宏华集团
HONGHUA GROUP

Honghua Group Limited
宏華集團有限公司

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

(Stock code: 0196)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2023

FINANCIAL HIGHLIGHT

	Six months ended 30 June		
	2023	2022	
	(Unaudited)	(Unaudited)	Changes
Turnover *(RMB'000)*	**2,494,437**	1,509,177	65.3%
Gross profit *(RMB'000)*	**152,202**	(71,172)	–
Gross profit margin *(%)*	**6.1%**	(4.7%)	An increase of 10.8 percentage points
Operating loss *(RMB'000)*	**(22,563)**	(416,369)	–
Loss attributable to equity shareholders of the Company *(RMB'000)*	**(154,192)**	(523,382)	–
Loss per share			
– Basic *(RMB cents)*	**(2.91)**	(9.88)	–
– Diluted *(RMB cents)*	**(2.91)**	(9.88)	–

The Board does not recommend payment of interim dividend for the six months ended 30 June 2023.

INTERIM RESULTS

The Board of the Company hereby announces the unaudited interim financial results of the Group for the six months ended 30 June 2023, together with the comparative figures for the corresponding period in 2022. These interim results have not been reviewed or audited by the Company's auditors but have been reviewed by the Company's Audit Committee, which comprises solely the independent non-executive Directors, one of whom chairs the Audit Committee.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2023

	Notes	Unaudited Six months ended 30 June 2023 RMB'000	2022 RMB'000
Revenue	2	**2,494,437**	1,509,177
Cost of sales		**(2,342,235)**	(1,580,349)
Gross profit (loss)		**152,202**	(71,172)
Distribution expenses		**(82,161)**	(111,867)
Administrative expenses		**(121,462)**	172,039
Research and development expenses		**(37,018)**	59,140
Net impairment losses on financial assets and contract assets		**(26,010)**	(98,192)
Other income, net		**25,610**	32,783
Other gains, net		**66,276**	63,258
Operating loss	3	**(22,563)**	(416,369)
Finance income		**12,475**	16,442
Finance expenses		**(155,690)**	(162,454)
Finance expenses – net		**(143,215)**	(146,012)
Share of net losses of an associate and joint ventures accounted for using the equity method		**(1,371)**	(1,157)
Loss before income tax		**(167,149)**	(563,538)
Income tax (expense) credit	4	**(971)**	14,856
Loss for the period		**(168,120)**	(548,682)
Loss attributable to:			
– Owners of the Company		**(154,192)**	(523,382)
– Non-controlling interests		**(13,928)**	(25,300)
		(168,120)	(548,682)
Loss per share attributable to the owners of the Company (expressed in RMB cents per share)			
Basic and diluted	5	**(2.91)**	(9.88)

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2023

	Unaudited	
	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
Loss for the period	**(168,120)**	(548,682)
Other comprehensive income		
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	**4,480**	(10,285)
Items that will not be reclassified to profit or loss		
Change in the fair value of equity investments at fair value through other comprehensive income	**(131)**	–
Income tax relating to items that will not be reclassified to profit or loss	**20**	–
Other comprehensive income for the period, net of tax	**4,369**	(10,285)
Total comprehensive income for the period	**(163,751)**	(558,967)
Total comprehensive income for period attributable to:		
Owners of the Company	**(149,823)**	(518,601)
Non-controlling interests	**(13,928)**	(40,366)
	(163,751)	(558,967)

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2023

	Notes	Unaudited 30 June 2023 RMB'000	Audited 31 December 2022 RMB'000
Non-current assets			
Property, plant and equipment	*6*	**2,537,436**	2,656,996
Right of use assets		**319,361**	322,625
Intangible assets		**299,636**	275,402
Investments accounted for using the equity method		**34,371**	35,624
Deferred income tax assets		**287,225**	263,994
Financial assets at fair value through other comprehensive income		**81,710**	81,599
Trade and other receivables	*8*	**718,950**	712,801
Other non-current assets		**117,593**	86,995
		4,396,282	4,436,036
Current assets			
Inventories		**1,741,971**	1,491,298
Contract costs		**223,690**	170,979
Contract assets		**1,106,478**	631,374
Trade and other receivables	*8*	**4,641,147**	4,656,550
Current tax recoverable		**8,199**	3,762
Financial assets at fair value through other comprehensive income		**96,015**	31,238
Pledged bank deposits		**65,680**	210,249
Term deposit		**90,000**	90,000
Cash and cash equivalents		**790,403**	601,001
		8,763,583	7,886,451
Total assets		**13,159,865**	12,322,487

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

AT 30 JUNE 2023

	Notes	**Unaudited 30 June 2023** *RMB'000*	Audited 31 December 2022 *RMB'000*
EQUITY			
Share capital		**488,023**	488,023
Other reserves		**4,270,524**	4,264,762
Accumulated losses		**(1,943,010)**	(1,788,991)
Equity attributable to owners of the Company		**2,815,537**	2,963,794
Non-controlling interests		**216,273**	230,201
		3,031,810	3,193,995
Non-current liabilities			
Trade and other payables	*9*	**–**	78,197
Borrowings	*7*	**2,380,465**	623,174
Deferred income		**11,542**	12,550
Lease liabilities		**25,511**	37,504
		2,417,518	751,425
Current liabilities			
Contract liabilities		**743,521**	760,953
Trade and other payables	*9*	**4,159,646**	3,199,298
Income tax payable		**39,461**	27,209
Borrowings	*7*	**2,703,730**	4,324,420
Provisions for other liabilities and charges		**27,051**	29,748
Deferred income		**8,183**	6,949
Lease liabilities		**28,945**	28,490
		7,710,537	8,377,067
Total liabilities		**10,128,055**	9,128,492
Total equity and liabilities		**13,159,865**	12,322,487

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 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, Cap22 (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 ("SEHK") on 7 March 2008.

