宏华集团
HONGHUA GROUP

HONGHUA GROUP LIMITED

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

(Stock code: 196)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2024

FINANCIAL HIGHLIGHT

	Six months ended 30 June		
	2024	2023	Changes
	RMB'000	*RMB'000*	
	(Unaudited)	(Unaudited)	
Turnover *(RMB'000)*	**2,776,000**	2,494,437	11.3%
Gross profit *(RMB'000)*	**301,514**	152,202	98.1%
Gross profit margin *(%)*	**10.9%**	6.1%	An increase of 4.8 percentage points
Operating profit/(loss) *(RMB'000)*	**80,970**	(22,563)	–
Profit/(Loss) attributable to equity shareholders of the Company *(RMB'000)*	**2,419**	(154,192)	–
Profit/(Loss) per share			
– Basic *(RMB cents)*	**0.03**	(2.91)	–
– Diluted *(RMB cents)*	**0.03**	(2.91)	–

The Board does not recommend payment of interim dividend for the six months ended 30 June 2024.

INTERIM RESULTS

The Board of the Company hereby announces the unaudited interim financial results of the Group for the six months ended 30 June 2024, together with the comparative figures for the corresponding period in 2023. These interim results have not been reviewed or audited by the Company's auditors but have been reviewed by the Company's Audit Committee, which comprises solely the independent non-executive Directors, one of whom chairs the Audit Committee.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2024

	Notes	Unaudited Six months ended 30 June **2024** *RMB'000*	2023 *RMB'000*
Revenue	*2*	**2,776,000**	2,494,437
Cost of sales		**(2,474,486)**	(2,342,235)
Gross profit		**301,514**	152,202
Distribution expenses		**(79,988)**	(82,161)
Administrative expenses		**(130,201)**	(121,462)
Research and development expenses		**(58,212)**	(37,018)
Net impairment losses on financial assets and contract assets		**12,079**	(26,010)
Other income, net		**32,110**	25,610
Other gains or losses, net		**3,668**	66,276
Operating profit/(loss)	*3*	**80,970**	(22,563)
Finance income		**11,130**	12,475
Finance expenses		**(79,978)**	(155,690)
Finance expenses – net		**(68,848)**	(143,215)
Share of net gains/(losses) of an associate and a joint venture accounted for using the equity method		**376**	(1,371)
Profit/(loss) before income tax		**12,498**	(167,149)
Income tax expense	*4*	**(15,114)**	(971)
Loss for the period		**(2,616)**	(168,120)
Profit/(loss) attributable to:			
– Owners of the Company		**2,419**	(154,192)
– Non-controlling interests		**(5,035)**	(13,928)
		(2,616)	(168,120)
Profit/(loss) per share attributable to the owners of the Company (expressed in RMB cents per share)			
Basic and diluted	*5*	**0.03**	(2.91)

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2024

	Unaudited	
	Six months ended 30 June	
	2024	2023
	RMB'000	*RMB'000*
Loss for the period	**(2,616)**	(168,120)
Other comprehensive income/(expense)		
Item that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	**10,906**	(102,555)
Items that will not be reclassified to profit or loss		
Currency translation differences	**29,862**	107,035
Change in the fair value of equity investments at fair value through other comprehensive income	**3,766**	(131)
Income tax relating to items that will not be reclassified to profit or loss	**(975)**	20
Other comprehensive income for the period, net of tax	**43,559**	4,369
Total comprehensive income/(expense) for the period	**40,943**	(163,751)
Total comprehensive income/(expense) for period attributable to:		
Owners of the Company	**45,978**	(149,823)
Non-controlling interests	**(5,035)**	(13,928)
	40,943	(163,751)

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2024

	Notes	**Unaudited 30 June 2024** *RMB'000*	Audited 31 December 2023 *RMB'000*
Non-current assets			
Property, plant and equipment	*7*	**2,497,398**	2,597,483
Right of use assets		**306,622**	310,699
Intangible assets		**359,654**	353,691
Investments accounted for using the equity method		**38,710**	38,096
Deferred income tax assets		**270,537**	272,282
Financial assets at fair value through other comprehensive income		**86,459**	86,440
Trade and other receivables	*8*	**719,062**	719,486
Other non-current assets		**71,588**	75,137
		4,350,030	4,453,314
Current assets			
Inventories		**1,661,382**	1,780,023
Contract costs		**286,858**	176,668
Contract assets		**961,435**	942,206
Trade and other receivables	*8*	**4,454,942**	4,243,826
Current tax recoverable		**17,923**	11,503
Financial assets at fair value through other comprehensive income		**43,850**	26,539
Pledged bank deposits		**33,031**	43,392
Cash and cash equivalents		**961,252**	777,660
		8,420,673	8,001,817
Assets classified as held for sale		**–**	64,408
		8,420,673	8,066,225
Total assets		**12,770,703**	12,519,539

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION – Continued

AT 30 JUNE 2024

	Notes	Unaudited 30 June 2024 RMB'000	Audited 31 December 2023 RMB'000
EQUITY			
Share capital		**823,804**	823,804
Other reserves		**4,763,180**	4,722,640
Amounts recognised in other comprehensive income and accumulated in equity relating to disposal group held for sale		**–**	9,869
Accumulated losses		**(2,156,777)**	(2,172,084)
Equity attributable to owners of the Company		**3,430,207**	3,384,229
Non-controlling interests		**192,498**	197,533
		3,622,705	3,581,762
Non-current liabilities			
Borrowings	*9*	**2,105,617**	2,146,017
Deferred income		**17,154**	17,306
Lease liabilities		**16,252**	12,350
		2,139,023	2,175,673
Current liabilities			
Contract liabilities		**582,153**	538,965
Trade and other payables	*10*	**3,613,738**	3,797,675
Income tax payable		**27,186**	23,695
Borrowings	*9*	**2,737,370**	2,324,052
Provisions for other liabilities and charges		**34,936**	41,025
Deferred income		**4,985**	6,422
Lease liabilities		**8,607**	23,699
		7,008,975	6,755,533
Liabilities associated with assets classified as held for sale		**–**	6,571
		7,008,975	6,762,104
Total liabilities		**9,147,998**	8,937,777
Total equity and liabilities		**12,770,703**	12,519,539

1 GENERAL INFORMATION

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, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Its parent is Dongfang Electric International Investment Co., Limited (東方電氣集團國際投資有限公司, "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 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, 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 on 27 August 2024.

This interim condensed consolidated financial information has not been audited.

