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宏华集团
HONGHUA GROUP

HONGHUA GROUP LIMITED

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

(Stock code: 196)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2023

FINANCIAL HIGHLIGHT

	For the year ended 31 December		
	2023	2022	Changes
Turnover *(RMB'000)*	**5,473,234**	4,476,104	22.3%
Gross profit *(RMB'000)*	**541,773**	459,893	17.8%
Gross profit margin *(%)*	**9.9%**	10.3%	(0.4) percentage points
Operating loss *(RMB'000)*	**(199,862)**	(433,203)	–
Loss attributable to equity shareholders of the Company *(RMB'000)*	**(386,597)**	(634,418)	–
Loss per share			
– Basic *(RMB cents)*	**(5.54)**	(11.98)	–
– Diluted *(RMB cents)*	**(5.54)**	(11.98)	–

The Board does not recommend payment of dividend for the year ended 31 December 2023.

ANNUAL RESULTS

The Board of the Company hereby announces the consolidated results of the Group for the year ended 31 December 2023 (the "**Relevant Year**"), together with the comparative figures for the year ended 31 December 2022.

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

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the Relevant Year as set out in this announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the audited consolidated financial statements of the Group for the year as approved by the Board of Directors on 26 March 2024. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by Messrs. Deloitte Touche Tohmatsu on this announcement.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2023

		Year ended 31 December	
		2023	2022
	Notes	***RMB'000***	*RMB'000*
Revenue	*3*	**5,473,234**	4,476,104
Cost of sales	*5*	**(4,931,461)**	(4,016,211)
Gross profit		**541,773**	459,893
Distribution costs	*5*	**(249,175)**	(215,290)
Administrative expenses	*5*	**(424,799)**	(356,056)
Research and development expenses	*5*	**(112,415)**	(123,587)
Net impairment losses on financial assets and contract assets	*14*	**(18,983)**	(299,193)
Other income	*4*	**44,871**	68,367
Other gains or losses, net	*6*	**18,866**	32,663
Operating loss		**(199,862)**	(433,203)
Finance income	*7*	**38,277**	67,533
Finance expenses	*7*	**(213,877)**	(256,782)
Finance expenses – net		**(175,600)**	(189,249)
Share of net losses of joint ventures accounted for using the equity method		**(35,544)**	(2,331)
Loss before income tax		**(411,006)**	(624,783)
Income tax expense	*8*	**(8,259)**	(328)
Loss for the year		**(419,265)**	(625,111)
(Loss)/profit for the year attributable to:			
– Owners of the Company		**(386,597)**	(634,418)
– Non-controlling interests		**(32,668)**	9,307
		(419,265)	(625,111)
Loss per share attributable to owners of the Company			
Basic and diluted (RMB cents per share)	*9*	**(5.54)**	(11.98)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2023

	Year ended 31 December	
	2023	2022
	RMB'000	*RMB'000*
Loss for the year	**(419,265)**	(625,111)
Other comprehensive (expense)/income		
Items that may be reclassified to profit or loss		
Exchange differences arising on translation of foreign operations	**(52,604)**	369,454
Items that will not be reclassified to profit or loss		
Currency translation differences	**41,173**	(301,230)
Change in the fair value of equity investments at fair value through other comprehensive income	**4,528**	(8,725)
Income tax relating to items that will not be reclassified to profit or loss	**(679)**	1,077
Other comprehensive (expense)/income for the year, net of tax	**(7,582)**	60,576
Total comprehensive expense for the year	**(426,847)**	(564,535)
Total comprehensive (expense)/income attributable to:		
– Owners of the Company	**(394,179)**	(573,842)
– Non-controlling interests	**(32,668)**	9,307
	(426,847)	(564,535)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2023

		At 31 December	
		2023	2022
	Notes	***RMB'000***	*RMB'000*
Non-current assets			
Property, plant and equipment		**2,597,483**	2,656,996
Right of use assets		**310,699**	322,625
Intangible assets		**353,691**	275,402
Investments accounted for using the equity method		**38,096**	35,624
Deferred tax assets		**272,282**	263,994
Financial assets at fair value through other comprehensive income		**86,440**	81,599
Trade and other receivables		**719,486**	712,801
Other non-current assets		**75,137**	86,995
		4,453,314	4,436,036
Current assets			
Inventories	*11*	**1,780,023**	1,491,298
Contract costs		**176,668**	170,979
Contract assets		**942,206**	631,374
Trade and other receivables	*10*	**4,243,826**	4,656,550
Current tax recoverable		**11,503**	3,762
Financial assets at fair value through other comprehensive income		**26,539**	31,238
Pledged bank deposits		**43,392**	210,249
Term deposits		**–**	90,000
Cash and cash equivalents		**777,660**	601,001
		8,001,817	7,886,451
Assets classified as held for sale		**64,408**	–
		8,066,225	7,886,451
Total assets		**12,519,539**	12,322,487

CONSOLIDATED STATEMENT OF FINANCIAL POSITION – CONTINUED

AT 31 DECEMBER 2023

		At 31 December	
		2023	2022
	Notes	***RMB'000***	*RMB'000*
Current liabilities			
Contract liabilities		**538,965**	760,953
Trade and other payables	*12*	**3,797,675**	3,199,298
Income tax payable		**23,695**	27,209
Borrowings		**2,324,052**	4,324,420
Provisions for other liabilities and charges		**41,025**	29,748
Deferred income		**6,422**	6,949
Lease liabilities		**23,699**	28,490
		6,755,533	8,377,067
Liabilities associated with assets classified as held for sale		**6,571**	–
		6,762,104	8,377,067
Non-current liabilities			
Trade and other payables	*12*	**–**	78,197
Borrowings	*13*	**2,146,017**	623,174
Deferred income		**17,306**	12,550
Lease liabilities		**12,350**	37,504
		2,175,673	751,425
Total liabilities		**8,937,777**	9,128,492
EQUITY			
Share capital		**823,804**	488,023
Other reserves		**4,722,640**	4,264,762
Amounts recognised in other comprehensive income and accumulated in equity relating to disposal group held for sale		**9,869**	–
Accumulated losses		**(2,172,084)**	(1,788,991)
Equity attributable to owners of the Company		**3,384,229**	2,963,794
Non-controlling interests		**197,533**	230,201
		3,581,762	3,193,995
Total liabilities and equity		**12,519,539**	12,322,487

1. GENERAL

The Group is 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. Its parent is Dongfang Electric International Investment Co., Limited (東方電氣國際投資有限公司, "Dongfang Investment", incorporated in Hong Kong) and its ultimate parent is Dongfang Electric Corporation (中國東方電氣集團有限公司, "DEC", incorporated in China). The address of the Company's 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, PRC.

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

These financial statements are presented in Renminbi ("RMB"), unless otherwise stated, and were approved for issue by the Board of Directors of the Company on 26 March 2024.

2. MATERIAL ACCOUNTING POLICY INFORMATION

2.1 Basis of preparation

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

For the year ended 31 December 2023, the Group reported a net loss of approximately RMB419,265,000 and an operating cash inflow of approximately RMB62,044,000. As at 31 December 2023, the Group's current assets exceeded its current liabilities by RMB1,304,121,000. 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 consolidated financial statements. Therefore, the consolidated financial statements have been prepared on going concern basis. The going concern basis assumes that the Group will continue in operation for the foreseeable future and will be able to realise its assets and discharge its liabilities and commitments in the normal course of business.

