

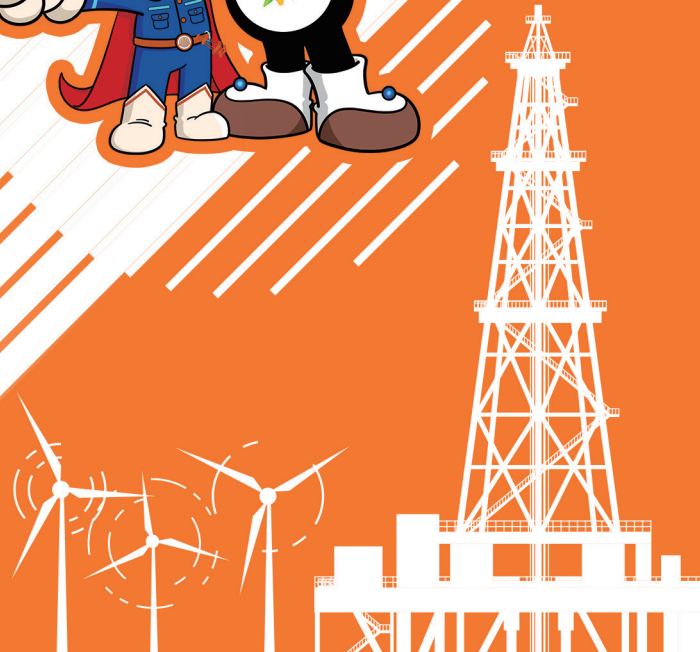


**宏华集团有限公司**  
**HONGHUA GROUP LIMITED**

*(incorporated in the Cayman Islands with limited liability)*  
Stock Code: 196

# 2023

## Interim Report





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# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

Mr. Wang Xu (*Chairman*)  
Mr. Zhu Hua

### Non-Executive Directors

Mr. Zhang Mi (*Resigned with effect from 31 July 2023*)  
Mr. Yang Yong

### Independent Non-Executive Directors

Mr. Chen Guoming  
Ms. Su Mei  
Mr. Chang Qing  
Mr. Wei Bin  
Mr. Zhang Shiju

## SECRETARY OF BOARD OF DIRECTOR

Ms. Zhuang Wenmin (*Resigned with effect from 9 January 2023*)  
Mr. He Bin (*Appointed with effect from 9 January 2023*)

## BOARD COMMITTEES

### Audit Committee

Mr. Wei Bin (*Committee Chairman*)  
Mr. Chen Guoming  
Ms. Su Mei  
Mr. Chang Qing  
Mr. Zhang Shiju

### Remuneration Committee

Ms. Su Mei (*Committee Chairman*)  
Mr. Wang Xu  
Mr. Wei Bin  
Mr. Zhang Shiju

### Nomination Committee

Mr. Wang Xu (*Committee Chairman*)  
Mr. Chang Qing  
Mr. Zhang Shiju

### Strategic Investment and Risk Control Committee

Mr. Wang Xu (*Committee Chairman*)  
Mr. Zhu Hua  
Mr. Zhang Mi (*Resigned with effect from 31 July 2023*)  
Mr. Chang Qing

## JOINT COMPANY SECRETARIES

Ms. Zhuang Wenmin (*Resigned with effect from 9 January 2023*)  
Mr. He Bin (*Appointed with effect from 9 January 2023*)  
Ms. Lee Mei Yi

## LEGAL ADVISOR AS TO HONG KONG LAW

Herbert Smith Freehills (*Resigned with effect from 1 January 2023*)  
Haiwen & Partners LLP (*Appointed with effect from 1 January 2023*)

# Corporate Information

## PRINCIPAL BANKERS AND NON-BANK FINANCIAL INSTITUTIONS

Bank of China Limited  
Industrial Bank Co., Ltd.  
Agricultural Bank of China Limited  
Evergrowing Bank Co., Ltd.  
Industrial and Commercial Bank of China Limited  
The Export-Import Bank of China  
China Development Bank  
Industrial and Commercial Bank of China (Asia) Limited  
China Development Fund Co., Ltd.  
Shanghai Pudong Development Bank Co., Ltd.  
Bank of Communications Co., Ltd.  
Chengdu Rural Commercial Bank Co., Ltd.  
Dongfang Electric Finance Co., Ltd.  
China Construction Bank Corporation  
Sichuan Bank Co., Ltd  
Kunlun Bank Co., Ltd

## AUDITOR

Deloitte Touche Tohmatsu  
Certified Public Accountants Registered  
Public Interest Entity Auditors  
35/F, One Pacific Place,  
88 Queensway  
Hong Kong

## REGISTERED OFFICE

Windward 3, Regatta Office Park  
PO Box 1350  
Grand Cayman, KY1-1108  
Cayman Islands

## HEAD OFFICE

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

## PLACE OF BUSINESS IN HONG KONG

5/F, Manulife Place  
348 Kwun Tong Road  
Kowloon  
Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

## STOCK CODE

The Stock Exchange of Hong Kong Limited: 0196

## WEBSITE

<http://www.hh-gltd.com>

# Financial Highlights

## OPERATING RESULTS

	Six months ended 30 June		Changes
	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>	
Turnover	<b>2,494,437</b>	1,509,177	65.3%
Operating loss	<b>-22,563</b>	-416,369	-
Loss before income tax	<b>-167,149</b>	-563,538	-
Loss attributable to equity shareholder of the company	<b>-154,192</b>	-523,382	-
<b>Figures per Share</b>			
Loss per share-Basic (RMB cents)	<b>-2.91</b>	-9.88	-
Loss per share-Diluted (RMB cents)	<b>-2.91</b>	-9.88	-

## FINANCIAL POSITION

	30 June	31 December	Changes
	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>	
Total non-current assets	<b>4,396,282</b>	4,436,036	-0.9%
Total current assets	<b>8,763,583</b>	7,886,451	11.1%
Total assets	<b>13,159,865</b>	12,322,487	6.8%
Total current liabilities	<b>7,710,537</b>	8,377,067	-8.0%
Total non-current liabilities	<b>2,417,518</b>	751,425	221.7%
Total liabilities	<b>10,128,055</b>	9,128,492	10.9%
Total equity	<b>3,031,810</b>	3,193,995	-5.1%