2 SEGMENT AND REVENUE INFORMATION

(i) Description of segments

The senior management is the Group's chief operating decision maker ("CODM"). Management has determined the operating segments based on the information reviewed by CODM 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 CODM assesses the performance of the operating segments based on a measure of segment profit or loss. This measurement basis excludes the share of gains/(losses) of the associate and joint venture, 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 CODM is measured in a manner consistent with that in the interim condensed 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 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 2024 and 2023 respectively:

	Land drilling rigs Six months ended 30 June		Parts and components and others Six months ended 30 June		Drilling engineering services Six months ended 30 June		Fracturing services Six months ended 30 June		Total Six months ended 30 June	
	2024	2023	**2024**	2023	**2024**	2023	**2024**	2023	**2024**	2023
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Segment revenue	**952,189**	1,154,829	**2,150,873**	1,369,857	**177,050**	227,679	**363,173**	230,206	**3,643,285**	2,982,571
Inter-segment revenue	**(82,725)**	–	**(725,223)**	(488,134)	**(3,255)**	–	**(56,082)**	–	**(867,285)**	(488,134)
Revenue from external customers	**869,464**	1,154,829	**1,425,650**	881,723	**173,795**	227,679	**307,091**	230,206	**2,776,000**	2,494,437
Timing of revenue recognition										
At a point in time	**171,884**	303,281	**1,288,687**	801,927	**–**	–	**–**	11,947	**1,460,571**	1,117,155
Over time	**697,580**	851,548	**114,897**	28,125	**173,795**	227,679	**307,091**	218,259	**1,293,363**	1,325,611
Lease income	**–**	–	**22,066**	51,671	**–**	–	**–**	–	**22,066**	51,671
Reportable segment profit/(loss)	**25,672**	66,014	**119,119**	49,940	**33,689**	(15,982)	**(93,627)**	(129,388)	**84,853**	(29,416)

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 2024, such information was not reviewed by the Group's CODM. Accordingly, no segment assets and liabilities are presented.

A reconciliation of segment profit/(loss) to profit/(loss) before income tax is provided as follows:

	Six months ended 30 June	
	2024	2023
	RMB'000	*RMB'000*
Segment profit/(loss)		
– for reportable segments	**84,853**	(29,416)
Elimination of inter-segment profit	**(29,152)**	(58,860)
Segment profit/(loss) derived from Group's external customers	**55,701**	(88,276)
Share of net gains/(losses) of an associate and a joint venture	**376**	(1,371)
Other income, net	**32,110**	25,610
Other gains or losses, net	**3,668**	66,276
Finance income	**11,130**	12,475
Finance expenses	**(79,978)**	(155,690)
Unallocated head office and corporate expenses	**(10,509)**	(26,173)
Profit/(loss) before income tax	**12,498**	(167,149)

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

	Six months ended 30 June	
	2024	2023
	RMB'000	*RMB'000*
The PRC (country of domicile)	**1,296,267**	1,188,934
Middle East	**779,714**	819,938
Including: Arab Emirates	***360,943***	*12,026*
Oman	***204,727***	*307,433*
Iraq	***159,525***	*145,537*
Kuwait	***36,656***	*354,606*
Africa	**364,833**	101,834
Including: Nigeria	***352,241***	*71,298*
South Asia and South East Asia	**144,062**	52,102
Europe	**132,282**	286,324
Americas	**58,842**	45,305
	2,776,000	2,494,437

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

	30 June 2024 *RMB'000*	31 December 2023 *RMB'000*
The PRC (country of domicile)	**2,822,035**	2,973,302
Middle East	**411,532**	362,917
Including: Iraq	***405,249***	*356,635*
Africa	**38,710**	38,096
Europe	**1,626**	699
Americas	**69**	92
	3,273,972	3,375,106

For the six months ended 30 June 2024, revenue of approximately RMB327,584,000 was derived from an external customer (six months ended 30 June 2023: RMB357,110,000 was derived from a different external customer). The revenue was attributable to the sales of land drilling rigs and parts and components and others (six months ended 30 June 2023: the sales of land drilling rigs and parts and components and others). No other customer contributed over 10% of the total revenue of the Group.

3 OPERATING PROFIT/(LOSS)

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

	Six months ended 30 June	
	2024 *RMB'000*	2023 *RMB'000*
Write down of inventories	**28,804**	44,582
(Reversal of)/provision for impairment of financial assets	**(12,628)**	16,010
Provision for impairment of contract assets	**549**	10,000
Provision for impairment of property, plant and equipment, lease prepayment and other intangible assets	**3,996**	36,197
Gains on disposal of property, plant and equipment, lease prepayment and other intangible assets	**(478)**	(773)

4 INCOME TAX EXPENSE

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

	Six months ended 30 June	
	2024	2023
	RMB'000	*RMB'000*
Current income tax		
– Hong Kong Profits Tax (i)	**–**	–
– The PRC (ii)	**1,788**	10,697
– Other jurisdictions (iii)	**12,935**	10,648
Deferred income tax	**391**	(20,374)
	15,114	971

(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 2024 and 2023.

(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 2024 and 2023, 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 2024 and 2023.

(b) Sichuan Honghua Electric Co., Ltd. ("Honghua Electric") and Honghua Oil & Gas Engineering Technology Services Limited ("Sichuan Oil & Gas Services")

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 and Sichuan Oil & Gas Services 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.

(iii) Others

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

(iv) Withholding tax

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

The Company's directors revisited the dividend policy of the Group during the six months ended 30 June 2024 and 2023. In order to retain the fundings for operations and future development, it was resolved that the Group's PRC subsidiaries will not distribute dividend to the offshore holding companies in the foreseeable future. Any dividends to be declared by the Company will be distributed from the share premium account.

5 PROFIT/(LOSS) PER SHARE

The calculation of basic loss and diluted earnings/(loss) per share attributable to owners of the Company is based on the following data.

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	
	2024	2023
Profit/(loss) attributable to owners of the Company *(RMB'000)*	**2,419**	(154,192)
Weighted average number of ordinary shares in issue *(thousands)*	**9,040,489**	5,355,995
Effect of the share award scheme *(thousands)*	**(61,089)**	(61,089)
Adjusted weighted average number of ordinary shares in issue *(thousands)*	**8,979,400**	5,294,906
Basic and diluted profit/(loss) per share *(RMB cents per share)*	**0.03**	(2.91)

6 DIVIDENDS

No dividend was approved or paid during the six months ended 30 June 2024 (six months ended 30 June 2023: No approved or paid).

Board does not recommend the payment of an interim dividend for the six months ended 30 June 2024 (six months ended 30 June 2023: Not recommend).

