMB523 million.

MARKET REVIEW

In the first half of 2022, despite a phased decline, the oil price was dramatically whipsawing with a tendency for increase, due to the energy sanctions on Russia by Europe and the United States after the conflict between Russia and Ukraine, the limited production and output capacity of the Organization of Petroleum Exporting Countries as a result of the impact of the pandemic, the influence of the Federal Reserve's interest rate hikes on the global financial and commodity markets, and the sustained growth in demand for oil with the global economic recovery. In the first half of 2022, the average price of US West Texas Intermediate (WTI) crude oil was US$101.52 per barrel, representing an increase of US$39.30 per barrel compared with the first half of 2021 or 63.17% year on year. The average price of BRENT crude oil was US$104.58 per barrel, representing an increase of US$39.35 per barrel compared with the first half of 2021 or 60.32% year on year. However, in terms of upstream investment, due to uncertainties arising out of the energy transition, most oil giants chose to be cautious and kept a balance under the capital expenditure guidance for 2022.

Domestically, the National Development and Reform Commission and the National Energy Administration jointly issued the 14th Five-Year Modern Energy System Plan on 22 march 2022, which especially emphasizes that efforts should be made to enhance the oil and gas supply capacity, oil and gas exploration and development in China, promote stable production of old oil and gas fields, and increase the production capacity construction of new areas, to ensure sustained and stable production; to actively expand the exploration and development of unconventional resources, so that oil production will be stable with a tendency for increase and return to 200 million tons in 2022 and will be stabilized for a longer period, and to accelerate the development of shale oil, shale gas and coalbed methane. The Guiding Opinions on Energy Work in 2022 issued by the National Energy Administration also proposes that efforts should be made resolutely to complete the stated objective of crude oil production returning to 200 million tons in 2022. In order to implement the 14th Five-Year Modern Energy System Plan and the "Seven-Year Action Plan" to increase the reserve and production, domestic oil companies continuously increased their investment in exploration and development funds and science and technology. In the first half of 2022, China produced 102.88 million tons of crude oil, up 4.0% year-on-year, and 109.6 billion cubic meters of natural gas, up 4.9% year-on-year.

2022 is the first year of price parity in the wind power industry. Although there was a wave of both onshore and offshore wind power installations, the demand for wind power installation remained unchanged. In March of the year, the National Energy Administration issued the Guiding Opinions on Energy Work in 2022, which proposes vigorously develop wind power and photovoltaic power. On 1 June 2022, the national "14th Five-Year Plan" for Renewable Energy Development was officially published, proposing that during the "14th Five-Year Plan" period, renewable energy including wind power will account for more than 50% of the increase in the electricity consumption in China, and wind power generation will double. As at the end of June of the year, the installed wind power capacity was approximately 340 million kw, representing a year-on-year increase of 17.2%.

On 29 June 2022, Kehua Technology Co., Limited, a wholly-owned subsidiary of China Aerospace Science and Industry Corporation Limited, which is the largest shareholder of the Group, gratuitous transferred all shares held by it in the Group, to Electric Investment Company, a wholly-owned subsidiary of China Dongfang Electric Corporation ("**Dongfang Electric**"). After copulation of the share transfer, Dongfang Electric held 29.98% of the total issued share capital of the Group and became the largest shareholder of the Group. Dongfang Electric, located in Sichuan Province, is an important state-owned backbone enterprise managed by the Central People's Government which involves national security and the lifeline of the national economy. It is also one of the largest energy equipment manufacturing enterprise groups in the world. Dongfang Electric and the Group are both energy equipment manufacturing enterprises. Both of us have conducted business cooperation for many years and complemented each other's advantages in offshore wind power, electric motor, geothermal power generation, distributed energy application and otherwise. The basic modules and basic technologies of the two companies' products are common. Our businesses are located in the same region. Both of us have similar product features and markets. Therefore, Dongfang Electric and the Group together will achieve higher synergy and have a better prospect.