## Financial Highlights

### KEY FINANCIAL RATIOS\*

	Six months ended 30 June		
	2023	2022	Changes
Gross profit margin	<b>6.1%</b>	-4.7%	10.8 percentage points
Net Margin	<b>-6.2%</b>	-34.7%	28.5 percentage points
Return on average assets	<b>-1.2%</b>	-4.6%	3.4 percentage points
Return on average equity	<b>-5.3%</b>	-16.0%	10.7 percentage points

	30 June		
	2023	31 December 2022	Changes
Current ratio	<b>1.14</b>	0.94	21.3%
Quick ratio	<b>0.88</b>	0.74	18.9%
Total debt/Total assets	<b>38.6%</b>	40.2%	-1.6 percentage points
Total liabilities/Total assets	<b>77.0%</b>	74.1%	2.9 percentage points

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



# Management Discussion and Analysis



# Management Discussion and Analysis

## 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.

## Management Discussion and Analysis

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 to 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.

# Management Discussion and Analysis



## 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 six months ended 30 June 2023 (“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.

# Management Discussion and Analysis

## 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 in 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.

# Management Discussion and Analysis

## 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.

# Management Discussion and Analysis

## QUALITY MANAGEMENT AND RESEARCH & DEVELOPMENT

During the Period, the Group completed the major objectives and tasks of quality work in the first half of the year with the responsibility and target of 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 of personnel and optimize the allocation of human resources. 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.

# Management Discussion and Analysis

## 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 continues 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.

## Management Discussion and Analysis

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 as compared with the same period of Previous Year.

##### *(i) Revenue by geographical locations*

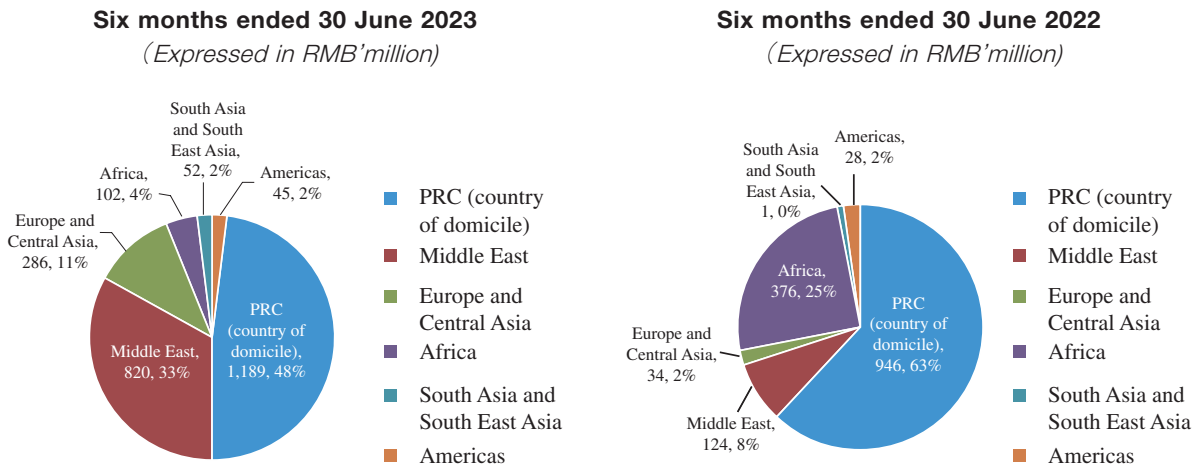
The Group’s revenue by geographical segment during the Period: (1) revenue generated from the PRC amounted to approximately RMB1,189 million, accounting for approximately 47.7% of the total revenue, representing an increase of RMB242 million as compared with the same period of Previous Year; (2) The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



# Management Discussion and Analysis

## Revenue by geographical locations



### (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.

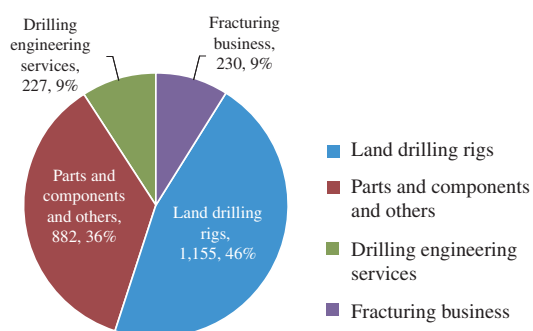
During the Period, revenue from fracturing business amounted to approximately RMB230 million, representing a decrease of RMB213 million or 48.1% as compared to approximately RMB443 million in the same period of Previous Year.

# Management Discussion and Analysis

## Revenue by operating segments

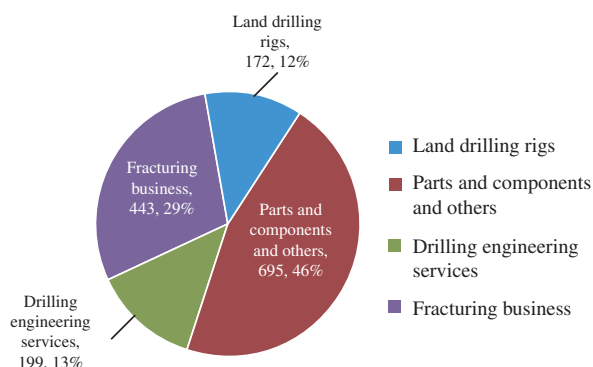
Six months ended 30 June 2023

(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.

# Management Discussion and Analysis

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 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 of directors ("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.

# Management Discussion and Analysis

## 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 RMB2.91 cents.

## 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.

# Corporate Governance Report

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

The Group is committed to achieving and maintaining high standards of corporate governance.

The Group's corporate governance principle emphasize a good quality Board. The Group believes that high standards of corporate governance is essential in providing a framework for the Company to safeguard the interests of shareholders, potential investors and business parties, and to enhance corporate value, formulate our business strategies and policies, and enhance its risk management and internal controls, transparency and accountability.