In the current year, the Group has applied the following 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 consolidated financial statements:

IFRS 17 (including the June 2020 and December 2021 Amendments to IFRS 17)	Insurance Contracts
Amendments to IAS 8	Definition of Accounting Estmates
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to IAS 12	International Tax Reform-Pillar Two model Rules
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies

2.2 Amendments to IFRSs in issue but not yet effecitve

The Group has not early applied the following new and amendments to IFRSs that have been issued but are not yet effective:

Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[1]
Amendment to IFRS 16	Lease Liability in a Sale and Leaseback[2]
Amendments to IAS 1	Classification of Liabilities as Current or Non-Current[2]
Amendments to IAS 1	Non-current Liabilities with Covenants[2]
Amendments to IAS 7 andIFRS 7	Supplier Finance Arrangements[2]
Amendments to IAS 21	Lack of Exchangeability[3]

[1] Effective for annual periods beginning on or a date to be determined.
[2] Effective for annual periods beginning on or after 1 January 2024.
[3] Effective for annual periods beginning on or after 1 January 2025.

3. SEGMENT INFORMATION

The senior executive management is the Group's chief operating decision maker ("CODM"). 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. In a manner consistent with the way in which information is reported internally to the Group's CODM for the purposes of resource allocation and performance assessment, the Group has identified four reportable segments. No operating segments have been aggregated in arriving at the reportable segments of the Group.

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

(a) land drilling rigs;

(b) parts and components and others;

(c) drilling engineering services; and

(d) fracturing services.

The senior executive management assesses the performance of the operating segments based on a measure of segment profit or loss. This measurement basis excludes the share of loss of joint ventures, other gains or losses and other income and unallocated head office and corporate expenses. Finance income and expenses are also 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 CODM 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 CODM is measured in a manner consistent with that in profit or loss.

The following table presents revenue and profit information regarding the Group's operating segments for the years ended 31 December 2023 and 2022 respectively. The Group derives revenue from the transfer of good and services over time and at a point in the following operating segments.

	Land drilling rigs		Parts and components and others		Drilling engineering services		Fracturing service		Total	
	Year ended 31 December		Year ended 31 December		Year ended 31 December		Year ended 31 December		Year ended 31 December	
	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	**2,631,142**	885,619	**3,409,556**	3,002,218	**413,797**	430,233	**527,884**	1,062,253	**6,982,379**	5,380,323
Inter-segment revenue	**(276,863)**	(142,436)	**(1,211,662)**	(747,442)	**(17,543)**	(10,941)	**(3,077)**	(3,400)	**(1,509,145)**	(904,219)
Revenue from external customers	**2,354,279**	743,183	**2,197,894**	2,254,776	**396,254**	419,292	**524,807**	1,058,853	**5,473,234**	4,476,104
Timing of revenue recognition for contracts with customers										
– At a point in time	**978,152**	545,380	**2,968,269**	2,893,272	**–**	–	**10,979**	476,727	**3,957,400**	3,915,379
– Over time	**1,652,990**	340,239	**313,220**	–	**413,797**	430,233	**516,905**	585,526	**2,896,912**	1,355,998
Lease income	**–**	–	**128,067**	108,946	**–**	–	**–**	–	**128,067**	108,946
Reportable segment profit/(loss)	**81,469**	(82,300)	**(54,627)**	(256,282)	**(19,236)**	(39,982)	**(190,267))**	(98,715)	**(182,661)**	(477,279)
Other segment information:										
Depreciation and amortisation *(Note)*	**72,945**	56,738	**156,735**	161,509	**49,752**	32,010	**29,687**	80,837	**309,119**	331,094
Impairment on trade and other receivables and contract assets	**12,982**	221,934	**(8,983)**	17,613	**18,551**	79,299	**(3,567)**	(19,653)	**18,983**	299,193
Allowance for inventories	**17,756**	–	**33,863**	85,569	**5,290**	–	**(292)**	–	**56,617**	85,569
Write-down of contract costs	**–**	–	**535**	–	**17,110**	56,886	**(971)**	3,399	**16,674**	60,285
Impairment provision of property, plant and equipment	**–**	–	**37,172**	–	**11,888**	18,112	**–**	–	**49,060**	18,112

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

Given the manufacturing processes of the Group's businesses are in a form of vertical integration, the CODM considered segment assets and liabilities information was not relevant in assessing performance of and allocating resources to the operations segments. During the year ended 31 December 2023 and 2022, such information was not reviewed by the Group's CODM. Accordingly, no segment assets and liabilities are presented.

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

	Year ended 31 December	
	2023	2022
	RMB'000	*RMB'000*
Segment loss		
– for reportable segments	**(182,661)**	(477,279)
Elimination of inter-segment profit	**(69,621)**	(33,652)
Segment loss derived from the Group's external customers	**(252,282)**	(510,931)
Share of loss of joint ventures	**(35,544)**	(2,331)
Other income and other gains or losses, net	**63,737**	101,030
Finance income	**38,277**	67,533
Finance expenses	**(213,877)**	(256,782)
Unallocated head office and corporate expenses	**(11,317)**	(25,556)
Loss before income tax	**(411,006)**	(624,783)

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

	Year ended 31 December	
	2023	2022
	RMB'000	*RMB'000*
Land drilling rigs	**2,354,279**	743,183
Parts and components and others	**2,197,894**	2,254,776
Drilling engineering services	**396,254**	419,292
Fracturing services	**524,807**	1,058,853
	5,473,234	4,476,104

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

	Year ended 31 December	
	2023	2022
	RMB'000	*RMB'000*
The PRC (country of domicile)	**2,210,059**	2,556,410
Americas	**63,374**	71,066
Middle East	**2,255,816**	787,719
Including: Arab Emirates	**254,133**	20,643
Kuwait	**1,060,637**	22,521
Oman	**602,705**	439,740
Europe	**354,596**	51,208
South Asia and South East Asia	**51,026**	68,819
Africa	**538,363**	940,882
	5,473,234	4,476,104

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

	At 31 December	
	2023	2022
	RMB'000	*RMB'000*
The PRC (country of domicile)	**2,973,302**	2,949,692
Americas	**92**	1,606
Middle East	**362,917**	389,420
Including: Iraq	**356,635**	381,116
Europe	**699**	1,301
Africa	**38,096**	35,623
	3,375,106	3,377,642

For the year ended 31 December 2023, revenue of approximately RMB551,548,000 (2022: RMB528,577,000) was derived from one external customer. The revenue was attributed to the sales of "land drilling rigs" and " parts and components and other" (2022: parts and components and other). No other customer contributed over 10% of the total revenue of the Group.

Assets and liabilities related to contracts with customers

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

	At 31 December	
	2023	2022
	RMB'000	*RMB'000*
Contract assets – current	**980,015**	652,999
Less: loss allowance	**(37,809)**	(21,625)
Contract assets, net	**942,206**	631,374
Contract liabilities – current	**538,965**	760,953

As at 1 January 2022, contract assets and contract liabilities amounted to RMB448,825,000 and RMB154,348,000, respectively.

Included in contract liabilities represented amount of approximately RMB22,993,000 (2022: RMB20,791,000) received from the Group's related companies.

(b) Revenue recognised in relation to contract liabilities

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

	Year ended 31 December	
	2023	2022
	RMB'000	*RMB'000*
Revenue recognised that was included in the contract liabilities balance at the beginning of the year		
Sales of goods	**695,826**	74,738

(c) Unsatisfied performance

As at 31 December 2023, the aggregate amount of the transaction price allocated to contracts that are partially or fully unsatisfied is RMB2,944,164,000 (2022: RMB3,504,564,000).

The management estimates that 89% or RMB2,630,295,000 (2022: 80% or RMB2,803,651,000) of the transaction price allocated to unsatisfied performance obligations as at 31 December 2023 will be recognised as revenue during the next reporting period. The remaining will be recognised in the 2025 financial year and afterwards.