BUSINESS REVIEW

During the in the first half of the year, the Group's revenue decreased due to the impact of most orders for 2021 signed in the fourth quarter failing to make a significant contribution to the revenue for the period, suspension of the oil service business as a result of Sichuan-Chongqing safety inspection, bid opening, bidding procedures and contract signature procedures being conducted in the second quarter and the third quarter for most wind power businesses, and the reduction in the operation of projects with higher risks as a result of control of internal risk control. However, there remained many highlights in terms of market expansion and industrial structure adjustment, with the gradual recovery of the number of new orders for drilling rigs, operation of 6 drilling rigs in the overseas oil service business, the stable quantity of work for pumping services with a tendency for increase, and the stable number of orders for the newly arranged specialty power business, all of which will support the Group's future transformation and upgrading.

On 1 August 2022, the Group successfully repaid the US$200 million senior notes with a coupon rate of 6.375% through low-cost on-lending, thus laying a good foundation for the Group to get ready to react to the recovery and better development of the industry.

1. DRILLING EQUIPMENT AND RELATED PRODUCT BUSINESS SEGMENT

In the first half of 2022, Honghua sold a total of 5 drilling rigs with an aggregate amount of approximately RMB172 million, representing an increase of 207.1% as compared with RMB56 million in the corresponding period of Previous Year. Total sales of parts and components amounted to RMB695 million, representing a decrease of 19.2% as compared with RMB860 million in the corresponding period of Previous Year.

During the period, the international drilling equipment business of the Group was affected to a certain extent by the continued strict control by international customers of their upstream capital expenditures in the oil and gas industry, and the impact of the Russia-Ukraine conflict on the business of the Group. The Group actively adjusted its market arrangements and increased its investment in the traditionally advantageous American market. With new products such as electric coiled tubing units, five-cylinder pumps and automatic machine tools, the Group participated in the Offshore Technology Conference in the United States in 2022. With the Middle East market as the core, the Company focused on promoting the sales of complete drilling rigs, and continuously secured drilling rig orders from new customers in Oman during the period. In China and countries that lacked oil and gas resources, the Company focused on expanding the sales of complete drilling rig products and the application of drilling equipment in non-oil and gas fields, thus making certain achievements. The Group won the bid for the low-pressure mud system in the H2396 Project which is established by the state and led by the Guangzhou Marine Geological Survey, and expanded the mud system to cover the marine engineering module and marine platform market. The Group successfully sold drilling rigs in the Japanese market for geothermal well drilling projects for the development of renewable energy.

In terms of optimization of the industrial structure, the Group implemented the marketing strategy of "machine-to-component" and actively expanded the sales of advantageous part and component products. During the period, the revenue from part and component products was RMB695 million. The Group achieved the independent sale of automatic machine tools and the bulk sale of five-cylinder pumps.

Due to the period of pending new guidance after the wave of installation for wind power projects in the second half of 2021, the new orders in the pipeline for offshore wind power projects were insufficient, leading to the revenue from the offshore wind power business decreasing by 96.2% year-on-year to RMB17 million. In the first half of 2022, the Group actively followed up the bidding for key wind power projects, and won the bid for 15 jackets. The Group is performing the contract signature process.

As at 31 July 2022, Honghua's backlog orders for drilling rigs and related products amounted to approximately RMB1,776 million. Specifically, the backlog orders for onshore drilling rigs amounted to approximately RMB665 million.

2. FRACTURING EQUIPMENT AND SERVICE BUSINESS

In the first half of 2022, a total of 16 pumping teams of the Group provided 2,572 stages of pumping services during the period, representing a increase 1.3% as compared with the corresponding period of Previous Year. The total sales of equipment and engineering services provided during the period amounted to approximately RMB443 million, representing a decrease of 11.4% compared with the RMB500 million in the corresponding period of Previous Year.