7 PROPERTY, PLANT AND EQUIPMENT

	Buildings held for own use *RMB'000*	Plant and machinery *RMB'000*	Furniture, fittings and equipment *RMB'000*	Motor vehicles *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
At 31 December 2023						
Cost	1,664,471	1,820,963	726,514	88,279	145,081	4,445,308
Accumulated depreciation and impairment	(485,457)	(691,763)	(582,549)	(52,006)	(36,050)	(1,847,825)
Net book amount	1,179,014	1,129,200	143,965	36,273	109,031	2,597,483
Six months ended 30 June 2024						
Opening net book amount	1,179,014	1,129,200	143,965	36,273	109,031	2,597,483
Additions	28	6,399	31,780	13	5,742	43,962
Transfer from construction in progress	13	–	–	–	(13)	–
Disposals	(695)	(648)	(5,365)	(365)	–	(7,073)
Disposal of a subsidiary *(Note 18)*	–	–	(5)	–	–	(5)
Transfer to other non-current assets	–	–	–	–	(635)	(635)
Cost adjustment	–	–	–	–	(16,663)	(16,663)
Depreciation	(48,148)	(41,498)	(28,677)	(605)	–	(118,928)
Currency translation difference	140	3,228	965	36	–	4,369
Impairment provision of fixed assets	–	(5,112)	–	–	–	(5,112)
Closing net amount	1,130,352	1,091,569	142,663	35,352	97,462	2,497,398
At 30 June 2024						
Cost	1,663,354	1,819,139	748,032	78,989	133,512	4,443,026
Accumulated depreciation and impairment	(533,002)	(727,570)	(605,369)	(43,637)	(36,050)	(1,945,628)
Net book amount	1,130,352	1,091,569	142,663	35,352	97,462	2,497,398

8 TRADE AND OTHER RECEIVABLES

	30 June 2024 *RMB'000*	31 December 2023 *RMB'000*
Trade receivables (i)	**3,136,004**	3,099,587
Bills receivable	**370,321**	324,960
Less: provision for impairment of trade receivables	**(525,388)**	(543,808)
	2,980,937	2,880,739
Amounts due from related parties		
Trade	**626,139**	594,309
Non-trade	**298,922**	123,722
Less: provision for impairment of trade receivables for amount due from related parties	**(8,400)**	(8,849)
	916,661	709,182
Finance lease receivable	**381,534**	307,218
Less: provision for impairment of finance lease receivable	**(57,322)**	(62,554)
Value-added tax recoverable	**252,541**	191,142
Prepayments	**558,562**	762,607
Less: provision for prepayments	**(19,604)**	(23,969)
Other receivables	**332,239**	340,347
Less: provision for impairment of other receivables	**(171,544)**	(141,400)
	5,174,004	4,963,312
Representing:		
Current portion	**4,454,942**	4,243,826
Non-current portion	**719,062**	719,486
	5,174,004	4,963,312

(i) As at 30 June 2024 and 31 December 2023, the ageing analysis of the net amount of trade receivables and bills receivable (including amounts due from related parties of trading in nature) is as follows:

	30 June 2024 *RMB'000*	31 December 2023 *RMB'000*
Within 1 year	**2,438,275**	2,621,342
Over 1 year	**881,517**	573,269
	3,319,792	3,194,611

The Group maintains different billing policies for different customers based on the negotiated terms with each of the customers. The Group issues progress billing at different stages such as upon the signing of contracts and upon the delivery of products. The exact percentage of each part of payment varies from contract to contract. Trade receivables are generally due for payment within 90 days from the date of billing.

9 BORROWINGS

	30 June 2024	31 December 2023
	RMB'000	*RMB'000*
Bank loans		
Secured (i)		
– Current portion	**2,444**	14,050
– Non-current portion	**47,000**	230,810
	49,444	244,860
Unsecured		
– Current portion	**2,170,777**	1,748,506
– Non-current portion	**1,076,704**	1,376,697
	3,247,481	3,125,203
Unsecured loan from related party (ii)		
– Current portion	**535,653**	533,000
– Non-current portion	**900,000**	445,000
	1,435,653	978,000
Other borrowing (iii)		
– Current portion	**28,496**	28,496
– Non-current portion	**81,913**	93,510
	110,409	122,006
Total borrowings	**4,842,987**	4,470,069
Analysed as:		
– Current portion	**2,737,370**	2,324,052
– Non-current portion	**2,105,617**	2,146,017

(i) As at 30 June 2024, the bank loans were secured by bill receivables as collateral of RMB2,444,000 and 20% equity interest of Honghua Company, a subsidiary of the Group.

As at 31 December 2023, the bank loans were secured by trade receivables as collateral of RMB524,928,000, bills receivables as collateral of RMB10,050,000. In addition, the bank loans were also secured by 20% equity interest of Honghua Company, a subsidiary of the Group.

(ii) As at 5 February 2024, Honghua Company, a subsidiary of the Group, had entered into a loan agreement with 東方電氣集團財務有限公司 ("Dongfang Electric Finance") and Honghua Company obtained a working capital loan amounting to RMB132,000,000 from Dongfang Electric Finance, which carries fixed interest rate of 2.8% and is repayable on 5 February 2025.

As at 14 June 2024, Honghua Company had entered into an entrusted loan agreement with DEC and Dongfang Electric Finance, in which DEC provided RMB150,000,000 credit facility to Honghua Company through Dongfang Electric Finance as entrustee. At the end of 30 June 2024, Honghua Company has drawdown RMB60,000,000 from Dongfang Electric Finance, which carries fixed interest of 1.0% and is repayable after three years since the date of drawdown.

As at 3 March 2023, Honghua (China) Investment Co., Ltd. ("Honghua China"), a subsidiary of the Group, had entered into a loan agreements with 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 ("LPR") plus a fixed interest of 0.35% and is repayable after three years since the date of drawdown. On 21 May 2024, Honghua China had entered into a loan supplementary agreement with Dongfang Electric Finance, the interest rate of RMB490,000,000 credit facility has been changed to a variable market rates of LPR minus a fixed interest of 0.65% and 四川銀行股份有限公司 ("Sichuan Bank") transferred part of its loan to Honghua China, amounting to RMB395,000,000, to Dongfang Electric Finance, which carries interest market rates of LPR minus a fixed interest of 0.65% and is repayable on 6 March 2026.

(iii) The amount of RMB110,409,000 as at 30 June 2024 (2023: RMB122,006,000) 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.

