宏华集团有限公司
HONGHUA GROUP LIMITED

(incorporated in the Cayman Islands with limited liability)

Stock Code: 196

Interim Report 2020

CONTENTS

Corporate Information	2
Financial Highlights	4
Management Discussion and Analysis	6
Corporate Governance Report	18
Report of the Directors	21
Review Report	28
Unaudited Interim Condensed Consolidated Statement of Profit or Loss	29
Unaudited Interim Condensed Consolidated Statement of Comprehensive Income	30
Unaudited Interim Condensed Consolidated Balance Sheet	31
Unaudited Interim Condensed Consolidated Statement of Changes in Equity	33
Unaudited Interim Condensed Consolidated Statement of Cash Flows	35
Notes to the Unaudited Interim Condensed Consolidated Financial Information	36

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Jin Liliang *(Chairman)*
Zhang Mi *(Vice Chairman)*
Ren Jie

Non-Executive Directors

Han Guangrong
Chen Wenle

Independent Non-Executive Directors

Liu Xiaofeng
Chen Guoming
Su Mei
Poon Chiu Kwok
Chang Qing
Wei Bin

SECRETARY OF BOARD OF DIRECTORS

Zhuang Wenmin

BOARD COMMITTEES

Audit Committee

Wei Bin *(Committee Chairman)*
Liu Xiaofeng
Chen Guoming
Su Mei
Poon Chiu Kwok
Chang Qing

Remuneration Committee

Liu Xiaofeng *(Committee Chairman)*
Zhang Mi
Jin Liliang
Su Mei
Wei Bin

Strategic Investment and Risk Control Committee

Jin Liliang *(Committee Chairman)*
Zhang Mi
Ren Jie
Liu Xiaofeng
Poon Chiu Kwok
Chang Qing

JOINT COMPANY SECRETARIES

Zhuang Wenmin
Lee Mei Yi

LEGAL ADVISOR AS TO HONG KONG LAW

Herbert Smith Freehills

PRINCIPAL BANKERS AND NON-BANK FINANCIAL INSTITUTIONS

Bank of China Limited
Agricultural Bank of China Co., Ltd.
The Export-Import Bank of China
Industrial Bank Co., Ltd.
China CITIC Bank Co., Ltd.
Heng Feng Bank Co., Ltd.
China Development Bank
Industrial and Commercial Bank of China Limited
Industrial and Commercial Bank of China (Asia) Limited
China Development Fund Co., Ltd.
Aerospace Science & Industry Finance CORP
Bank SinoPac

Corporate Information

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
22nd Floor, Prince's Building
Central
Hong Kong

REGISTERED OFFICE

Clifton House, 75 Fort Street
PO Box 1350
Grand Cayman, KY1-1108
Cayman Islands

HEAD OFFICE

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

PLACE OF BUSINESS IN HONG KONG

Room 2508, Harcourt House
39 Gloucester Road
Wan Chai
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Ocorian Trust (Cayman) Limited
Clifton House, 75 Fort Street
PO Box 1350
Grand Cayman, KY1-1108
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

STOCK CODE

The Stock Exchange of Hong Kong Limited: 0196

WEBSITE

http://www.hh-gltd.com

Financial Highlights

OPERATING RESULTS

	Six months ended 30 June		
	2020	2019	Changes
	RMB'000	*RMB'000*	
Turnover	**1,807,058**	2,048,478	-11.8%
Operating profit	**173,489**	147,695	17.5%
Profit before income tax	**52,042**	105,450	-50.6%
Profit attributable to equity shareholder of the company	**31,161**	60,812	-48.8%
Figures per Share			
Earnings per share-Basic (RMB cents)	**0.59**	1.15	-48.7%
Earnings per share-Diluted (RMB cents)	**0.59**	1.15	-48.7%