4. OTHER INCOME

	Year ended 31 December	
	2023	2022
	RMB'000	*RMB'000*
Government grants	**33,637**	38,103
Sales of scrap materials	**7,583**	24,235
Others	**3,651**	6,029
	44,871	68,367

5. EXPENSES BY NATURE

	Year ended 31 December	
	2023	2022
	RMB'000	*RMB'000*
Raw materials and consumables used	**3,263,646**	2,066,659
Employee benefit expenses	**555,028**	539,592
Service fee	**712,622**	536,003
Depreciation and amortisation		
– Property, plant and equipment	**261,321**	290,853
– Intangible assets	**31,600**	27,982
– Right of use assets	**10,527**	12,259
– Investment properties	**5,671**	2,906
Transportation	**138,623**	65,893
Changes in inventories of finished goods and work in progress and contract costs	**(407,329)**	198,462
Provision for inventory write-down	**56,617**	85,569
Provision for contract costs	**16,674**	60,285
Research and development costs (Note)	**56,130**	43,804
Less: amount capitalised into intangible assets	**(33,385)**	(19,988)
Utilities	**129,670**	87,298
Short-term lease expenses	**540,699**	469,896
Travelling expenses	**132,363**	85,287
Provision/(reversal of) for impairment of prepayments	**5,891**	(4,346)
Repairs and maintenance expenditure on property, plant and equipment	**15,661**	10,651
Other taxes	**33,111**	10,092
Provision for warranty	**34,115**	15,310
Auditors' remuneration	**3,480**	3,190
Impairment provision of property, plant and equipment	**49,060**	18,112
Other expenses	**106,055**	105,375
Total cost of sales, distribution costs, research and development expenses and administrative expenses	**5,717,850**	4,711,144

Note: The amount does not include staff costs of the research and development department of approximately RMB60,739,000 (2022: RMB70,524,000) and relevant amortisation and depreciation of approximately RMB28,931,000 (2022: RMB29,247,000).

6. OTHER GAINS OR LOSSES, NET

	Year ended 31 December	
	2023	2022
	RMB'000	*RMB'000*
Net foreign exchange gains	**13,322**	36,302
Gains on disposals of property, plant and equipment	**775**	1,060
Loss on derecognition of a subsidiary	**–**	(15,533)
Others	**4,769**	10,834
	18,866	32,663

7. FINANCE EXPENSES, NET

	Year ended 31 December	
	2023	2022
	RMB'000	*RMB'000*
Finance expenses		
Interest on borrowings wholly repayable within five years	**215,276**	209,280
Interest expense from lease liabilities	**626**	2,685
Other	**–**	198
Net foreign exchange (gain)/loss	**(1,877)**	45,111
Less: interest expense capitalised into assets under construction	**(148)**	(492)
	213,877	256,782
Finance income		
Interest income on bank deposits	**(21,438)**	(59,891)
Interest income from non-current receivables	**(16,839)**	(7,642)
	(38,277)	(67,533)
Financial expenses, net	**175,600**	189,249

8. INCOME TAX EXPENSE

Taxation in the consolidated statement of profit or loss represents:

	Year ended 31 December	
	2023	2022
	RMB'000	*RMB'000*
Current income tax – Hong Kong Profits Tax		
Provision for the year	**135**	1,693
Current income tax – the PRC		
Provision for the year	**5,249**	–
Over provision in respect of prior years	**(14,070)**	(16,009)
	(8,821)	(16,009)
Current income tax – Other jurisdictions		
Provision for the year	**23,009**	21,024
Over provision in respect of prior years	**–**	(193)
	23,009	20,831
Total current income tax	**14,323**	6,515
Deferred income tax		
– Current year	**(6,064)**	(6,187)
Income tax expense	**8,259**	328

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

	Year ended 31 December	
	2023	2022
	RMB'000	*RMB'000*
Loss before income tax	**(411,006)**	(624,783)
Tax calculated at statutory tax rates applicable to each group entities	**(51,805)**	(71,288)
Tax effect of non-deductible expenses	**3,315**	931
Tax effect of income not taxable	**(1,706)**	(319)
Tax effect of changing tax rate	**–**	600
Additional deduction of research and development expense	**(8,279)**	(7,784)
Tax effect of losses not recognised	**37,222**	83,786
Utilisation of tax losses not recognised in previous years	**(337)**	–
Tax effect of deductible temporary differences not recognised	**7,492**	21,481
Utilisation of deductible temporary differences previously not recognised	**(1,097)**	(43,017)
Reversal of previously recognised deferred income tax assets	**37,524**	32,140
Over provision in respect of prior years	**(14,070)**	(16,202)
Income tax expense	**8,259**	328

Amounts recognised directly in other comprehensive income

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

	Year ended 31 December	
	2023	2022
	RMB'000	*RMB'000*
Deferred tax: Changes in the fair value of equity investments at FVTOCI	**(679)**	1,077

9. LOSS PER SHARE

Basic and diluted loss per share

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

	Year ended 31 December	
	2023	2022
Loss attributable to owners of the Company *(RMB'000)*	**(386,597)**	(634,418)
Weighted average number of ordinary shares in issue *(in thousands)*	**7,041,777**	5,355,995
Effect of the share award scheme *(in thousands)*	**(61,089)**	(61,089)
Adjusted weighted average number of ordinary shares in issue *(in thousands)*	**6,980,688**	5,294,906
Basic and diluted loss per share *(RMB cents per share)*	**(5.54)**	(11.98)

The computation of diluted loss per share in 2023 and 2022 does not assume the exercise of all share options because the adjusted exercise price of those options was higher than the average market price for shares for both years

10. TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2023	2022
	RMB'000	*RMB'000*
Trade receivables *(Notes (a & b))*	**3,099,587**	3,628,254
Bills receivables	**324,960**	404,350
Less: provision for impairment of trade receivables and bills receivables	**(543,808)**	(614,276)
	2,880,739	3,418,328
Amounts due from related parties		
– Trade *(Note (c))*	**594,309**	338,272
– Non-trade	**123,722**	283,938
– Less: provision for impairment of trade receivables for amounts due from related parties	**(8,849)**	(9,195)
	709,182	613,015
Finance lease receivables	**307,218**	432,263
Less: provision for impairment of finance lease receivables	**(62,554)**	(81,461)
Value-added tax recoverable	**191,142**	116,985
Prepayments	**762,607**	684,456
Less: provision for impairment of prepayments	**(23,969)**	(28,333)
Other receivables	**340,347**	412,286
Less: provision for impairment of other receivables	**(141,400)**	(198,188)
	4,963,312	5,369,351
Representing by:		
– Current portion *(Note (d))*	**4,243,826**	4,656,550
– Non-current portion *(Note (e))*	**719,486**	712,801
	4,963,312	5,369,351

Notes:

(a) As at 31 December 2023 and 2022, the ageing analysis of the net amount of trade receivables and bills receivables (including amounts due from related parties of trading in nature), based on the invoice date (trade receivables) or issuance date (bills receivables) is as follows:

	As at 31 December	
	2023	2022
	RMB'000	*RMB'000*
Within 1 year	**2,621,342**	3,256,390
Over 1 year	**573,269**	491,015
	3,194,611	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 billings at different stages such as upon the signing of contracts and upon the delivery of products. The exact percentage of each part of payment varies from contract to contract. Trade receivables are generally due for payment within 90 days from the date of billing.

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

(b) Included in trade receivables represented balance due from a customer domicile in Ukraine amounting to approximately USD66,104,000 (equivalent to approximately RMB468,201,000) (2022: RMB648,562,000), net of cumulative impairment loss of approximately RMB254,278,000 (2022: RMB243,655,000). During the previous years, the Group made instalment sales of drilling rigs to such Ukrainian customer and the balance was receivable between 2022 and 2024. Balance that is expected to be received over one year after the end of the reporting period was discounted at the rate which discounts with the nominal amount of the promised consideration to the price that customer would pay in cash for the goods or services when or as the Group transfers to the customer.