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

	30 June 2024 *RMB'000*	31 December 2023 *RMB'000*
Fixed rate		
Expiring within one year (bank loans and bill facilities)	**4,243,708**	8,842,340

As at 30 June 2024 and 31 December 2023, 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*	**Total contractual cash flows** *RMB'000*
At 30 June 2024				
Trade and other payables (i)	**3,529,762**	**–**	**–**	**3,529,762**
Borrowings	**2,812,436**	**342,340**	**1,801,091**	**4,955,867**
Lease liabilities	**8,705**	**16,537**	**–**	**25,242**
Total	**6,350,903**	**358,877**	**1,801,091**	**8,510,871**

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*	Total contractual cash flows *RMB'000*
At 31 December 2023				
Trade and other payables (i)	3,699,475	–	–	3,699,475
Borrowings	2,310,101	646,790	1,732,995	4,689,886
Lease liabilities	24,454	12,430	–	36,884
Total	6,034,030	659,220	1,732,995	8,426,245

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

10 TRADE AND OTHER PAYABLES

	30 June 2024 ***RMB'000***	31 December 2023 *RMB'000*
Trade payables	**2,196,019**	2,048,025
Amounts due to related parties		
Trade	**329,329**	303,080
Non-trade	**195,926**	113,775
Bills payable	**528,044**	787,828
Other payables	**364,420**	544,967
	3,613,738	3,797,675
Representing:		
Current portion	**3,613,738**	3,797,675

As at 30 June 2024 and 31 December 2023, the ageing analysis of the trade payables and bills (including amounts due to related parties of trading in nature) is as follows:

	30 June 2024 ***RMB'000***	31 December 2023 *RMB'000*
Within 1 year	**2,536,825**	2,889,394
Over 1 year	**516,567**	249,539
	3,053,392	3,138,933

11 DISPOSAL OF A SUBSIDIARY

On 12 December 2023, to streamline its organisation structure and improve liquidity, Honghua Holdings Limited ("Honghua Holdings"), a wholly subsidiary of the Company, signed an agreement with DEC Investment to transfer entire equity interest and obligation it held in Shanghai Leasing, at an aggregate consideration of RMB195,677,000. On 29 February 2024, Honghua Holdings entered into a supplemental agreement to transfer operation management right it held in Shanghai Leasing to DEC Investment, and the Group loss of control over Shanghai Leasing accordingly. The net assets of Shanghai Leasing at the date of disposal were as follows:

Consideration	*RMB'000*
Total consideration received	195,677

Analysis of assets and liabilities over which control was lost:	29 February 2024 *RMB'000*
Cash and cash equivalents	34,492
Financial assets at fair value through other comprehensive income	30,306
Trade and other receivables	167,186
Intangible assets	13
Property, plant and equipment	5
Deferred tax liabilities	(2,903)
Income tax payable	(1,427)
Trade and other payables	(44,062)
Net assets disposed of	183,610

Loss on disposal of Shanghai Leasing	*RMB'000*
Consideration received	195,677
Net assets disposed of	(183,610)
Reclassification of cumulative translation reserve upon disposal of Shanghai Leasing	(28,868)
Loss on disposal	(16,801)

Net cash inflow arising on disposal	*RMB'000*
Cash consideration	195,677
Less: cash and cash equivalents disposed of	(34,492)
	161,185
Less: cash consideration received in 2023	(100,000)
	61,185

12 BASIS OF PREPARATION OF INTERIM FINANCIAL REPORT

This interim condensed consolidated financial information for the six months reporting period ended 30 June 2024 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 2023 and any public announcements made by the Group during the interim reporting period.

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 2024 for the preparation of the Group's condensed consolidated financial statements:

Standards, Amendments or Interpretations	Subject	Effective for annual accounting periods beginning on or after
Amendments to IFRS 16	Lease Liability in a Sale and Leaseback	1 January 2024
Amendments to IAS 1	Classification of Liabilities as Current or Non-current	1 January 2024
Amendments to IAS 1	Non-current Liabilities with Covenants	1 January 2024
Amendments to IAS 7 and IFRS 7	Supplier Finance Arrangements	1 January 2024

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.

13 EVENTS OCCURRING AFTER REPORTING PERIOD

The Group had no material events for disclosure subsequent to 30 June 2024 and up to the date of approval of these condensed consolidated financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2024, the Company's turnover was RMB2,776 million, representing an increase of 11.3% as compared with RMB2,494 million in the corresponding period of Previous Year. Gross profit was approximately RMB302 million, representing an increase of 98.1% as compared to the gross profit of RMB152 million in the corresponding period of Previous Year. The profit attributable to shareholders was approximately RMB2 million.

MARKET REVIEW

Overall, in the first half of 2024, international energy markets, geopolitics and the global economy sought balance amidst complex and intertwined contradictions. Under the combined influence of multiple factors such asprolonged geopolitical conflicts and macroeconomic changes, international oil prices first rose, then fell and rebounded again, showing a continuous fluctuation trend within a high price range, the average price of WTI crude oil in the first half of the year was US$78.72/bbl, and the average price of Brent Crude Oil was US$83.39/bbl during the same period. On one hand, local geopolitical risks continued to intensify, the Organization of Petroleum Exporting Countries (OPEC) member states and non-OPEC oil-producing countries forming " OPEC+" insisted on maintaining the policy of production cuts to support prices. The combined effect of geographical premium and tightened supply provided strong support for the international crude oil prices. On the other hand, the slow recovery of global economic, expanded production from non-OPEC countries, the strong US dollar and the continuous delay of interest rate cuts by the Federal Reserve and other factors also exerted continuous downward pressure on oil prices.

BUSINESS REVIEW

During the Period, the oil and gas business segment and the new energy manufacturing business segment of the Group both flourished, drilling equipment and components continued to secure orders from high-end customers in the Middle East and domestically, the fracturing services industry fully entered the coalbed methane development industry, achieving substantial growth in performance, and the international business of drilling engineering services remained robust, and made sigificant breakthroughs in the domestic market. The wind power business continued to consolidate its position in the offshore wind large jacket segment, with effective orders doubling from the same period last year.

Drilling Equipment and Relevant Product Business

During the Period, the Group achieved total sales of 14 sets of drilling rigs, with total sales amounting to approximately RMB869 million, representing a decrease of 24.8% from RMB1,155 million in the corresponding period of Previous Year. Total sales of parts and components amounted to RMB1,426 million, representing an increase of 61.7% as compared with RMB882million in the corresponding period of Previous Year.

The Group actively adjusted the market layout, strengthened market development, focusing on both international and domestic markets, with an emphasis on promoting the sales of complete drilling machines. During the period, the Company secured orders for several high-end land drilling rigs in Kuwait. These rigs were equipped with self-developed domestic electronic control system, five-cylinder pump components, and digital products such as the integrated control system of the drilling rig "Unison", which effectively ensure the safe and efficient operation of the drilling rig. In the domestic market, we successfully obtained the order of 12,000 meters ultra-deep drilling rig project, which will provide new direction and momentum for the deep ultra-deep oil and gas exploration and development of China's future industry empowered by digital, intelligent and low-carbon technology. The lifting "one-key linkage" system was granted a U.S. patent and obtained PCT in Oman, Kuwait and Saudi Arabia. The push-pull drilling platform robot was used for the first time on a domestic offshore platform.

