宏华集团有限公司

HONGHUA GROUP LIMITED

(incorporated in the Cayman Islands with limited liability)

Stock Code: 196

2022

Interim Report

CONTENTS

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Jin Liliang *(Chairman)*
Ren Jie (Resigned with effect from 4 July 2022)
Zhu Hua (Appointed with effect from 4 July 2022)

Non-Executive Directors

Zhang Mi (Re-designated with effect from 1 January 2022)
Chen Wenle (Resigned with effect from 4 July 2022)
Wang Xiuchang (Resigned with effect from 4 July 2022)
Yang Yong (Appointed with effect from 4 July 2022)

Independent Non-Executive Directors

Chen Guoming
Su Mei
Chang Qing
Wei Bin
Zhang Shiju (Appointed with effect from 4 July 2022)

SECRETARY OF BOARD OF DIRECTOR

Zhuang Wenmin

BOARD COMMITTEES

Audit Committee

Wei Bin *(Committee Chairman)*
Chen Guoming
Su Mei
Chang Qing
Zhang Shiju (Appointed with effect from 4 July 2022)

Remuneration Committee

Su Mei *(Committee Chairman)*
Zhang Mi (Resigned with effect from 4 July 2022)
Jin Liliang
Wei Bin
Zhang Shiju (Appointed with effect from 4 July 2022)

Nomination Committee

Jin Liliang *(Committee Chairman)*
Chang Qing
Chen Guoming (Resigned with effect from 4 July 2022)
Zhang Shiju (Appointed with effect from 4 July 2022)

Strategic Investment and Risk Control Committee

Jin Liliang *(Committee Chairman)*
Zhu Hua (Appointed with effect from 4 July 2022)
Zhang Mi
Ren Jie (Resigned with effect from 4 July 2022)
Chang Qing

JOINT COMPANY SECRETARIES

Zhuang Wenmin
Lee Mei Yi

LEGAL ADVISOR AS TO HONG KONG LAW

Herbert Smith Freehills

Corporate Information

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.
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.
Bank of Communications Co., Ltd.
Bank SinoPac Company Limited
Chengdu Rural Commercial Bank Co., Ltd.
Bank of Chengdu Co., Ltd.
Standard Chartered Bank (China) Limited

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

5/F, Manulife Place
348 Kwun Tong Road,
Kowloon
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		
	2022	2021	Changes
	RMB'000	*RMB'000*	
Turnover	**1,509,177**	1,551,538	-2.7%
Operating loss	**(416,369)**	(14,775)	2,718.1%
Loss before income tax	**(563,538)**	(71,674)	686.3%
Loss attributable to equity shareholder of the company	**(523,382)**	(72,966)	617.3%
Figures per Share			
Loss per share – Basic (RMB cents)	**(9.88)**	(1.38)	-615.9%
Loss per share – Diluted (RMB cents)	**(9.88)**	(1.38)	-615.9%

FINANCIAL POSITION

	30 June 2022	31 December 2021	Changes
	RMB'000	*RMB'000*	
Total non-current assets	**4,787,328**	4,998,483	-4.2%
Total current assets	**6,462,929**	6,749,427	-4.2%
Total assets	**11,250,257**	11,747,910	-4.2%
Total current liabilities	**7,920,493**	7,793,243	1.6%
Total non-current liabilities	**142,222**	208,271	-31.7%
Total liabilities	**8,062,715**	8,001,514	0.8%
Total equity	**3,187,542**	3,746,396	-14.9%

Financial Highlights

KEY FINANCIAL RATIOS*

	Six months ended 30 June		
	2022	2021	Changes
Gross margin	**-4.7%**	20.5%	-25.2 percentage points
Net Margin	**-34.6%**	-4.7%	-29.9 percentage points
Return on average assets	**-4.5%**	-0.6%	-3.9 percentage points
Return on average equity	**-15.9%**	-1.7%	-14.2 percentage points

	30 June 2022	31 December 2021	Changes
Current ratio	**0.82**	0.87	-5.7%
Quick ratio	**0.58**	0.63	-7.9%
Total debt/Total assets	**44.7%**	43.8%	0.9 percentage points
Total liabilities/Total assets	**71.7%**	68.1%	3.6 percentage points

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

MANAGEMENT DISCUSSION AND ANALYSIS

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.