In terms of the development of unconventional oil and gas, the Group actively implements the green-driven approach and the strategy of "carbon peaking and carbon neutrality" and is committed to promoting a green, environment-friendly and low-carbon shale gas development model of simultaneously producing gas and electricity. During the period, the Group promoted the implementation of the Sichuan-Chongqing downhole fracturing construction platform project of PetroChina, which adopted "exploiting gas by using gas; simultaneously producing gas and electricity", and the dual power supply mode of gas turbine power generation + grid electricity. The Group applied the solution to the Fushun-Yongchuan Block for the first time to help customers realize the first all-electric fracturing project with simultaneous production of gas and electricity in the block. In the field of gas-fired power generation, the Group won the bid for the shale gas-fired power generation service framework contract for the well project in the Western Chongqing Block, the oil-to-gas service project for drilling rigs in Northern Xinjiang and the oil-to-gas service project for drilling rigs in the market in Northeast China.

In terms of research and development of fracturing equipment, China's first high-efficiency twin-screw electric sand conveyor independently developed by the Group passed tests at the test site of a factory. The prototype is in good working condition with a maximum sand storage volume of 120 m^3 and a maximum flow rate of 160m^3/h. The high-efficiency twin-screw electric sand conveyor passed tests and settled application problems in the fracturing market in China, including insufficient sand supply, low efficiency and failure to carry out construction under a low-temperature environment. The device is providing fracturing operation services in the Northeast China market.

The Group actively expands its specialty power business to create sources of business growth, by making use of its professional experience in the oil and gas field. During the period, the Group was engaged to design 110kV lines and 110kV substations for the first time and signed agreements for various "oil-to-electricity" service projects for drilling rigs. During the year, revenue from specialty power was RMB69 million, representing a year-on-year increase of 64.3%.

In terms of operating records, the Group completed the fracturing operation of the shale gas well with the longest horizontal section of 3,601 m in China, exceeding the previous record of 3,583 m in China. Located in the normal-pressure shale gas block, the well is less abundant in resources and more complicated in geological conditions than overpressure shale gas. The further breakthrough in terms of horizontal section for fracturing provides a new technology demonstration for the breakthrough in ultra-deep shale gas production in China. Equipment, technology and operation advantages of the Group in fracturing services were further recognized by customers.

As at 31 July 2022, Honghua's backlog orders of the fracturing business amounted to approximately RMB183 million.

3. OIL AND GAS ENGINEERING SERVICE BUSINESS

In the first half of 2022, total sales revenue from external drilling services provided by the Group was approximately RMB199 million, representing an increase of 46.3% as compared with RMB136 million in the corresponding period of Previous Year.

In terms of the domestic market, the Group adopted the strategy of "reducing the scale and creating high-quality projects", and focused on the implementation of the Chongqing shale gas drilling project and the Huangguashan drilling and fracturing integration service project, with total footage of 24,400 meters by the four operation teams. In the Huangguashan Block, the well (Huang 202H9-3) was drilled by the HH033 team at an average mechanical drilling speed of 31.06m/h, with drilling footage of 457 m in a single day, in the well section with a 16-inch large bore, thus breaking the record of drilling footage in a single day in the deep shale gas block in Huangguashan. The well is set as a benchmark on the platform by quality and efficiency improvement, and played a leading role.

In terms of overseas markets, with first-class equipment, efficient operation performance and strict safety management, the Group successively signed drilling service project contracts with Halliburton and COSL again, in Iraq, as the core market for the international operation of oil and gas engineering services. In the first half of the year, six Iraqi operation teams carried out production and operation, and generated a total revenue of RMB114 million. Despite many challenges such as high temperature, sand dust and overtime work in Zubair Oilfield, the HH029 team carried out drilling operation three days ahead of schedule, and set new records in terms of relocation, completion and drilling speed, thus receiving many commendatory letters from Halliburton, the contracting party. The HH023 team completed all relocation work in only 7 days in Missan Oilfield, which once again reflected the speed of Honghua.