Due to the current Russia-Ukraine War, the National Bank of Ukraine has imposed certain restrictions over the payments of foreign currencies to foreign entities starting from 24 February 2022. Therefore, the Ukrainian customer was unable to repay part of the instalments which was originally due before 2023. The management has been taking active measures to closely monitor the credit risk exposures of such balance by holding periodic meetings with such customer to understand the latest development of the conflict and to collect the latest information regarding the physical status of the drilling rigs sold, and also the latest status on the national restrictions, etc. On 30 March 2023, the Ukrainian customer repaid overdue instalments of USD26,740,000 (equivalent to RMB184,607,000). In view of the potential credit-impaired characteristics, the management has individually assessed the recoverability of the balance. During the year ended 31 December 2023, the Group provided further ECL of approximately RMB10,623,000 (2022: RMB230,698,000).

(c) The amount includes RMB271,588,000 prepayments to related parties (2022: RMB273,355,000).

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

(e) Non-current trade and other receivables as at 31 December 2023 included (1) finance lease receivables of approximately RMB93,750,000 (2022: RMB216,557,000); (2) receivables of approximately RMB503,330,000 (2022: RMB363,505,000) arising from installment sale; (3) prepayments for land use rights of approximately RMB104,948,000 (2022: RMB104,948,000); (4) prepayments for plant and machinery of approximately RMB17,458,000 (2022: Nil); and (5) Nil deposit receivable in 2023 (2022: RMB24,880,000) which is due for receipt over one year after the end of reporting period and is discounted at the loan interest rate stipulated by the People's Bank of China for the corresponding period.

As at 31 December 2023 and 2022, the Group's maximum exposure to credit risk was the carrying value of each class of receivables mentioned above.

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

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

As at 31 December 2023, bills receivables of approximately RMB10,050,000 (2022: RMB159,396,000), trade receivables of RMB524,928,000 (2022: RMB409,745,000) were secured for borrowings.

Finance lease receivables

The Group entered into finance leases to lease its machineries to third parties and earn finance income from leasing activities. As at 31 December 2023 and 2022, the Group had receivables under finance lease as follows:

	As at 31 December	
	2023	2022
	RMB'000	*RMB'000*
Non-current receivables		
Finance leases – gross receivables	**97,171**	223,484
Unearned finance income	**(3,421)**	(6,927)
	93,750	216,557
Current receivables		
Finance leases – gross receivables	**223,816**	235,153
Unearned finance income	**(10,348)**	(19,447)
	213,468	215,706
Gross receivables from finance leases:		
— No later than 1 year	**223,816**	235,153
— Later than 1 year and no later than 5 years	**97,171**	223,484
	320,987	458,637
Unearned future finance income on finance leases	**(13,769)**	(26,374)
Net investment in finance leases	**307,218**	432,263

The net investment in finance leases is analysed as follows:

	As at 31 December	
	2023	2022
	RMB'000	*RMB'000*
No later than 1 year	**213,468**	215,706
Later than 1 year and no later than 5 years	**93,750**	216,557
Total	**307,218**	432,263

Impairment and risk exposure

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

11. INVENTORIES

	As at 31 December	
	2023	2022
	RMB'000	*RMB'000*
Raw materials	**452,341**	532,145
Work in progress	**789,921**	567,785
Finished goods	**537,081**	390,957
Revolving materials and others	**680**	411
	1,780,023	1,491,298

For the year ended 31 December 2023, the cost of inventories recognised as the Group's expense and included in 'cost of sales' amounted to approximately RMB3,383,363,000 (2022: RMB2,803,467,000).

Movement on the provision for inventories is as follows:

	2023	2022
	RMB'000	*RMB'000*
At 1 January	**221,730**	163,571
Addition	**56,617**	85,569
Write off	**(32,807)**	(25,054)
Currency translation difference	**–**	(2,356)
At 31 December	**245,540**	221,730

12. TRADE AND OTHER PAYABLES

	As at 31 December	
	2023	2022
	RMB'000	*RMB'000*
Trade payables	**2,048,025**	1,667,336
Amounts due to related companies		
– Trade	**303,080**	472,170
– Non-trade	**113,775**	10,505
Bills payable	**787,828**	553,179
Other payables	**544,967**	574,305
	3,797,675	3,277,495
Representing by:		
– Current portion	**3,797,675**	3,199,298
– Non-current portion	**–**	78,197
	3,797,675	3,277,495

At 31 December 2023 and 2022, the ageing analysis of the trade payables and bills payable (including amounts due to related parties of trading in nature) based on invoice date or bills issuance date is as follows:

	As at 31 December	
	2023	2022
	RMB'000	*RMB'000*
Within 1 year	**2,889,394**	1,958,477
Over 1 year	**249,539**	734,208
	3,138,933	2,692,685

As at 31 December 2023 and 2022, all the trade payables, bills payable and other payables of the Group were non-interest bearing and their fair value approximated their carrying amounts due to their short maturities.

As at 31 December 2023 and 2022, all the current trade and other payables are expected to be settled within one year or are repayable on demand.

13. BORROWINGS

	As at 31 December	
	2023	2022
	RMB'000	*RMB'000*
Bank loans		
Secured (i)		
– Current portion	**14,050**	962,282
– Non-current portion	**230,810**	419,102
	244,860	1,381,384
Unsecured		
– Current portion	**1,748,506**	3,362,138
– Non-current portion	**1,376,697**	204,072
	3,125,203	3,566,210
Unsecured loan from related party (ii)		
– Current portion	**533,000**	–
– Non-current portion	**445,000**	–
	978,000	–
Other borrowing (iii)		
– Current portion	**28,496**	–
– Non-current portion	**93,510**	–
	122,006	–
Total borrowings	**4,470,069**	4,947,594
Analysed as:		
– Current portion	**2,324,052**	4,324,420
– Non-current portion	**2,146,017**	623,174

Notes:

(i) As at 31 December 2023, the bank loans were secured by trade receivables as collateral of RMB524,928,000 (2022: RMB409,745,000), bills receivables as collateral of RMB10,050,000 (2022: RMB159,396,000), no term deposit (2022: RMB90,000,000). In addition, the bank loans were also secured by 20% equity interest of Sichuan Honghua Petroleum Equipment Co., Ltd. ("**Honghua Company**"), a subsidiary of the Group, for both years.

(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 東方電氣集團財務有限公司 ("Dongfang Electric Finance") and Dongfang Electric Finance agreed to provide RMB490,000,000 credit facility to the Honghua China. At the end of 31 December 2023, Honghua China had drawdown RMB445,000,000 from Dongfang Electric Finance, which carries interest at variable market rates of Loan Prime Rate plus a fixed interest of 0.35% and is repayable after three years since the date of drawdown.

As at 26 December 2023, Honghua Company, a subsidiary of the Group, had entered into a loan agreement with Dongfang Electric Finance and Honghua Company obtained a working capital loan amounting to RMB553,000,000 from Dongfang Electric Finance, which carries fixed interest rate of 2.8% and is repayable on 25 December 2024.

(iii) The amount of RMB122,006,000 as at 31 December 2023 (2022: Nil) represents transfer of equipment to an independent third party that does not satisfy the requirements as a sale in accordance with IFRS 15. Hence, the Group continues to recognise the assets and accounts for the transfer proceeds as other borrowings within the scope of IFRS 9.

The borrowings at 31 December 2023 bore annual interest ranging from 1.2% to 6.3% annually (2022: 1.91% to 5.61% annually).