Management Discussion and Analysis

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, the increase of 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 Dongfang Electric International Investment Co., Limited, a wholly-owned subsidiary of Dongfang Electric Corporation ("**Dongfang Electric**"). After completion 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

In the first half of 2022, 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.

Management Discussion and Analysis

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.

Management Discussion and Analysis

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 $120m^3$ 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.

Management Discussion and Analysis

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 2022, 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.

Management Discussion and Analysis

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. Adhering 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.

Management Discussion and Analysis

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 has 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 has 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.

Management Discussion and Analysis

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.

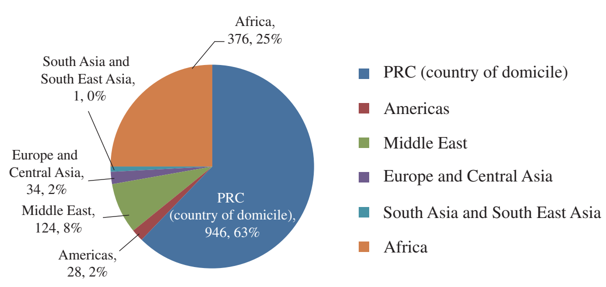
(i) Revenue by geographical locations

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.

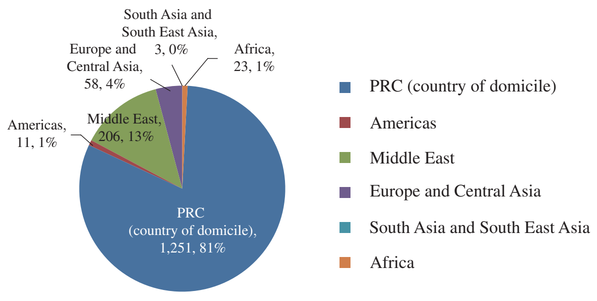
The regional distribution of the Group's sales revenue is influenced by the changes of oil and gas exploitation activities in various regions of the world. In the face of the market shock in the oil industry, the Group continues to adhere to technological innovation, improve the quality of products and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



Management Discussion and Analysis

(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.

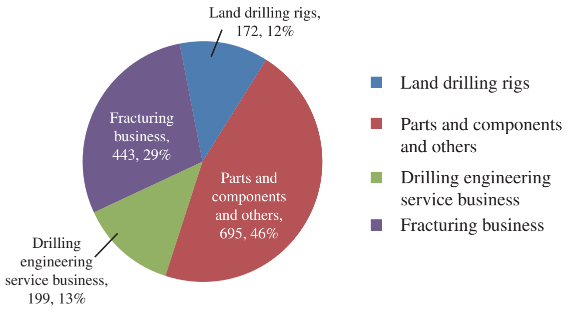
During the Period, external revenue from parts and components and others amounted to approximately RMB695 million, representing a decrease of RMB165 million or 19.2% as compared to approximately RMB860 million in the same period of Previous Year.

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.

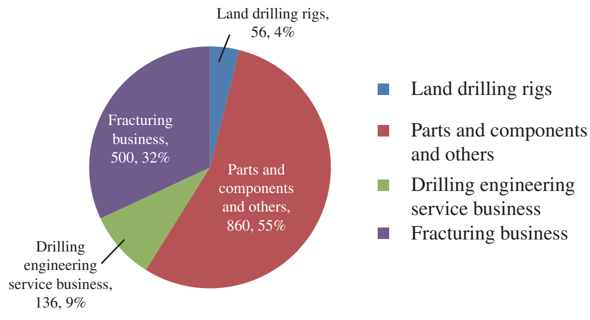
During the Period, revenue from fracturing business amounted to approximately RMB443 million, representing a decrease of RMB57 million or 11.4% as compared to approximately RMB500 million in the same period of Previous Year.

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.

Management Discussion and Analysis

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.

Management Discussion and Analysis

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.

Management Discussion and Analysis

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 approximately 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.

Corporate Governance Report

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

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

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

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

The Company has complied with the principles and code provisions of the CG Code throughout the six months period from 1 January 2022 to 30 June 2022 and will continue to review and monitor the corporate governance practices of the Company for the purpose of complying with the CG Code and maintaining a high standard of corporate governance practices of the Company.

