宏华集团
HONGHUA GROUP

Honghua Group Limited
宏華集團有限公司

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

(Stock code: 0196)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2022

FINANCIAL HIGHLIGHT

	For the year ended 31 December		
	2022	2021	Changes
Turnover *(RMB'000)*	**4,476,104**	2,936,604	52.4%
Gross profit *(RMB'000)*	**459,893**	363,004	26.7%
Gross profit margin *(%)*	**10.30%**	12.4%	(2.1) percentage points
Operating loss *(RMB'000)*	**(433,203)**	(610,213)	29.0%
Loss attributable to equity shareholders of the Company *(RMB'000)*	**(634,418)**	(717,191)	(11.6)%
Loss per share			
– Basic *(RMB cents)*	**(11.98)**	(13.54)	(11.5)%
– Diluted *(RMB cents)*	**(11.98)**	(13.54)	(11.5)%

The Board does not recommend payment of dividend for the year ended 31 December 2022.

ANNUAL RESULTS

The Board of the Company hereby announces the consolidated results of the Group for the year ended 31 December 2022 (the "Relevant Year"), together with the comparative figures for the year ended 31 December 2021.

The annual results have also been reviewed by the Audit Committee, comprising solely the independent non-executive Directors, one of whom chairs the Audit Committee.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the Relevant Year as set out in this announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the audited consolidated financial statements of the Group for the year as approved by the Board of Directors on 28 March 2023. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by Messrs. Deloitte Touche Tohmatsu on this announcement.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2022

(All amounts in RMB unless otherwise stated)

		Year ended 31 December	
		2022	2021
	Notes	***RMB'000***	*RMB'000*
Revenue	*3*	**4,476,104**	2,936,604
Cost of sales	*5*	**(4,016,211)**	(2,573,600)
Gross profit		**459,893**	363,004
Distribution costs	*5*	**(215,290)**	(161,975)
Administrative expenses	*5*	**(356,056)**	(335,008)
Research and development expenses	*5*	**(123,587)**	(145,613)
Net impairment losses on financial assets and contract assets	*13*	**(299,193)**	(363,100)
Other income	*4*	**68,367**	89,308
Other gains/(losses), net	*6*	**32,663**	(56,829)
Operating loss		**(433,203)**	(610,213)
Finance income	*7*	**67,533**	95,679
Finance expenses	*7*	**(256,782)**	(228,350)
Finance expenses – net		**(189,249)**	(132,671)
Share of net losses of an associate and joint ventures accounted for using the equity method		**(2,331)**	(2,460)
Loss before income tax		**(624,783)**	(745,344)
Income tax (expense)/credit	*8*	**(328)**	11,343
Loss for the year		**(625,111)**	(734,001)
(Loss)/profit for the year attributable to:			
– Owners of the Company		**(634,418)**	(717,191)
– Non-controlling interests		**9,307**	(16,810)
		(625,111)	(734,001)
Loss per share attributable to owners of the Company			
Basic and diluted (RMB cents per share)	*9*	**(11.98)**	(13.54)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2022

(All amounts in RMB unless otherwise stated)

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
Loss for the year	**(625,111)**	(734,001)
Other comprehensive income		
Items that may be reclassified to profit or loss		
Exchange differences arising on translation of foreign operations	**369,454**	(118,519)
Items that will not be reclassified to profit or loss		
Currency translation differences	**(301,230)**	94,205
Change in the fair value of equity investments at fair value through other comprehensive income	**(8,725)**	11,638
Income tax relating to items that will not be reclassified to profit or loss	**1,077**	(2,549)
Other comprehensive income for the year, net of tax	**60,576**	(15,225)
Total comprehensive income for the year	**(564,535)**	(749,226)
Total comprehensive income attributable to:		
– Owners of the Company	**(573,842)**	(732,725)
– Non-controlling interests	**9,307**	(16,501)
	(564,535)	(749,226)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2022

	Notes	At 31 December 2022 RMB'000	2021 RMB'000
Non-current assets			
Property, plant and equipment		**2,656,996**	2,921,864
Right of use assets		**322,625**	323,561
Intangible assets		**275,402**	246,530
Investments accounted for using the equity method		**35,624**	34,037
Debt investments		**–**	23,295
Deferred income tax assets		**263,994**	256,730
Financial assets at fair value through other comprehensive income		**81,599**	92,664
Trade and other receivables	*10*	**712,801**	909,237
Term deposits		**–**	90,000
Other non-current assets		**86,995**	100,565
		4,436,036	4,998,483
Current assets			
Inventories	*11*	**1,491,298**	1,694,060
Contract costs		**170,979**	128,600
Contract assets		**631,374**	448,825
Trade and other receivables	*10*	**4,656,550**	3,501,182
Debt investments		**–**	28,799
Loan to an associate and other related party		**–**	12,515
Current tax recoverable		**3,762**	780
Financial assets at fair value through other comprehensive income		**31,238**	26,609
Pledged bank deposits		**210,249**	204,640
Term deposit		**90,000**	–
Cash and cash equivalents		**601,001**	703,417
		7,886,451	6,749,427
Total assets		**12,322,487**	11,747,910

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
AT 31 DECEMBER 2022

	Notes	At 31 December 2022 RMB'000	2021 RMB'000
Current liabilities			
Contract liabilities		**760,953**	154,348
Trade and other payables	*12*	**3,199,298**	2,394,391
Income tax payable		**27,209**	41,877
Borrowings		**4,324,420**	5,145,838
Provisions for other liabilities and charges		**29,748**	27,978
Deferred income		**6,949**	10,028
Lease liabilities		**28,490**	18,783
		8,377,067	7,793,243
Non-current liabilities			
Trade and other payables	*12*	**78,197**	136,795
Borrowings		**623,174**	–
Deferred income		**12,550**	21,779
Lease liabilities		**37,504**	49,697
		751,425	208,271
Total liabilities		**9,128,492**	8,001,514
EQUITY			
Share capital		**488,023**	488,023
Other reserves		**4,264,762**	4,206,583
Accumulated losses		**(1,788,991)**	(1,156,970)
Equity attributable to owners of the Company		**2,963,794**	3,537,636
Non-controlling interests		**230,201**	208,760
		3,193,995	3,746,396
Total liabilities and equity		**12,322,487**	11,747,910

1. GENERAL

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 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 Windward 3, Regatta Office Park, PO Box 1350, Grand Cayman, KY1-1108, Cayman Islands. The principal place of business of the Group is 99 East Road, Information Park, Jinniu District, Chengdu, Sichuan, the People's Republic of China (the "PRC").

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

These financial statements are presented in Renminbi ("RMB"), unless otherwise stated, and were approved for issue by the Board of Directors of the Company on 28 March 2023.

Change of shareholder of the Company

On 27 November 2021, the Company received a notice from its largest shareholder, Kehua Technology Co., Limited ("Kehua Technology", a wholly-owned subsidiary of 中國航天科工集團有限公司 China Aerospace Science and Industry Corporation Limited, "CASIC"), that Kehua Technology entered into a gratuitous transfer agreement with Dongfang Electric International Investment Co., Ltd. ("Dongfang Investment", a wholly-owned subsidiary of 中國東方電氣集團有限公司 Dongfang Electric Corporation, "DEC") on 26 November 2021. 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 share capital of the Company) to Dongfang Investment for nil consideration (the "Gratuitous Transfer").