This interim condensed consolidated financial information is presented in Chinese Renminbi ("RMB"), unless otherwise stated, and was approved for issue by the Board of Directors of the Company on 29 August 2023.

This interim condensed consolidated financial information has not been audited.

2 SEGMENT AND REVENUE INFORMATION

(i) Description of segments

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 services.

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 the interim condensed consolidated statement of profit or loss.

(ii) Segment information

The table below shows the segment information and the basis on which revenue is recognized regarding the Group's reportable segments for the six months ended 30 June 2023 and 2022 respectively:

	Land drilling rigs Six months ended 30 June		Parts and components and others Six months ended 30 June		Drilling engineering services Six months ended 30 June		Fracturing services Six months ended 30 June		Total Six months ended 30 June	
	2023	2022	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Segment revenue	**1,154,829**	171,579	**1,369,857**	729,384	**227,679**	198,865	**230,206**	443,559	**2,982,571**	1,543,387
Inter-segment revenue	**–**	–	**(488,134)**	(34,210)	**–**	–	**–**	–	**(488,134)**	(34,210)
Revenue from external customers	**1,154,829**	171,579	**881,723**	695,174	**227,679**	198,865	**230,206**	443,559	**2,494,437**	1,509,177
Timing of revenue recognition										
At a point in time	**303,281**	171,579	**801,927**	641,621	**–**	–	**11,947**	126,235	**1,117,155**	939,435
Over time	**851,548**	–	**28,125**	13,270	**227,679**	198,865	**218,259**	317,324	**1,325,611**	529,459
Lease income	**–**	–	**51,671**	40,283	**–**	–	**–**	–	**51,671**	40,283
Reportable segment profit (loss)	**66,014**	(96,498)	**49,940**	(215,630)	**(15,982)**	(144,441)	**(129,388)**	(42,530)	**(29,416)**	(499,099)

Given the manufacturing processes of the Group's business are in a form of vertical integration, the Group's CODM 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 2023, 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:

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
Segment loss		
– for reportable segments	**(29,416)**	(499,099)
Elimination of inter-segment profit	**(58,860)**	(3,779)
Segment loss derived from Group's external customers	**(88,276)**	(502,878)
Share of post-tax losses of joint ventures	**(1,371)**	(1,157)
Other income and other gains, net	**91,886**	96,041
Finance income	**12,475**	16,442
Finance expenses	**(155,690)**	(162,454)
Unallocated head office and corporate expenses	**(26,173)**	(9,532)
Loss before income tax	**(167,149)**	(563,538)

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

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
PRC (country of domicile)	**1,188,934**	946,650
Middle East	**819,938**	124,112
Europe and Central Asia	**286,324**	33,573
Africa	**101,834**	375,937
South Asia and South East Asia	**52,102**	925
Americas	**45,305**	27,980
	2,494,437	1,509,177

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

	30 June	31 December
	2023	2022
	RMB'000	*RMB'000*
PRC (country of domicile)	**2,780,897**	2,949,692
Middle East	**450,106**	389,420
Africa	**34,371**	35,623
Europe and Central Asia	**1,306**	1,301
Americas	**38**	1,606
	3,266,718	3,377,642

For the six months ended 30 June 2023, revenue of approximately RMB357,110,000 (six months ended 30 June 2022: RMB163,226,000) was derived from one external customer. The revenue was attributable to the sales of land drilling rigs and parts and components and others (six months ended 30 June 2022: parts and components and others). No other customer contributed over 10% of the total revenue of the Group.

3 OPERATING LOSS

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

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
Write down of inventories	**44,582**	115,322
Provision for impairment of financial assets	**16,010**	82,485
Provision for impairment of contract assets	**10,000**	15,707
Provision for impairment of property, plant and equipment, lease prepayment and other intangible assets	**36,197**	17,646
Gains on disposal of property, plant and equipment, lease prepayment and other intangible assets	**(773)**	(1,660)

4 INCOME TAX EXPENSE (CREDIT)

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

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
Current income tax		
– Hong Kong Profits Tax (i)	**–**	–
– The PRC (ii)	**10,697**	2,376
– Other jurisdictions (iii)	**10,648**	9,787
Deferred income tax	**(20,374)**	(27,019)
	971	(14,856)

(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 2023 and 2022.

(ii) The 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 2023 and 2022, 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, Gansu Hongteng, 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 2023 and 2022.

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

On 23 April 2020, State Taxation Administration issued Notice 23(2020) ("the Notice") 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.

(c) Honghua Oil & Gas Engineering Technology Services Limited ("Sichuan Oil & Gas Services")

During the six months ended 30 June 2023, according to the Notice, Sichuan Oil & Gas Services is qualified for the 15% preferential CIT rate. During the six months ended 30 June 2022, according to the Certificate of Hitech Enterprises (Certificate No.: GR201951001257), CIT of Sichuan Oil & Gas Services was accrued at a tax rate of 15%.

(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 2023 and 2022. 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 six months ended 30 June 2023 is based on the loss attributable to owners of the Company for the period of RMB154,192,000 (six months ended 30 June 2022:loss of RMB523,382,000) and the weighted average number of shares of 5,294,906,000 (six months ended 30 June 2022: 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.