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 the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as 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 2022.

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

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

3. INDEPENDENT NON-EXECUTIVE DIRECTORS

During the six months ended 30 June 2022, 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 currently has five Independent Non-executive Directors with one 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.

Corporate Governance Report

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 adequacy and effectiveness of the Company's financial reporting process, internal control system, risk management system and associated procedures and provide advices and comments to the Board. The Audit Committee is also responsible for reviewing the compliance of the corporate governance issues, the corporate governance report and the corporate governance policy.

The Audit Committee comprises 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 Directors 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.

5. NOMINATION COMMITTEE

The Company has established a nomination committee (the "Nomination Committee") with written terms of reference in compliance with Rule 3.27A of the Listing Rules and CG Code. The principal duties of the Nomination Committee include reviewing the Board composition, developing, formulating relevant procedures for the nomination and appointment of Directors, making recommendations to the Board on the appointment and succession planning of Directors, and assessing the independence of Independent Non-executive Directors.

The Nomination Committee comprises three members, including one Executive Director, namely Mr. Jin Liliang (Committee Chairman) and two Independent Non-executive Directors, namely Mr. Chang Qing and Mr. Zhang Shiju.

The Nomination Committee normally meets at least once a year for reviewing and making recommendation to the Board on the nomination policy, diversity policy, structure, size and composition (including skills, knowledge and experience) of the Board and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy.

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 2022, 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 (Resigned with effect from 4 July 2022)	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 RJDJ Victory 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 (Resigned with effect from 4 July 2022)	Long	2,885,000
Mr. Chen Guoming	Long	1,050,000

Save as disclosed above, as at 30 June 2022, 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 2022, 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	–	–	–	733,545,441	733,545,441[2]	13.69%
Yi Langlin	Long	–	2,156,000 322,442,548 (family interest)	–	–	324,598,548[3]	6.06%
Dongfang Electric International Investment Co., Limited	Long	–	1,606,000,000	–	–	1,606,000,000[4]	29.98%
Dongfang Electric Corporation	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 5 other Trusts, holds 733,545,441 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) Dongfang Electric International Investment Co., Limited is owned 100% by Dongfang Electric Corporation 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 2022, 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 2022 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
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

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
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 2022 were as follows:

Name or category of participant	Outstanding as at 01/01/2022	Granted during the six months ended 30 June 2022	Exercised during the six months ended 30 June 2022	Lapsed during the six months ended 30 June 2022	Cancelled during the six months ended 30 June 2022	Outstanding as at 30/06/2022	Date of grant (DD/MM/YY)	Exercise period (DD/MM/YY)	Exercise price per Share *HK$*	Price immediately preceding the grant date of share options *HK$*
	Number of share options									
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 (Resigned with effect from 4 July 2022)	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	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
Sub-total	**5,125,000**	**–**	**–**	**–**	**–**	**5,125,000**				
Other										
Employee	10,621,000	–	–	10,621,000	–	0	05/04/2012	05/04/2013-04/04/2022	1.19	1.20
Employee	2,650,000	–	–	–	–	2,650,000	24/03/2014	24/04/2014-23/03/2024	2.024	2.02
Employee	12,619,368	–	–	433,640	–	12,185,728	02/07/2014	02/07/2014-01/07/2024	1.96	1.92
Employee	32,251,000	–	–	980,000	–	31,271,000	21/09/2016	21/09/2017-20/09/2026	0.44	0.435
Sub-total	**58,141,368**	**–**	**–**	**12,034,640**	**–**	**46,106,728**				
Total	**63,266,368**	**–**	**–**	**12,034,640**	**–**	**51,231,728**				

Report of the Directors

(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 2022, 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 ("the Original Scheme"). The Original Scheme has expired at 30 December 2021 for a term of 10 years commencing on the Adoption Date. As at 30 December 2021, in accordance with the Original Scheme Rules, the Trustee has purchased 97,817,000 of the Company's Shares from the open market, 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. 61,089,300 Shares may be administered and have not yet been granted (representing 1.14% of the issued share capital of the Company).