As at 31 July 2022, Honghua's backlog orders of the oil and gas engineering service business amounted to approximately RMB1,209 million, including RMB428 million from domestic markets and RMB781 million from international markets.

QUALITY MANAGEMENT AND RESEARCH & DEVELOPMENT

During the Period, the Group completed the major objectives and tasks of quality work in the first half of the year with the responsibility and target of fighting for quality improvement. Firstly, the Company had its quality management system operated continuously and effectively, and passed internal and external audit and examinations. The Group continuously expanded the scope of product certification and obtained the API logo license for the API 8C power swivel PSL1. The Group newly obtained the ISO 9001 certificate for item extension for marine engineering equipment and offshore wind power steel structures. For mobile drilling rigs, the Group obtained the CUTR Declaration of Conformity (5D). Han Zheng Testing passed the CNAS review and extension review and added 29 testing standards. The Group carried out value engineering of key products in an orderly manner, and had effectively verified industrial tests of some important functions of series products such as top drive and one-key linkage, thus further improving product reliability. Honghua Electric, a subsidiary of the Group, was listed as a benchmark enterprise in terms of industrial quality in Sichuan Province in 2022.

Under the trend of digital transformation of the industry, the Group carried out research and development arrangements in respect of intelligent upgrade of drilling equipment. The research on each sub-item of the "intelligent drilling rig" was about to completion. The project as a whole was at the stage of acceptance inspection and completion. There were sales intentions for some sub-items. Industrial tests were carried out for the intelligent control system of pumping capacity and the power generation and energy storage system of the "intelligent electric fracturing system." Under the research and development of the automatic machine tool system based on "one-key linkage", the Group continuously carried out high-quality engineering research.

Honghua Group applied for 36 new patents in the first half of 2022, including 21 domestic invention patents and 6 international patents; had 61 new licensed patents, including 33 domestic invention patents and 2 international invention patents. The Group had a total of 678 patents in force, including 222 patents for inventions in force and 5 international patents in force. Sichuan Honghua was selected as one of the first enterprises with strong strength in terms of intellectual property rights in Sichuan Province.

HUMAN RESOURCES MANAGEMENT

During the period, Honghua adjusted the number of employees, the talent structure and talent quality with a focus on strategic and business plans, adhered to the market-based withdrawal mechanism and reduced the total amount of labour used. As at 30 June 2022, the total number of employees of Honghua was 2,430, representing a decrease of 25.6% as compared with the corresponding period of Previous Year. Meanwhile, according to the "keep the cage but change the bird (騰籠換鳥)" plan, the Group introduced high-quality talents through open recruitment and competition for posts. The Group adheres to the principle of hierarchical, classified and targeted training, the Group organized more than 450 training programs in the first half of 2022, including corporate governance, fiscal and taxation capabilities, risk prevention and control, expert training, market development and qualification certification, etc., to train various talents. The Group vigorously promoted the performance evaluation of leading cadres, senior experts and key talents and the daily assessment of employees, and identified high-performance and high-potential talents by talent review, title review and otherwise. The Group further improved the labor cost control mechanism, income distribution mechanism and special incentive mechanism that are closely linked to the results of operations, so as to fully stimulate the vitality of various talents.

OUTLOOK

In the domestic market, with the continuous increase in global oil prices since the first half of 2022, sticking to the bottom line of strategic safety of oil and gas and strengthening the capacity for exploration of oil and gas resources have become an important strategy bearing on the national energy safety of China. The National Energy Administration organized a conference in Beijing to promote the exploration and development of oil and gas in 2022, requiring that efforts should be made to practically improve the political stance, stick to the bottom line of strategic safety of oil and gas, and response to uncertainties of the external environment with the certainties of domestic oil and gas production and supply, and promote the implementation of oil and gas-related plans, and increase upstream investments. It is expected that in the second half of the year, with the support of the strategy of "increasing reserve and production" and the spirit of the conference, exploration and development will be further enhanced and upstream capital expenditure will increase in the oil and gas industry in China.