The maturities of the Group's borrowings at respective end of the year are set out as follows:

	Bank loans		**Other borrowings**	
	As at 31 December		**As at 31 December**	
	2023	2022	**2023**	2022
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 1 year	**2,295,556**	4,324,420	**28,496**	–
Between 1 and 2 years	**536,165**	202,028	**29,627**	–
Between 2 and 5 years	**1,516,342**	421,146	**63,883**	–
	4,348,063	4,947,594	**122,006**	–

The carrying amount of current borrowings approximated their fair value, as the impact of discounting was not significant.

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	As at 31 December	
	2023	2022
	RMB'000	*RMB'000*
RMB	**4,470,069**	3,742,387
USD	**–**	1,205,207
	4,470,069	4,947,594

At each balance sheet date, the Group had the following undrawn borrowing facilities:

	As at 31 December	
	2023	2022
	RMB'000	*RMB'000*
Expiring within 1 year	**8,842,340**	2,096,306

These facilities have been arranged for financing daily operations.

14. Net impairment losses on financial and contract assets recognised in profit or loss

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

	Year ended 31 December	
	2023	2022
	RMB'000	*RMB'000*
(Impairment loss)/reversal of on:		
– trade receivables and contract assets	**(32,499)**	(237,781)
– finance lease receivables	**17,551**	(3,338)
– other financial assets at amortised cost	**(4,035)**	(58,074)
	(18,983)	(299,193)

MANAGEMENT DISCUSSION AND ANALYSIS

In 2023, the Group's revenue amounted to approximately RMB5,473 million, representing an increase of 22.3% from RMB4,476 million for the previous year. Gross profit was approximately RMB542 million, representing an increase of 17.8% from RMB460 million for the previous year. The loss attributable to equity shareholders was approximately RMB387 million.

MARKET REVIEW

Against the backdrop of the sustained global economic downturn, rapid development of alternative energy sources and insufficient growth in oil demand, the output reduction policy of OPEC+ and the rate hike decisions by the Federal Reserve were the two main factors affecting the trend of oil prices in 2023. Geopolitical factors intensified market volatility, but the risk premium declined significantly compared with the previous year, and the international oil price remained fluctuations in the mid-to-high level in 2023. During 2023, the average price of U.S. light crude oil was US$71.77/bbl, representing a year-on-year decrease of 23.7%, while the average price of Brent Crude Oil was US$77.15/bbl, representing a year-on-year decrease of 18.4%. Global upstream exploration and production (E&P) costs remained high. According to the study on the global upstream capital expenditures (capex) by Standard & Poor's, global upstream E&P capex amounted to US$565.2 billion in 2023, up 10.8% year-on-year. However, as the energy transformation progressed, upstream enterprises were more cautious about investing in traditional energy sources, and the trend of low-carbon, digital, electrified and intelligent energy investment has become more and more obvious.

Driven by the energy security strategy, even domestic oil and gas capex remained high, China continued to increase oil and gas exploration and development and promote reserve and production. In 2023, the total domestic crude oil and natural gas output amounted to 416 million tonnes (oil equivalent), representing a year-on-year growth of 3.9%, of which crude oil output increased for the fifth consecutive year, reaching 209 million tonnes, representing a year-on-year growth of 2.0%; and natural gas output amounted to 229.71 billion cubic meters, representing a year-on-year growth of 5.8%. On 27 February 2023, the National Energy Administration released the "Action Plan for Accelerating the Integration and Development of Oil and Gas Exploration and New Energy (2023-2025)", which called for the integration and development of oil and gas exploration and new energy, vigorous promotion of the development of new energy and low-carbon and carbon-negative industries, and continuous promotion of the transformation and upgrades of the energy production and supply structure. Against the background of achieving the goal of carbon peaking and carbon neutrality, domestic energy enterprises have further expanded the layout of green and low-carbon industries.

In the field of offshore wind power, with the lifting of restrictions on domestic offshore wind power projects, the approval and construction of offshore wind power projects have accelerated. In 2023, the cumulative installed capacity of grid-connected offshore wind power in China was 36.5 million kW, representing a year-on-year growth of 19.8%; and the new installed capacity of offshore wind power was 6.04 million kW, which is higher than that of all the previous historical years except for 2021.

BUSINESS REVIEW

1. Drilling Equipment and Related Product Business Segment

During the year, the Company recorded the total number of 16 drilling rigs sold with an aggregate amount of approximately RMB2,354 million, representing an increase of 216.8% from RMB743 million in the corresponding period of the previous year. Total sales of parts and components amounted to RMB2,198 million, representing a decrease of 2.5% from RMB2,255 million in the corresponding period of the previous year.

Focusing on key markets and key customers, the Company increased its market investment and marketing efforts. With the gradual recovery of its traditional advantageous markets overseas, the Company signed additional wholesale batch contracts for the sale of complete drilling rigs with top customers in the Middle East, and signed orders for high-end land drilling rigs with a number of customers in the Middle East, including Kuwait and Oman, thus continuing to consolidate its position in the international market. It also succeeded in winning the bidding for the world's most advanced geothermal automatic drilling rigs in Indonesia and signed orders for drilling rigs and spare parts with 19 new customers, thereby achieving breakthroughs in new customers and new regions in the overseas market. We sold high-specification drilling rigs to a private oil company for the first time, further expanding the domestic market. In order to meet the development needs of automation, digitalisation and intelligence of drilling equipment, the Company continuously strengthened its investment and upgraded its research and development capability, achieved batch sales of power catwalks in the domestic market, and made a breakthrough in the international market of automated machine tool system based on "one-key linkage" and supporting drilling rigs in Indonesia, achieving a total of more than RMB100 million of new domestic and overseas contracts in 2023. The 1,500HP low-emission automated silent drilling rig was successfully installed in the National Forest Park in Uganda, Africa, which is the first self-developed and manufactured ultra-quiet intelligent drilling rig in China, and three sets of them were exported. In terms of digital drilling products, the Opera system was commercially operated in TotalEnergies, and orders of five sets were signed with two renowned drilling companies in the Middle East, which further enhanced the Company's competitiveness and influence in the international market for digital products.

In the field of offshore equipment, the drilling system developed by the Company for geological exploration vessels has filled the gap in the field of offshore equipment exploration, and the first set of new technology of pipe handling system for fixed offshore platform in China has been applied on the platform of CNOOC. The Company has also developed the first set of low-pressure mud system for oceanographic research vessels in China, a new type of tower derrick and underwater BOP handling system, and has won the first bid for the framework agreement on mud pumps of CNOOC for the period of 2023 to 2025.

As at 29 February 2024, the Company's backlog orders for drilling rigs and related products amounted to approximately RMB1,173 million. Specifically, the backlog orders for onshore drilling rigs amounted to approximately RMB776 million.

2. Fracturing Equipment and Service Business

During the year, the Company adopted a more prudent sales strategy and made timely adjustments to its product portfolio in order to reduce risks. The equipment and engineering services provided during the year achieved a total sales amount of approximately RMB525 million, representing a decrease of 50.4% from RMB1,059 million in the corresponding period of the previous year.

The Group had a total of 14 pumping teams which completed 3,292 stages of fracturing operations during the year, including 2,967 stages of shale gas operations. Fracturing services were provided for the first time in Qinghai Oilfield, providing integrated services of "power supply + electric fracturing". Through in-depth field investigation and professional and rich project management experience, the Company provided a comprehensive integrated power supply solution for drilling, power supply for fracturing, electric fracturing equipment and services for the Qinghai Oilfield with insufficient power grid capacity, which was highly recognised by the customer. Meanwhile, with our professional and efficient overall service solutions and onsite management capabilities, we have successfully entered the national shale oil development demonstration area of Sinopec's Shengli Oil Field, where we have completed electric fracturing operations at a number of wells. In the unconventional oil and gas field, the Company successfully entered the coalbed methane block in Shanxi and realised all-electric fracturing operations.