At the Board meeting of the Company held on 29 December 2021, the Board approved the adoption of the 2021 Restricted Share Award Scheme. The 2021 Scheme shall be effective for a term of 10 years commencing on the Adoption Date (29 December 2021). The 2021 Scheme will be as an incentive to recognise the contributions by the Eligible Participants and to give incentives in order to retain them for their continuing operation and development and to attract suitable personnel for further development of the Group, and to provide them with a direct economic interest in attaining the long-term business objectives of the Group. Any individual being a director, employee, any consultant or adviser of the Company or any of its subsidiaries is entitled to participate. With the prior approval of the Board, the Trustee may purchase Shares from the market representing up to 5% of the issued share capital of the Company from time to time in accordance with the Scheme Rules (including the 61,089,300 Shares which may be administered and have not yet been granted under the Original Scheme). The Shares will 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 subject to the administration of the Board in accordance with the Scheme Rules. The Selected Participant is not entitled to receive any dividend prior to the vesting of the Restricted Shares. Details of the 2021 Restricted Share Award Scheme and the terms thereof are set out in the announcement of the Company dated 30 December 2021.

Report of the Directors

Particulars and movements of the Restricted Share Award Scheme during the six months ended 30 June 2022 were as follows:

	Number of Shares					
	Outstanding as at 01/01/2022	Purchased during the six months ended 30 June 2022	Granted during the six months ended 30 June 2022	Exercised during the six months ended 30 June 2022	Cancelled during the six months ended 30 June 2022	Outstanding as at 30/06/2022
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 2022.

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

PRC, 30 August 2022

Unaudited Interim Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2022

		Unaudited Half-year	
	Notes	**2022** **RMB'000**	2021 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	14	**(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 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 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	7	**316,540**	323,561
Property, plant and equipment	8	**2,822,174**	2,921,864
Intangible assets	9	**239,912**	246,530
Debt investments	15	**2,606**	23,295
Investments accounted for using the equity method	14	**34,380**	34,037
Deferred income tax assets		**278,527**	256,730
Financial assets at fair value through other comprehensive income	17	**92,664**	92,664
Term deposit		**90,000**	90,000
Trade and other receivables	18	**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	18	**3,517,305**	3,501,182
Debt investments	15	**11,947**	28,799
Loan to an associate and other related party	13	**5,182**	12,515
Current tax recoverable		**6,480**	780
Financial assets at fair value through other comprehensive income	17	**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	19	**78,188**	136,795
Lease liabilities	7	**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	19	**2,523,195**	2,394,391
Current income tax liabilities		**50,316**	41,877
Lease liabilities	7	**19,902**	18,783
Borrowings	11	**5,032,467**	5,145,838
Provisions for other liabilities and charges	10	**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.

Unaudited Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2022

		Unaudited											
		Attributable to owners of the Company											
	Notes	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000	Capital reserve RMB'000	Surplus reserve RMB'000	Exchange reserve RMB'000	Fair value reserve RMB'000	Shares held for share award scheme RMB'000	Accumulated losses RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2022		488,023	3,597,179	61,199	517,213	470,512	(332,989)	18,087	(124,618)	(1,156,970)	3,537,636	208,760	3,746,396
Comprehensive income													
Loss for the half-year		-	-	-	-	-	-	-	-	(523,382)	(523,382)	(25,300)	(548,682)
Other comprehensive income		-	-	-	-	-	4,781	-	-	-	4,781	(15,066)	(10,285)
Total comprehensive income		-	-	-	-	-	4,781	-	-	(523,382)	(518,601)	(40,366)	(558,967)
Transactions with owners													
Contribution from shareholder		-	-	100	-	-	-	-	-	-	100	-	100
Share issued under share option schemes		10	33	-	-	-	-	-	-	-	43	-	43
Options lapsed under share option schemes		-	-	-	-	-	-	-	-	(31)	(31)	-	(31)
Appropriation to surplus		-	-	-	-	436	-	-	-	(436)	-	-	-
Total transactions with owners, recognised directly in equity		10	33	100	-	436	-	-	-	(467)	112	-	112
Balance at 30 June 2022		488,033	3,597,212	61,299	517,213	470,948	(328,208)	18,087	(124,618)	(1,680,819)	3,019,147	168,394	3,187,541

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

For the six months ended 30 June 2022

		Unaudited											
		Attributable to owners of the Company											
	Notes	Share capital *RMB'000*	Share premium *RMB'000*	Other reserve *RMB'000*	Capital reserve *RMB'000*	Surplus reserve *RMB'000*	Exchange reserve *RMB'000*	Fair value reserve *RMB'000*	Shares held for share award scheme *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
Balance at 1 January 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