In the international market, Rystad Energy expects that the global upstream oil and gas capital expenditure will increase by 12% in 2022. However, under the long-term pressure from energy transition, the investment growth in the traditional upstream industry represented by oil giants will be significantly constrained, and the overall growth rate in the future is expected to be limited.

After the completion of the transfer of the equity interest, the Group formulated an operating strategy of "expanding the market externally, focusing on management internally and strengthening synergy fully." In terms of market expansion, the Group will adhere to the strategy of comprehensively balancing "cash flow, profit, revenue and quality", grasp the direction, progress and intensity of industrial adjustment, and properly achieve a dynamic balance between cash flow, benefit and scale. The Group will re-establish its competitiveness based on the standards of leading technology, excellent quality, controllable cost and first-class service. The Group will seize the opportunity from the recovery of the oil and gas industry to actively promote the large-scale sales of new products, the expansion of new overseas markets and the application of its products in new areas.

In terms of internal management, the Group carried out the change of internal organizational structure, and promoted the formation of a management structure featuring "professional concentration of business, flat management, and market-based resource allocation." While achieving flat communication and decision-making, the Group maintained organizational flexibility and streamlining of personnel. In terms of human resources management, the Group continuously promoted the research on the total amount of labour used, reduced redundant posts, and improved the evaluation and appointment system for professional posts; selected excellent members for the cadre team, carried out strict assessment and evaluation of carders, and carried out carder promotion and demotion; enhanced the research on incentive policies to ensure strong linkage between the income of employees and their performance. In the research and development area, the Group adhered to the leading strategy, continuously and deeply promoted product quality improvement and technological upgrading, actively made arrangements for green, digital and intelligent areas, maintained its leading advantage in terms of technical performance of drilling and fracturing products, and enhanced the capability of enabling the use of new technologies and rapidly incubating new industries. In terms of operation and management, the Group promoted the digital transition of operation and management, and improved delicacy management, the cost reduction and efficiency improvement potential, and risk prevention and control capabilities.

In terms of synergy, the Group is positioned as a core platform for oil and gas equipment of Dongfang Electric, a key support for relevant diversified development and an important carrier for international operation. Under the leadership of Dongfang Electric, the Group will be integrated into the development strategy of Dongfang Electric strategically, its innovative research and development system innovatively, and its "two-level marketing" system in terms of market, and its "co-creation" culture culturally.

FINANCIAL REVIEW

During the Period, the Group's gross loss and loss attributable to shareholders of the Company amounted to approximately RMB71 million and RMB523 million respectively, and gross margin and net loss margin amounted to -4.7% and 34.7% respectively. In the same period of Previous Year, the 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 20.5% and 4.7% respectively. The loss of the Offshore Segment did not improve significantly during the Period. Meanwhile, due to the impact of the Russia-Ukraine conflict on the Group's business in Ukraine and Russia and the settlement of price reductions by customers in the oil services segment, the Group made a large impairment provision, resulting in a net loss to the Company's shareholders.

Turnover

During the Period, the Group's revenue amounted to approximately RMB1,509 million, representing a decrease of RMB43 million or 2.7% from RMB1,552 million with the same period of Previous Year.

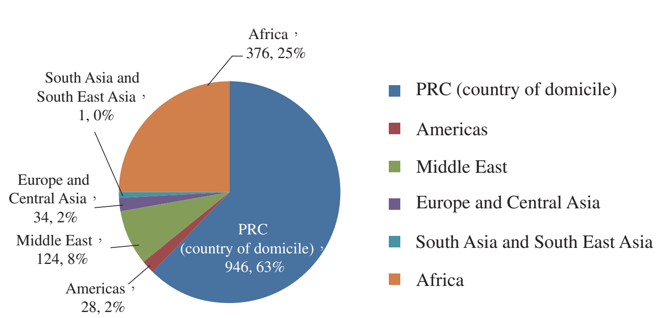
(i) Revenue by geographical locations

The Group's revenue by geographical segment during the Period: (1) revenue generated from the PRC amounted to approximately RMB947 million, accounting for approximately 62.7% of the total revenue, representing a decrease of RMB304 million as compared with the same period of Previous Year; (2) The Group's export revenue amounted to approximately RMB562 million, accounting for approximately 37.3% of the total revenue, representing an increase of RMB261 million as compared with the same period of Previous Year.