The Company has adopted and complied with the principles and code provisions as set out in the Corporate Governance Code (the "CG Code") as contained in Appendix 14 of the Listing Rules throughout the six months period from 1 January 2023 to 30 June 2023. The Board will continue to review and monitor the corporate governance practices of the Company for the purpose of complying with the CG Code and maintaining a high standard of corporate governance practices of the Company.

## 2. MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

## 3. INDEPENDENT NON-EXECUTIVE DIRECTORS

During the six months ended 30 June 2023, the Board at all times met the requirements of the Listing Rules relating to the appointment of independent Non-executive directors representing at least one-third of the Board.

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

# Corporate Governance Report

## 4. AUDIT COMMITTEE

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

The Audit Committee comprises five Independent Non-executive Directors, namely Mr. Wei Bin (Chairman of Audit Committee), 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.

## 5. REMUNERATION COMMITTEE

The Company has established a remuneration committee (the “Remuneration Committee”) with written terms of reference in compliance with Rules 3.25 and 3.26 of the Listing Rules. The primary duties of the Remuneration Committee are to review and approve the remuneration packages of the executive Directors and the senior management, compensation arrangements for termination of employment or engagement, and to make recommendations to the Board on the remuneration policy and structure of the Directors and the senior management, the incentive mechanism, and the establishment of procedures for developing the remuneration policy and the incentive mechanism.

The Remuneration Committee comprises four members, including three Independent Non-executive Directors, namely Ms. Su Mei (Chairman of Remuneration Committee), Mr. Wei Bin and Mr. Zhang Shiju, and one executive Director namely Mr. Wang Xu.

The Remuneration Committee normally meets at least once a year for reviewing the remuneration policy and structure and making recommendation to the Board and determining the annual remuneration packages of the executive Directors and the senior management and other related matters.

# Corporate Governance Report

## 6. NOMINATION COMMITTEE

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

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

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

## 7. CHANGE IN DIRECTOR’S BIOGRAPHICAL DETAILS UNDER RULE 13.51(B) OF THE LISTING RULES

Pursuant to Rule 13.51B(1) of the Listing Rules during the reporting period and up to the date of this report, the changes in information of Directors of the Company are set out below:

Directors	Details of Changes
Mr. Wei Bin	<ul style="list-style-type: none"> <li>– Appointed as a non-executive director of ANE (Cayman) Inc., a company currently listed on the Main Board of Hong Kong Stock Exchange (stock code: 9956) since 31 March 2023.</li> <li>– Resigned as a non-executive director of Hao Tian International Construction Investment Group Limited, a company currently listed on the Main Board of Hong Kong Stock Exchange (stock code: 1341) since 1 April 2023.</li> </ul>

## Report of the Directors

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

As at 30 June 2023, the interests and short positions of each Director and Chief Executive in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of the SFO), as recorded in the register required to be kept by the Company under Section 352 of Part XV of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code contained in Appendix 10 to the Listing Rules were as follows:

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

Name	Long/Short position	Nature of interest	Number of shares held	% of the issued share capital of the Company
Mr. Zhang Mi (Resigned with effect from 31 July 2023)	Long	Personal interest, corporate interest and settlor of a discretionary trust	323,408,548 <sup>(1)</sup>	6.03%
Ms. Su Mei	Long	Personal interest	150,000 <sup>(2)</sup>	0.002%

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

(2) Ms. Su Mei individually owns 150,000 Shares.

#### (B) Share Options of the Company

Name	Long/Short Position	Number of options held – Personal interest
Mr. Zhang Mi (Resigned with effect from 31 July 2023)	Long	1,190,000
Mr. Chen Guoming	Long	1,050,000

Save as disclosed above, as at 30 June 2023, none of the Directors and Chief Executives (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for Shares (or warrants or debentures, if applicable) of the Company and its associated corporations required to be disclosed pursuant to the SFO.



## Report of the Directors

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

The register of substantial shareholders required to be kept under section 336 of Part XV of the SFO shows that, as at 30 June 2023, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors and Chief Executives of the Company.

Name	Long/ Short Position	Number of shares held					Total	% of the issued share capital of the Company
		Personal interest		Corporate interest	Corporate interest and settlor of a discretionary trust			
		Share option	Shares Interest					
Wealth Afflux Limited	Long	-	318,202,548	-	-	318,202,548 <sup>(1)</sup>	5.94%	
Tricor Equity Trustee Limited	Long	-	-	-	733,545,441	733,545,441 <sup>(2)</sup>	13.69%	
Ms. Yi Langlin	Long	-	2,156,000	-	-	324,598,548 <sup>(3)</sup>	6.06%	
			322,442,548 (family interest)					
Dongfang Electric International Investment Co., Limited	Long	-	1,606,000,000	-	-	1,606,000,000 <sup>(4)</sup>	29.98%	
Dongfang Electric Corporation	Long	-	-	1,606,000,000	-	1,606,000,000 <sup>(4)</sup>	29.98%	

#### Notes:

- (1) Wealth Afflux Limited is held by Tricor Equity Trustee Limited (as the trustee of The ZYL Family Trust). The ZYL Family Trust is a discretionary trust established by Mr. Zhang Mi (as the settlor), with Tricor Equity Trustee Limited (as the trustee). The beneficiaries under The ZYL Family Trust are Mr. Zhang Mi and his family members.
- (2) Tricor Equity Trustee Limited, as the trustee of The ZYL Family Trust and the 5 other trusts, holds 733,545,441 Shares in total.
- (3) Ms. Yi Langlin, spouse of Mr. Zhang Mi, is deemed to be interested in 324,598,548 Shares in which Mr. Zhang Mi holds 1,190,000 share options.
- (4) Dongfang Electric International Investment Co., Limited is owned 100% by Dongfang Electric Corporation and holds 1,606,000,000 Shares. On 5 July 2023, Dongfang Electric Corporation and Dongfang Electric International Investment Co., Limited respectively disclosed the shares interest of 98.77% in the Company's shares as of 30 June 2023 subject to the details of Dongfang subscription of the Company's shares as mentioned in the announcement of the Company dated 30 June 2023.

Save as disclosed above, to the best of the Directors and the Chief Executives of the Company's knowledge, as at 30 June 2023, none of the persons, other than the Directors or the Chief Executives of the Company, had interests or short positions in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or recorded in the register as required under Section 336 of the SFO.