High pressure pump and five-cylinder pump, the flagship products of the mud pump product line, obtained a large number of orders from high-end customer during the period. The Group successfully won key project in CNPC five-cylinder pump leasing tender, and continued to maintain high recognition in domestic and foreign markets.

As of 30 June 2024, the Group's backlog orders for drilling rigs and parts and component products business amounted to approximately RMB2.5 billion, of which the backlog orders for onshore drilling rigs amounted to approximately RMB800 million.

Fracturing Equipment and Service Business

During the Period, the Group's fracturing equipment and services business achieved total sales of approximately RMB307 million, representing an increase of 33.5% from RMB230 million in the corresponding period of Previous Year. The Group currently has 16 pumping teams and completed 1,130 stages of fracturing operations in the first half of the year. In the first half of the year, the Group's fracturing service business fully entered the coalbed methane development industry, and successfully completed the fracturing construction tasks of several platforms in the national demonstration zone of deep coalbed methane in Daji, including the construction tasks of the first fully electric-driven deep coalbed methane platform in China and the key demonstration platform of coalbed methane development of CNPC, achieving the breakthrough in large-scale fully electric-driven fracturing of deep coalbed methane in China, pushing the coalbed methane industry forward, and serving as a milestone for the green and low-carbon development and construction of deep coal bed methane in China. At the same time, the Group actively participates in the exploration and development of deep and ultra-deep oil and gas resources. As one of the responsible enterprises for the future space deep and ultra-deep oil and gas exploration and development innovation consortium, the controlling shareholder primarily entrusts the Group with the research and development task of "ultra-high pressure electric fracturing pump and manifold", contributing to the acceleration of the cultivation of new quality productivity of the future deep oil and gas industry and ensuring national energy security.

As at 30 June 2024, the Company's total contract backlog of fracturing equipment and service business amounted to approximately RMB400 million.

Drilling Engineering Service Business

During the Period, total sales revenue from drilling services provided by the Group was approximately RMB174 million, representing a decrease of 23.3% from RMB227million in the corresponding period of Previous Year.

In terms of domestic projects, the Group signed a drilling project contract with Sinopec Chongqing Shale Gas Company for a platform in Nanchuan in the first half of the year. The signing of this contract marks the first entry of the Group's drilling engineering service business into Sinopec Sichuan-Chongqing shale gas market. The drilling rig equipped with the Group's self-produced and self-developed automation machinery has successfully obtained the Sinopec qualification, fully demonstrating the Group's competitive advantages in new products and new technologies. The project officially commenced drilling in March this year, and completed the first well in June, with a drilling depth of 5949m upon completion. The horizontal section length of the well is 3203m, which is the sixth ultra-long horizontal section well in the Nanchuan working area, setting a number of records in the working area, and a number of performance indicators have won praise and financial rewards from contracting party.

In terms of international projects, the Group deployed a total of six self-owned drilling rigs in Iraq in the first half of the year, with full production tasks and utilisation of assets and equipment. After four years of cooperation with Halliburton in Zubair Oilfield, they partnered again to invest in BP's new project in Rumaila Oilfield. The project successfully passed the acceptance by contracting party and commence drilling in February, and the first well of cooperation was completed ahead of schedule in March. The oilfield service team earned high praise and financial awards from BP and Halliburton and other customers with their excellent service capabilities and operation speed.

As at 30 June 2024, the Company's total contract backlog of drilling engineering service business amounted to approximately RMB600 million.

New Energy Related Business

During the period, the Group further consolidated its leading position in the market segment of large jacket for offshore wind power, signed 32 sets of orders for large jacket, successively completed breakthroughs in new regional markets such as Zhejiang and Fujian, further expanded its customer base in include new clients such as CCCC First Harbour Engineering, China Resources, Shenergy and Datang, and gradually promoted the research and development of wind power products in deep seas. Under the synergistic advantages of the wind power industry chain of the controlling shareholder, the Company received support and assurance for obtaining orders for wind power products and services and promoted the technological upgrading of offshore wind power products.

In terms of new energy for oil and gas fields, the Group, as the general contractor, constructed a decentralized self-use wind power project and equipped energy storage devices for Sinopec in Nanchuan, Chongqing. The project fully utilised the local exploitable wind resources to address the demand for electricity production in a green way. It represents a significant breakthrough project in implementing the national strategic goals of "carbon peaking and carbon neutrality," based on the concept of integrating oil and gas exploration and development with new energy. The project established an effective path for wind power applications in oil and gas exploration and development scenarios, achieving breakthroughs and innovations in application scenarios.

As of 30 June 2024, the Group's total contract backlog of new energy related business amounted to approximately RMB900 million, of which the contract amount of the offshore wind power industry was approximately RMB700 million.

QUALITY MANAGEMENT

During the Period, the Group fully promoted the "quality first" strategy by establishing a quality strategy task force and successfully completed the main objectives of quality work for the first half of the year. The quality management system operated effectively, and the API Spec Q1 and ISO 9001 quality management system certificates continue to be valid. The scope of product certification continued to expand, with the Group obtained 4 new CCC certificates for four motors model, 1 IECEx certificate for a motor model, 1 domestic positive pressure explosion-proof certification for driller cabin models and 1 ATEX certification. The Group newly obtained EN1090-2 EXC3 EU steel structure CE certification and ISO 3834-2 International welding system certification. The Group carried out the whole life cycle quality control for the drilling rig project, and adopted a strong components strategy, and the special quality improvement of key components including top drive, automation machinery, mud pumps and drawworks was carried out, so as to further improve product reliability and build high-quality components.

INVESTMENT ON RESEARCH & DEVELOPMENT

During the period, the Group's total investment on research and development amounted to approximately RMB132 million, representing an increase of 8.3% over the same period of Previous Year. Focusing on the implementation of the technology first strategy, the Group carried out the optimization of the scientific research system and promoted the optimization of six science and technology management systems. The Group actively promoted collaborative innovation at all levels, applied for the first set of special projects with the National Energy Administration, participated in one National Natural Science Foundation project, undertook 2 provincial-level science and technology projects. The Group completed 57 patent applications, of which 34 domestic inventions and 74 new patents authorization. The Group had a cumulative total of 855 patents in force, including a cumulative total of 352 invention patents, a cumulative total of 469 utility model patents, a cumulative total of 25 appearance patents and a cumulative total of 9 international patents. One of the patents was shortlisted for the first prize of 2024 Sichuan Provincial Patent Awards. The Group declared to host and participate in 5 national, industry and group standards. The Group won the third prize of Science and Technology Progress Award of Sichuan Province for its omnidirectional shift modular low-temperature tolerant rigs. The Uganda drilling rig products was appraised to have reached the international advanced level. The Group was selected as the first batch of "60+10" iconic products (12000 meters drill) supply chain master enterprises in Sichuan Province. The Group received honors such as the advanced unit of the National Oil Drilling Equipment and Tools Standardization Technical Committee, leading enterprise in Scientific and Technology Innovation of Sichuan Province Department of Science and Technology. The single champion enterprise of manufacturing industry of the Group has passed the review of the Ministry of Industry and Information Technology. A provincial-level specialized new enterprise was added to the Group and a postdoctoral scientific research workstation was approved.