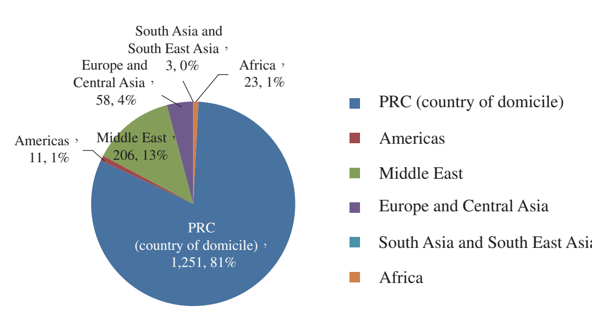
The regional distribution of the Group's sales revenue is influenced by the changes of oil and gas exploitation activities in various regions of the world. In the face of the market shock in the oil industry, the Group continues to adhere to technological innovation, improve the quality of products and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

Revenue by geographical locations

Six months ended 30 June 2022
(Expressed in RMB'million)



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



(ii) Revenue by operating segments

The Group's business is 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 RMB172 million, representing an increase of RMB116 million or 207.1% as compared to approximately RMB56 million in the same period of Previous Year.

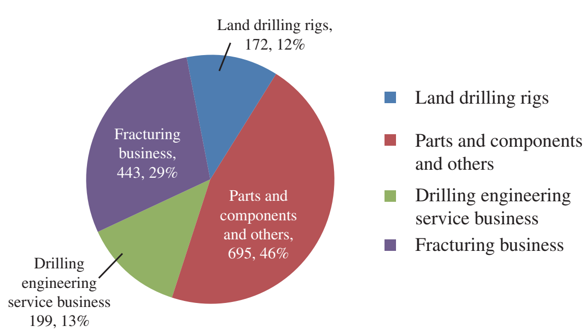
During the Period, external revenue from parts and components and others amounted to approximately RMB695 million, representing a decrease of RMB165 million or 19.2% as compared to approximately RMB860 million in the same period of Previous Year.

During the Period, external revenue from drilling engineering service business amounted to approximately RMB199 million, representing an increase of RMB63 million or 46.3% as compared to RMB136 million in the same period of Previous Year.

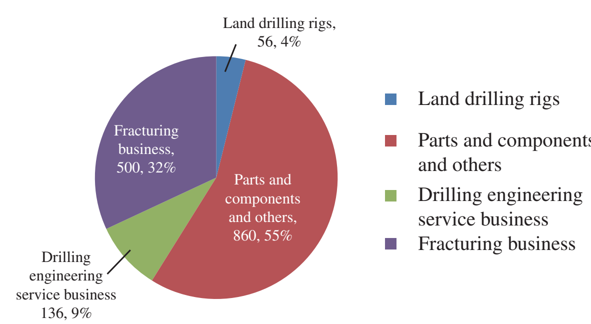
During the Period, revenue from fracturing business amounted to approximately RMB443 million, representing a decrease of RMB57 million or 11.4% as compared to approximately RMB500 million in the same period of Previous Year.

Revenue by operating segments

Six months ended 30 June 2022
(Expressed in RMB'million)



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



Cost of Sales

During the Period, the Group's cost of sales amounted to approximately RMB1,580 million, representing an increase of RMB347 million or approximately 28.1% as compared to RMB1,233 million in the same period of Previous Year. However, the increase in the proportion of products with low gross margins due to the impact of the group's business structure adjustment and the substantial asset impairment in the oil services segment led to an increase in the cost of sales.