As at 29 February 2024, the Company's total contract backlog of fracturing equipment and service business amounted to approximately RMB233 million.

3. Oil and gas engineering service business

During the year, the total sales amount of oil and gas engineering services provided by the Company amounted to approximately RMB396 million, representing a decrease of 5.5% from RMB419 million in the corresponding period of the previous year.

In 2023, 4 domestic teams completed 12 wells with an annual drilling footage of 31,090 meters while 6 overseas teams drilled 40 wells and delivered 35 wells with an annual drilling footage of 148,530 meters.

The Company's drilling teams are constantly upgrading their techniques and technologies. Domestically, 3 teams completed their operations ahead of schedule, setting new records for mechanical drilling speed and single well completion cycle, and setting a record of 4,560 meters of open-hole drilling. Internationally, new contracts were signed consecutively. The contracts of Teams HH030 and HH031 were extended to 2027; Team HH029 was appointed as the designated service provider by a well-known international company to provide drilling engineering services to BP for a period of two years; Teams HH007 and HH023 set new operation records for many times with excellent performance, and received recognition and praise for their high level of service quality for many times.

As at 29 February 2024, the Company's total contract backlog of oil and gas engineering services business amounted to approximately RMB435 million.

4. **New Energy Related Business**

In the field of pile foundations for offshore wind turbines, the Company's new order value reached a record high, and the Company successfully signed sales agreements for jackets with new customers such as CGN, Longyuan and Shenergy, and entered new regions such as Hainan, Shandong and Liaoning, with its jacket products enjoying a leading position in terms of market share.

In the field of photothermal products, the Company successfully put into production the intelligent manufacturing line for heliostat brackets invested in Gansu, achieving the target capacity of 2,000 sets per month, and successfully completed the delivery of over 10,000 sets of heliostat brackets for the photothermal project of Huidong New Energy in Akesai, Gansu. The photovoltaic power generation business has been steadily increasing, and the Company focused on developing the system integration business of photovoltaic, energy storage and charging station around customers in the fields of oil and gas field exploration and industrial manufacturing, and achieved a cumulative project result of nearly 30MW.

In the field of integrated power supply for oil and gas development, the Company successfully promoted the implementation of EPC projects of new energy for oil and gas fields, and for the first time realized an EPC project of Sinopec's 5MW self-generated and self-use wind power, laying a foundation for further promotion of the overall solution of "source, grid, load and storage" for oil and gas fields, and promoting the realisation of green and low-carbon drilling and completion process. The Company successfully provided 1 set of BESS energy storage system to TotalEnergies, realising the first commercial application of the energy storage system for drilling rigs, opening up a new direction for the development of new energy application in oilfields combined with digital management software, and accurately grasping the customer's new demand for ESG evaluation of drilling operations.

Quality Management and Research & Development

The Company insisted on the core philosophy of quality culture of "integrity and transparency, craftsmanship, do it right the first time and pursuit of excellence". During the period, the quality management system operated effectively, and new breakthroughs were made in obtaining certifications for its products. We obtained use permits of three standard products (API Spec 7K rotary disc refill, swivel seat and API Spec 8C dead rope retainer), added LVD certification for HTB motor series, CCC certification for explosion-proof components for three HTB88/46/61 motor models, ATEX positive pressure explosion-proof certification for three DCC-PA-C-007/008/009 drill room models and 17 new CNAS extensions; and participated in the formulation of 2 international standards and 2 industry standards.

The Company insisted on the implementation of lean management. The new five-cylinder pump products were of excellent quality and highly praised by customers. The product system of the "one-key linkage" series maintained stable and efficient operation, placing it in a leading position in the industry. The new power catwalks are highly efficient and safe with outstanding performance, which are highly recognised by domestic customers. The Company insisted on innovation, and the world's first all-electric fracturing pump system, which promotes the development of fracturing equipment to become "electrified, automated, digital" and intelligent, reduces costs and increases efficiency, saves energy and protects the environment, and leads the industry to make continuous progress.

During the period, the Company completed 135 patent applications, including 77 domestic inventions and 8 foreign inventions; 81 patents were granted, including 50 domestic inventions and 1 foreign invention. Intelligent drilling rigs reached the international advanced level, "a compact type high-efficiency operation drilling machine and method" and the lifting type of "one-key linkage system" were granted with U.S. patents, bringing about continuous iteration of hoisting or running operation technology, maintaining the leading position in the industry, making breakthrough in low-temperature control technology, and making new achievement in intelligent sensing technology. The Company jointly applied for one major scientific research instrument project of the National Natural Science Foundation of China and three provincial projects with universities.

Human Resources Management

The Company focused on the talent leadership strategy to provide a strong pool of talent for the sustainable and high-quality corporate development, continued to strengthen the introduction of key talents, promoted the optimisation of talent deployment and improved the performance-based remuneration system. As at the end of 2023, the total headcount of the Group was 2,808, an increase of 7.4% over the same period last year. The Company has increased its efforts in social and campus recruitment in the areas of technological R&D, functional management and production of key components, which are urgently needed for production and operation. In accordance with the idea of "benefit-oriented, cost in priority and classified management", the Company has restructured the control mechanism of labour cost and total wage, implemented differentiated assessment, and promoted wage tilts in favour of subsidiaries with fast-growing benefits and high labour efficiency.

The Company attaches importance to the training and reserve of all kinds of core talents. The Company has strengthened internal exchanges and optimal deployment of personnel, launched cross-position and cross-unit exchanges and complex training of employees, and promoted the reasonable flow of human resources to advantageous principal businesses, emerging industries and high value-added positions. The Company also launched 166 training programmes for 9,373 participants on topics such as how to improve the corporate governance and corporate establishment ability, the risk prevention ability and performance ability. The Company increased the reserve of young innovative professional and technical talents in mechanical engineering, automation and digitalization, and steadily injected new forces into corporate development.

FUTURE OUTLOOK

In January 2024, the International Energy Agency (IEA) further raised its 2024 global oil demand growth forecast, estimating that global oil demand will increase by 1.24 million barrels per day (bpd) in 2024, an increase of 180,000 bpd over the previous forecast, with total demand averaging 103 million bpd. Frequent occurrence of geopolitical conflicts has brought energy security to a new level, and various countries are taking a more proactive approach to promoting their own upstream oil and gas development. From the global perspective, upstream investment will increase steadily in 2024, and oil and gas exploration and development will show a growth trend at slow pace.

Looking ahead to 2024, the global investment in oil and gas exploration and development will continue the trend of 2023 to pick up further on whole. However, the extent of growth will be limited as the changing balance between decarbonisation targets and security of supply will have a dampening effect on oil and gas investment by many companies. Domestically, in 2024, major oil and gas companies will continue to focus on key areas such as deep-earth, deep-sea, unconventional resources and stabilized output from the old oilfields of Daqing and Shengli, and will intensify oil and gas exploration and development, with a view to stabilising crude oil output at 200 million tonnes. Overall, in 2024, the supply and demand of the oil market will be generally relaxed, but the geopolitical risk premium will always exist. It may be difficult for the international oil price to rise sharply, but is expected to continue to remain in a higher range, which will help oil and gas upstream enterprises to maintain higher capex, and will thus be conducive to the stability of the demand for oil and gas equipment and services. The accelerated development of new energy and oil integration will become an important trend in the green and low-carbon development of the industry, and bring new development opportunities and challenges to the Company.