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 2022

	Unaudited Half-year	
	2022	2021
	RMB'000	*RMB'000*
Cash flows from operating activities		
Cash used in operations	**(444,782)**	(795,306)
Income tax paid	**(1,719)**	(28,184)
Cash flows used in operating activities – net	**(446,501)**	(823,490)
Cash flows from investing activities		
Proceeds from financing lease as lessor	**10,430**	54,104
Payment for additions of property, plant and equipment and construction in progress	**(11,984)**	(13,934)
Proceeds on disposal of property, plant and equipment	**6,150**	3,690
Receipts of debt investments	**38,878**	13,151
Expenditure on development projects and other intangible assets	**(5,042)**	(23,815)
Interest received	**2,465**	2,832
Cash flows generated from investing activities – net	**40,897**	36,028
Cash flows from financing activities		
Repayments of borrowings	**(1,769,268)**	(1,400,551)
Payments of lease liabilities	**(11,051)**	(11,905)
Receipts of loans from related parties	**51,000**	–
Proceeds from borrowings	**1,882,241**	1,902,124
Issue of ordinary shares	**10**	–
Interest paid	**(109,766)**	(110,026)
Cash flows generated from financing activities – net	**43,166**	379,642
Net decrease in cash and cash equivalents	**(362,448)**	(407,820)
Cash and cash equivalents at the beginning of the period	**703,417**	952,384
Exchange gains/(losses)	**6,215**	(2,110)
Cash and cash equivalents at end of the period	**347,194**	542,454

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 six months ended 30 June 2022

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 fracturing.

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) ("CASIC"), entered into a gratuitous transfer agreement with Dongfang Electric International Investment Co., Ltd. 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 Dongfang Electric International Investment Co., Ltd. for nil consideration.

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

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

For six months ended 30 June 2022

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 2022 and 2021 respectively.

	Land drilling rigs Half-year		Parts and components and others Half-year		Drilling engineering services Half-year		Fracturing Half-year		Total Half-year	
	2022 *RMB'000*	2021 *RMB'000*	**2022 *RMB'000***	2021 *RMB'000*	**2022 *RMB'000***	2021 *RMB'000*	**2022 *RMB'000***	2021 *RMB'000*	**2022 *RMB'000***	2021 *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.

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

For six months ended 30 June 2022

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 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.

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

For six months ended 30 June 2022

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	
	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	31 December 2021
	RMB'000	*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

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

For six months ended 30 June 2022

2 SEGMENT AND REVENUE INFORMATION (CONTINUED)

(ii) Segment information (continued)

For the half-year ended 30 June 2022, revenues of approximately RMB163,226,000 was derived from one external customer. This revenues 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	2021
	RMB'000	*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)

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

For six months ended 30 June 2022

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.

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

For six months ended 30 June 2022

4 INCOME TAX CREDIT (CONTINUED)

(iii) Others

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

(iv) Withholding tax

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

The Company's directors revisited the dividend policy of the Group during the six months ended 30 June 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: profit 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 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).

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

For six months ended 30 June 2022

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 2022 *RMB'000*	31 December 2021 *RMB'000*
Right-of-use assets		
Lease prepayments for land use rights	**315,396**	321,775
Buildings and equipment	**1,144**	1,786
	316,540	323,561
Lease liabilities		
Current	**19,902**	18,783
Non-current	**42,833**	49,697
	62,735	68,480

Additions to the right-of-use assets during the six months ended 30 June 2022 were RMB2,256,000 (six months ended 30 June 2021: Nil).

(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	
	2022 *RMB'000*	2021 *RMB'000*
Depreciation charge of right-of-use assets		
Lease prepayments for land use rights	**4,057**	5,307
Buildings and equipment	**858**	1,118
Interest expense (included in finance cost)	**1,878**	2,370
Expense relating to short-term and low-value assets leases (included in cost of goods sold and distribution expenses)	**7,540**	8,054

The total cash outflow for leases during the six months ended 30 June 2022 was RMB11,051,000 (six months ended 30 June 2021: RMB11,905,000).