HUMAN RESOURCES MANAGEMENT

As of 30 June 2024, the Group had a total headcount of 2,795. During the period, the Group took a series of measures in the introduction of high-level talents, campus recruitment, staff training, contractual management of the tenure system, and diversified incentives. In terms of talent introduction, the Group focused on attracting high-level talents in high-end petrochemical equipment, power electronics and control, petroleum engineering, general technology, operation and management, and high-skilled talents, and recruited high-quality fresh graduates in "double first-class" key universities. In terms of personnel training, the Group vigorously implements comprehensive trainings for technical, market, management, and skilled personnel, and carried out composite training through job rotation, school-enterprise joint training bases, and skill master studios. In terms of talent incentives, the Group will promote the full coverage of the term contract or performance target responsibility letter, further strengthening the combination mechanism of "hard indicators" in performance, "high incentives" for salary and "rigid distribution" of benefits, and implementing incentive measures such as project profit sharing, sales commissions, and "decentralization and empowerment" of scientific and technological innovation.

OUTLOOK

From the perspective of the economic situation, the global economy will steadily rise in 2024, the International Monetary Fund (IMF) and the United Nations will increase the global economic growth rate in 2024 to 3.2% and 2.7%, respectively, up by 0.1% and 0.3% from the forecast at the beginning of the year, and the slow recovery of the economy will underpin the growth of oil demand. The global manufacturing PMI has been above the threshold for five consecutive months, showing that the global manufacturing industry as a whole is recovering, which further drives the growth of global trade.

After OPEC+ announced in June that it would start lifting some of its current capacity reduction measures in October, analysts generally expect a slight recovery in crude oil demand in the second half of 2024 as global economic growth gradually picks up. Under the interweaving of capacity reduction on supply side and geopolitical risks, oil prices are expected to remain volatile in the mid-to-high level.

In addition to traditional energy sources, China has made positive progress in the construction of a new energy system. As of the end of June, China's grid-connected wind power and solar power installed capacity amounted to 1.18 billion kilowatts, accounting for 38.4% of the total installed capacity. China's new energy power generation capacity exceeded coal power for the first time, deepening the green power production and supply. The National Energy Administration is also accelerating the construction of new energy supporting power grid projects to provide strong support for new energy consumption.

Under this development scenario, the Group is confident about its business prospects for the second half of 2024. On the basis of in-depth analysis of market trends, technological developments and policy orientation, we will focus on the following businesses and directions:

In terms of high-end drilling equipment, the products launched by the Group continue to advance towards high-end and intelligent direction. The new drilling rigs are equipped with advanced intelligent drilling technology, automatic pipe and offline processing technology, zone management technology, energy storage and energy management technology, and online monitoring technology of drilling rigs. A new generation of oil and gas development model is defined with new functions such as equipment automation, operation process standardization, intelligent drilling process, and low carbonization of power energy.

In terms of fracturing business, with the rapid development of China's coalbed methane development and utilization, the Group's fracturing business has taken the lead and is expected to further expand the market size of coalbed methane in the second half of the year.

In terms of new energy, the offshore wind power market will continue to maintain a strong growth momentum in the second half of 2024, and with the advancement of large-scale wind turbines, far-reaching offshore wind power technology, floating wind power technology and other technologies, higher requirements are being placed for offshore wind power pile foundation manufacturing enterprises. The Group will continue to rely on the advantages of the controlling shareholders in technology, industrial chain construction and business model to help the Group obtain orders for offshore wind power products and services, promote the technological upgrading of wind power products, and provide guarantee for the development of the Group's offshore wind power industry. At the same time, keep up with major new energy business opportunities, and strengthen the market promotion of new products such as mobile photovoltaic. In addition to the Nanchuan wind power project, other new energy projects and power engineering projects located in domestic oil field areas are expected to commence in the second half of the year.

In conclusion, in the second half of 2024, the Group will actively respond to market changes and challenges and strive to achieve sustained growth and sustainable business development.

FINANCIAL REVIEW

During the Period, the Group's gross profit and profit attributable to shareholders of the Company amounted to approximately RMB302 million and RMB2 million respectively, and gross margin and net profit margin amounted to 10.9% and 0.1% respectively. In the same period of Previous Year, the 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 stable domestic market, the Group actively expanded its international markets, resulting in an increase in overseas sales revenue. At the same time, the Group continuously optimized cost management and improved operational management standards, resulting in an increase in gross profit margin compared to the corresponding period of Previous Year.

Turnover

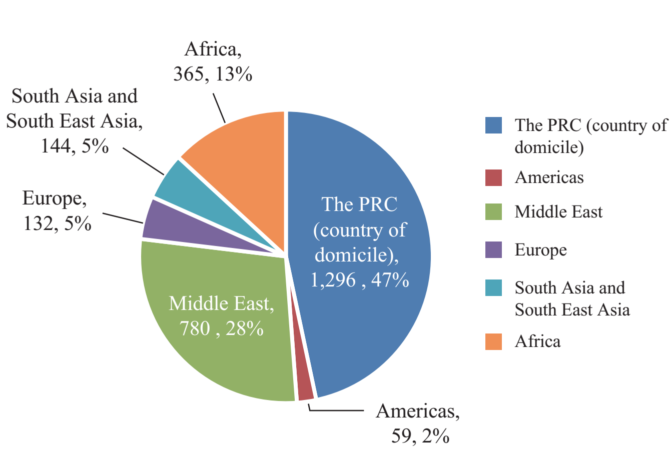
During the Period, the Group's revenue amounted to approximately RMB2,776 million, representing an increase of RMB282 million or 11.3% from RMB2,494 million with the same period of Previous Year.