FINANCIAL POSITION

	30 June	31 December	
	2020	2019	Changes
	RMB' 000	*RMB' 000*	
Total non-current assets	**5,564,415**	5,298,467	5.0%
Total current assets	**6,695,082**	6,455,861	3.7%
Total assets	**12,259,497**	11,754,328	4.3%
Total current liabilities	**5,316,947**	5,033,409	5.6%
Total non-current liabilities	**2,416,677**	2,240,542	7.9%
Total liabilities	**7,733,624**	7,273,951	6.3%
Total equity	**4,525,873**	4,480,377	1.0%

Financial Highlights (Continued)

KEY FINANCIAL RATIOS*

	Six months ended 30 June		
	2020	2019	Changes
Gross profit margin	**33.6%**	27.2%	23.5%
Net Margin	**1.7%**	3.0%	-43.3%
Return on average assets	**0.3%**	0.6%	-50.0%
Return on average equity	**0.7%**	1.5%	-52.7%

	30 June 2020	31 December 2019	Changes
Current ratio	**1.26**	1.28	-0.02
Quick ratio	**1.02**	1.03	-0.01
Total debt/Total assets	**39.2%**	34.1%	15.0%
Total liabilities/Total assets	**63.1%**	61.9%	1.9%

* Earnings exclude non-controlling interests
Equity excludes non-controlling interests

MANAGEMENT DISCUSSION AND ANALYSIS

Management Discussion and Analysis

In the first half of 2020, Honghua's revenue amounted to RMB1,807 million, representing a decrease of 11.8% from RMB2,048 million for the same period of last year. Gross profit was approximately RMB608 million, representing an increase of 9.1% from RMB557 million for the same period of last year. The profit attributable to owners of the company was approximately RMB31 million.

MARKET REVIEW

In the first half of 2020, the international crude oil prices took a roller-coaster ride. At the beginning of the year, the intensification of the US-Iraq conflict and the progress of Sino-US talks provided transitory positive support for the oil prices. However, due to the impact of the COVID-19 pandemic and the "Oil Price War" between the major oil-producing countries, Brent and WTI spot crude oil prices began to plunge from the beginning of March, with a cumulative decline of 39.4% and 34.9% respectively, for the first half of this year. At the end of April, the Organization of Petroleum Exporting Countries (OPEC) entered into a joint production reduction agreement with non-OPEC oil-producing countries, as a result of which the international oil prices began to stabilize and recover. In June, OPEC announced its decision to extend the term of the crude oil production reduction agreement to July in an attempt to further stabilize crude oil prices. However, the concern about market demand has resulted in growing pressure on oil prices.

According to the "Natural Gas Market Report 2020" released by the International Energy Agency (IEA), in recent years, the natural gas industry witnessed a strong growth in demand due to the substitutability of natural gas as a clean energy source for coal. In 2020, the global natural gas market suffered the greatest hit in its history, with the significant decline in demand for natural gas due to the prolonged warm winter and the lock-down imposed globally as a result of the COVID-19 pandemic, and thus, the natural gas consumption for the year is estimated to decline by 4%, and expected to recover gradually in 2021.

As for the domestic market, demand for petrochemical and chemical products shrank significantly in the first quarter due to the outbreak of COVID-19 pandemic. In the second quarter, the COVID-19 prevention and control efforts led to initial success, resulting in gradual but slow recovery of consumer demand, due to the worldwide spread of the COVID-19 pandemic. While the demand was shrinking, efforts to increase oil and gas reserve and production continued to enjoy top priority in the domestic market, benefiting from the national energy security strategy. In the first half of the year, crude oil and natural gas production witnessed a steady and rapid growth, respectively. In the first half of 2020, crude oil production amounted to 96.50 million tons, representing a year-on-year increase of 1.5%; apparent consumption of refined oil was 153.86 million tons, representing a year-on-year decrease of 6.0%; natural gas production amounted to 94.96 billion cubic meters, representing a year-on-year increase of 9.9%; China imported a total of 66.74 billion cubic meters of natural gas, representing a year-on-year increase of 3.3%, with an apparent consumption of natural gas of 155.61 billion cubic meters, representing a year-on-year increase of 4.0%.[1]