On 29 June 2022, the Gratuitous Transfer was completed and Dongfang Investment owns 29.98% of the total issued share capital of the Company and becomes the largest shareholder of the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance.

As at 31 December 2022, the Group has net current liabilities position of approximately RMB490,616,000 (2021: RMB1,043,816,000). The directors of the Company have, at the time of approving the consolidated financial statements, a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future after considering the followings:

- during the year ended 31 December 2021, a subsidiary within the Group failed to meet the requirement of a financial indicator agreed in certain loan contract, which constituted the subsidiary's failure to comply certain agreed terms of the relevant loan contract and triggered default and cross default clauses in several other bank loan contracts within the Group (hereinafter collectively referred to as "the Default Matters"), which 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 31 December 2021, principals of long-term borrowings due after 31 December 2022 as agreed in original loan contracts amounting to RMB1,136,318,000 was reclassed and presented under current liabilities. During the year ended 31 December 2022, the subsidiary has renegotiated and re-entered the loan contract with the relevant bank with the financial indicator clause being removed. As such, Default Matters was resolved during the current year and no reclassification was considered necessary at of 31 December 2022;

- on 30 September 2022, the Company announced that it had entered into a financial service framework agreement with 東方電氣集團財務有限公司("Dongfang Electric Finance") the subsidiary of DEC, and Dongfang Electric Finance agreed to provide RMB1,800,000,000 credit facility to the Company available for drawdown during the year ending 31 December 2023. Subsequent to 2022 and up to the date of the financial statements, the Group has drawn down RMB1,400,000,000 from the credit facility. The borrowing is repayable after three years from the date of drawndown, which is intended to replace some of the borrowings that are due within one year.

- on 18 January 2023, the Company announced share subscription plans by Dongfang Investment and affiliate of one of its shareholder amounting to approximately Hong Kong dollor 1,021,121,000 (equivalent to approximately RMB912,137,000). The share subscription is subject to the approval of independent eligible shareholders which the meeting is scheduled to be held on 17 April 2023;

- as at 31 December 2022, the Group has unused banking facility of approximately RMB2,096,306,000, which is available for immediate drawdown and utilisation in the course of ordinary business from the date of the approval of these consolidated financial statements; and

- the Group's financial performance had been improving since the second half of 2022 and the loss for the second half of 2022 narrowed as compared to the first half of 2022. The management is expecting the Group's financial performance be further enhanced in 2023.

In view of the above circumstances, the directors of the Company expect that the Group will have sufficient liquidity to finance its operations for the next twelve months from the date of approval of these consolidated financial statements. Therefore, the consolidated financial statements have been prepared on going concern basis. The going concern basis assumes that the Group will continue in operation for the foreseeable future and will be able to realise its assets and discharge its liabilities and commitments in the normal course of business.

In the current year, the Group has applied the following amendments to IFRSs for the first time, which are mandatorily effective for the Group's annual period beginning on 1 January 2022 for the preparation of the consolidated financial statements:

Amendments to IFRS 3	Reference to the Conceptual Framework
Amendment to IFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021
Amendments to IAS 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to IFRSs	Annual Improvements to IFRSs 2018-2020

The application of amendments to IFRSs in the current year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2.2 New standards and amendments not yet adopted

IFRS 17 (including the June 2020 and December 2021 Amendments to IFRS 17)	Insurance Contracts[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendment to IFRS 16	Lease Liability in a Sale and Leaseback[3]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[3]
Amendments to IAS 1	Non-current Liabilities with Covenants[3]
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to IAS 8	Definition of Accounting Estimates[1]
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[1]

[1] Effective for annual periods beginning on or after 1 January 2023.

[2] Effective for annual periods beginning on or after a date to be determined.

[3] Effective for annual periods beginning on or after 1 January 2024.

3. SEGMENT INFORMATION

The senior executive management is the Group's chief operating decision maker. Management has determined the operating segments based on the information reviewed by the senior executive management for the purposes of allocating resources and assessing performance.

The Group manages its businesses by divisions, which are organised by business lines 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. No operating segments have been aggregated in arriving at the reportable segments of the Group.

Specially, the Group's operating and reportable segments under IFRS 8 are as follows:

(a) land drilling rigs;

(b) parts and components and others;

(c) drilling engineering services; and

(d) fracturing.

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 loss of joint ventures and associates, other gains or losses, net and other income and unallocated head office and corporate expenses. 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 consolidated financial statements.

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 profit or loss.

The following table presents revenue and profit information regarding the Group's operating segments for the years ended 31 December 2022 and 2021 respectively. The Group derives revenue from the transfer of good and services over time and at a point in the following operating segments.

	Land drilling rigs		Parts and components and others		Drilling engineering services		Fracturing		Total	
	Year ended 31 December		Year ended 31 December		Year ended 31 December		Year ended 31 December		Year ended 31 December	
	2022	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Segment revenue	**885,619**	89,127	**3,002,218**	1,799,416	**430,233**	236,940	**1,062,253**	1,018,677	**5,380,323**	3,144,160
Inter-segment revenue	**(142,436)**	(101,074)	**(747,442)**	(106,482)	**(10,941)**	–	**(3,400)**	–	**(904,219)**	(207,556)
Revenue from external customers	**743,183**	(11,947)	**2,254,776**	1,692,934	**419,292**	236,940	**1,058,853**	1,018,677	**4,476,104**	2,936,604
Timing of revenue recognition for contracts with customers										
– At a point in time	**545,380**	89,127	**2,893,272**	1,696,897	**–**	–	**476,727**	378,118	**3,915,379**	2,164,142
– Over time	**340,239**	–	**–**	–	**430,233**	236,940	**585,526**	640,559	**1,355,998**	877,499
Lease income	**–**	–	**108,946**	102,519	**–**	–	**–**	–	**108,946**	102,519
Reportable segment loss	**(82,300)**	(86,293)	**(256,282)**	(385,730)	**(39,982)**	(34,253)	**(98,715)**	(82,529)	**(477,279)**	(588,805)
Other segment information:										
Depreciation and amortisation for the year *(Note)*	**56,738**	7,202	**161,509**	105,106	**32,010**	46,112	**80,837**	22,433	**331,094**	180,853
Impairment on trade and other receivables and contract assets	**221,934**	12,621	**17,613**	326,111	**79,299**	2,750	**(19,653)**	21,618	**299,193**	363,100
Allowance for inventories	**–**	5,510	**85,569**	33,137	**–**	–	**–**	–	**85,569**	38,647
Write-down of contract costs	**–**	–	**–**	–	**56,886**	14,184	**3,399**	–	**60,285**	14,184
Impairment provision of property, plant and equipment	**–**	–	**–**	–	**18,112**	14,196	**–**	–	**18,112**	14,196

Note: The amount includes depreciation and amortisation of property, plant and equipment, intangible assets, right of use assets and other non-current assets.

Given the manufacturing processes of the Group's business are in a form of vertical integration, the CODM considered segment assets and liabilities information was not relevant in assessing performance of and allocating resources to the operations segments. During the year ended 31 December 2022 and 2021, such information was not reviewed by the Group's CODM. Accordingly, no segment assets and liabilities are presented.