(i) Revenue by geographical locations

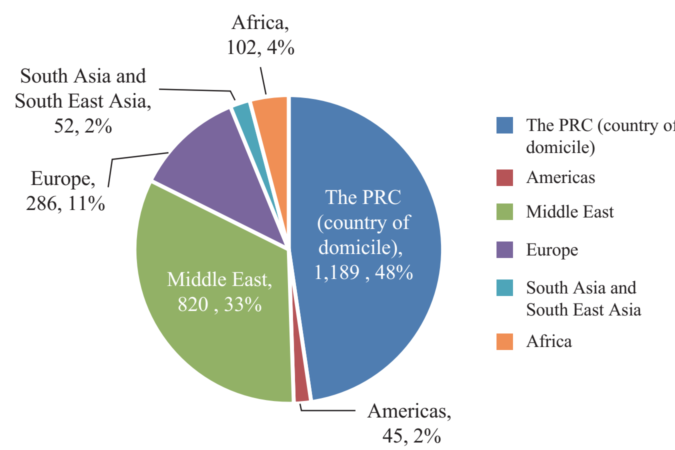
The Group's revenue by geographical segment during the Period: (1) revenue generated from the PRC amounted to approximately RMB1,296 million, accounting for approximately 46.7% of the total revenue, representing an increase of RMB107 million as compared with the same period of Previous Year; (2) The Group's export revenue amounted to approximately RMB1,480 million, accounting for approximately 53.3% of the total revenue, representing an increase of RMB175 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. The Group expanded its international markets, resulting in a significant increase in foreign revenue.

Revenue by geographical locations

Six months ended 30 June 2024
(Expressed in RMB'million)



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



(ii) Revenue by operating segments

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

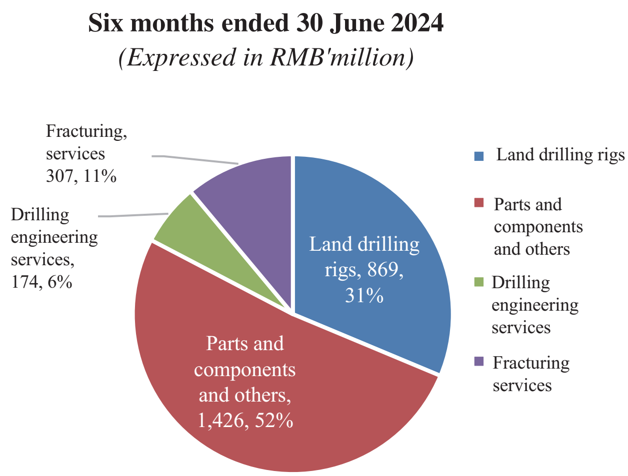
During the Period, external revenue from land drilling rigs amounted to approximately RMB869 million, representing a decrease of RMB286 million or 24.8% as compared to approximately RMB1,155 million in the same period of Previous Year.

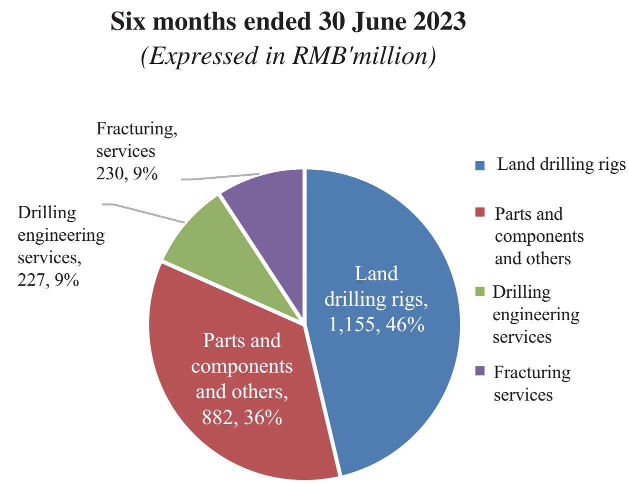
During the Period, external revenue from parts and components and others amounted to approximately RMB1,426 million, representing an increase of RMB544 million or 61.7% as compared to approximately RMB882 million in the same period of Previous Year.

During the Period, external revenue from drilling engineering service business amounted to approximately RMB174 million, representing a decrease of RMB53 million or 23.3% as compared to RMB227 million in the same period of Previous Year.

During the Period, revenue from fracturing business amounted to approximately RMB307 million, representing an increase of RMB77 million or 33.5% as compared to approximately RMB230 million in the same period of Previous Year.

Revenue by operating segments





Cost of Sales

During the Period, the Group's cost of sales amounted to approximately RMB2,474 million, representing an increase of RMB132 million or approximately 5.6% as compared to RMB2,342 million in the same period of 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 Period, the Group's gross profit amounted to approximately RMB302 million, representing an increase of RMB150 million or 98.1% as compared to the gross profit of RMB152 million in the same period of Previous Year.

During the Period, the Group's overall gross margin was 10.9%, representing an increase of 4.8 percentage points as compared with the same period last year of 6.1%. Due to the Group's adjustment of business structure, the increase in the proportion of products with high gross margins and the effective implementation of the reducing costs and increasing efficiency measures, the Group's profitability has improved.

Expenses in the Period

During the Period, the Group's distribution expenses amounted to approximately RMB80 million, representing a decrease of RMB2 million or 2.4% as compared to RMB82 million in the same period of Previous Year. This was mainly due to the continuous improvement of the Group's product quality, resulting in significant year-on-year decline of the service fees, product wear and tear expense and other expenses.

During the Period, the Group's administrative expenses amounted to approximately RMB130 million, representing an increase of RMB9 million or 7.4% from RMB121 million in the same period of Previous Year. This was mainly due to the increase in staff welfare benefits during the period.

During the Period, the Group's research and development expenses amounted to approximately RMB58 million, representing an increase of RMB21 million or 56.8% from RMB37 million in the same period of Previous Year. In order to meet the demand for automation, digitisation and intelligent development of drilling equipment, the Company continued to strengthen R&D investment, introduce R&D talents, and enhance core competitiveness. During the Period, the Company invested RMB132 million in research and development representing an increase of RMB10 million or 8.3% as compared with that of the same period of Previous Year.

During the Period, the Group's net finance expenses amounted to approximately RMB69 million, representing a decrease of RMB74 million or 51.7% as compared to net finance expense of RMB143 million in the same period of Previous Year. This was mainly due to the continuous improvement of the Group's financing structure and continuous optimisation of financing costs.

Profit/(Loss) before Income Tax

During the Period, the Group's profit before income tax amounted to approximately RMB12 million, representing an increase in profit of RMB179 million as compared to the loss before income tax of RMB167 million in the same period of Previous Year.

Income Tax expense

During the Period, the Group's income tax expense amounted to approximately RMB15 million, compared to the income tax expense amounted to approximately RMB1 million in the same period of Previous Year. The main reason was that the number of profitable subsidiaries in the current period increased year on year, and the corresponding income tax was calculated and raised.