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

For six months ended 30 June 2022

8 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**

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

For six months ended 30 June 2022

9 INTANGIBLE ASSETS

	Technical know-how *RMB'000*	Development cost and others *RMB'000*	Total *RMB'000*
At 31 December 2021			
Cost	**348,839**	**333,336**	**682,175**
Accumulated amortisation and impairment	**(348,839)**	**(86,806)**	**(435,645)**
Net book amount	**–**	**246,530**	**246,530**
Half-year ended 30 June 2022			
Opening net book amount	**–**	**246,530**	**246,530**
Additions	**–**	**5,721**	**5,721**
Amortisation	**–**	**(12,339)**	**(12,339)**
Closing net book amount	**–**	**239,912**	**239,912**
At 30 June 2022			
Cost	**–**	**339,057**	**339,057**
Accumulated amortisation and impairment	**–**	**(99,145)**	**(99,145)**
Net book amount	**–**	**239,912**	**239,912**

During the half-year ended 30 June 2022, the Group capitalised development cost of approximately RMB5,721,000 (half-year ended 30 June 2021: RMB25,682,000).

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

For six months ended 30 June 2022

10 PROVISION FOR OTHER LIABILITIES AND CHARGES

	Product warranties *RMB'000*	Compensation to shareholder *RMB'000*	Legal claims *RMB'000*	Others *RMB'000*	Total *RMB'000*
At 31 December 2021	**6,123**	**15,919**	**2,550**	**3,386**	**27,978**
Provisions during the period	**7,778**	**–**	**2,791**	**11,241**	**21,810**
Utilised during the period	**(7,022)**	**–**	**(2,550)**	**–**	**(9,572)**
At 30 June 2022	**6,879**	**15,919**	**2,791**	**14,627**	**40,216**

11 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

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

For six months ended 30 June 2022

11 BORROWINGS (CONTINUED)

(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

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

For six months ended 30 June 2022

11 BORROWINGS (CONTINUED)

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*	amount Carrying *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.

12 EQUITY SECURITIES ISSUED

No security was issued by the Group during the half-year ended 30 June 2022 (half-year ended 30 June 2021: Nil).

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

For six months ended 30 June 2022

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 interests 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".

According to the announcement dated 21 November 2021, Honghua (Jiangsu) and HK Tank informed the Group that they would be unable to repay the debts amounts due on 31 December 2021 (the "Expected Debt Default"). As the Expected Debt Default occurred, the Group decided to exercise its security rights to acquire the 51% equity interests in Honghua (Jiangsu) held by Jiangsu Hongjieding pursuant to the debt repayment agreements mentioned above.

On 16 December 2021, the acquisition was completed at a cash consideration of RMB1 and Honghua (Jiangsu) became a wholly subsidiary of the Group. On the same date, the Group had amounts due from Honghua (Jiangsu) amounted to RMB1,555,368,000 with provisions for the credit risk, including the debts amounted to RMB1,272,699,000 which were secured by 51% equity interests in Honghua (Jiangsu) held by Jiangsu Hongjieding. Up to 16 December 2021, Honghua (Jiangsu) had accumulated losses and the book value of net assets was negative, thus the carrying amount of investment in Honghua (Jiangsu) was zero. The pre-existing debtor/creditor relationship between the Group and Honghua (Jiangsu) was effectively settled and the Group increased the consideration transferred for the acquisition by RMB1,555,368,000, to account for the effective settlement of amounts due from Honghua (Jiangsu).

As at 30 June 2022, the current loan to an associate and other related party is RMB5,182,000 (as at 31 December 2021: RMB12,515,000) and the non-current loan to an associate and other related is zero (as at 31 December 2021: Nil). The Group made a provision of RMB7,721,000 for the credit risk during the six months ended 30 June 2022 (six months ended 30 June 2021: Nil) and the balance of the provision for the loan to an associate and other related party was RMB102,637,000 as at 30 June 2022 (as at 31 December 2021: RMB89,910,000).