In terms of market expansion, the Company will strengthen industrial optimisation and development, and continue to expand the market with quality products and efficient services to enhance market share and brand value. In the overseas market, the Company will focus on the Middle East, Europe and Asia and Latin America, increase resource investment, and continuously strive for high-quality orders; increase the efforts in sales of components, services and featured technologies overseas, and accelerate the construction of service systems and response speed to achieve breakthroughs in the sales of more new regions and new products. In the domestic market, the Company will systematically plan targeted marketing strategies to drive the application and promotion of new products of oil and gas equipment through services, improve the level of refined operation in the stock fracturing market, and further expand the market of new energy in oil and gas fields.

In terms of technological innovation, the Company will adhere to the philosophy that development is being led by technological innovation and will continue to increase investment in technological innovation in the future, focus on the transformation of technological achievements and industrial innovation and development, and make every effort to promote the in-depth fusion of technological innovation and corporate development, so as to provide support for the Company's high-quality development. In terms of R&D management, the Company will continue to optimise the system of scientific and technological innovation and system construction, and implement major scientific and technological projects around the needs of markets and customers by adopting the strategy of "two-way unveiling", "picking the winning horse", etc., so as to accelerate the breakthroughs of new products, new technologies and new applications.

In terms of internal management, the Company will deepen its efforts to improve quality and efficiency and enhance value creation. Focusing on profitability improvement and operation quality improvement, the Company will further improve its cost management system, promote cost control in all parts of the value chain and cost elements, and enhance profitability; accelerate production and capacity expansion, and improve the delivery rate. The Company will strengthen resource management, implement a capacity enhancement plan, strengthen the cultivation of strategic suppliers, effectively increase production capacity through internal improvement and external expansion, and improve timely delivery capability. Based on its strategic objectives, the Company will steadily promote various business and management activities while further optimising organisational construction, strengthening cultural construction, optimising the assessment and incentive mechanism, and enhancing the team's managerial and business capabilities. In particular, in the field of technological innovation, the Company will intensify the cultivation and introduction of talents with scientific and technological backgrounds, and strengthen the exchange and collaboration with domestic and foreign experts in the industry.

In terms of environmental, social and governance (ESG), the Company will continue to enhance ESG management, focus on its vision in relation to greenhouse gas emission, and effectively reduce carbon dioxide emissions through continuous process optimisation and technological innovation. The Company will establish an equal and win-win mechanism with suppliers and partners, fulfil its environmental and social responsibilities, promote environmentally friendly products in an orderly manner, and continuously upgrade our products through innovation to provide customers with better product experiences.

FINANCIAL REVIEW

During the year, the Group's gross profit and loss attributable to shareholders of the Company amounted to approximately RMB542 million and RMB387 million, respectively, and gross margin and net loss margin amounted to 9.9% and 7.1%, respectively. In the previous year, the gross profit and loss attributable to shareholders of the Company amounted to approximately RMB460 million and RMB634 million, respectively, and gross margin and net loss margin amounted to 10.3% and 14.2%, respectively. The Group seized the opportunity of the energy market recovery and actively expanded its domestic and international markets, resulting in substantial growth in orders and revenue from drilling equipment and related products. Meanwhile, the Group continued to strengthen its cost management and enhance its operational management standards, resulting in a substantial reduction in loss as compared to the previous year.

Revenue

During the year, the Group's revenue amounted to approximately RMB5,473 million, representing an increase of RMB997 million or 22.3% from RMB4,476 million for the previous year. The Group seized market opportunities and taken proactive actions in all aspects. With the gradual recovery of its traditional advantageous markets overseas and further expansion of the domestic market, revenue from land drilling rigs increased significantly, in particular, overseas orders for drilling rigs have increased significantly as compared to the previous year.

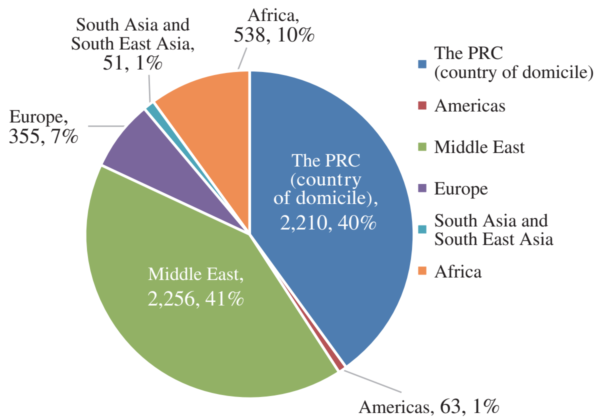
(i) Revenue by geographical locations

The Group's revenue by geographical segment during the year: (1) revenue generated from the PRC amounted to approximately RMB2,210 million, accounting for approximately 40.4% of the total revenue, representing an increase of RMB346 million as compared to the previous year; and (2) the Group's export revenue amounted to approximately RMB3,263 million, accounting for approximately 59.6% of the total revenue, representing an increase of RMB1,343 million as compared to the previous year.

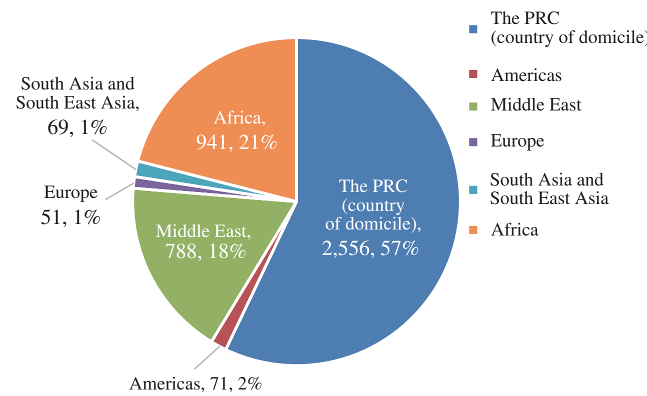
The regional distribution of the Group's sales revenue is influenced by the changes in oil and gas exploitation activities in various regions of the world. The Group focused on key markets and adopted a multi-pronged approach in overseas markets, taking new orders in existing regions and securing new opportunities in new regions. Overseas orders and revenues increased significantly while the domestic market remained stable.

Revenue by geographical locations

Year ended 31 December 2023
(Expressed in RMB'million)



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



(ii) Revenue by operating segments

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

During the year, external revenue from land drilling rigs amounted to approximately RMB2,354 million, representing an increase of RMB1,611 million or 216.8% from RMB743 million for the previous year.

During the year, external revenue from parts and components and others amounted to approximately RMB2,198 million, representing a decrease of RMB57 million or 2.5% from approximately RMB2,255 million for the previous year.

During the year, external revenue from drilling engineering service business amounted to approximately RMB396 million, representing a decrease of RMB23 million or 5.5% from approximately RMB419 million for the previous year.

During the year, external revenue from fracturing business amounted to approximately RMB525 million, representing a decrease of RMB534 million or 50.4% from approximately RMB1,059 million for the previous year.

Cost of Sales

During the year, the Group's cost of sales amounted to approximately RMB4,931 million, representing an increase of RMB915 million or approximately 22.8% from RMB4,016 million for the previous year. Mainly affected by the increase in sales revenue, the cost of sales of each sector increased accordingly.

Gross Profit and Gross Margin

During the year, the Group's gross profit amounted to approximately RMB542 million, representing an increase of RMB82 million or 17.8% from RMB460 million for the previous year.

During the year, the Group's overall gross margin was 9.9%, representing a decrease of 0.4 percentage point from 10.3% for the previous year. This was mainly due to intensified market competition, the fracturing business incurred losses. Excluding the impact of this factor, the Group's gross margin increased over the previous year.

Expenses in the Year

During the year, the Group's distribution expenses amounted to approximately RMB249 million, representing an increase of RMB34 million or 15.8% from RMB215 million for the previous year. This was mainly due to the increase in sales revenue and the increase in warranties costs based on the proportionate share of revenue.