A reconciliation of segment loss to loss before income tax is provided as follows:

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
Segment loss		
– for reportable segments	**(477,279)**	(588,805)
Elimination of inter-segment profit	**(33,652)**	(17,409)
Segment loss derived from the Group's external customers	**(510,931)**	(606,214)
Share of loss of joint ventures	**(2,331)**	(2,460)
Other income and other gains or losses, net	**101,030**	32,479
Finance income	**67,533**	95,679
Finance expenses	**(256,782)**	(228,350)
Unallocated head office and corporate expenses	**(25,556)**	(36,478)
Loss before income tax	**(624,783)**	(745,344)

The following is an analysis of the Group's revenue from its major products and services:

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
Land drilling rigs	**743,183**	(11,947)
Parts and components and others	**2,254,776**	1,692,934
Drilling engineering services	**419,292**	236,940
Fracturing	**1,058,853**	1,018,677
	4,476,104	2,936,604

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

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
PRC (country of domicile)	**2,556,410**	2,176,955
Americas	**71,066**	43,612
Middle East	**787,719**	422,099
Europe and Central Asia	**51,208**	183,141
South Asia and South East Asia	**68,819**	61,002
Africa	**940,882**	49,795
	4,476,104	2,936,604

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

	At 31 December	
	2022	2021
	RMB'000	*RMB'000*
PRC (country of domicile)	**2,949,692**	3,117,061
Americas	**1,606**	280
Middle East	**389,420**	447,005
Europe and Central Asia	**1,301**	28,174
Africa	**35,623**	34,037
	3,377,642	3,626,557

For the year ended 31 December 2022, revenue of approximately RMB528,577,000 (2021: RMB326,011,000) was derived from one external customer. The revenue was attributed to the sales of "parts and components and other" (2021: fracturing). No other customer contributed over 10% of the total revenue of the Group.

Assets and liabilities related to contracts with customers

(a) The Group has recognised the following assets and liabilities related to contracts with customers:

	At 31 December	
	2022	2021
	RMB'000	*RMB'000*
Contract assets – current	**652,999**	460,090
Less: loss allowance	**(21,625)**	(11,265)
Contract assets, net	**631,374**	448,825
Contract liabilities – current	**760,953**	154,348

As at 1 January 2021, contract assets and contract liabilities amounted to RMB687,791,000 and RMB139,608,000, respectively.

Included in contract liabilities represented amount of approximately RMB20,791,000 (2021: Nil) received from the Group's related companies.

(b) Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in current reporting period relates to carried-forward contract liabilities:

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
Revenue recognised that was included in the contract liabilities balance at the beginning of the year		
Sales of goods	**74,738**	67,569

(c) ***Unsatisfied performance***

As at 31 December 2022, the aggregate amount of the transaction price allocated to contracts that are partially or fully unsatisfied is RMB3,504,564,000 (2021: RMB2,931,877,000).

The management estimates that 80% or RMB2,803,651,000 (2021: 74% or RMB2,169,071,000) of the transaction price allocated to unsatisfied performance obligations as at 31 December 2022 will be recognised as revenue during the next reporting period. The remaining will be recognised in the 2024 financial year and afterwards.

4. OTHER INCOME

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
Government grants	**38,103**	56,828
Sales of scrap materials	**24,235**	25,391
Others	**6,029**	7,089
	68,367	89,308

5. EXPENSES BY NATURE

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
Raw materials and consumables used	**2,066,659**	1,462,495
Employee benefit expenses	**539,592**	490,001
Service fee	**536,003**	320,760
Amortisation and depreciation		
– Property, plant and equipment	**290,853**	149,022
– Intangible assets	**27,982**	22,252
– Right of use assets	**12,259**	9,579
– Investment properties	**2,906**	2,004
Transportation	**65,893**	66,877
Changes in inventories of finished goods and work in progress	**198,462**	(266,196)
Provision for inventory write-down	**85,569**	38,647
Provision for contract costs	**60,285**	14,184
Research and development costs *(Note)*	**43,804**	57,527
Less: amount capitalised into intangible assets	**(19,988)**	(20,438)
Utilities	**87,298**	82,656
Short-term lease expenses	**469,896**	568,791
Travelling expenses	**85,287**	59,498
(Reversal of)/provision for impairment of prepayments	**(4,346)**	88
Repairs and maintenance expenditure on property, plant and equipment	**10,651**	14,505
Other taxes	**10,092**	20,502
Provision for warranty	**15,310**	3,074
Auditors' remuneration	**3,190**	4,979
Impairment provision of property, plant and equipment	**18,112**	14,196
Other expenses	**105,465**	101,193
Total cost of sales, distribution costs, research and development expenses and administrative expenses	**4,711,144**	3,216,196

Note: The amount does not include staff costs of the research and development department of approximately RMB70,524,000 (2021: RMB93,377,000) and relevant amortisation and depreciation of approximately RMB29,247,000 (2021: RMB28,837,000).

6. OTHER GAINS OR LOSSES, NET

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
Insurance compensation	**–**	2,698
Net foreign exchange gains/(losses)	**36,302**	(59,545)
Gains on disposals of property, plant and equipment	**1,060**	3,264
Legal claims	**–**	(13,256)
Loss on derecognition of a subsidiary *(Note)*	**(15,533)**	–
Others	**10,834**	10,010
	32,663	(56,829)

Note: During the year ended 31 December 2022, Russia Touhey Motor Drilling Service Limited ("TNG"), a subsidiary located in Russia, filed for bankruptcy liquidation to the local governmental authority and was derecognised from the Group's consolidated financial statements. The Group recorded a loss on derecognition of approximately RMB15,533,000 during the year ended 31 December 2022.

7. FINANCE EXPENSES, NET

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
Finance expenses		
Interest on borrowings wholly repayable within five years	**209,280**	224,038
Interest expense from lease liabilities	**2,685**	4,715
Other	**198**	3
Net foreign exchange loss	**45,111**	–
Less: interest expense capitalised into assets under construction	**(492)**	(406)
	256,782	228,350
Finance income		
Interest income on bank deposits	**(59,891)**	(27,208)
Interest income from non-current receivables	**(7,642)**	(14,723)
Net foreign exchange gain	**–**	(53,748)
	(67,533)	(95,679)
Financial expenses, net	**189,249**	132,671

8. INCOME TAX (EXPENSE)/CREDIT

Taxation in the consolidated statement of profit or loss represents:

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
Current income tax – Hong Kong Profits Tax		
Provision for the year	**1,693**	2,736
Over provision in respect of prior years	**–**	(895)
	1,693	1,841
Current income tax – the PRC		
Provision for the year	**–**	6,808
Over provision in respect of prior years	**(16,009)**	(2,962)
	(16,009)	3,846
Current income tax – Other jurisdictions		
Provision for the year	**21,024**	12,528
Over provision in respect of prior years	**(193)**	–
	20,831	12,528
Total current income tax	**6,515**	18,215
Deferred income tax		
– Current year	**(6,187)**	(29,558)
Income tax expense/(credit)	**328**	(11,343)

The tax on the Group's loss before tax differs from the theoretical amount that would arise using the tax rate applicable to the group entities as follows:

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
Loss before income tax	**(624,783)**	(745,344)
Tax calculated at statutory tax rates applicable to each group entities	**(71,288)**	(104,393)
Tax effect of non-deductible expenses	**931**	1,268
Tax effect of income not taxable	**(319)**	–
Tax effect of changing tax rate	**600**	532
Additional deduction of research and development expense	**(7,784)**	(4,599)
Tax effect of losses not recognised	**83,786**	4,326
Utilisation of tax losses not recognised in previous years	**–**	(6,880)
Tax effect of deductible temporary differences not recognised	**21,481**	46,120
Utilisation of deductible temporary differences previously not recognised	**(43,017)**	–
Reversal of previously recognised deferred income tax assets of deductible temporary differences	**–**	45,214
Write off of previously recognised deferred income tax assets of tax losses	**32,140**	10,926
Over provision in respect of prior years	**(16,202)**	(3,857)
Income tax expense/(credit)	**328**	(11,343)