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

For six months ended 30 June 2022

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 2022:

	Half-year ended 30 June 2022 *RMB'000*
Beginning of the period	**34,037**
Loss for the period	**(1,157)**
Currency translation difference	**1,500**
End of the period	**34,380**

15 DEBT INVESTMENTS AT AMORTISED COST

	30 June 2022 *RMB'000*	31 December 2021 *RMB'000*
Loan to a joint venture	**15,072**	53,950
Less: provision for impairment of debt investments	**(519)**	(1,856)
	14,553	52,094
Current portion	**11,947**	28,799
Non-current portion	**2,606**	23,295
	14,553	52,094

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 will be repayable in full on 19 July 2023. During the six months ended 30 June 2022, the Group received repayments from Honghua (Shenzhen) with the amount of RMB38,878,000 (six months ended 30 June 2021: RMB13,151,000).

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

For six months ended 30 June 2022

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 2022 and 2021, and balances arising from related party transactions as at 30 June 2022 and 31 December 2021.

Name of party	**Relationship**
CASIC	Shareholder (Before 29 June 2022)
Kehua Technology	Shareholder (Before 29 June 2022)
Honghua Electric	Subsidiary
Honghua (Jiangsu)	Subsidiary
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 (Shanghai)	Associate

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

For six months ended 30 June 2022

16 RELATED-PARTY TRANSACTIONS (CONTINUED)

Name of party	Relationship
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

(i) Significant related party transactions

	Half-year	
	2022	2021
	RMB'000	*RMB'000*
Purchases of parts and components		
– Honghua (Jiangsu)	**–**	284,798
– Other related companies	**359**	1,859
	359	286,657
Sales of drilling rigs, parts and components and others		
– Honghua (Shenzhen) (a)	**126,988**	225,682
– Honghua (Jiangsu)	**–**	3,452
– HH Egyptian Company	**6,586**	1,358
– Other related companies	**352**	582
	133,926	231,074

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

For six months ended 30 June 2022

16 RELATED-PARTY TRANSACTIONS (CONTINUED)

(i) Significant related party transactions (continued)

(a) According to the agreements signed by Honghua Electric and Honghua (Shenzhen), for six months ended 30 June 2022, Honghua Electric sold products and provided upgrading services for products amounted to approximately RMB126,235,000 (six months ended 30 June 2021: RMB223,805,000) to Honghua (Shenzhen), meanwhile, Honghua (Shenzhen) sold those upgraded products to third party leasing companies.

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	
	2022	2021
	RMB'000	*RMB'000*
Detection service provided to		
– Honghua (Jiangsu)	**–**	539
Consulting service provided from		
– Honghua (Shenzhen)	**5,738**	16,710
Lease expenses		
– Honghua (Shenzhen) (b)	**79,996**	215,704

(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).

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

For six months ended 30 June 2022

16 RELATED-PARTY TRANSACTIONS (CONTINUED)

(i) Significant related party transactions (continued)

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 2022, the total operating lease expense incurred and charged to the profit or loss from the above mentioned lease agreements was approximately RMB79,996,000 (six months ended 30 June 2021: RMB215,704,000).

	Half-year	
	2022	2021
	RMB'000	*RMB'000*
Receipts of loans to related parties		
– Honghua (Shenzhen)	**38,878**	13,151
Receipts of loans from related parties		
– Honghua (Shenzhen)	**51,000**	–
Repayments of borrowings		
– ASIFC	**–**	110,037
Interest expense		
– Honghua (Shenzhen)	**169**	–
– ASIFC	**–**	1,146
	169	1,146
Interest income		
– Honghua (Shenzhen)	**1,341**	2,521
– ASIFC	**23**	39
	1,364	2,560

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

For six months ended 30 June 2022

16 RELATED-PARTY TRANSACTIONS (CONTINUED)

(ii) Amounts due from related parties

	30 June 2022 ***RMB'000***	31 December 2021 *RMB'000*
Trade		
– Joint ventures	**242,403**	299,670
– Other related companies	**774**	1,499
	243,177	301,169
Non-trade		
– Associates (a)	**56**	60
– Joint ventures (b)	**218,365**	274,192
– Other related companies (a)	**5,262**	12,814
	223,683	287,066

(a) As at 30 June 2022, the loan to an associate and other related party was RMB5,182,000 (as at 31 December 2021: RMB12,515,000). The detailed information was described in Note 13.

(b) As at 30 June 2022, the current portion and non-current portion of debt investments to joint venture is RMB11,947,000 (as at 31 December 2021: RMB28,799,000) and RMB2,606,000 (as at 31 December 2021: RMB23,295,000) respectively (Note 15). The Group made provisions against the debt investments for the credit risk of RMB519,000 (as at 31 December 2021: RMB1,856,000).