[1] National Development and Reform Commission of the People's Republic of China

Management Discussion and Analysis

The Guiding Opinions on Energy Security for 2020 《關於做好2020年能源安全保障工作的指導意見》 proposed to vigorously boost energy production and supply, promote steady increase in domestic oil and gas production, maintain vigorous efforts in enhancing domestic oil and gas exploration and development, and speed up exploration and development of unconventional oil and gas resources. According to the Guiding Opinions on Energy Work for 2020 《2020年能源工作指導意見》 issued by the National Energy Administration (NEA), the production targets for 2020 were as follows: 193 million tons of oil, 181 billion cubic meters of natural gas, and 900 million kilowatts of installed power generation with non-fossil energy. Despite the significant volatility of international crude oil prices, China continued to attach top priority to its national energy security. China's efforts to encourage oil and gas exploration and its support in increasing reserve and production are bound to create new opportunities for the energy equipment manufacturers and service providers.

As for the wind power market, in the first half of this year, 6.32 million kilowatts of installed wind power capacity was added to China's national power grid, including 5.26 million kilowatts of onshore wind power and 1.06 million kilowatts of offshore wind power, representing a year-on-year increase of 165.0%. In the first half of the year, 237.9 billion kWh was generated from wind power, representing a year-on-year increase of 10.9%.[2]

BUSINESS REVIEW

In the first half of 2020, the global COVID-19 pandemic and the plunge in crude oil prices have posed numerous new challenges to the Group's operations. Accordingly, the Group firmly grasped the market trends, adopted a flexible and diversified marketing approach, and adjusted its industrial structure by increasing the proportion of high added-value parts and components in its sales mix. The Group cooperated with its largest shareholder, China Aerospace Science and Industry Corporation ("Aerospace Science"), to fully integrate its internal resources and aggressively penetrate the offshore wind power new energy industry by leveraging its technology research and development and equipment manufacturing expertise.

During the Period, benefiting from China's energy security strategy, the Group's domestic business revenue continued to grow, with its percentage in the business structure once again hitting the record high since its listing. The Group took the opportunities arising from the state's efforts to increase oil and gas reserve and production while focusing on promoting its "Total Solution for Unconventional Power Generation with Oil and Gas", under which it is to gradually launch the complete electricity-powered fracturing equipment with the 6,000-HP electric fracturing pump as the key model; extend the fracturing industry value chain by promoting services associated with equipment, and create new growth drivers for its business.

1. Drilling Rigs and Related Product Business Segment

In the first half of 2020, Honghua recorded a total sale of 11 drilling rigs with an aggregate amount of approximately RMB619 million, a decrease of 25.3% from RMB829 million for the same period of last year. The total sales of parts and components amounted to RMB470 million, a decrease of 20.1% from RMB588 million for the same period of last year.

[2] National Energy Administration

Management Discussion and Analysis

In the first half of 2020, due to the worldwide spread of COVID-19 pandemic and depressed oil price, overseas sales of Honghua's complete sets of drilling rigs registered a decline. However, leveraging the Group's market influence in areas with long-established strongholds, Honghua secured new orders from the existing customers in the Middle East and Russian-speaking regions for the design of CNC drilling rigs for water depth of up to 7,000 meters and the retrofitting of the existing drilling rigs, which also brought along bundled sale of top drives and mud pumps. For the domestic market, orders for drilling rigs increased significantly compared with the previous year, with new orders for complete sets of drilling rigs amounting to RMB0.28 billion for the first half of the year.

For the sale of parts and components, the Group took full advantage of its global customer resources and adopted a flexible approach to meet different needs of its customers in the times of high oil price fluctuation. Honghua successfully secured a framework agreement for procurement of oilfield production-boosting equipment valued at US$30 million from a long-standing customer in Central Asia, a drilling rig maintenance and improvement service contract from a European customer, and a spare parts procurement contract from an Omani customer. In the domestic market, Honghua's customers were basically comprised of the subsidiaries of the two major oil companies in China, thanks to its excellent product quality and years of successful brand building. During the Period, Separate sales of top drive and mud pumps, which are core components of the drilling rigs developed and manufactured by the Group, amounted to RMB59 million and RMB34 million respectively. In addition, Honghua also possesses special electrical engineering qualifications which allow us to provide customers with medium and high voltage power distribution equipment and EPC projects, helping customers to realize their planned operation model that features "prioritizing distribution network, exploring gas by electricity".