	Six months ended 30 June	
	2023	2022
Loss attributable to owners of the Company *(RMB'000)*	**(154,192)**	(523,382)
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)*	**(2.91)**	(9.88)

6 PROPERTY, PLANT AND EQUIPMENT

	Buildings held for own use *RMB'000*	Plant and machinery *RMB'000*	Furniture, fittings and equipment *RMB'000*	Motor vehicles *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
At 31 December 2022						
Cost	1,659,858	1,623,366	718,501	90,389	111,679	4,203,793
Accumulated depreciation and impairment	(385,997)	(555,057)	(550,811)	(54,932)	–	(1,546,797)
Net book amount	1,273,861	1,068,309	167,690	35,457	111,679	2,656,996
Six months ended 30 June 2023						
Opening net book amount	1,273,861	1,068,309	167,690	35,457	111,679	2,656,996
Additions	2,312	3,479	12,636	6	17,732	36,165
Transfer from construction in progress	2,046	56	995	2,619	(5,716)	–
Disposals	–	(939)	(6,244)	(109)	–	(7,292)
Depreciation	(48,887)	(44,175)	(43,993)	(832)	–	(137,887)
Currency translation difference	–	25,431	23	–	–	25,454
Impairment provision of fixed assets	–	–	–	–	(36,000)	(36,000)
Closing net amount	1,229,332	1,052,161	131,107	37,141	87,695	2,537,436
At 30 June 2023						
Cost	1,664,216	1,626,901	732,132	93,014	123,695	4,239,958
Accumulated depreciation and impairment	(434,884)	(574,740)	(601,025)	(55,873)	(36,000)	(1,702,522)
Net book amount	1,229,332	1,052,161	131,107	37,141	87,695	2,537,436

7 BORROWINGS

	30 June 2023 RMB'000	31 December 2022 RMB'000
Bank loans		
Secured (i)		
– Current portion	**304,904**	962,282
– Non-current portion	**438,653**	419,102
	743,557	1,381,384
Unsecured		
– Current portion	**2,398,826**	3,362,138
– Non-current portion	**1,496,812**	204,072
	3,895,638	3,566,210
Unsecured loan from related party		
– Non-current portion (ii)	**445,000**	–
Total borrowings	**5,084,195**	4,947,594
Analysed as:		
– Current portion	**2,703,730**	4,324,420
– Non-current portion	**2,380,465**	623,174

(i) As at 30 June 2023, the bank loans were secured by bills receivables as collateral of RMB26,626,000, term deposit as collateral of RMB90,000,000, trade receivables as collateral of RMB427,217,900, property, plant and equipment as collateral of RMB84,712,000 and 20% equity interest of Honghua Company, a subsidiary of the Group.

As at 31 December 2022, the bank loans were secured by pledged bank deposits as collateral of RMB88,392,000, term deposit as collateral of RMB90,000,000, bills receivables as collateral of RMB159,396,000, trade receivables as collateral of RMB409,745,000. In addition, the bank loans were also secured by 20% equity interest of Honghua Company, a subsidiary of the Group.

(ii) As at 3 March 2023, Honghua (China) Investment Co., Ltd. ("Honghua China"), a subsidiary of the Group had entered into a loan agreements with Dongfeng Electric Finance Co., Ltd. ("Dongfang Electric Finance") and Dongfang Electric Finance agreed to provide RMB1,350,000,000 credit facility to the Honghua China. At the end of 30 June 2023, Honghua China had drawdown RMB445,000,000 from Dongfang Electric Finance, which is repayable after three years since the date of drawdown.

At each statement of financial position date, the Group had the following undrawn borrowing facilities:

	30 June 2023 *RMB'000*	31 December 2022 *RMB'000*
Fixed rate		
Expiring within one year (bank loans and bill facilities)	**2,218,000**	2,096,306

As at 30 June 2023 and 31 December 2022, 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*
At 30 June 2023					
Trade and other payables (i)	**4,070,549**	**–**	**–**	**–**	**4,070,549**
Borrowings (excluding senior notes)	**2,760,663**	**892,206**	**1,707,727**	**–**	**5,360,596**
Lease liabilities	**30,202**	**26,175**	**–**	**–**	**56,377**
Total	**6,861,414**	**918,381**	**1,707,727**	**–**	**9,487,522**

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*
At 31 December 2022					
Trade and other payables (i)	3,080,873	64,841	17,657	–	3,163,371
Borrowings (excluding senior notes)	4,323,310	255,754	436,274	–	5,015,338
Lease liabilities	30,228	26,429	11,490	–	68,147
Total	7,434,411	347,024	465,421	–	8,246,856

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

8 TRADE AND OTHER RECEIVABLES

	30 June 2023 *RMB'000*	31 December 2022 *RMB'000*
Trade receivables (i)	**3,081,498**	3,628,254
Bills receivable	**445,307**	404,350
Less*:* provision for impairment of trade receivables	**(652,093)**	(614,276)
	2,874,712	3,418,328
Amount due from related parties		
Trade	**683,227**	338,272
Non-trade	**97,303**	283,938
Less*:* provision for impairment of trade receivables for amount due from related parties	**(6,284)**	(9,195)
	774,246	613,015
Finance lease receivable	**335,772**	432,263
Less*:* provision for impairment of finance lease receivable	**(73,109)**	(81,461)
Value-added tax recoverable	**176,655**	116,985
Prepayments	**1,073,328**	684,456
Less*:* provision for prepayments	**–**	(28,333)
Other receivables	**386,137**	412,286
Less*:* provision for impairment of other receivables	**(187,644)**	(198,188)
	5,360,097	5,369,351
Representing:		
Current portion	**4,641,147**	4,656,550
Non-current portion	**718,950**	712,801
	5,360,097	5,369,351

(i) As at 30 June 2023 and 31 December 2022, 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 2023 *RMB'000*	31 December 2022 *RMB'000*
Within 1 year	**2,505,905**	3,256,390
Over 1 year	**1,045,750**	491,015
	3,551,655	3,747,405

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.

9 TRADE AND OTHER PAYABLES

	30 June 2023 *RMB'000*	31 December 2022 *RMB'000*
Trade payables	**2,328,231**	1,667,336
Amounts due to related parties		
Trade	**392,387**	472,170
Non-trade	**2,134**	10,505
Bills payable	**924,774**	553,179
Other payables	**512,120**	574,305
	4,159,646	3,277,495
Representing:		
Current portion	**4,159,646**	3,199,298
Non-current portion	**–**	78,197
	4,159,646	3,277,495

As at 30 June 2023 and 31 December 2022, the ageing analysis of the trade payables and bills (including amounts due to related parties of trading in nature) is as follows:

	30 June 2023 *RMB'000*	31 December 2022 *RMB'000*
Within 1 year	**3,104,129**	1,958,477
Over 1 year	**541,263**	734,208
	3,645,392	2,692,685

10 DIVIDENDS

No dividend was approved or paid in respect of the previous year during the six months ended 30 June 2023 (six months ended 30 June 2022: Nil).