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 RMB18,283,000 (as at 31 December 2021: RMB13,608,000).

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

For six months ended 30 June 2022

16 RELATED-PARTY TRANSACTIONS (CONTINUED)

(iii) Amounts due to related parties

	30 June 2022 *RMB'000*	31 December 2021 *RMB'000*
Trade		
– Associates	**–**	44,964
– Joint ventures	**185,788**	7,707
– Other related companies	**1,070**	5,258
	186,858	57,929
Non-trade		
– Joint ventures (a)	**51,258**	3,182
– Associates	**123**	123
– Other related companies	**29**	305
	51,410	3,610

(a) As at 30 June 2022, the loans from Honghua (Shenzhen) amounted to RMB51,000,000, which were secured by inventory as collateral of RMB20,367,000 and property, plant and equipment as collateral of RMB14,718,000 respectively. The above loans bear fixed interest rate of 7.5% annually with term of six months.

(iv) Cash and cash equivalents

	30 June 2022 *RMB'000*	31 December 2021 *RMB'000*
– ASIFC	**–**	11,962

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

For six months ended 30 June 2022

16 RELATED-PARTY TRANSACTIONS (CONTINUED)

(v) Contract liabilities

	30 June 2022 *RMB'000*	31 December 2021 *RMB'000*
– Joint ventures	**4,425**	–
– Other related companies	**–**	14
	4,425	14

(vi) Key management compensation

	Half-year	
	2022 *RMB'000*	2021 *RMB'000*
Basic salaries, allowances and other benefits in kind	**1,843**	3,203
Contributions to defined contribution retirement schemes	**297**	299
Discretionary bonus	**–**	1,294
	2,140	4,796

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

For six months ended 30 June 2022

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 2022 and 31 December 2021 on a recurring basis:

At 30 June 2022	**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	**–**	**–**	**117,902**	**117,902**
– Bank acceptance bill receivables	**–**	**–**	**4,979**	**4,979**
	–	**–**	**122,881**	**122,881**

At 31 December 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	–	–	117,902	117,902
– Bank acceptance bill receivables	–	–	1,371	1,371
	–	–	119,273	119,273

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

For six months ended 30 June 2022

17 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

(i) Fair value hierarchy (continued)

There were no transfers among levels 1, 2 and 3 for the six months ended 30 June 2022 and 2021. There were no other changes in valuation techniques for the six months ended 30 June 2022 and 2021.

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 six months ended 30 June 2022

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 2021	117,902
Changes in fair value	–
Closing balance 30 June 2022	**117,902**

	FVOCI – Bank acceptance bill receivables *RMB'000*
Opening balance 31 December 2021	1,371
Additions	80,400
Disposals	(76,792)
Closing balance 30 June 2022	**4,979**

(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 six months ended 30 June 2022

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 2022 *RMB'000*	31 December 2021 *RMB'000*
Carrying amount		
Bank loans	**3,654,913**	3,839,347
Senior notes	**1,377,554**	1,306,491
Fair value		
Bank loans	**3,646,286**	3,808,831
Senior notes	**1,291,985**	1,152,523

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

For six months ended 30 June 2022

18 TRADE AND OTHER RECEIVABLES

	30 June 2022 ***RMB'000***	31 December 2021 *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

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

For six months ended 30 June 2022

18 TRADE AND OTHER RECEIVABLES (CONTINUED)

(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	31 December 2021
	RMB'000	*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).

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

For six months ended 30 June 2022

19 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

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

For six months ended 30 June 2022

20 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:

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

For six months ended 30 June 2022

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

(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:

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

For six months ended 30 June 2022

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

(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.

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

For six months ended 30 June 2022

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

(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

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

For six months ended 30 June 2022

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 2022 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 2022 *RMB'000*	31 December 2021 *RMB'000*
Contracted for	**10,915**	21,198

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

	30 June 2022 *RMB'000*	31 December 2021 *RMB'000*
Within 1 year	**60,967**	83,648

23 EVENTS OCCURRING AFTER REPORTING PERIOD

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

宏华集团有限公司
HONGHUA GROUP LIMITED