# Report of the Directors

## SHARE OPTION SCHEME

### (A) Share Option Scheme

Upon conditional approval by resolution in writing by all shareholders of the Company on 21 January 2008, the Company adopted a share option scheme (the "Share Option Scheme"). The vesting period of the Pre-IPO Share Option Scheme is ten years from the date of grant until 20 January 2018. As at 1 January 2023 and 30 June 2023, no options were available for grant under the scheme mandate. During the six month period ended 30 June 2023, no shares may be issued in respect of options granted under the Share Option Schemes. Details of the grant share options under the Share Option Scheme in the validity period ended 30 June 2023 were as follows:

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

## Report of the Directors

Particulars and movements of share options under the Share Option Scheme during the six months ended 30 June 2023 were as follows:

Name or category of participant	Number of share options					Outstanding as at 30/06/2023	Date of grant (DD/MM/YY)	Exercise period (DD/MM/YY)	Exercise price per Share HK\$	Price immediately preceding the grant date of share options HK\$
	Outstanding as at 01/01/2023	Granted during the six months ended 30 June 2023	Exercised during the six months ended 30 June 2023	Lapsed during the six months ended 30 June 2023	Cancelled during the six months ended 30 June 2023					
<b>Directors</b>										
Mr. Zhang Mi	1,190,000	-	-	-	-	1,190,000	02/07/2014	02/07/2014-01/07/2024	1.96	1.92
Mr. Chen Guoming	550,000	-	-	-	-	550,000	24/03/2014	24/04/2014-23/03/2024	2.024	2.02
	500,000	-	-	-	-	500,000	21/09/2016	21/09/2017-20/09/2026	0.44	0.435
<b>Sub-total</b>	<b>2,240,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,240,000</b>				
<b>Other</b>										
Employee	2,650,000	-	-	-	-	2,650,000	24/03/2014	24/04/2014-23/03/2024	2.024	2.02
Employee	12,935,308	-	-	391,900	-	12,543,408	02/07/2014	02/07/2014-01/07/2024	1.96	1.92
Employee	32,521,000	-	-	400,000	-	32,121,000	21/09/2016	21/09/2017-20/09/2026	0.44	0.435
<b>Sub-total</b>	<b>48,106,308</b>	<b>-</b>	<b>-</b>	<b>791,900</b>	<b>-</b>	<b>47,314,408</b>				
<b>Total</b>	<b>50,346,308</b>	<b>-</b>	<b>-</b>	<b>791,900</b>	<b>-</b>	<b>49,554,408</b>				

## Report of the Directors

### (B) Share Option Scheme of 2017

The 2017 Share Option Scheme is adopted by the Shareholders at the annual general meeting held on 14 June 2017. As at 30 June 2023, no options were granted or to be granted under the 2017 Share Option Scheme. No share options were granted to the following persons under the 2017 Share Option Scheme since the adoption thereof and up to the date of this report:

- (i) each of the directors, chief executive or substantial shareholders of the Company, or their respective associates;
- (ii) each participant with options to be granted in excess of the 1% individual limit;
- (iii) each related entity participant or service provider with options to be granted in any 12-month period exceeding 0.1% of the relevant class of shares in issue of the Company;
- (iv) the five highest paid individuals during the financial year; and
- (iv) other employee participants, related entity participants and service providers.

As at 1 January 2023 and 30 June 2023, 513,742,090 and 513,742,090 options were available for grant under the Share Option Scheme of 2017 respectively. For the period ended 30 June 2023, 513,742,090 shares may be issued in respect of options granted under the 2017 Share Option Scheme.

### RESTRICTED SHARE AWARD SCHEME

On 30 December 2011, the Board approved and adopted a restricted share award scheme (“the Original Scheme”). The Original Scheme has expired at 30 December 2021 for a term of 10 years commencing on the Adoption Date. As at 30 December 2021, in accordance with the Original Scheme Rules, the Trustee has purchased 97,817,000 of the Company’s Shares, accounting for 1.82% of the issued share capital of the Company and total of 36,917,700 shares were granted to the Selected Participants and out of which 190,000 Shares were subsequently cancelled. 61,089,300 Shares may be administered and have not yet been granted (representing 1.14% of the total number of issued Shares of the Company).

At the Board meeting of the Company held on 29 December 2021, the Board adopted the 2021 Restricted Share Award Scheme. The 2021 Scheme shall be effective for a term of 10 years commencing on the Adoption Date (29 December 2021). As at 1 January 2023 and 30 June 2023, 267,799,745 and 267,799,745 restricted shares were available for grant under the 2021 Restricted Share Award Scheme respectively. There are 267,799,745 restricted shares to be granted under the 2021 Restricted Share Award Scheme. With the prior approval of the Board, the Trustee may purchase Shares up to 5% of the issued share capital of the Company from time to time in accordance with the Scheme Rules (including 61,089,300 Shares which may be administered and have not yet been granted under the original Scheme). The Shares will be held in trust for the relevant Selected Participant until such Shares are vested with the relevant Selected Participants in accordance with the Scheme Rules. The Scheme shall be subject to the administration of the Board in accordance with the Scheme Rules. Details of the 2021 Restricted Share Award Scheme and the terms thereof are set out in the announcement of the Company dated 30 December 2021.

# Report of the Directors

## PURCHASE, REDEMPTION OR SALE 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 June 30, 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.

Please refer to the announcement made by the Company dated 18 July 2023 for details.

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.

## EVENTS AFTER THE END OF THE REPORTING PERIOD

Since the completion of the subscription of shares by Dongfang Investment under specific mandate on 18 July 2023, there were no significant events occurred that may affect the Company nor any its subsidiaries after the reporting Period and up to the date of publication of this interim report.