The board of directors of the Company does not recommend the payment of an interim dividend for the six months ended 30 June 2023 (six months ended 30 June 2022: Nil).

11 BASIS OF PREPARATION OF INTERIM FINANCIAL REPORT

This interim condensed consolidated financial information for the six months reporting period ended 30 June 2023 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 2022 and any public announcements made by the Group during the interim reporting period.

For the six months ended 30 June 2023, the Group reported a net loss of approximately RMB168,120,000 and an operating cash inflow of approximately RMB80,745,000. As at 30 June 2023, the Group's current assets exceeded its current liabilities by RMB1,053,046,000. 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 condensed consolidated financial statements. Therefore, the condensed 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.

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.

In the current interim period, the Group has applied the following new and amendments to IFRSs for the first time, which are mandatorily effective for the Group's annual period beginning on 1 January 2023 for the preparation of the Group's condensed consolidated financial statements:

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
Amendments to IAS 12	International Tax Reform – Pillar Two Model Rules	1 January 2023

Except as described below, 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.

Impacts and changes in accounting policies on application of Amendments to IAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction

(i) Accounting policies

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit and at the time of the transaction does not give rise to equal taxable and deductible temporary differences. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 requirements to the lease liabilities and the related assets separately. The Group recognises a deferred tax asset related to lease liabilities to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised and a deferred tax liability for all taxable temporary differences.

(ii) Transition and summary of effects

The Group has changed its accounting policies following the adoption of Amendments to IAS 12. From the effective date on 1 January 2023, the Group recognised deferred income tax assets and deferred income tax liabilities for the temporary differences arising on leases that gave rise to equal amounts of taxable and deductible temporary differences on initial recognition date.

12 EVENTS OCCURRING AFTER REPORTING PERIOD

On 18 July 2023, the Company announced that all conditions precedent of the share subscription by Dongfang Investment have been fulfilled, and, as agreed between the Company and Dongfang Investment, the Completion had taken place on 18 July 2023. Upon the Completion, the Dongfang Subscription Shares, namely the 3,684,494,251 Shares, were duly allotted and issued by the Company to Dongfang Investment at the price of HK$0.2418 per Share, which brought a financing cash inflow of approximately HK$890,911,000(equivalent to approximately RMB814,613,000) to the Company.

After the Completion, the Company had a total of 9,040,489,151 shares in issue.

MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2023, the Group's turnover was RMB2,494 million, representing an increase of 65.3% as compared with RMB1,509 million in the corresponding period of Previous Year. Gross profit was approximately RMB152 million, representing an increase of RMB223 million as compared to the gross loss of RMB71 million in the corresponding period of Previous Year. The loss attributable to shareholders was approximately RMB154 million.

MARKET REVIEW

In the first half of 2023, crude oil prices remained broadly volatile against the backdrop of slowly declining inflation levels in Europe and the United States and continued interest rate hikes of the U.S. dollar. In the first half of 2023, the average price of BRENT crude oil futures was US$79.91 per barrel, and the average price of US West Texas Intermediate (WTI) crude oil was US$74.79 per barrel, representing a decrease of 23.85% and 26.51% year on year, respectively. However, OPEC's two unexpected production cuts also released a strong predictive signal, indicating that oil prices are expected to remain high in 2023 under the influence of the supply-demand game.

In accordance with the *Guiding Opinions on Energy Work in 2023* and the *Action Plan for Accelerating the Integrated Development of Oil and Gas Exploration and Development with New Energy* issued by the National Energy Administration, one of the important guidelines for China's energy work now is to comprehensively promote the oil and gas supply security and green development, and accelerate green and low-carbon transformation of the industry on the basis of stabilizing oil and increasing gas, and enhancing the supply capacity of oil and gas resources. The Group's overall development strategy and industrial layout are highly consistent with such guideline.

In terms of oil and gas supply security, by 2025, the annual domestic crude oil output needs to rebound and stabilize at 200 million tons, the annual natural gas output shall reach more than 230 billion cubic meters, and the non-conventional oil output may keep growing to 50 million tons in the next 15 years, so as to ensure China's energy security. As domestic oil companies continue to increase capital and technological investment in exploration and development, the equipment and service market related to oil and gas development will also maintain sustained growth.

In terms of green development, the *Action Plan* clearly requires that the oil and gas industry should be closely integrated with new energy, and should rapidly promote the substitution with electric energy, utilization of green energy, application of smart energy, and use of smart development and smart operation. As a pioneer in electric-driven fracturing, the Group is more active in deploying the green and low-carbon new energy industry and energy storage industry, and relevant businesses have benefited and will continue to benefit from the increasing market opportunities arising from green development.

Since the beginning of 2023, the installed wind power capacity has been growing fast, and the industry continues to boom. The national "14th Five-Year Plan" for Renewable Energy Development was officially published last June, proposing that during the "14th Five-Year Plan" period, the increase in power generation from 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, all of which will lay a solid foundation for the development of the wind power industry. As at the first half of 2023, new installed wind power capacity reached 22.99 million kW; the cumulative grid connected wind power capacity totaled to 390 million kW, including 360 million kW of onshore wind power and 31.46 million kW of offshore wind power.

Upon completion of the delivery of the Subscription Shares of Dongfang Investment on 18 July 2023, Dongfang Investment became the controlling shareholder of the Company, which will better support the Group's transformation, upgrading and development.

BUSINESS REVIEW

In the first half of 2023, with the recovery of the international market, new orders for drilling rigs increased steadily. A number of drilling rigs of the domestic and overseas drilling engineering service business all operated normally, and the wind power business continued to win the bids. The Group achieved a substantial increase in the number of orders in the first half of the year.