Amounts recognised directly in other comprehensive income

Aggregate deferred tax arising in the reporting period and not recognised in net profit or loss but charged to other comprehensive income:

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
Deferred tax: Changes in the fair value of equity investments at FVTOCI	**1,077**	(2,549)

9. LOSS PER SHARE

Basic loss per share

The calculation of basic loss per share is based on the loss attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	Year ended 31 December	
	2022	2021
Loss attributable to owners of the Company *(RMB'000)*	**(634,418)**	(717,191)
Weighted average number of ordinary shares in issue *(in thousands)*	**5,355,995**	5,355,995
Effect of the share award scheme *(in thousands)*	**(61,089)**	(61,089)
Adjusted weighted average number of ordinary shares in issue *(in thousands)*	**5,294,906**	5,294,906
Basic loss per share *(RMB cents per share)*	**(11.98)**	(13.54)

Diluted loss per share

The calculation of diluted loss per share is based on adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares: share options. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	Year ended 31 December	
	2022	2021
Loss attributable to owners of the Company *(RMB'000)*	**(634,418)**	(717,191)
Weighted average number of ordinary shares in issue *(in thousands)*	**5,294,906**	5,294,906
Effect of deemed issue of shares under the share option scheme *(in thousands)*	**–**	–
Adjusted weighted average number of ordinary shares (diluted) in issue *(thousands)*	**5,294,906**	5,294,906
Diluted loss per share *(RMB cents per share)*	**(11.98)**	(13.54)

The computation of diluted loss per share in 2022 and 2021 does not assume the exercise of all share options because the adjusted exercise price of those options was higher than the average market price for shares for both years.

10. TRADE AND OTHER RECEIVABLES

	As at 31 December 2022 RMB'000	2021 RMB'000
Trade receivables *(Notes (a & b))*	**3,628,254**	3,008,452
Bills receivables	**404,350**	574,413
Less: provision for impairment of trade receivables and bills receivables	**(614,276)**	(466,121)
	3,418,328	3,116,744
Amount due from related parties		
– Trade	**338,272**	319,116
– Non-trade	**283,938**	222,457
– Less: provision for impairment of trade receivables for amount due from related parties	**(9,195)**	(17,947)
	613,015	523,626
Finance lease receivables	**432,263**	160,763
Less: provision for impairment of finance lease receivables	**(81,461)**	(78,123)
Value-added tax recoverable	**116,985**	140,689
Prepayments	**684,456**	399,466
Less: provision for impairment of prepayments	**(28,333)**	(32,679)
Other receivables	**412,286**	316,673
Less: provision for impairment of other receivables	**(198,188)**	(136,740)
	5,369,351	4,410,419
Representing by:		
– Current portion *(Note (c))*	**4,656,550**	3,501,182
– Non-current portion *(Note (d))*	**712,801**	909,237
	5,369,351	4,410,419

Notes:

(a) As at 31 December 2022 and 2021, the ageing analysis of the net amount of trade receivables and bills receivables (including amounts due from related parties of trading in nature), based on the invoice date (trade receivables) or issuance date (bills receivables) is as follows:

	As at 31 December 2022 RMB'000	2021 RMB'000
Within 3 months	**2,502,538**	2,325,772
3 to 12 months	**753,852**	782,534
Over 1 year	**491,015**	309,607
	3,747,405	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 billings 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.

Bills receivables of the Group are held for future settlement of trade receivables, of which certain bills were further discounted/endorsed by the Group. The Group continue to recognise in their full carrying amounts at the end of the reporting period.

(b) Included in trade receivables represented balance due from a customer domicile in Ukraine amounting to approximately USD93,123,000 (equivalent to approximately RMB648,562,000) (2021: RMB838,491,000), net of impairment loss of approximately RMB243,655,000 (2021: RMB12,957,000). During the previous years, the Group made instalment sales of drilling rigs to such Ukrainian customer and the balance was receivable between 2022 and 2024. Balance that is expected to be received over one year after the end of the reporting period was discounted at the rate which discounts with the nominal amount of the promised consideration to the price that customer would pay in cash for the goods or services when or as the Group transfers to the customer.

Due to the current conflict between Russia and Ukraine, the National Bank of Ukraine has imposed certain restrictions over the payments of foreign currencies to foreign entities starting from 24 February 2022. Therefore, the Ukrainian customer was unable to repay part of the instalments which was originally due in 2022. The management has been taking active measures to closely monitor the credit risk exposures of such balance by holding periodic meetings with such customer to understand the latest development of the conflict and to collect the latest information regarding the physical status of the drilling rigs sold, and also the latest status on the national restrictions, etc. In view of the potential credit-impaired characteristics, the management has individually assessed the recoverability of the balance. During the year ended 31 December 2022, the Group provided expected credit loss of approximately RMB230,698,000 (2021: RMB12,957,000).

(c) Except for the non-current trade and other receivables, all of the other trade and other receivables are expected to be recovered within one year.

(d) Non-current trade and other receivables as at 31 December 2022 included (1) finance lease receivables of approximately RMB219,468,000 (2021: RMB48,917,000); (2) receivables of approximately RMB363,505,000 (2021: RMB737,587,000) arising from installment sale; (3) deposit receivable of approximately RMB24,880,000 (2021: RMB17,785,000) which is due for receipt over one year after the end of reporting period and is discounted at the loan interest rate stipulated by the People's Bank of China for the corresponding period; (4) prepayments for land use rights of approximately RMB104,948,000 (2021: RMB104,948,000) which the Group expect to obtain the land use right in 2023.

As at 31 December 2022 and 2021, the Group's maximum exposure to credit risk was the carrying value of each class of receivables mentioned above.

The carrying amounts of the current portion of trade and other receivables approximate their fair value.

The creation and release of provision for prepayments has been included in "administrative expenses" and provision for impaired receivables has been included in "net impairment losses on financial assets and contract assets" in profit or loss respectively.

As at 31 December 2022, bills receivables of approximately RMB159,396,000 (2021: RMB152,856,000), trade receivables of RMB409,745,000 (2021: RMB463,651,000) were secured for borrowings.

Finance lease receivables

The Group entered into finance leases to lease its machineries to third parties and earn finance income from leasing activities. As at 31 December 2022 and 2021, the Group had receivables under finance lease as follows:

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
Non-current receivables		
Finance leases – gross receivables	**223,484**	53,808
Unearned finance income	**(6,927)**	(3,815)
	216,557	49,993
Current receivables		
Finance leases – gross receivables	**235,153**	118,378
Unearned finance income	**(19,447)**	(7,608)
	215,706	110,770
Gross receivables from finance leases:		
— No later than 1 year	**235,153**	118,378
— Later than 1 year and no later than 5 years	**223,484**	53,808
	458,637	172,186
Unearned future finance income on finance leases	**(26,374)**	(11,423)
Net investment in finance leases	**432,263**	160,763

The net investment in finance leases is analysed as follows:

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
No later than 1 year	**215,706**	110,770
Later than 1 year and no later than 5 years	**216,557**	49,993
Total	**432,263**	160,763

Impairment and risk exposure

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables, finance lease receivables and contract assets.