Management Discussion and Analysis

In the first half of 2020, taking full advantage of its manufacturing expertise and background as a state-owned enterprise, Honghua secured contracts from state-owned enterprises, such as Huadian Heavy Industries and Guangzhou Salvage Bureau, for the construction of offshore wind power monopiles and conduit frames, with orders worth RMB580 million for the first half of the year. In recent years, new energy projects involving offshore wind power have been supported by favorable national policies, rendering bright market prospects. Building on the existing orders, the Group will continue to penetrate the relevant markets.

As at 30 June 2020, Honghua's total contract backlog of drilling rigs and mining equipment and related products amounted to approximately RMB1,490 million, including onshore drilling rigs of approximately RMB394 million.

2. Fracturing

In the first half of 2020, the Group had a total of 16 pumping teams to provide 2,009 stages for pumping service during the Period. The total realized sales of equipment and engineering services provided during the Period amounted to approximately RMB537 million.

In terms of non-conventional oil and gas development and fracturing equipment, in the first half of 2020, Honghua sold two sets of electric fracturing pumps, and made the first sale of electric sand-mixing skid. During the Period, electric automatic sand conveying and storing device was successfully rolled out and deployed for its first well site operation. The Group has successively launched complete set of electric fracturing equipment linked to the key product electric fracturing pump, including electric sand-mixing skid, electric fluid supply skid, intelligent command and control centers, flexible tanks, high pressure manifold and electric automatic sand conveying and storing device, which are all under intensive use at the well site now.

As domestic unconventional oil and gas development accelerates, the trend of electrification in the fracturing industry is becoming more and more pronounced, and the industry is moving toward large-scale, piecemeal development. Despite the COVID-19 outbreak control which resulted in operational downtime, fracturing pumping service experienced explosive growth. In the first half of the year, the number of electric fracturing pumping service provided in the domestic market reaching over 2,000 stages, representing an increase of 70.4% over the same period last year. The rapid growth was partly due to the fast growth in demand for unconventional fracturing service in the domestic market and the market's appreciation of the high efficiency and environmental protection feature of electric fracturing. During the Period, at a certain platform in Nanchuan, Chongqing, the Group realized the construction of seven fracturing stages in a single day under the working pressure of 84MPa and the working capacity of 12 cubic meters per minute, which once again touched the highest record of fracturing construction in the Sichuan-Chongqing area. In the shale gas block in Fuling, Chongqing, the Group's fracturing pumping service achieved the record of five fracturing stages per day, which accelerated the fracturing speed of single platform by 70.0%, making the platform to have the fastest fracturing construction speed in Fuling shale gas field. On the other hand, after being offered the chance to serve a platform under a shale gas fracturing project in Changning in 2019, Honghua was awarded projects on another platform in the same area again. The shale gas fracturing engineering service has enabled the Group to expand its business

Management Discussion and Analysis

scope from pumping service only to a full range of fracturing services, including pumping, sand mixing and field command and scheduling. During the Period, the electric sand conveying and storing skid has been applied on site and the electric fracturing equipment package has been further expanded. So far, the Group has launched complete sets of electric fracturing equipment with electric fracturing pump as the key product which are deployed for fracturing operation at various well sites in Sichuan and Chongqing, with the equipment-driven service strategy.

As at 30 June 2020, Honghua's contracts on hand for fracturing business and service business amounted to a total value of approximately RMB254 million.

3. Drilling Engineering Service Business

In the first half of 2020, Honghua's 12 drilling crews completed a footage of approximately 56,280 meters during the Period, representing an increase of 38.0% for the same period of last year, providing engineering services with a total sales amount of approximately RMB182 million, representing a decrease of 5.2% from RMB192 million in the same period of last year.