By Order of the Board  
**Honghua Group Limited**  
**Wang Xu**  
*Chairman*

PRC, 29 August 2023

## 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)
<b>Gross profit/(loss)</b>		<b>152,202</b>	(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
<b>Operating loss</b>	3	<b>(22,563)</b>	(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	13	(1,371)	(1,157)
<b>Loss before income tax</b>		<b>(167,149)</b>	(563,538)
Income tax (expense)/credit	4	(971)	14,856
<b>Loss for the period</b>		<b>(168,120)</b>	(548,682)
<b>Loss attributable to:</b>			
– Owners of the Company		(154,192)	(523,382)
– Non-controlling interests		(13,928)	(25,300)
		(168,120)	(548,682)
<b>Loss per share attributable to the owners of the Company (expressed in RMB cents per share)</b>			
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
<b>Loss for the period</b>	<b>(168,120)</b>	(548,682)
<b>Other comprehensive income</b>		
<i>Items that may be reclassified to profit or loss</i>		
Exchange differences on translation of foreign operations	4,480	(10,285)
<i>Items that will not be reclassified to profit or loss</i>		
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	–
<b>Other comprehensive income for the period – net of tax</b>	<b>4,369</b>	(10,285)
<b>Total comprehensive income for the period</b>	<b>(163,751)</b>	(558,967)
<b>Total comprehensive income for period attributable to:</b>		
Owners of the Company	(149,823)	(518,601)
Non-controlling interests	(13,928)	(40,366)
	<b>(163,751)</b>	(558,967)

## Unaudited Interim Condensed Consolidated Statement of Financial Position

At 30 June 2023

	<i>Notes</i>	<b>Unaudited 30 June 2023 RMB'000</b>	Audited 31 December 2022 RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	7	<b>2,537,436</b>	2,656,996
Right of use assets	8	<b>319,361</b>	322,625
Intangible assets	9	<b>299,636</b>	275,402
Investments accounted for using the equity method	13	<b>34,371</b>	35,624
Deferred income tax assets		<b>287,225</b>	263,994
Financial assets at fair value through other comprehensive income	15	<b>81,710</b>	81,599
Trade and other receivables	16	<b>718,950</b>	712,801
Other non-current assets		<b>117,593</b>	86,995
		<b>4,396,282</b>	4,436,036
<b>Current assets</b>			
Inventories		<b>1,741,971</b>	1,491,298
Contract costs		<b>223,690</b>	170,979
Contract assets		<b>1,106,478</b>	631,374
Trade and other receivables	16	<b>4,641,147</b>	4,656,550
Current tax recoverable		<b>8,199</b>	3,762
Financial assets at fair value through other comprehensive income	15	<b>96,015</b>	31,238
Pledged bank deposits		<b>65,680</b>	210,249
Term deposit		<b>90,000</b>	90,000
Cash and cash equivalents		<b>790,403</b>	601,001
		<b>8,763,583</b>	7,886,451
<b>Total assets</b>		<b>13,159,865</b>	12,322,487



## Unaudited Interim Condensed Consolidated Statement of Financial Position (Continued)

At 30 June 2023

	<i>Notes</i>	<b>Unaudited 30 June 2023 RMB'000</b>	Audited 31 December 2022 RMB'000
<b>EQUITY</b>			
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
		<b>3,031,810</b>	3,193,995
<b>Non-current liabilities</b>			
Trade and other payables	17	–	78,197
Borrowings	11	2,380,465	623,174
Deferred income		11,542	12,550
Lease liabilities	8	25,511	37,504
		<b>2,417,518</b>	751,425
<b>Current liabilities</b>			
Contract liabilities		743,521	760,953
Trade and other payables	17	4,159,646	3,199,298
Income tax payable		39,461	27,209
Borrowings	11	2,703,730	4,324,420
Provisions for other liabilities and charges	10	27,051	29,748
Deferred income		8,183	6,949
Lease liabilities	8	28,945	28,490
		<b>7,710,537</b>	8,377,067
<b>Total liabilities</b>		<b>10,128,055</b>	9,128,492
<b>Total equity and liabilities</b>		<b>13,159,865</b>	12,322,487

## Unaudited Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2023

	Unaudited											
	Attributable to owners of the Company											
	Share capital	Share premium	Other reserve	Capital reserve	Surplus reserve	Exchange reserve	Fair value reserve	Shares held for share award scheme	Accumulated losses	Total	Non-controlling interests	Total equity
Balance at 1 January 2023	488,023	3,597,179	61,199	512,321	473,007	(264,765)	10,439	(124,618)	(1,788,991)	2,963,794	230,201	3,193,995
<b>Comprehensive income</b>												
Loss for the period	-	-	-	-	-	-	-	-	(154,192)	(154,192)	(13,928)	(168,120)
Other comprehensive income	-	-	-	-	-	4,480	(111)	-	-	4,369	-	4,369
<b>Total comprehensive income</b>	-	-	-	-	-	4,480	(111)	-	(154,192)	(149,823)	(13,928)	(163,751)
<b>Transactions with owners</b>												
Options lapsed under share option schemes	-	-	-	(173)	-	-	-	-	173	-	-	-
Appropriation to surplus	-	-	-	-	1,566	-	-	-	-	1,566	-	1,566
<b>Total transactions with owners, recognised directly in equity</b>	-	-	-	(173)	1,566	-	-	-	173	1,566	-	1,566
Balance at 30 June 2023	488,023	3,597,179	61,199	512,148	474,573	(260,285)	10,328	(124,618)	(1,943,010)	2,815,537	216,273	3,031,810

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

For the six months ended 30 June 2023

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

# Unaudited Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2023

	Unaudited	
	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
<b>Operating activities</b>		
Cash generated from (used in) operations	97,484	(444,782)
Income tax paid	(16,739)	(1,719)
<b>Net cash generated from/(used in) operating activities</b>	<b>80,745</b>	<b>(446,501)</b>
<b>Investing activities</b>		
Proceeds from financing lease as lessor	–	10,430
Payment for additions of property, plant and equipment and construction in progress	(14,702)	(11,984)
Proceeds on disposal of property, plant and equipment	72	6,150
Receipts of debt investments	–	38,878
Expenditure on development projects and other intangible assets	(68,141)	(5,042)
Interest received	2,048	2,465
<b>Net cash (used in)/from investing activities</b>	<b>(80,723)</b>	<b>40,897</b>
<b>Financing activities</b>		
Repayments of borrowings	(2,783,802)	(1,769,268)
Payments of lease liabilities	–	(11,051)
Proceeds from borrowings	3,072,988	1,882,241
Receipts of loans from related parties	–	51,000
Issue of ordinary shares	–	10
Interest and charges paid	(111,973)	(109,766)
<b>Net cash from financing activities</b>	<b>177,213</b>	<b>43,166</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>177,235</b>	<b>(362,438)</b>
Cash and cash equivalents at the beginning of the period	601,001	703,417
Effect of foreign exchange rate changes	12,167	6,215
<b>Cash and cash equivalents at end of the period</b>	<b>790,403</b>	<b>347,194</b>

# Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2023

## 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.

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

For the six months ended 30 June 2023

### 2 SEGMENT AND REVENUE INFORMATION (CONTINUED)

#### (i) Description of segments (Continued)

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		Parts and components and others		Drilling engineering services		Fracturing services		Total	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		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)

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

For the six months ended 30 June 2023

### 2 SEGMENT AND REVENUE INFORMATION (CONTINUED)

#### (ii) Segment information (Continued)

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

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

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

For the six months ended 30 June 2023

### 2 SEGMENT AND REVENUE INFORMATION (CONTINUED)

#### (ii) Segment information (Continued)

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

	Six months ended 30 June	
	2023 RMB'000	2022 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
	<b>2,494,437</b>	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 RMB'000	2022 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
	<b>3,266,718</b>	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.



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

For the six months ended 30 June 2023

### 3 OPERATING LOSS

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

	Six months ended 30 June	
	2023 RMB'000	2022 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 RMB'000	2022 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.

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

For the six months ended 30 June 2023

### 4 INCOME TAX EXPENSE/(CREDIT) (CONTINUED)

#### (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.

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

For the six months ended 30 June 2023

### 4 INCOME TAX EXPENSE (CREDIT) (CONTINUED)

#### (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.

### 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)	<b>(154,192)</b>	(523,382)
Weighted average number of ordinary shares in issue (thousands)	<b>5,355,995</b>	5,355,995
Effect of the share award scheme (thousands)	<b>(61,089)</b>	(61,089)
Adjusted weighted average number of ordinary shares in issue (thousands)	<b>5,294,906</b>	5,294,906
Basic loss per share (RMB cents per share)	<b>(2.91)</b>	(9.88)

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

For the six months ended 30 June 2023

### 6 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).

### 7 PROPERTY, PLANT AND EQUIPMENT

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

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

For the six months ended 30 June 2023

### 8 LEASES

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

#### (i) Amounts recognised in the statement of financial position

The statement of financial position shows the following amounts relating to leases:

	<b>30 June 2023 RMB'000</b>	31 December 2022 RMB'000
<b>Right-of-use assets</b>		
Lease prepayments for land use rights	<b>316,812</b>	320,162
Buildings and equipment	<b>2,549</b>	2,463
	<b>319,361</b>	322,625
<b>Lease liabilities</b>		
Current	<b>28,945</b>	28,490
Non-current	<b>25,511</b>	37,504
	<b>54,456</b>	65,994

Additions to the right-of-use assets during the six months ended 30 June 2023 were RMB1,399,000 (six months ended 30 June 2022: RMB2,256,000).

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

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

	<b>Six months ended 30 June</b>	
	<b>2023 RMB'000</b>	2022 RMB'000
<b>Depreciation charge of right-of-use assets</b>		
Lease prepayments for land use rights	<b>4,479</b>	4,057
Buildings and equipment	<b>1,314</b>	858
Interest expense (included in finance cost)	<b>1,010</b>	1,878
Expense relating to short-term and low-value assets leases (included in cost of goods sold and distribution expenses)	<b>204,474</b>	7,540

The total cash outflow for leases during the six months ended 30 June 2023 was RMB216,395,000 (six months ended 30 June 2022: RMB18,591,000).

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

For the six months ended 30 June 2023

### 9 INTANGIBLE ASSETS

	Development cost and others <i>RMB'000</i>
<b>At 31 December 2022</b>	
Cost	390,190
Accumulated amortisation and impairment	(114,788)
<b>Net book amount</b>	<b>275,402</b>
<b>Six months ended 30 June 2023</b>	
Opening net book amount	275,402
Additions	38,984
Amortisation	(14,750)
<b>Closing net book amount</b>	<b>299,636</b>
<b>At 30 June 2023</b>	
Cost	429,174
Accumulated amortisation and impairment	(129,538)
<b>Net book amount</b>	<b>299,636</b>

During the six months ended 30 June 2023, the Group capitalized development cost was nil (six months ended 30 June 2022: RMB5,721,000).

### 10 PROVISIONS FOR OTHER LIABILITIES AND CHARGES

	Product warranties <i>RMB'000</i>	Compensation to ex-shareholder <i>RMB'000</i>	Legal claims <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
<b>At 31 December 2022</b>	7,653	15,919	2,550	3,626	29,748
Provisions during the period	-	-	1,526	165	1,691
Utilised during the period	(4,388)	-	-	-	(4,388)
<b>At 30 June 2023</b>	<b>3,265</b>	<b>15,919</b>	<b>4,076</b>	<b>3,791</b>	<b>27,051</b>

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

For the six months ended 30 June 2023

### 11 BORROWINGS

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

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

For the six months ended 30 June 2023

### 11 BORROWINGS (CONTINUED)

- (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, fixed assets 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:

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



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

For the six months ended 30 June 2023

### 11 BORROWINGS (CONTINUED)

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
<b>Total</b>	<b>6,861,414</b>	<b>918,381</b>	<b>1,707,727</b>	<b>-</b>	<b>9,487,522</b>

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
<b>Total</b>	<b>7,434,411</b>	<b>347,024</b>	<b>465,421</b>	<b>-</b>	<b>8,246,856</b>

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

### 12 EQUITY SECURITIES ISSUED

No security was issued by the Group during the six months ended 30 June 2023 (six months ended 30 June 2022: Nil).

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

For the six months ended 30 June 2023

### 13 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The carrying amount of equity-accounted investments has changed as follows in the six months ended 30 June 2023:

	<b>Six months ended 30 June 2023 RMB'000</b>
Beginning of the period	<b>35,624</b>
Loss for the period	<b>(1,371)</b>
Currency translation difference	<b>118</b>
End of the period	<b>34,371</b>

### 14 RELATED-PARTY TRANSACTIONS

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

The following is a summary of the significant related party transactions carried out between the Group and its related parties in the ordinary course of business during the six months ended 30 June 2023 and 2022, and balances arising from related party transactions as at 30 June 2023 and 31 December 2022.