Profit/(Loss) for the Period

During the Period, the loss for the Period amounted to approximately RMB3 million as compared to the loss of approximately RMB168 million in the same period of Previous Year. Specifically, profit attributable to equity shareholders of the Company was approximately RMB2 million, and the loss attributable to non-controlling interests was approximately RMB5 million. During the Period, the net profit margin was 0.1%, as compared to the net loss margin of 6.2% 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 RMB232 million, as compared to approximately RMB134 million in the same period of Previous Year. Mainly due to the expansion of sales scale and effective cost control, the profitability of the Group has improved. The EBITDA profit margin was 8.4%, as compared to an EBITDA profit margin of 5.4% in the same period of Previous Year.

Dividends

As at 30 June 2024, the Board does not recommend distribution of interim dividends.

Source of Capital and Borrowings

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

As at 30 June 2024, the Group's bank borrowings and senior notes amounted to approximately RMB4,843 million, representing an increase of RMB373 million as compared to the amount as at 31 December 2023. Specifically, borrowings repayable within one year amounted to approximately RMB2,737 million, representing an increase of RMB413 million or 17.8%, as compared to 31 December 2023.

Deposits and Cash Flow

As at 30 June 2024, the Group's cash and cash equivalents amounted to approximately RMB961 million, representing an increase of approximately RMB183 million as compared to 31 December 2023.

During the Period, the Group's net cash inflow from operating activities amounted to approximately RMB40 million; net cash outflow from investing activities amounted to approximately RMB45 million; and net cash inflow from financing activities amounted to RMB138 million.

Assets Structure and Changes

As at 30 June 2024, the Group's total assets amounted to approximately RMB12,771 million. Specifically, current assets amounted to approximately RMB8,421 million, accounting for approximately 65.9% of total assets, representing an increase of RMB355 million as compared to the amount as at 31 December 2023. This was mainly due to the increase in trade and other receivables. Non-current assets amounted to approximately RMB4,350 million, accounting for approximately 34.1% of total assets, representing a decrease of RMB103 million as compared to the amount as at 31 December 2023. This was mainly due to the depreciation expenses of property, plant and equipment during the period, resulting in a decrease in net book value of assets.

Liabilities

As at 30 June 2024, the Group's total liabilities amounted to approximately RMB9,148 million. Specifically, current liabilities amounted to approximately RMB7,009 million, accounting for approximately 76.6% of total liabilities, representing an increase of RMB247 million as compared to 31 December 2023. And non-current liabilities amounted to approximately RMB2,139 million, accounting for approximately 23.4% of total liabilities, representing a decrease of RMB37 million as compared to 31 December 2023. As at 30 June 2024, the Group's total liabilities/total assets ratio was 71.63%, representing an increase of 0.24 percentage points as compared to 31 December 2023.

Equity

As at 30 June 2024, the total equity amounted to approximately RMB3,623 million, representing an increase of RMB41 million as compared to 31 December 2023. The total equity attributable to equity shareholders of the company amounted to approximately RMB3,430 million, representing an increase of RMB46 million as compared to 31 December 2023. Non-controlling interests amounted to approximately RMB192 million, representing a decrease of RMB6 million as compared to 31 December 2023. During the Period, the Group's basic profit per share was RMB0.03 cents, and diluted profit per share was RMB0.03 cents.

Capital Expenditure, Major Investment and Capital Commitments

During the Period, capital expenditure of the Group on infrastructure and technical improvements amounted to approximately RMB70 million, representing a decrease of approximately RMB14 million as compared to the same period of Previous Year.

As at 30 June 2024, the capital commitment of the Group amounted to approximately RMB11 million, which was used to optimize and adjust the Group's business and production capacity.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's Shares listed on the Stock Exchange (including sale of treasury shares) during the six months ended 30 June 2024.

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 three members of the Board, among of two independent non-executive Directors, namely Ms. Li Yuedong (Chairman of Audit Committee) and Mr. Zhang Shiju, and one non-executive Director, namely Mr. Yang Yangzhuang. 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 2024 of the Company and the Group.

COMPLIANCE WITH THE CG CODE

The Company has adopted and complied with the principles and code provisions as set out in the CG Code as contained in Part 2 of Appendix C1 to the Listing Rules as the standard of the Company's corporate governance practices.

The Company has complied with all the code provisions of the CG Code except for code provision F.2.2 throughout the six months period from 1 January 2024 to 30 June 2024. Code provision F.2.2 provides that the Chairman of the Board should attend the annual general meeting. Mr. Wang Xu, a Chairman of the Board was unable to attend the annual general meeting of the Company held on 26 June 2024 due to other engagements. Mr. Wang will use his best endeavours to attend all future annual general meeting of the Company.

In addition, reference is made to the announcement of the Company dated 28 June 2024 in relation to, among others, the resignation of independent non-executive directors and appointment of directors. Following the change in the board members as disclosed in the announcement, the Company has (i) two independent non-executive directors, which is below the minimum requirement under Rule 3.10(1) of the Listing Rules; (ii) less than one-third of independent non-executive directors on the Board, which does not the meet the percentage requirement under Rule 3.10A of the Listing Rules.

As a remedial measure, the Board has used its best effort to identify suitable candidates to fill the vacancy of an independent non-executive director and appointed Mr. Wang Junren as an independent non-executive director of the Company on 20 August 2024. Following the appointment of Mr. Wang Junren, the Company has three independent non-executive directors representing at least one-third of the Board and has met requirements under Rules 3.10(1) and 3.10A of the Listing Rules.

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.

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 as set out in Appendix C3 to 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 2024.

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

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

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2024

This interim results announcement will be published on both the websites of the Company (www.hh-gltd.com) and the Stock Exchange (www.hkexnews.hk). The interim report of the Company for the six months ended 30 June 2024 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 adopted by the Company since 21 January 2008
"Company"	Honghua Group Limited
"Directors"	directors of the Company
"Group" or "Honghua"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange (as amended from time to time)
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix C3 to the Listing Rules
"Period" or "reporting period"	the six months ended 30 June 2024

"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
"same period last year" or "same period of previous year"	the six months ended 30 June 2023
"Share(s)"	ordinary shares issued by the Company, with a nominal value of HK$0.10 each
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"US$"	United States of America dollars, the lawful currency of the United States of America

On behalf of the Board
Honghua Group Limited
Wang Xu
Chairman

PRC, 27 August 2024

As at the date of this announcement, the executive directors of the Company are Mr. Wang Xu (Chairman), Mr. Zhu Hua and Mr. Yang Qiang; the non-executive directors of the Company are Mr. Yang Yangzhuang and Mr. Liu Xinggui; and the independent non-executive directors of the Company are Mr. Zhang Shiju, Ms. Li Yuedong and Mr. Wang Junren.