During the year, the Group's administrative expenses amounted to approximately RMB425 million, representing an increase of RMB69 million or 19.4% from RMB356 million for the previous year. This was mainly due to the increase in impairment of the Group's long-term assets coupled with the increase in staff welfare benefits during the year.

During the year, the Group's research and development expenses amounted to approximately RMB112 million, representing a decrease of RMB12 million or 9.7% from RMB124 million for the previous year. In order to meet the demand for automation, digitisation and intelligent development of drilling equipment, the Company continued to strengthen its investment in research and development, with an investment in research and development of RMB227 million for the year, representing an increase of RMB50 million or 28.0% as compared with that of the previous year.

During the year, the Group's net finance expenses amounted to approximately RMB176 million, representing a decrease of RMB13 million or 6.9% from approximately RMB189 million for the previous year. This was mainly due to the continuous improvement of the Group's financing structure and continuous optimisation of financing costs.

Loss before Income Tax

During the year, the Group's loss before income tax amounted to approximately RMB411 million, representing a decrease of RMB214 million or 34.2% as compared to the loss of RMB625 million for the previous year.

Income Tax Expense

During the year, the Group's income tax expense amounted to approximately RMB8.259 million, compared to the income tax credit of approximately RMB0.328 million for the previous year.

Loss for the Year

During the year, the Group's loss for the year amounted to approximately RMB419 million, compared to the loss of approximately RMB625 million for the previous year. Specifically, loss attributable to equity shareholders of the Company was approximately RMB387 million, and the profit attributable to non-controlling interests was approximately RMB32 million. During the year, the net loss margin was 7.1%, compared with a net loss margin of 14.2% for the previous year.

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

During the year, EBITDA amounted to approximately RMB74 million, compared to approximately RMB-102 million for the previous year. This was mainly attributable to the increase in oversea orders and revenues of the Group. The EBITDA margin was 1.3%, compared to -2.3% for the previous year.

Dividends

The Board does not recommend distribution of annual dividends for the year ended 31 December 2023.

Source of Capital and Borrowings

The Group's major sources of funding for the year included cash generated from operations, bank loans and capital increase from the controlling shareholder.

As at 31 December 2023, the Group's borrowings amounted to approximately RMB4,470 million, representing a decrease of RMB477 million as compared to 31 December 2022. Specifically, borrowings repayable within one year amounted to approximately RMB2,324 million, representing a decrease of RMB2,000 million or 46.3% as compared to 31 December 2022.

Deposits and Cash Flow

As at 31 December 2023, the Group's cash and cash equivalents amounted to approximately RMB778 million, representing an increase of approximately RMB177 million as compared to 31 December 2022.

During the Year, the Group's net cash inflow from operating activities amounted to approximately RMB62 million; net cash outflow from investing activities amounted to approximately RMB51 million; and net cash inflow from financing activities amounted to approximately RMB195 million.

Assets Structure and Changes

As at 31 December 2023, the Group's total assets amounted to approximately RMB12,520 million. Particularly, current assets amounted to approximately RMB8,066 million, accounting for 64.4% of total assets, representing an increase of RMB180 million as compared to 31 December 2022. This was mainly due to the increase in contract assets and inventories. Non-current assets amounted to approximately RMB4,453 million, accounting for 35.6% of total assets, representing an increase of RMB17 million as compared to 31 December 2022. This was mainly due to the increase in intangible assets and deferred tax assets.

Liabilities

As at 31 December 2023, the Group's total liabilities amounted to approximately RMB8,938 million. Specifically, current liabilities amounted to approximately RMB6,762 million, accounting for approximately 75.7% of total liabilities, representing a decrease of approximately RMB1,615 million as compared to 31 December 2022. Non-current liabilities amounted to approximately RMB2,176 million, accounting for approximately 24.3% of total liabilities, representing an increase of approximately RMB1,425 million as compared to 31 December 2022. As at 31 December 2023, the Group's total liabilities/total assets ratio was 71.4%, representing a decrease of 2.7 percentage points as compared to 31 December 2022.

Equity

As at 31 December 2023, the total equity amounted to approximately RMB3,582 million, representing an increase of RMB388 million as compared to 31 December 2022. The total equity attributable to equity shareholders of the Company amounted to approximately RMB3,384 million, representing an increase of RMB420 million as compared to 31 December 2022. Non-controlling interests amounted to approximately RMB198 million, representing a decrease of RMB32 million as compared to 31 December 2022. During the year, the Company's basic loss per share was approximately RMB5.54 cent, and diluted loss per share was RMB5.54 cent.

Capital Expenditure, Major Investment and Capital Commitments

During the year, capital expenditure of the Group on infrastructure and technical improvements amounted to approximately RMB209 million, representing an increase of approximately RMB91 million as compared to the previous year.

As at 31 December 2023, the capital commitment of the Group amounted to approximately RMB8 million, which was used to optimize and adjust the Group's business and production capacity.

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

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

Except for the subscription of shares by Dongfang Investment, neither the Company nor any of its subsidiaries has purchased, sold or bought back any of the Company's Shares during the Year.

AUDIT COMMITTEE

The Audit Committee comprises all the independent non-executive Directors with written terms of reference in compliance with Rules 3.21 and 3.22 of the Listing Rules. The Audit Committee is responsible for reviewing and supervising the adequacy and effectiveness of the Group's financial reporting system, internal control systems and risk management system and associated procedures and providing advices and recommendations to the Board.

The Audit Committee held three meetings during the year and review opinions of internal auditors, matters in respects of internal control, risk management and financial reporting. The Audit Committee has reviewed the consolidated financial statements of the Group for the year ended 31 December 2023 and the accounting principles and practices adopted by the Group during the Year.

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

COMPLIANCE WITH THE CG CODE

The Company has complied with most of code provisions of the CG Code throughout the year ended 31 December 2023, except that the Company did not convene a meeting of the Nomination Committee during the year, but the members of the Nomination Committee discharged their duties by participating in the Board's review of the retirement by rotation of the Directors and the assessment of the independence of the independent non-executive Directors. The Company will continue to review and monitor the corporate governance practices of the Company for the purpose of complying with the CG Code and maintaining a high standard of corporate governance practices of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a set of Code for Securities Trading regarding Directors' dealings in the Company's securities with terms no less exacting than the Model Code.

Specific enquiry has been made of all the Directors and all the Directors have confirmed that they have complied with the Code for Securities Trading and the Model Code throughout the year ended 31 December 2023.

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

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

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT FOR 2023

This annual results announcement is published on both the websites of the Company (www.hh-gltd.com) and of the Stock Exchange (www.hkexnews.hk). The annual report of the Company for the year ended 31 December 2023 will be dispatched to shareholders of the Company and published on the aforesaid websites in due course.

DEFINITION

"Audit Committee"	the audit committee of the Company
"Board"	the Board of Directors of the Company
"CG Code"	Corporate Governance Code set out in Appendix C1 to the Listing Rules
"Code for Securities Trading"	code for securities trading regarding Directors' dealings in the Company's securities adopted by the Company since 21 January 2008
"Company"	Honghua Group Limited
"Directors"	directors of the Company
"During the Year/Period"	for the year ended 31 December 2023
"Group", "Honghua", or "Honghua Group"	the Company and its subsidiaries
"HK$" or "HK dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"previous year"	for the year ended 31 December 2022

"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix C3 to the Listing Rules
"PRC" or "China"	the People's Republic of China, unless the context requires otherwise, reference in this announcement of the PRC or China excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"RMB"	Renminbi, the lawful currency of the PRC
"Share(s)"	ordinary shares issued by the Company, with a nominal value of HK$0.10 each
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"US"	the United States of America, including its territories and possessions
"US$"	United States dollars, the lawful currency of the US

On behalf of the Board
Honghua Group Limited
Wang Xu
Chairman

Hong Kong, 26 March 2024

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