In the first half of the year, the domestic market was dealt with heavy blows such as pandemic control and plummeting oil prices, and drilling services met great challenges. However, Honghua's oil service team overcame the difficulties in personnel control and well site scheduling. During the Period, Honghua made a major breakthrough in the directional well services market, winning bids for directional well services in Sichuan and Qinghai, with total contract value amounting to approximately RMB30 million. In terms of operation, the Group drilled and completed a well in a certain block in Changning with a depth of 4,850 meters, a vertical depth of 2,146 meters, a horizontal section displacement of 3,397 meters, a horizontal section length of 3,100 meters and a maximum well slope of 80.53 degrees, which was a new record for an ultra-long horizontal section of shale gas in China. During the Period, Honghua obtained qualifications from four drilling teams of shale gas companies in Sichuan, providing the basis for further workloads.

In the international market, Honghua continued to focus on the Middle East market. In the first half of the year, the COVID-19 pandemic spread around the world and somewhat affected oil service operations. However, the Group still overcame numerous difficulties and achieved growth in operating volume against the adversity while ensuring that no one employee working overseas was infected. During the strict control period for the pandemic, some oil fields in the Middle East market were suspended. However, with the easing of control of the pandemic, oil fields in the market have been resuming work. During the Period, the Group's frontline operation team continuously set new records. HH023 operation team set a new record of 1,400m open-hole section, 43 degrees slope and zero risk for six sets of high-end logging wells. HH029 operation team performed well in an oil field project in the Middle East, where the well drilled broke the completion cycle record for the last four years, making it the only drilling team to remain in operation.

As at 30 June 2020, Honghua had contracted drilling engineering service business of approximately RMB284 million.

Management Discussion and Analysis

QUALITY MANAGEMENT AND RESEARCH & DEVELOPMENT

During the Period, Honghua continued to adhere to the continuous enhancement of quality management and safety production standardization and the Group passed all the quality system audits and product certification audits such as API, ISO, CCC and CSA. Through carrying out professional training on quality data statistics and analysis, the ability of quality data analysis was improved. By virtue of quality planning and on-site supervision in respect of critical parts of key products, critical processes and critical materials, the quality control of the supply chain was strengthened and the competitiveness and profitability of our products were enhanced.

The Group has always adhered to the technology-based concept. During the Period, product and technology R&D projects were mainly focused on the fields of full automation, intelligent equipment, intelligent manufacturing, unconventional oil and gas development equipment, downhole tools and marine resource development equipment, which have achieved certain milestones. The ongoing intelligent drilling rig project is currently going through expert assessment as to the intelligent drilling rig integration and drilling processes automation solution. In respect of unconventional oil and gas development equipment, the electric sand conveying and storage device was launched in the first half of this year and is currently put into industrial application. Detailed design of efficient sand removal device for shale gas is underway. In the development of downhole tools, the guiding head of the intelligent trajectory guidance system which has independent intellectual property rights was further improved and is being prepared for testing. In the research and development of natural gas hydrate projects, the underwater mining robot has been upgraded to conduct a 100m water depth test, and the design and R&D of related electronic control system and hydraulic system have started. In terms of deep-sea mineral resources, after completing the key research project of the Ministry of Science and Technology in 2019, Honghua will again undertake the research and development of deep-sea natural gas hydrates this year.

As at 30 June 2020, the Group has applied for 69 new patents, including 26 authorized patents and 1 invention patent.

HUMAN RESOURCES MANAGEMENT

During the Period, the Group continued to improve the structure of human resources, strengthened the introduction of technical talents, and achieved the strategic deployment of optimizing the allocation of human resources and improving efficiency. As at 30 June 2020, Honghua had a total of 3,760 employees, increasing by 4.1% compared to same period of last year, with 697 being R&D staff, increasing by 37.8% compared to same period of last year. Based on the strategic planning layout of Honghua Group and guided by digitalization and intelligence transformation and upgrade, the Group will further expand its talent pool through acquiring leading talents in the industry and young technology talents in intelligent manufacturing, big data, software systems and from the fracturing industry, and increase the reserve of international sales elites and senior project management talents in the future. As for staff training project, the Group organized a total of 309 training projects in the first half of 2020, mainly focusing on personnel-specific skills training, management ability training and technology-marketing cross-training, which contributed to the promotion of the professional knowledge and skills of the Group's personnel.