<b>Name of related parties</b>	<b>Relationship</b>
Dongfang Electric Corporation 中國東方電氣集團有限公司("DEC")	The ultimate holding party of the Company
Guanghan Hongtai Business Trading Co., Ltd. 廣漢市宏泰商貿有限公司("Hongtai")	Hongtai is a party of which a director has equity interests
Egyptian Petroleum HH Rigs Manufacturing Co. S.A.E. ("HH Egyptian Company")	Joint venture of the Group
Honghua Financial Leasing (Shenzhen) Co., Ltd. ("Honghua (Shenzhen)")	Joint venture of the Group

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

For the six months ended 30 June 2023

### 14 RELATED-PARTY TRANSACTIONS (CONTINUED)

Name of related parties	Relationship
Dongfang Electric Corporation International Cooperation Co., Ltd. 東方電氣集團國際合作有限公司 ("International Cooperation")	Subsidiary of DEC (Note)
Dongfang Electric Cooperation Dongfang Furnace Share Co., Ltd. 東方電氣集團東方鍋爐股份有限公司 ("Dongfang Furnace")	Subsidiary of DEC (Note)
Dongfang Electric Corporation Dongfang Turbine Co., Ltd. 東方電氣集團東方汽輪機有限公司 ("Dongfang Turbine")	Subsidiary of DEC (Note)
Dongfang Electric Corporation (Sichuan) Property Co., Ltd. 東方電氣集團(四川)物產有限公司 ("Sichuan Property")	Subsidiary of DEC (Note)
Dongfang Electric Shares Co., Ltd. 東方電氣股份有限公司("Dongfang Shares")	Subsidiary of DEC (Note)
Dongfang Toshiba (Chengdu) Electric Control Equipment Co., Ltd. 東方日立(成都)電控設備有限公司("Electric Control")	Subsidiary of DEC (Note)
Dongfang Electric Auto Control Engineering Co., Ltd. 東方電氣自動控制工程有限公司 ("Auto Control Engineering")	Subsidiary of DEC (Note)
Dongfang Electric Corporation Dongfang Electric Machine Co., Ltd. 東方電氣集團東方電機有限公司 ("Dongfang Electric Machine")	Subsidiary of DEC (Note)
Dongfang Electric Wind Power Share Co., Ltd. 東方電氣風電股份有限公司("Wind Power")	Subsidiary of DEC (Note)
Dongfang Electric Finance	Subsidiary of DEC (Note)

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

For the six months ended 30 June 2023

### 14 RELATED-PARTY TRANSACTIONS (CONTINUED)

Name of related parties	Relationship
Dongfang Electric Group Dajian Logistics Co., Ltd. 東方電氣集團大件物流有限公司("Dajian Logistics")	Subsidiary of DEC (Note)
Dongfang Electric Qineng (Shenzhen) Technology Co., Ltd 東方電氣啟能(深圳)科技有限公司("Electric Qineng")	Subsidiary of DEC (Note)
Dongfang Electric Corporation Science Technology Research Institute 東方電氣集團科學技術研究院有限公司 ("Science Technology Research")	Subsidiary of DEC (Note)
Dongfang Electric (Guangzhou) Heavy Machine Co., Ltd. 東方電氣(廣州)重型機器有限公司("GZ Heavy Machine")	Subsidiary of DEC (Note)
Dongfang Electric Jieneng Technology Chengdu Co., Ltd. 東方電氣潔能科技成都有限公司("Jieneng Technology")	Subsidiary of DEC (Note)
Dongfang Electric (Deyang) Electric Auto Technology Co., Ltd. 東方電氣(德陽)電動機技術有限責任公司 ("Deyang Electric Auto Technology")	Subsidiary of DEC (Note)
Sichuan Dongshu New Material Co. 四川東樹新材料有限公司("Dongshu New Material")	Subsidiary of DEC (Note)

Note:

On 29 June, 2022, Dongfang Electric International Investment Co., Ltd. ("Dongfang Investment") becomes the shareholder of the Company. According, these entities, being the subsidiary of DEC, become the related parties of the Group with effect from 29 June 2022.

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

For the six months ended 30 June 2023

### 14 RELATED-PARTY TRANSACTIONS (CONTINUED)

#### (i) Significant related party transactions

	Six months ended 30 June	
	2023 RMB'000	2022 RMB'000
Purchases of parts and components		
– Sichuan Property	58,497	–
– Electric Control	1,969	–
– Other related companies	–	359
	<b>60,466</b>	359
Sales of drilling rigs, parts and components and others		
– Dongfang Furnace	30,888	–
– Dongfang Turbine	23,464	–
– HH Egyptian Company	20,734	6,586
– Honghua (Shenzhen) (a)	11,947	126,988
– Wind Power	11,002	–
– Dongfang Electric Machine	8,848	–
– Auto Control Engineering	7,784	–
– DEC	1,565	–
– Science Technology Research	1,548	–
– Deyang Electric Auto Technology	887	–
– Other related companies	28	352
	<b>118,695</b>	133,926

- (a) According to the agreements signed by Honghua Electric and Honghua (Shenzhen), for six months ended 30 June 2023, Honghua Electric sold products and provided upgrading services for products amounted to approximately RMB11,947,000 (six months ended 30 June 2022: RMB126,235,000) to Honghua (Shenzhen), meanwhile, Honghua (Shenzhen) sold those upgraded products to third party leasing companies.