1. Drilling Equipment and Relevant Product Business

In the first half of 2023, the Group sold the drilling rigs with an aggregate amount of approximately RMB1,155 million, representing an increase of 571.5% as compared with RMB172 million in the corresponding period of Previous Year. Total sales of parts and components amounted to RMB882 million, representing an increase of 26.9% as compared with RMB695 million in the corresponding period of Previous Year.

During the Period, with the gradual recovery of the global economy, the demand at domestic and foreign markets gradually recovered. The demand for drilling equipment gradually expanded, which was evident in major oil-producing regions such as the Middle East/Africa/Asia. In the international market, the Group actively adjusted its market layout, strengthened market development, and focused on promoting the sales of complete drilling rigs in the Middle East market. During the Period, the Group secured orders for high-end drilling rigs from regular customers in the United Arab Emirates and Oman. In the domestic market, the Group strengthened the maintenance of old customer relationships and realized the sales of complete drilling rigs to PetroChina.

In the first half of 2023, the Group successively won a batch of key wind power projects, achieved breakthroughs in the new market of Hainan region; and hit a new high in the booster station business segment. In terms of the bidding distribution of new orders for jackets, a total of 110 sets of new orders for jackets were placed in the first half of 2023, of which the bids for 20 sets were won by the Group, representing a market share of 18.18%. As the mainstream product of the Group's (offshore) wind power business, jackets take a leading position in the industry in terms of market share. In the first half of 2023, it achieved a revenue of RMB240 million, representing an increase of 1,311.8% as compared with RMB17.0 million in the corresponding period of Previous Year.

2. *Fracturing Equipment and Service Business*

The total sales of equipment and engineering services provided during the Period amounted to approximately RMB230 million, representing a decrease of 48.1% compared with the RMB443 million in the corresponding period of Previous Year. The order value on hand was approximately RMB349 million, an increase of 90.7% from RMB183 million in the same period last year; the revenue of this business unit is expected to catch up the second half this year.

During the Period, the Group made great progress in the green, environmentally friendly and low-carbon shale gas development model combining gas and electricity. At the beginning of this year, the generation powered by gas engine together with electric fracturing service was successfully applied in the Weiyuan block of CNPC, realizing the large-scale application of the "develop shale gas with gas, power fracturing with gas-engine-generated electricity" mode in Sichuan and Chongqing. The all-electric fracturing operation was successfully realized for the first time in the Shanxi coalbed methane block, and the Group's strategic development goal oriented by green-powered and "Carbon Dioxide Peaking and Carbon Neutrality" is being fulfilled.

The group has made breakthroughs in the research and development of key fracturing equipment and technologies of unconventional oil and gas high-pressure fracturing, and we independently developed the enhanced version of 6,000 series electric fracturing pumps, which reduce the weight by 12%, and the overall pressure-bearing capacity meets the construction requirements of 175MPa, which can adapt to the large displacement, high pressure, and long-time continuous operation requirements of deep and ultra-deep unconventional oil and gas fracturing, laying the foundation for the high-pressure construction requirements of deep ground engineering. At present, the device is in the stage of industrial testing and finalization.

At the same time, the Group is putting effort to promote "intelligent fracturing". The self-developed overall digital solution for fracturing has been applied in the construction process of multiple fracturing platforms in the first half of the year; on the basis of remote centralized control, it has effectively realized the functions of automatic pressure control and drainage, automatic pumping, intelligent early warning, etc., and continuously optimized and improved the automation and digitalization of the whole process of fracturing. The group is establishing a new competitive advantage with the digitalization of fracturing.

3. *Drilling Engineering Service Business*

In the first half of 2023, total sales revenue from external drilling services provided by the Group was approximately RMB227 million, representing an increase of 14.1% as compared with RMB199 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 23,400 meters by the four operation teams. In the Huangguashan Block, the Group created a number of excellent indicators, including the average mechanical of 13.47 m/h, breaking the record of drilling footage in a single day in the 215.9 mm well section block for four consecutive days, and the drilling cycle of the whole well exceeding the target set by the contracting party, etc., all of which have been fully affirmed by the contracting party, and have also provided precious experience for speed increase and efficiency improvement in subsequent construction.

In terms of overseas markets, Iraq is the key target market for international operation of drilling engineering services of our Group. With excellent equipment performance, efficient production organization and strict safety management, the Group has made remarkable achievements in Iraq. In the first half of 2023, six operation teams carried out production and operation in various oilfields of Iraq, among which, despite the harsh challenges such as high temperature, sand dust and overtime work in Zubair Oilfield, the HH029 team carried out drilling operation five days ahead of schedule, and set new records in terms of relocation, completion and drilling speed, thus receiving great recognition from the contracting party. HH030 team and HH031 team have achieved full daily rate for many times in West Qurna Oilfield, with extremely high operational efficiency, and has also been praised by the contracting party for many times. This demonstrates that the Group's drilling services are highly recognized in the Iraqi market.

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 promoting "quality first". The Group 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 Spec 7K master bushing, insert bowl, and API Spec 8C deadline anchor. The Group newly obtained the CCC certificate for HTB46X and HTB61X motor, and passed the certificate renewal audit of QESHSE and special equipment testing organization. The Group has conducted the entire life cycle quality control over drilling rig projects, and carried out quality improvement measures for key products such as top drive, five-cylinder pumps and automated tools, thus further improving product reliability.

The Group continued to promote the development of oil and gas drilling equipment towards the direction of digitalization and intelligence. The overall project acceptance of each sub-topic of the "Intelligent Drilling Rigs" has been completed, and orders for some sub-items have been placed. The "Intelligent Electric Fracturing System" has been applied on multiple fracturing platforms to realize remote centralized control, with the pilot industrial application of 130MPa pipe manifolds and the industrial test of HH6000S pump completed. 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; the iron drillers completed high/low-temperature tests; and the power catwalk completed the slide shoe follow-up design and began prototype production.