11. INVENTORIES

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
Raw materials	**532,145**	460,396
Work in progress	**567,785**	840,086
Finished goods	**390,957**	372,127
Revolving materials and others	**411**	21,451
	1,491,298	1,694,060

For the year ended 31 December 2022, the cost of inventories recognised as the Group's expense and included in 'cost of sales' amounted to approximately RMB1,631,702,000 (2021: RMB1,196,299,000).

Movement on the provision for inventory is as follows:

	2022	2021
	RMB'000	*RMB'000*
At 1 January	**163,571**	143,152
Addition	**85,569**	38,647
Write off	**(25,054)**	(17,824)
Currency translation difference	**(2,356)**	(404)
At 31 December	**221,730**	163,571

12. TRADE AND OTHER PAYABLES

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
Trade payables	**1,667,336**	1,354,667
Amounts due to related companies		
– Trade	**472,170**	57,929
– Non-trade	**10,505**	3,610
Bills payable	**553,179**	590,496
Receipts in advance	**–**	633
Other payables	**574,305**	523,851
	3,277,495	2,531,186
Representing by:		
– Current portion	3,199,298	2,394,391
– Non-current portion	78,197	136,795
	3,277,495	2,531,186

At 31 December 2022 and 2021, the ageing analysis of the trade payables and bills payable (including amounts due to related parties of trading in nature) based on invoice date or bills issuance date is as follows:

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
Within 3 months	**1,094,224**	746,413
3 to 6 months	**497,773**	353,430
6 to 12 months	**366,480**	344,259
Over 1 year	**734,208**	558,990
	2,692,685	2,003,092

As at 31 December 2022 and 2021, all the trade payables, bills payable and other payables of the Group were non-interest bearing and their fair value approximated their carrying amounts due to their short maturities.

As at 31 December 2022 and 2021, all the current trade and other payables are expected to be settled within one year or are repayable on demand.

13. NET IMPAIRMENT LOSSES ON FINANCIAL AND CONTRACT ASSETS RECOGNISED IN PROFIT OR LOSS

During the year, the following losses were recognised in profit or loss in relation to impaired financial assets and contract assets:

	Year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
Impairment loss on:		
– trade receivables and contract assets	**(237,781)**	(152,579)
– finance lease receivables	**(3,338)**	(2,841)
– other financial assets at amortised cost	**(58,074)**	(116,949)
– loan to an associate and other related party	**–**	(88,874)
– debt investments	**–**	(1,857)
	(299,193)	(363,100)

MANAGEMENT DISCUSSION AND ANALYSIS

In 2022, the Group's revenue amounted to RMB4,476 million, representing an increase of 52.4% from RMB2,937 million for Previous Year. Gross profit was approximately RMB460 million, representing an increase of 26.7% from RMB363 million for Previous Year. The loss attributable to equity shareholders was approximately RMB634 million.

MARKET REVIEW

At present, the global energy development is in an important strategic opportunity period. The global energy supply pattern is ever-changing, and the combined effects of the pandemic, political and, economic factors, aging oil fields and environmental awareness bring challenges to the economic growth of the countries traditionally rich in oil and gas. Reducing costs and increasing efficiency, lowering oil dependence and finding new sources of economic growth have become the core strategic transformation tasks of energy-rich countries. Clean energy such as natural gas, photovoltaic, wind power and geothermal power will become the new trend, and the global energy market is in an important transition to clean energy. Under the carbon neutrality and carbon peak strategy and the policy to promote the new energy development and application, the efforts to exploit conventional oil and gas resources around the world are faced with certain challenges, which also has certain effects on upstream drilling and production equipment and services. In the short run, shale gas exploitation is developing continuously on a global scale, natural gas is accounting for a continuously increasing proportion in energy consumption, and conventional energy is still dominating energy consumption.

2022 was the second year of China's "14th Five-Year Plan". Driven by the national energy security strategy, China continued to vigorously promote oil and gas exploration and development, promoted oil and gas reserve and production, and continuously improved the quality and security of the oil and gas resources supply. The National Development and Reform Commission and the National Energy Administration issued the 14th Five-Year Modern Energy System Plan and the Guiding Opinions on Energy Work in 2022, which proposed to "step up the efforts to explore and develop of domestic oil and gas, adhere to giving priority to onshore and offshore conventional and unconventional oil and gas exploration and development, actively expand the unconventional resources exploration and development, and accelerate the development of shale oil, shale gas and coalbed methane". "In 2022, it is necessary to strengthen the energy supply guarantee capacity, realize the national crude oil output of about 200 million tons, and the natural gas output of about 214 billion cubic meters, with ensuring the safe and stable energy supply as the primary task". With the acceleration of oil and gas production and the continuous growth of oil and gas capital expenditure, the overall demand for oil and gas equipment and oilfield technology services continued to grow, and the industry prosperity steadily increased.

In this special market environment, the drilling equipment industry was faced with challenges and opportunities in many aspects. The Group adjusted its market layout and sales strategy in a timely manner to strengthen its overseas market expansion, with overseas sales growing against the overall downward trend. Domestically, the Group also reinforced obligation performance for domestic projects ensuring the stability of the supply chain and the timely delivery of orders. The Group firmly promoted its transformation in "from equipment manufacturer to comprehensive solution provider", "from equipment sales to service-driven equipment sales", and from "equipment supply" to the dual-mode service of "equipment + software" containing both software and hardware services, and made significant progress in digital transformation, new product development and new business expansion.

BUSINESS REVIEW

1. Drilling Equipment and Related Product Business Segment

In 2022, Honghua recorded the total number of 12 drilling rigs sold with an aggregate amount of approximately RMB743 million, representing an increase of RMB755 million compared with the Previous Year. Total sales of parts and components amounted to RMB2,255 million, representing an increase of 33.2% from RMB1,693 million in the corresponding period of Previous Year. Benefiting from a significant rise in energy prices, which significantly boosted market confidence and led to an increase in capital expenditure by customers, as well as rising exchange rate volatility, the international business of drilling equipment gained substantial momentum in growth. The Group's total amount of new overseas drilling equipment orders signed throughout the year of 2022 was RMB2,485 million, representing an increase of 53.77% over 2021.

In terms of new products, drilling and engineering companies under PetroChina and Sinopec signed orders in the domestic market, which continuously improved the market share of the Group's superior products such as automated drilling rig and five-cylinder pump, and provided a prerequisite for subsequent orders. In the international market, the sales of new products such as top drive, iron drilling devices and five-cylinder pump were successful, with a breakthrough in the sales to the Middle East market. During the Period, the sales of new products reached RMB215 million. In the field of digitalization, the Group continued to promote cooperation with Schlumberger on digital drilling – DrillOps, focusing on the application of customer K in new construction and renovation projects, kept strengthening the expansion of oil and gas information, and conducted technical cooperation research on SMART-ROS system on drilling rigs with Nabors.

Under the philosophy of onshore manufacturing of offshore equipment and with the support of the Group's offshore equipment manufacturing base, the Group set records in offshore wind power equipment manufacturing. Combined with the advantages and layout of the largest shareholder Dongfang Electric Corporation in the wind power industry, the Group re-examined and formulated the business development plan for the offshore segment, and continued to focus on the development of offshore wind power pile foundations, and also operation and maintenance and offshore equipment business. In the second half of 2021, there was a period of pending new guidance after the wave of installation for wind power projects, new orders in the pipeline for offshore wind power projects were insufficient. In 2022, many projects as planned were postponed due to sea area approval, leading to the revenue from the offshore wind power business decreasing by 68% year-on-year to RMB190 million in 2022.