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

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

For the six months ended 30 June 2023

### 14 RELATED-PARTY TRANSACTIONS (CONTINUED)

#### (i) Significant related party transactions (Continued)

	Six months ended 30 June	
	2023 RMB'000	2022 RMB'000
Service provided to		
– GZ Heavy Machine	14,557	–
– Dongfang Turbine	5,151	–
– Dongfang Electric Machine	811	–
– Honghua (Shenzhen)	713	–
– Auto Control Engineering	398	–
– Deyang Electric Auto Technology	241	–
– HH Egyptian Company	18	–
	<b>21,889</b>	–
Service provided from		
– Dajian Logistics	4,234	–
– Honghua (Shenzhen)	–	5,738
	<b>4,234</b>	5,738
Rental income		
– Wind Power	917	–
	<b>917</b>	–
Lease expenses		
– Honghua (Shenzhen) (b)	56,574	79,996
	<b>56,574</b>	79,996

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

For the six months ended 30 June 2023

### 14 RELATED-PARTY TRANSACTIONS (CONTINUED)

#### (i) Significant related party transactions (Continued)

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

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

For the six months ended 30 June 2023, the total operating lease expense incurred and charged to the profit or loss from the above mentioned lease agreements was approximately RMB56,574,000 (six months ended 30 June 2022: RMB79,996,000).

	Six months ended 30 June	
	2023 RMB'000	2022 RMB'000
Receipts of loans to related parties		
– Honghua (Shenzhen)	–	38,878
Receipts of loans from related parties		
– Dongfang Electric Finance	445,000	–
– Honghua (Shenzhen)	–	51,000
	<b>445,000</b>	51,000
Interest expense		
– Dongfang Electric Finance	5,125	–
– Honghua (Shenzhen)	–	169
	<b>5,125</b>	169
Interest income		
– Honghua (Shenzhen)	–	1,341
Miscellaneous expenses		
– Other related companies	61	–

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

For the six months ended 30 June 2023

### 14 RELATED-PARTY TRANSACTIONS (CONTINUED)

#### (ii) Amounts due from related parties

	<b>30 June 2023 RMB'000</b>	31 December 2022 RMB'000
Trade		
– Joint ventures	<b>532,532</b>	199,507
– Other related companies	<b>146,854</b>	134,790
	<b>679,386</b>	334,297
Non-trade		
– Joint ventures	<b>94,360</b>	278,084
– Other related companies	<b>500</b>	634
	<b>94,860</b>	278,718

The amounts due from other related companies are unsecured, interest-free and repayable on demand.

The balance of the provision for the other amount due from related companies was RMB6,284,000 (as at 31 December 2022: RMB9,195,000).

#### (iii) Amounts due to related parties

	<b>30 June 2023 RMB'000</b>	31 December 2022 RMB'000
Trade		
– Joint ventures	<b>287,008</b>	378,226
– Other related companies	<b>105,379</b>	93,944
	<b>392,387</b>	472,170
Non-trade		
– Joint ventures	<b>2,021</b>	10,336
– Other related companies	<b>113</b>	169
	<b>2,134</b>	10,505



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

For the six months ended 30 June 2023

### 14 RELATED-PARTY TRANSACTIONS (CONTINUED)

#### (iv) Contract liabilities

	<b>30 June 2023 RMB'000</b>	31 December 2022 RMB'000
– Joint ventures	–	7,517
– Other related companies	<b>27,950</b>	13,274
	<b>27,950</b>	20,791

#### (v) Key management compensation

	<b>Six months ended 30 June</b>	
	<b>2023 RMB'000</b>	2022 RMB'000
Basic salaries, allowances and other benefits in kind	<b>1,807</b>	1,843
Contributions to defined contribution retirement schemes	<b>284</b>	297
	<b>2,091</b>	2,140

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

For the six months ended 30 June 2023

### 15 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

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

#### (i) Fair value hierarchy

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

The following table presents the Group's financial assets measured and recognized at fair value at 30 June 2023 and 31 December 2022 on a recurring basis:

<b>At 30 June 2023</b>	<b>Level 3 RMB'000</b>
<b>Financial assets</b>	
Financial assets at fair value through other comprehensive income	
– Investment in unlisted companies	<b>109,423</b>
– Bank acceptance bill receivables	<b>68,302</b>
	<b>177,725</b>
<b>At 31 December 2022</b>	<b>Level 3 RMB'000</b>
<b>Financial assets</b>	
Financial assets at fair value through other comprehensive income	
– Investment in unlisted companies	109,312
– Bank acceptance bill receivables	3,525
	112,837

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

For the six months ended 30 June 2023

### 15 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

#### (i) Fair value hierarchy (Continued)

There were no transfers among levels 1, 2 and 3 for the six months ended 30 June 2023 and 2022. There were no other changes in valuation techniques for the six months ended 30 June 2023 and 2022.

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

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

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

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

#### (ii) Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

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

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

For the six months ended 30 June 2023

### 15 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

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

	<b>Investment in unlisted companies RMB'000</b>	<b>Bank acceptance bill receivables RMB'000</b>
<b>Opening balance 31 December 2022</b>	109,312	3,525
Acquisitions	–	66,012
Disposals	–	(1,235)
Changes in fair value	111	–
<b>Closing balance 30 June 2023</b>	<b>109,423</b>	<b>68,302</b>

#### (a) Valuation inputs

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

#### (b) Valuation process

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

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

#### (iv) Fair values of other financial instruments (unrecognized)

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

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

For the six months ended 30 June 2023

### 16 TRADE AND OTHER RECEIVABLES

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

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

For the six months ended 30 June 2023

### 16 TRADE AND OTHER RECEIVABLES (CONTINUED)

- (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:

	<b>30 June 2023 RMB'000</b>	31 December 2022 RMB'000
Within 1 year	<b>2,505,905</b>	3,256,390
Over 1 year	<b>1,045,750</b>	491,015
	<b>3,551,655</b>	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.

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

For the six months ended 30 June 2023

### 17 TRADE AND OTHER PAYABLES

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

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

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

For the six months ended 30 June 2023

### 18 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:

<b>Standards, Amendments or Interpretations</b>	<b>Subject</b>	<b>Effective for annual accounting periods beginning on or after</b>
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



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

For the six months ended 30 June 2023

### 18 BASIS OF PREPARATION OF INTERIM FINANCIAL REPORT (CONTINUED)

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.

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

For the six months ended 30 June 2023

### 19 SEASONALITY OF OPERATIONS

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

### 20 COMMITMENTS

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

	<b>30 June 2023 RMB'000</b>	31 December 2022 RMB'000
Contracted for	<b>11,084</b>	5,747

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

	<b>30 June 2023 RMB'000</b>	31 December 2022 RMB'000
Within 1 year	<b>41,688</b>	53,709

### 21 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.