In the first half of 2023, the Group applied for a total of 48 new patents and had 37 new licensed patents. The Group had a cumulative total of 506 patents in force, including a cumulative total of 214 invention patents, a cumulative total of 277 utility model patents, a cumulative total of 6 appearance patents and a cumulative total of 9 international patents.

HUMAN RESOURCES MANAGEMENT

During the Period, the Group adopted a series of measures for talent planning, career development, salary distribution incentives, welfare benefits protection, etc., established and optimized the "talent return" mechanism, introduced high-quality young talents, and formulated the 2023-2025 talent introduction and training plan for industry elites and high-potential talents, thereby attracting high-level talents from both home and abroad through multiple channels and approaches. As at 30 June 2023, the total headcount of the Group was 2,677, representing an increase of 10.2% as compared with the corresponding period of Previous Year. A personnel mobility mechanism has been established to strengthen internal communication and optimize the allocation of personnel. Organizational structures are streamlined and optimally adjusted to enhance operational effectiveness. The Group has completed the 100% tenure contractual management of its subsidiaries and quantifiable operating divisions by means of "hard indicators" in performance, "high incentives" for salary and "rigid distribution" of benefits, so as to clarify the rights, responsibilities and interests, and stimulate the vitality and motivation of talents.

OUTLOOK

In the domestic market, how to effectively guarantee national energy security has always been the primary task of China's energy development. At present, China's energy development is in a new stage of accelerating the planning and construction of a new energy system. As an indispensable and important part, oil and gas resources will be the bottom line of energy security that needs to be firmly established now and for a long period of time in the future. The National Energy Administration organized a conference in Beijing to promote the exploration and development of oil and gas in 2023, requiring that the national energy system and the oil and gas industry will continue to "push forward the energy revolution", "increase the exploration and development of oil and gas resources and increase their storage and production", coordinate the scientific and technological research and the application of results, build a scientific and long-term development strategy, and resolutely safeguard China's core demand for oil and gas. 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 be increased in the oil and gas industry in China.

In the international market, upstream oil and gas investment is expected to grow at 8% per year to approximately US$470 billion in 2023, which continued to recover from the cyclical low point of US$370 billion in 2020, according to data from Wood Mackenzie, a famous consulting firm. The recovery of upstream investment also means opportunities in the corresponding services market. According to the analysis and prediction of Rystad Energy, a renowned energy consulting firm, the global oil and natural gas contractor market will reach the peak at US$1 trillion in 2025 and remain high in the following years.

In the face of the promising macroeconomic trend at home and abroad, the Group will seize the development opportunities brought by the upturn cycle to the oil and gas industry, optimize its business structure internally and deeply explore the key markets externally, so as to build a global leading enterprise of high-end oil and gas equipment:

In terms of internationalization, the Group has been deeply rooted in the global oil and gas equipment and service business for over 20 years, with a well-established global market layout. We have accumulated and established a favorable brand image over the years, with considerable reputation and influence available. The Group will comprehensively promote global layout, continuously improve the Company's local operation capabilities, and build a mutually beneficial and win-win industrial chain and supply chain cooperation system. We will try to deepen the international production capacity cooperation, follow up the path of internationalization more steadfastly, and strive towards the strategic goal of building a global leading enterprise of high-end oil and gas equipment.

In terms of business structure optimization, the Group will take into account the characteristics of its industry to build a diversified industrial system related to "oil and gas equipment + services ", and form differentiated competitive edges through the integration of the "equipment + service + finance" portfolio. The Group will comprehensively implement leading strategies, promote equipment intelligence, product digitalization, industry greening and digital industrialization, so as to achieve low-carbon and digital transformation and significantly enhance the operational efficiency.

In terms of collaboration, the Group will continue to strengthen industrial collaboration with its peers by relying on the industrial layout of "Six Powers and Six Industries" of Dongfang Electric Corporation, identify long-term collaborative businesses, and form stable and long-term cooperation. The Group will focus on new energy fields such as wind power, solar energy, hydrogen energy and geothermal energy, seize new energy equipment manufacturing and service opportunities, and steadily expand related diversified industries such as heavy steel structures and integrated engineering, trading of supporting oil and gas products, etc. so as to provide a strong support against cyclical risks of the oil and gas industry.

FINANCIAL REVIEW

During the Period, the Group's gross profit and loss attributable to shareholders of the Company amounted to approximately RMB152 million and RMB154 million respectively, and gross margin and net loss margin amounted to 6.1% and 6.2% respectively. In the same period of Previous Year, the 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. The lift of the pandemic and the recovery of the international energy market have led to an increase in overseas revenue. However, due to the relatively high fixed costs of the Company, which could not be covered by the increase in revenue, as well as laying the foundation of the asset impairment provision, the Company recorded a net loss.

Revenue

During the Period, the Group's revenue amounted to approximately RMB2,494 million, representing an increase of RMB985 million or 65.3% from RMB1,509 million with the same period of Previous Year.

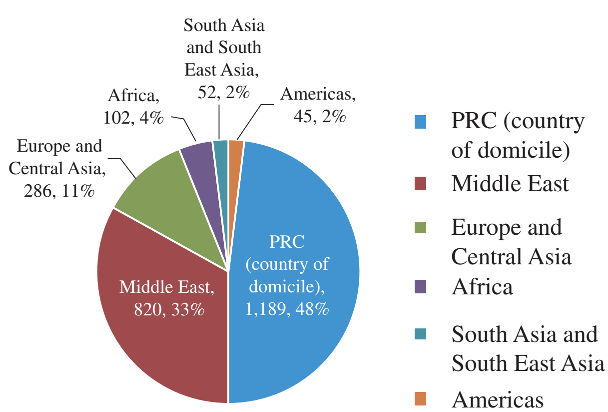
(i) Revenue by geographical locations

The Group's revenue by geographical segment during the Period: (1) revenue generated from the PRC amounted to approximately RMB1,189 million, accounting for approximately 47.7% of the total revenue, representing an increase of RMB242 million as compared with the same period of Previous Year; (2) The Group's export revenue amounted to approximately RMB1,305 million, accounting for approximately 52.3% of the total revenue, representing an increase of RMB743 million as compared with the same period of Previous Year.