As at 31 January 2023, the Group's backlog orders for drilling rigs and related products amounted to approximately RMB2,200 million. Specifically, the backlog orders for onshore drilling rigs amounted to approximately RMB1,558 million.

2. Fracturing Equipment and Service Business

During the Period, the Company further consolidated the market competitiveness of Honghua Group's fracturing equipment and services through digital upgrade of electric fracturing, high-efficiency pumping construction operations, in combination with gas-fired power generation solutions and special power grid electricity framework services. The equipment and engineering services provided during the Period achieved a total sales amount of approximately RMB1,059 million, representing an increase of 3.9% over the corresponding period of Previous Year.

The Group had a total of 16 pumping teams which completed approximately 4,400 fracturing operations during the Year, including approximately 3,200 shale gas operations and approximately 1,200 shale oil operations. In terms of market expansion, the Group's electric fracturing service business entered the shale oil block in northern Jiangsu for the first time, which was of great significance to the systematic development of the Company's future fracturing industry. In addition, the Group adopted the dual power supply mode of "gas turbine power generation + grid electricity" in the Sichuan and Chongqing areas of PetroChina and Sinopec Oilfield to help customers realize the first all-electric fracturing project with simultaneous production of gas and electricity in the block.

In respect of fracturing equipment for unconventional oil and gas development, the Group successfully achieved direct sales of electric fracturing pumps, with a sales amount of RMB226 million. In respect of the specialty power business, the Group undertook a project of overall planning of grid power service in the block of PetroChina for the first time, signed an "oil-to-electricity" technical services framework contract with subsidiaries of PetroChina. The Group also realized for the first time the dual power supply mode of gas turbine power generation + grid electricity to provide power for electric fracturing in PetroChina's Western Chongqing Block. The Company gradually entered the markets of Inner Mongolia, Changqing and Guizhou.

As at 31 January 2023, the Group's total contract backlog of fracturing equipment and service business amounted to approximately RMB321 million.

3. Oil and gas engineering service business

During the Period, the total sales amount of oil and gas engineering services provided by the Group amounted to approximately RMB419 million, representing an increase of 76.8% from RMB237 million in the corresponding period of Previous Year. During the Period, the overseas market continued to deepen the cooperation with internationally renowned oil services companies, with a sales amount of international oil and gas engineering services of approximately RMB276 million, representing a year-on-year increase of 32.05%. The newly signed overseas oil and gas engineering services orders amounted to approximately RMB125 million, which showed steady growth in orders. The contract backlog with the longest lead time can be executed until December 2025. The Group started drilling 50 wells and completed 32 wells for the Year, with a cumulative annual footage of 165,627 meters, setting new drilling and completion records.

BRAND MANAGEMENT AND RESEARCH & DEVELOPMENT

During the Period, the Group continued to ensure the effective operation of its quality control system and made a breakthrough in obtaining certifications for its products. We obtained new API Spec 8C power faucet and API Spec 16C Monogram Licenses for rigid throttling and pressure well pipeline, added 28 new CNAS extensions, participated in the formulation and revision of 7 national, industry, local and group standards and 1 was published; the Group firmly implemented refined quality management, and the new five-cylinder pump products were of excellent quality and praised by the users. The product system of the "one-key linkage" series maintained stable and efficient operation, placing it in a leading position in the industry. We continuously carried out "zero defect" quality activities to fulfill the development requirements of improving the quality of all staff.

In 2022, centering around the deep integration of machine, electricity and liquid, as well as the idea of automation, information and intelligence of drilling and well completion equipment and services, and combined with digitalization and low-carbon transformation, the Group achieved breakthroughs in the application of the international leading lift-type vertical transportation technology and new energy storage products, and continued to deepen the second phase of the construction of "one-button" connection machine and equipment system with the characteristics of increase in speed and efficiency, decrease in headcount and safety. The intelligent drilling rig project completed the first "made-in-China" ultra-silent automatic drilling rig. The safety diagnosis of fracturing operation and the maximum control of fracturing construction parameters for the smart fracturing system were completed, realizing "one-click fracturing". The comprehensive intelligent drilling systems achieved high tripping speed, and the online monitoring detection and pre-maintenance system for OPERA intelligent drilling system and the ground equipment were completed. Emerging industries continued to grow and the trial production of single blade spreader for wind turbine was completed. During the Period, the Group was granted 127 patents, including 67 invention patents, and had a total of 790 patents in force, including a total of 275 invention patents in force.

HUMAN RESOURCES MANAGEMENT

To better support industry transformation and upgrade and promote the achievement of high-quality development goals, the Group continued to optimize its staff structure, improved talent quality and improved average efficiency. At the end of 2022, the total headcount of the Group was 2,410, representing a decrease of 428 or 15.1% as compared with the corresponding period of Previous Year, mainly due to the further reduction and optimization of redundancy, staff with poor performance and low-skilled staff. The Group had a total of 596 R&D staff, representing an increase of 8.17% as compared with the corresponding period of Previous Year, which was mainly due to the replenishment of professional talents for emerging industries, new technologies and key business. The Group had launched a competitive selection of management cadres, further enhanced the candidate hiring mechanism that allowed for upward and downward mobility, and selected excellent members for the cadre team. The Group optimized the performance appraisal and incentive allocation mechanism which focus on value creation by linking personal performance closely with organizational performance, increasing the proportion of wage distribution to key positions and core talents, and establishing the orientation of high goals, strict assessment, strong incentive and hard constraints.

The Group attaches importance to the training and reserve of all kinds of core talents. The Group continued to improve the talents' professional ability with special training, organized 580 training sessions with an attendance of 18,879, and implemented or selected talents to participate in training programs for qualification and certification, professional ability and comprehensive quality improvement, including special projects such as improving the performance ability of Directors and supervisors, market development ability, international talent training, excellent engineer training, digital transformation talent training, and energy development trend under the "carbon peaking and carbon neutrality" background. The Group selected and recommended experts and high-skilled talents, with 10 persons chosen for provincial and municipal talent programs, and 3 provincial and municipal studios built. The Group increased the reserve of young innovative professional and technical talents in mechanical engineering, automation, software development and digitalization, and injected steady new forces into the enterprise development.

FUTURE OUTLOOK

From a global perspective, the international energy market is still in a slow recovery stage, and the geopolitical premium will gradually disappear in 2023. Due to multiple factors such as OPEC+'s reduced production for price stabilization and a ban on Russian oil exports, the crude oil market may keep its balance, and oil prices may see a high-frequency oscillation, with an upward trend in the short run, but there will be still high risk, and strong persistence and uncertainty in the next two years. Domestically, the Group's drilling equipment and service business may face opportunities for greater development by implementing the national energy security strategy, enhancing the energy supply chain stability and security, promoting domestic oil and gas reserve and production, pushing sustained and stable shale gas production forward, and improving the shale oil development scale.