Gross (loss)/profit and Gross Margin

During the Period, the Group's gross loss amounted to approximately RMB71 million, representing a decrease of RMB389 million or 122.3% as compared to the gross profit of RMB318 million in the same period of Previous Year.

During the Period, the Group's overall gross margin was -4.7%, representing a decrease of 25.2 percentage points as compared with the same period last year of 20.5%. These were mainly due to the restructuring of the group's business and substantial asset impairment.

Expenses in the Period

During the Period, the Group's distribution expenses amounted to approximately RMB112 million, representing an increase of RMB28 million or 33.3% as compared to RMB84 million in the same period of Previous Year. This was mainly due to the increase in expenses as the Group increased its investment due to the adjustment of the market layout to increase its market share.

During the Period, the Group's administrative expenses amounted to approximately RMB231 million, representing a decrease of RMB21 million or 8.3% as compared to RMB252 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 RMB146 million, representing an increase of RMB91 million or 165.5% as compared to net finance expense of RMB55 million in the same period of Previous Year. This was mainly due to the impact of the fluctuations in the exchange rate of RMB, the exchange loss arising from foreign currency bonds increased significantly.

Loss before Income Tax

During the Period, the Group's loss before income tax amounted to approximately RMB564 million, representing an increase in loss of RMB492 million or 683.3% as compared to the loss before income tax of RMB72 million in the same period of Previous Year.

Income Tax Credit

During the Period, the Group's income tax credit amounted to approximately RMB15 million, compared to the income tax credit of approximately RMB5 million in the same period of Previous Year.

Loss for the Period

During the Period, the loss for the Period amounted to approximately RMB549 million as compared to the loss of approximately RMB66 million in the same period of Previous Year. Specifically, loss attributable to equity shareholders of the Company was approximately RMB523 million, and the loss attributable to non-controlling interests was approximately RMB26 million. During the Period, the net loss margin was 34.7%, as compared to the net loss margin of 4.7% 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 approximately RMB-278 million, as compared to approximately RMB82 million in the same period of Previous Year. This was mainly due to the impact of the Russia-Ukraine conflict, etc., which resulted in significant impairment charges by the Group. The EBITDA loss margin was 18.4%, as compared to an EBITDA margin of 5.3% in the same period of Previous Year.

Dividends

As at 30 June 2022, the Board does not recommend distribution of interim dividends.

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 2022, the Group's bank borrowings and senior notes amounted to approximately RMB5,032 million, representing a decrease of RMB114 million as compared to the amount as at 31 December 2021. Specifically, borrowings repayable within one year amounted to approximately RMB5,032 million, representing a decrease of RMB114 million or 2.2%, as compared to 31 December 2021.

Deposits and Cash Flow

As at 30 June 2022, the Group's cash and cash equivalents amounted to approximately RMB347 million, representing a decrease of approximately RMB356 million as compared to 31 December 2021.

During the Period, the Group's net cash outflow from operating activities amounted to approximately RMB447 million; net cash inflow from investing activities amounted to approximately RMB41 million; and net cash inflow from financing activities amounted to RMB43 million.

Assets Structure and Changes

As at 30 June 2022, the Group's total assets amounted to approximately RMB11,250 million. Specifically, current assets amounted to approximately RMB6,463 million, accounting for approximately 57.4% of total assets, representing a decrease of RMB286 million as compared to the amount as at 31 December 2021. This was mainly due to the decrease in cash and cash equivalents. Non-current assets amounted to approximately RMB4,787 million, accounting for approximately 42.6% of total assets, representing a decrease of RMB211 million as compared to the amount as at 31 December 2021. This was mainly due to the decreases in real estates, plant and equipment and long-term receivables.