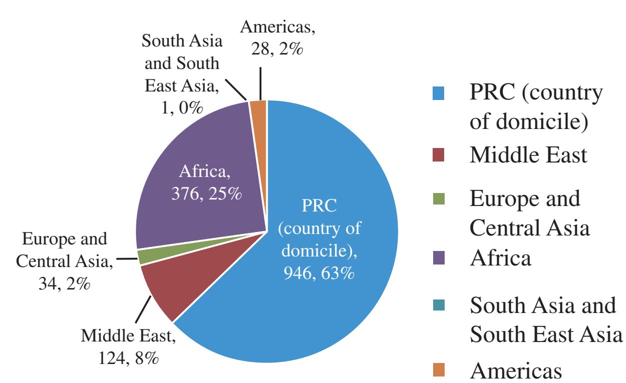
The regional distribution of the Group's sales revenue is influenced by the changes of oil and gas exploitation activities in various regions of the world. With the recovery of the international market, the foreign revenue increase significantly.

Revenue by geographical locations

Six months ended 30 June 2023
(Expressed in RMB'million)



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



(ii) Revenue by operating segments

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

During the Period, external revenue from land drilling rigs amounted to approximately RMB1,155 million, representing an increase of RMB983 million or 571.5% as compared to approximately RMB172 million in the same period of Previous Year.

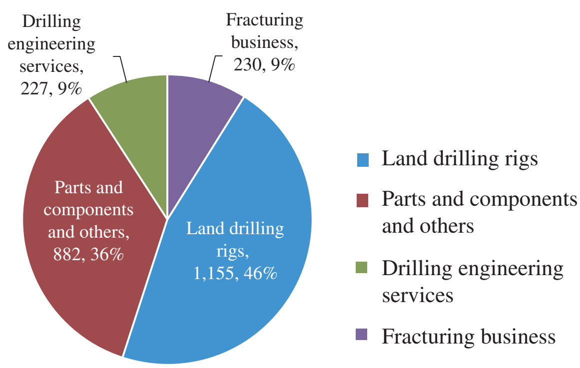
During the Period, external revenue from parts and components and others amounted to approximately RMB882 million, representing an increase of RMB187 million or 26.9% as compared to approximately RMB695 million in the same period of Previous Year.

During the Period, external revenue from drilling engineering service business amounted to approximately RMB227 million, representing an increase of RMB28 million or 14.1% as compared to RMB199 million in the same period of Previous Year.

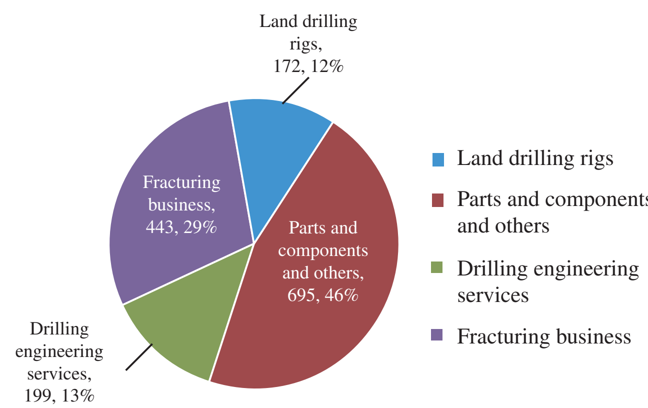
During the Period, revenue from fracturing business amounted to approximately RMB230 million, representing a decrease of RMB213 million or 48.1% as compared to approximately RMB443 million in the same period of Previous Year.

Revenue by operating segments

Six months ended 30 June 2023
(Expressed in RMB'million)



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



Cost of Sales

During the Period, the Group's cost of sales amounted to approximately RMB2,342 million, representing an increase of RMB762 million or approximately 48.2% as compared to RMB1,580 million in the same period of Previous Year. Mainly affected by the increase of sales revenue, the cost of sales of each sector has increased accordingly. Meanwhile, due to the Group's adjustment of business structure, the decrease in the proportion of products with low gross margins and the effective implementation of the reducing costs and increasing efficiency measures, the Group's profitability has improved.

Gross profit/(loss) and Gross Margin

During the Period, the Group's gross profit amounted to approximately RMB152 million, representing an increase of RMB223 million as compared to the gross loss of RMB71 million in the same period of Previous Year.

During the Period, the Group's overall gross margin was 6.1%, representing an increase of 10.8 percentage points as compared with the same period last year of -4.7%. These were mainly due to the restructuring of the group's business and the increase in sales of land drilling rigs.

Expenses in the Period

During the Period, the Group's distribution expenses amounted to approximately RMB82 million, representing a decrease of RMB30 million or 26.8% as compared to RMB112 million in the same period of Previous Year. Mainly due to the continuous optimization of the Group's product quality, related expenses have decreased year-on-year.

During the Period, the Group's administrative expenses amounted to approximately RMB121 million, representing a decrease of RMB51 million or 29.7% as compared to RMB172 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 research and development expenses amounted to approximately RMB37 million, representing a decrease of RMB22 million or 37.3% from RMB59 million for Previous Year.

During the Period, the Group's net finance expenses amounted to approximately RMB143 million, representing a decrease of RMB3 million or 2.1% as compared to net finance expense of RMB146 million in the same period of Previous Year. This was mainly due to the increase in exchange gains during the Period.

Loss before Income Tax

During the Period, the Group's loss before income tax amounted to approximately RMB167 million, representing a decrease in loss of RMB397 million as compared to the loss before income tax of RMB564 million in the same period of Previous Year.