In 2020, in order to ensure the availability of talents and intellectual support for the strategic development of Honghua Group, Honghua will continue to improve the talent introduction, cultivation and allocation mechanism, focus on the promotion of duty performance capabilities and the performance appraisal assessment of management talents, strengthen the organizational capabilities construction and the reserve of quality talents, vigorously integrate strategic science and technology talents resources, build high-skilled talents practice platforms, and unleash the power of innovative development.

Management Discussion and Analysis

OUTLOOK

In the second half of 2020, Honghua will continue to seize the industry opportunities arising from increasing oil and gas reserves and production under the national energy security strategy, adopt a flexible and market-oriented operation approach, and strengthen the R&D and sales of core products of drilling and completion equipment. We will drive services associated with equipment and continues to increase the business scale and workload of oil and gas engineering services. At the same time, we will ensure satisfactory delivery of offshore wind power project and pursue subsequent market expansion, so as to promote the Group's high-quality sustainable development.

In the second half of the year, facing the risks of oil price fluctuations and economic slowdown, Honghua will further enhance cost control, optimize supply chain management, and improve cash turnover efficiency. During the period of low/medium levels of oil prices, the Group will leverage flexible market response mechanisms and endogenous innovation momentum. While consolidating existing businesses, we will actively explore new market businesses, make new opportunities that lie in crisis, and open up new prospects amid changes.

GEOPOLITICS RISKS

As businesses of the Group cross different geographical locations and countries, therefore overseas businesses of the Company will be affected by various conditions, including policies of the local government, economy and community, as well as the stability and changes of international relations. If there is any material adverse change in those factors, business, financial position and operating results of the Group may be adversely affected.

FINANCIAL REVIEW

During the Period, the Group's gross profit and profit attributable to shareholders of the Company amounted to approximately RMB608 million and RMB31 million, respectively, and gross margin and net margin amounted to approximately 33.6% and 1.7% respectively. In the same period last year, gross profit and profit attributable to shareholders of the Company amounted to approximately RMB557 million and RMB61 million, respectively, gross margin and net margin amounted to approximately 27.2% and 3.0%, respectively. During the Period, due to the COVID-19 pandemic and the significant fluctuation in the international oil price, the global oil and gas service market demand declined. In order to strengthen the capital reserve in special period, the Group moderately increased the borrowing scale, and the financial cost increased compared with last year. At the same time, based on the principle of prudence, the impact of non-recurring gains and losses such as financial asset impairment losses and other losses is fully considered, which makes the Group's net profit margin decrease. In addition, the Group continued to reduce costs and increase efficiency, strictly control product costs, and optimize the cost structure, resulting in a significant increase in the gross profit margin of the Group.

Turnover

During the Period, the Group's revenue amounted to approximately RMB1,807 million, representing a decrease of RMB241 million or 11.8% as compared to RMB2,048 million in the same period last year. The decrease in revenue mainly came from the international market. Affected by the COVID-19 pandemic and oil price fluctuation, overseas drilling rig orders decreased and some projects were delayed, resulting in a decrease compared with the same period last year in sales revenue of the Group.

Management Discussion and Analysis

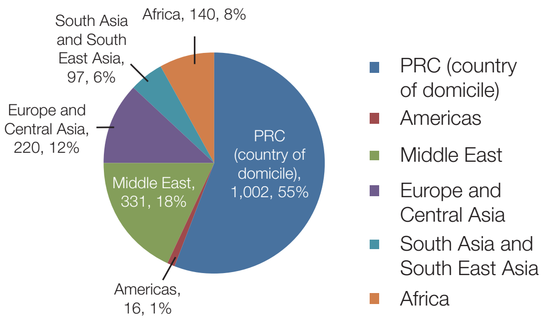
(i) Revenue by geographical locations

The Group's revenue by geographical segment during the Period: (1) The Group's export revenue amounted to approximately RMB805 million, accounting for approximately 44.6% of the total revenue, representing a decrease of RMB469 million as compared to the same period last year; (2) revenue generated from the PRC amounted to approximately RMB1,002 million, accounting for approximately 55.4% of the total revenue, representing an increase of RMB228 million as compared to the same period last year.