Liabilities

As at 30 June 2022, the Group's total liabilities amounted to approximately RMB8,062 million. Specifically, current liabilities amounted to approximately RMB7,920 million, accounting for approximately 98.2% of total liabilities, representing an increase of RMB127 million as compared to 31 December 2021. And non-current liabilities amounted to approximately RMB142 million, accounting for approximately 1.8% of total liabilities, representing a decrease of RMB66 million as compared to 31 December 2021. As at 30 June 2022, the Group's total liabilities/total assets ratio was 71.7%, representing an increase of 3.6 percentage points as compared to 31 December 2021.

Equity

As at 30 June 2022, the total equity amounted to approximately RMB3,188 million, representing a decrease of RMB558 million as compared to 31 December 2021. The total equity attributable to equity shareholders of the company amounted to approximately RMB3,020 million, representing a decrease of RMB517 million as compared to 31 December 2021. Non-controlling interests amounted to approximately RMB168 million, representing a decrease of RMB41 million as compared to 31 December 2021. During the Period, the Group's basic loss per share was RMB9.88 cents, and diluted loss per share was RMB9.88 cents.

Capital Expenditure, Major Investment and Capital Commitments

During the Period, capital expenditure of the Group on infrastructure and technical improvements amounted to approximately RMB45 million, representing a decrease of approximately RMB3 million as compared to the same period of Previous Year.

As at 30 June 2022, the capital commitment of the Group amounted to approximately RMB11 million, which was used to optimize and adjust the Group's business and production capacity.

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

Neither the Company nor any of its subsidiaries has purchased, sold or bought back any of the Company's Shares during the six months ended 30 June 2022.

AUDIT COMMITTEE

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

The Audit Committee comprises five Independent Non-executive Directors, namely Mr. Wei Bin (Chairman), Mr. Chen Guoming, Ms. Su Mei, Mr. Chang Qing and Mr. Zhang Shiju. One of Independent Non-executive Director possesses 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 2022 of the Company and the Group.

COMPLIANCE WITH THE CG CODE

During the Period, The Company has adopted and complied with the principles and code provisions as set out in the CG Code.

The Board will continue to monitor and review corporate governance practices of the Company regularly to ensure compliance with the CG Code and maintain a high standard of corporate governance practices of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a set of Code for Securities Trading with terms no less exacting than that of the Model Code. After the specific enquiry made by the Company, all the Directors have confirmed that they have complied with the standards specified in both the Code for Securities Trading and the Model Code throughout the six months ended 30 June 2022.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2022

This interim results announcement will be published on both the websites of the Company (www.hh-gltd.com) and the Stock Exchange (www.hkexnews.hk). The interim report of the Company for the six months ended 30 June 2022 will be dispatched to shareholders of the Company and published on the aforesaid websites in due course.

DEFINITION

"Audit Committee"	the audit committee of the Company
"Board"	the Board of Directors of the Company
"CG Code"	Corporate Governance Code set out in Appendix 14 to the Listing Rules
"Code for Securities Trading"	code for securities trading adopted by the Company since 21 January 2008
"Company"	Honghua Group Limited
"Directors"	directors of the Company
"Group" or "Honghua"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange (as amended from time to time)
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules
"Period"	the six months ended 30 June 2022
"PRC" or "China"	the People's Republic of China, unless the context requires otherwise, reference in this announcement of the PRC or China excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"RMB"	Renminbi, the lawful currency of the PRC

"same period last year" or "same period of Previous year"	the six months ended 30 June 2021
"Share(s)"	ordinary shares issued by the Company, with a nominal value of HK$0.10 each
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"US$"	United States of America dollars, the lawful currency of the United States of America

On behalf of the Board
Honghua Group Limited
Jin Liliang
Chairman

PRC, 30 August 2022

As at the date of this announcement, the executive directors of the Company are Mr. Jin Liliang (Chairman) and Mr. Zhu Hua; the non-executive directors of the Company are Mr. Zhang Mi and Mr. Yang Yong; and the independent non-executive directors of the Company are Mr. Chen Guoming, Ms. Su Mei, Mr. Chang Qing, Mr. Wei Bin and Mr. Zhang Shiju.