In terms of business expansion, the Group will build on its existing strengths in the oil and gas industry, seize the opportunity presented by the upward trend of oil and gas industry; step up efforts to expand its business in the global drilling market, optimize its international marketing system and business layout, and expand the proportion of its international operations; promote the sales of complete equipment for fracturing which is driven by the provision of services by leveraging its advantages in fracturing service and pumping service in the premise of electric fracturing equipment industry; strengthen the market promotion and marketing for technology of new products, further increase the market share of novel products with competitive advantages such as "one-key linkage" automated machines and five-cylinder pumps; strengthen the synergy with the controlling shareholder Dongfang Electric Corporation, improve the market share of the wind power business and actively expand into new areas such as new energy equipment manufacturing, wind, solar, hydrogen and heat storage in oil and gas fields and integrated solutions of generation, grid, load and storage.

In terms of internal management, the Group will comprehensively promote and deepen reforms to enhance the enterprise management efficiency. First, the Group will optimize the organizational structure and control system, strengthen the construction of the board of directors of subsidiaries, carry out special work to improve quality and efficiency, build a complete and efficient supply chain system, and promote the improvement of governance efficiency and management efficiency. Second, the Group will optimize the industrial layout and structural adjustment, solidly promote the exit of inefficient production capacity, advance the market layout optimization, carry out professional industrial integration, continuously improve the capital structure, facilitate the resources optimal allocation to core businesses, and develop the value creation ability. Third, the Group will strengthen the technological innovation mechanism and system, improve the technological innovation management system, advance the external coordination mechanism, create a new technological innovation platform, and develop the technological innovation ability. Fourth, the Group will deepen the market-oriented operating mechanism, build a contractual system, strengthen the performance appraisal of subsidiaries, deepen the labor and employment system reform, intensify the income distribution system reform, and ensure talents introduction and cultivation. Meanwhile, the Company will continue to strengthen the requirements in the fields of labor, occupational health and environmental protection to ensure sustainable development.

In terms of development direction, the Group will focus on promoting digital transformation and low-carbon transformation. For digital transformation, the Group will focus on promoting electrification, automation, information and digitization of key components, and advance the commercialization of data, software services and other digital products. For low-carbon transformation, the Group will actively promote the low-carbon transformation of oil and gas equipment, realize the clean and low-carbon goal of oilfield block exploitation through equipment electrification and power grid cleaning, so as to promote the environmental friendly development of the industry. Combining with the strategic needs of oil and gas companies on new energy and low-carbon transformation, the Group are committed to providing comprehensive energy integration solutions for global oilfield customers, and makes continuous efforts to promote Honghua Group to become a global leading enterprise in high-end oil and gas equipment.

FINANCIAL REVIEW

During the Year, the Group's gross profit and loss attributable to shareholders of the Company amounted to approximately RMB460 million and RMB634 million respectively, and gross margin and net loss margin amounted to 10.3% and 14.2% respectively. In the Previous Year, the gross profit and profit attributable to shareholders of the Company amounted to approximately RMB363 million and RMB717 million respectively, and gross margin and net profit margin amounted to 12.4% and 24.4% respectively. 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 drilling engineering services segment, the Group made a large impairment provision, resulting in a net loss to the Company's shareholders.

Turnover

During the Year, the Group's revenue amounted to approximately RMB4,476 million, representing an increase of RMB1,539 million or 52.4% from RMB2,937 million for Previous Year. The Group adjust the market layout and sales strategy,the Group's revenues from land drilling rigs, parts and components have increased significantly, especially overseas orders for drilling rigs increased compared with the Previous Year.

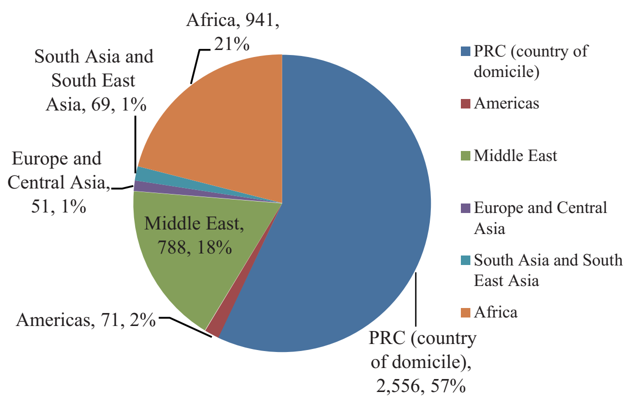
(i) Revenue by geographical locations

The Group's revenue by geographical segment during the Year: (1) revenue generated from the PRC amounted to approximately RMB2,556 million, accounting for approximately 57.1% of the total revenue, representing an increase of RMB379 million as compared to Previous Year; (2) The Group's export revenue amounted to approximately RMB1,920 million, accounting for approximately 42.9% of the total revenue, representing an increase of RMB1,160 million as compared to Previous Year.

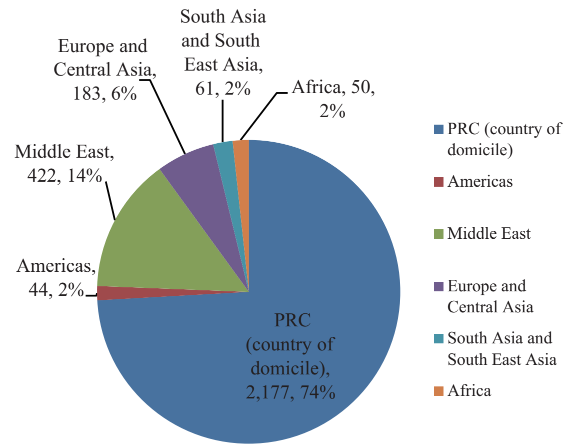
The regional distribution of the Group's sales revenue is influenced by the changes of oil and gas exploitation activities in various regions of the world. Facing market shocks in the oil industry, the Group continues to adhere to technological innovation, improves the quality of products and services and strictly controls operating costs. At the same time, the Group adjusts the market layout and sales strategy, strengthens overseas market development, continues to explore the domestic market, and strengthens project implementation.

Revenue by geographical locations

Year ended 31 December 2022
(Expressed in RMB'million)



Year ended 31 December 2021
(Expressed in RMB'million)



(ii) Revenue by operating segments

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

During the Year, external revenue from land drilling rigs amounted to approximately RMB743 million, representing an increase of RMB755 million as compared with Previous Year.

During the Year, external revenue from parts and components and others amounted to approximately RMB2,255 million, representing an increase of RMB562 million or 33.2% from approximately RMB1,693 million for Previous Year.

During the Year, external revenue from drilling engineering service business amounted to approximately RMB419 million, representing an increase of RMB182 million or 76.8% from approximately RMB237 million for Previous Year.

During the Year, external revenue from fracturing business amounted to approximately RMB1,059 million, representing an increase of RMB40 million or 3.9% from approximately RMB1,019 million for Previous Year.

Cost of Sales

During the Year, the Group's cost of sales amounted to approximately RMB4,016 million, representing an increase of RMB1,442 million or approximately 56.0% from RMB2,574 million for Previous Year. Mainly affected by the increase of sales scale, the cost of sales of each sector has also increased.

Gross Profit and Gross Margin

During the Year, the Group's gross profit amounted to approximately RMB460 million, representing an increase of RMB97 million or 26.7% from RMB363 million for Previous Year.

During the Year, the Group's overall gross margin was 10.3%, representing a decrease of 2.1 percentage points from 12.4% for Previous Year. This was mainly due to the substantial asset impairment in the drilling engineering services segment.

Expenses in the Year

During the Year, the Group's distribution expenses amounted to approximately RMB215 million, representing an increase of RMB53 million or 32.7% from RMB162 million for Previous Year. This was mainly due to the increase in related project expenses affected by increase in sales revenues.