Income Tax expense/credit

During the Period, the Group's income tax expense amounted to approximately RMB1 million, compared to the income tax credit of approximately RMB15 million in the same period of Previous Year.

Loss for the Period

During the Period, the loss for the Period amounted to approximately RMB168 million as compared to the loss of approximately RMB549 million in the same period of Previous Year. Specifically, loss attributable to equity shareholders of the Company was approximately RMB154 million, and the loss attributable to non-controlling interests was approximately RMB14 million. During the Period, the net loss margin was 6.2%, as compared to the net loss margin of 34.7% in in the same period of Previous Year.

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

During the Period, EBITDA amounted to approximately RMB134 million, as compared to approximately RMB-278 million in the same period of Previous Year. This was mainly due to the expansion of sales scale, which resulted in significant decrease of operating losses. The EBITDA profit margin was 5.4%, as compared to an EBITDA loss margin of 18.4% in the same period of Previous Year.

Dividends

As at 30 June 2023, 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 and bank borrowings.

As at 30 June 2023, the Group's bank borrowings and senior notes amounted to approximately RMB5,084 million, representing an increase of RMB136 million as compared to the amount as at 31 December 2022. Specifically, borrowings repayable within one year amounted to approximately RMB2,704 million, representing a decrease of RMB1,620 million or 37.5%, as compared to 31 December 2022.

Deposits and Cash Flow

As at 30 June 2023, the Group's cash and cash equivalents amounted to approximately RMB790 million, representing an increase of approximately RMB189 million as compared to 31 December 2022.

During the Period, the Group's net cash inflow from operating activities amounted to approximately RMB81 million; net cash outflow from investing activities amounted to approximately RMB81 million; and net cash inflow from financing activities amounted to RMB177 million.

Assets Structure and Changes

As at 30 June 2023, the Group's total assets amounted to approximately RMB13,160 million. Specifically, current assets amounted to approximately RMB8,764 million, accounting for approximately 66.6% of total assets, representing an increase of RMB878 million as compared to the amount as at 31 December 2022. This was mainly due to the increase in contract assets. Non-current assets amounted to approximately RMB4,396 million, accounting for approximately 33.4% of total assets, representing a decrease of RMB40 million as compared to the amount as at 31 December 2022. This was mainly due to the decreases in property, plant and equipment.

Liabilities

As at 30 June 2023, the Group's total liabilities amounted to approximately RMB10,128 million. Specifically, current liabilities amounted to approximately RMB7,711 million, accounting for approximately 76.1% of total liabilities, representing a decrease of RMB666 million as compared to 31 December 2022. And non-current liabilities amounted to approximately RMB2,417 million, accounting for approximately 23.9% of total liabilities, representing an increase of RMB1,666 million as compared to 31 December 2022. As at 30 June 2023, the Group's total liabilities/total assets ratio was 77.0%, representing an increase of 2.9 percentage points as compared to 31 December 2022.

Equity

As at 30 June 2023, the total equity amounted to approximately RMB3,032 million, representing a decrease of RMB162 million as compared to 31 December 2022. The total equity attributable to equity shareholders of the company amounted to approximately RMB2,816 million, representing a decrease of RMB148 million as compared to 31 December 2022. Non-controlling interests amounted to approximately RMB216 million, representing a decrease of RMB14 million as compared to 31 December 2022. During the Period, the Group's basic loss per share was RMB2.91 cents, and diluted loss per share was RMB2.91cents.

Capital Expenditure, Major Investment and Capital Commitments

During the Period, capital expenditure of the Group on infrastructure and technical improvements amounted to approximately RMB84 million, representing an increase of approximately RMB39 million as compared to the same period of Previous Year.

As at 30 June 2023, the capital commitment of the Group amounted to approximately RMB11 million, which was used to optimize and adjust the Group's business and production capacity.

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

On 18 January 2023, the Company entered into the Subscription Agreement with Dongfang Investment and the Supplementary Agreement was signed on 30 June 2023. Pursuant to the Subscription Agreement and the Supplementary Agreement, the Company has agreed to issue 3,684,494,251 Shares to Dongfang Investment, and the Dongfang Subscription Shares were delivered on 18 July 2023.

For details, please refer to the Company's announcement dated 18 July 2023.

Except for the subscription of shares by Dongfang Investment, 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 2023.

AUDIT COMMITTEE

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

The Audit Committee 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 2023 of the Company and the Group.

COMPLIANCE WITH THE CG CODE

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a set of Code for Securities Trading with terms no less exacting than that of the Model Code. After the specific enquiry made by the Company, all the Directors have confirmed that they have complied with the standards specified in both the Code for Securities Trading and the Model Code throughout the six months ended 30 June 2023.

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.

During the Period, no incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2023

This interim results announcement has been published on both the websites of the Company (www.hh-gltd.com) and the Stock Exchange (www.hkexnews.hk). The interim report of the Company for the six months ended 30 June 2023 will be dispatched to shareholders of the Company and published on the aforesaid websites in due course.

DEFINITION

"Audit Committee"	the audit committee of the Company
"Board"	the Board of Directors of the Company
"CG Code"	Corporate Governance Code set out in Appendix 14 to the Listing Rules
"Code for Securities Trading"	code for securities trading adopted by the Company since 21 January 2008
"Company"	Honghua Group Limited
"Directors"	directors of the Company
"Group" or "Honghua"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange (as amended from time to time)

"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules
"Period"	the six months ended 30 June 2023
"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
"the same period of Previous Year" or "the corresponding period of Previous Year"	the six months ended 30 June 2022
"RMB"	Renminbi, the lawful currency of the PRC
"Share(s)"	ordinary shares issued by the Company, with a nominal value of HK$0.10 each
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"US$"	United States of America dollars, the lawful currency of the United States of America

On behalf of the Board
Honghua Group Limited
Wang Xu
Chairman

PRC, 29 August 2023

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