During the Year, the Group's administrative expenses amounted to approximately RMB356 million, representing an increase of RMB21 million or 6.3% from RMB335 million for Previous Year. This was mainly due to the increase in depreciation and amortization of assets brought about by the Group's recovery of the Offshore Segment.

During the Year, the Group's research and development expenses amounted to approximately RMB124 million, representing a decrease of RMB22 million or 15.1% from RMB146 million for Previous Year.

During the Year, the Group's net finance expenses amounted to approximately RMB189 million, representing an increase of RMB56 million or 42.1% from approximately RMB133 million for Previous Year. This was mainly due to the substantial increase in the foreign exchange loss from foreign currency borrowings held as affected by the fluctuation of RMB exchange rate.

Loss before Income Tax

During the Year, the Group's loss before income tax amounted to approximately RMB625 million, representing a decrease of RMB120 million or 16.1% from RMB745 million for Previous Year.

Income Tax Expense/Credit

During the Year, the Group's income tax expense amounted to approximately RMB3 million, compared with the income tax credit of approximately RMB11 million for Previous Year.

Loss for the Year

During the Year, the loss for the Year amounted to approximately RMB625 million compared with approximately RMB734 million for Previous Year. Specifically, loss attributable to equity shareholders of the Company was approximately RMB634 million, and the profit attributable to non-controlling interests was approximately RMB9 million. During the Year, the net loss margin was 14.2%, compared with a net loss margin of 24.4% for Previous Year.

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

During the Year, EBITDA amounted to approximately RMB-102 million, compared with approximately RMB-430 million for Previous Year. This was mainly attributable to the increase in oversea orders and sales revenues of drilling rigs. The EBITDA margin was -2.3%, compared with -14.6% for Previous Year.

Dividends

As at 31 December 2022, the Board does not recommend distribution of annual dividends.

Source of Capital and Borrowings

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

As at 31 December 2022, the Group's borrowings amounted to approximately RMB4,948 million, representing a decrease of RMB198 million as compared to the amount as at 31 December 2021. Specifically, borrowings repayable within one year amounted to approximately RMB4,342 million, representing a decrease of RMB822 million or 16.0%, as compared to 31 December 2021.

Deposits and Cash Flow

As at 31 December 2022, the Group's cash and cash equivalents amounted to approximately RMB601 million, representing a decrease of approximately RMB102 million as compared to 31 December 2021.

During the Year, the Group's net cash outflow from operating activities amounted to approximately RMB226 million; net cash inflow from investing activities amounted to approximately RMB71 million; and net cash inflow from financing activities amounted to approximately RMB25 million.

Assets Structure and Changes

As at 31 December 2022, the Group's total assets amounted to approximately RMB12,322 million. Specifically, current assets amounted to approximately RMB7,886 million, accounting for 64.0% of total assets, representing an increase of RMB1,137 million as compared to the amount as at 31 December 2021. This was mainly due to the increase in contract assets, trade receivables and other receivables. Non-current assets amounted to approximately RMB4,436 million, accounting for 36.0% of total assets, representing a decrease of approximately RMB562 million as compared to the amount as at 31 December 2021. This was mainly due to the decrease in long-term receivables, real estates, plant and equipment in the Offshore Segment.

Liabilities

As at 31 December 2022, the Group's total liabilities amounted to approximately RMB9,128 million. Specifically, current liabilities amounted to approximately RMB8,377 million, accounting for approximately 91.8% of total liabilities, representing an increase of approximately RMB584 million as compared to 31 December 2021. And non-current liabilities amounted to approximately RMB751 million, accounting for approximately 8.2% of total liabilities, representing an increase of approximately RMB543 million as compared to 31 December 2021. As at 31 December 2022, the Group's total liabilities/total assets ratio was 74.1%, representing an increase of 6 percentage points as compared to 31 December 2021.

Equity

As at 31 December 2022, the total equity amounted to approximately RMB3,194 million, representing a decrease of RMB552 million as compared to 31 December 2021. The total equity attributable to equity shareholders of the Company amounted to approximately RMB2,964 million, representing a decrease of RMB574 million as compared to 31 December 2021. Non-controlling interests amounted to approximately RMB230 million, representing an increase of RMB21 million as compared to 31 December 2021. During the Period, the Group's basic loss per share was approximately RMB11.98 cent, and diluted loss per share was RMB11.98 cent.

Capital Expenditure, Major Investment and Capital Commitments

During the Year, capital expenditure of the Group on infrastructure and technical improvements amounted to approximately RMB118 million, representing a decrease of approximately RMB33 million as compared to Previous Year.

As at 31 December 2022, the capital commitment of the Group amounted to approximately RMB6 million, which was used to optimize and adjust the Group's business and production capacity.

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

During the Year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's Shares.

AUDIT COMMITTEE

The Audit Committee comprises all the independent non-executive Directors with written terms of reference in compliance with the Listing Rules. The Audit Committee is responsible for reviewing and supervising the adequacy and effectiveness of the Group's financial reporting system, internal control systems and risk management system and associated procedures and providing advices and recommendations to the Board.

The Audit Committee shall hold at least two meetings a year and review opinions of internal auditors, matters in respects of internal control, risk management and financial reporting. The Audit Committee has reviewed the consolidated financial statements of the Group for the year ended 31 December 2022 and the accounting principles and practices adopted by the Group during the Year.

The Audit Committee is also responsible for reviewing the compliance of the corporate governance issues, the corporate governance report and the corporate governance policy.

COMPLIANCE WITH THE CG CODE

The Company has complied with the principles and code provisions of the CG Code throughout the year ended 31 December 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.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a set of its own code of conduct regarding Directors' dealings in the Company's securities (the "**Code for Securities Trading**") with terms no less exacting than the Model Code.

Specific enquiry has been made of all the Directors and all the Directors have confirmed that they have complied with the Code for Securities Trading and the Model Code throughout the year ended 31 December 2022.

The Company has also established written guidelines no less exacting than the Model Code (the "**Employees Written Guideline**") for securities transactions by employees who are likely to be procession 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.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT FOR 2022

This announcement is published on both the websites of the Company (www.hh-gltd.com) and of the Stock Exchange (www.hkexnews.hk). The annual report of the Company for the year ended 31 December 2022 will be dispatched to shareholders of the Company and published on the aforesaid websites in due course.

DEFINITION

"Audit Committee"	the audit committee of the Company
"Board"	the Board of Directors of the Company
"CG Code"	Corporate Governance Code set out in Appendix 14 to the Listing Rules
"Code for Securities Trading"	code for securities trading adopted by the Company since 21 January 2008
"Company"	Honghua Group Limited
"Directors"	directors of the Company
"During the Year/Period"	for the year ended 31 December 2022

"Group", "Honghua", or "Honghua Group"	the Company and its subsidiaries
"HK$" or "HK dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Previous Year"	for the year ended 31 December 2021
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules
"PRC" or "China"	the People's Republic of China, unless the context requires otherwise, reference in this announcement of the PRC or China excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"RMB"	Renminbi, the lawful currency of the PRC
"Share(s)"	ordinary shares issued by the Company, with a nominal value of HK$0.10 each
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"US"	the United States of America, including its territories and possessions
"US$"	United States dollars, the lawful currency of the US

On behalf of the Board
Honghua Group Limited
Wang Xu
Chairman

Hong Kong, 28 March 2023

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