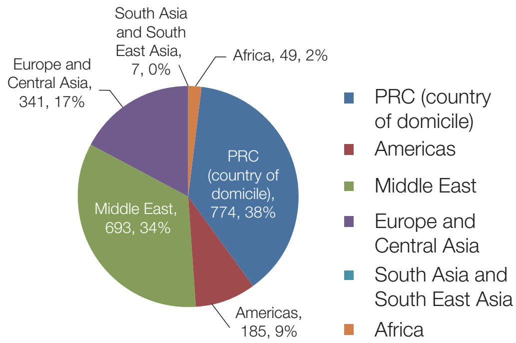
The regional distribution of the Group's sales revenue is affected by changes in oil and gas production activities in various regions of the world. Confronted with the market shocks in the oil industry, the Group continues to adhere to technological innovation, improve the quality of products and services, strictly control operating costs, and focus on developing international business; at the same time, the domestic shale gas market has developed rapidly, promoting the continuous growth of the domestic market.

Revenue by geographical locations

Six months ended 30 June 2020
(Expressed in RMB'million)



Six months ended 30 June 2019
(Expressed in RMB'million)



(ii) Revenue by operating segments

During the Period, external revenue from land drilling rigs amounted to approximately RMB619 million, representing a decrease of RMB210 million or 25.3% as compared to approximately RMB829 million in the same period last year.

During the Period, external revenue from parts and components and others amounted to approximately RMB470 million, representing a decrease of RMB118 million or 20.1% as compared to approximately RMB588 million in the same period last year.

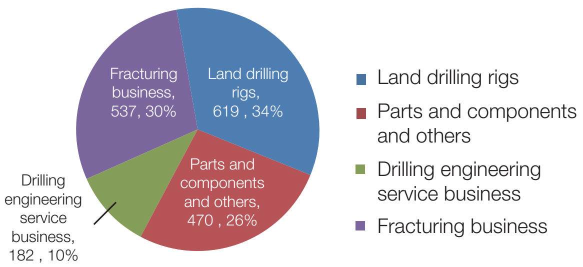
During the Period, external revenue from drilling engineering service business amounted to approximately RMB182 million, representing a decrease of RMB10 million or 5.2% as compared to approximately RMB192 million in the same period last year.

During the Period, external revenue from fracturing business amounted to approximately RMB537 million, representing an increase of RMB98 million or 22.3% as compared to approximately RMB439 million in the same period last year.

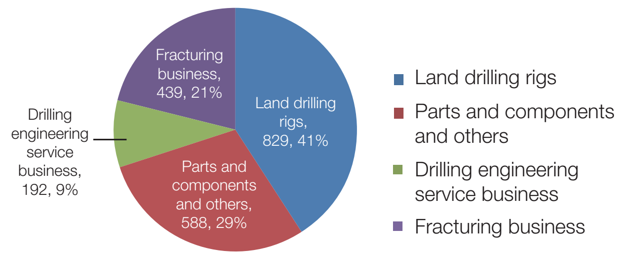
Management Discussion and Analysis

Revenue by operating segments

Six months ended 30 June 2020
(Expressed in RMB'million)



Six months ended 30 June 2019
(Expressed in RMB'million)



Cost of Sales

During the Period, the Group's cost of sales amounted to approximately RMB1,199 million, representing a decrease of RMB292 million or approximately 19.6% as compared to RMB1,491 million in the same period last year, which was 7.8 percentage points higher than the drop of revenue. Mainly affected by the reduction of sales scale, the cost of sales of each sector has also decreased; meanwhile, the Group has continued to promote cost-cutting and efficiency-improving work, strictly controlled the cost and expenses, optimized the cost structure, and continuously improved the operating level.

Gross Profit and Gross Margin

During the Period, the Group's gross profit amounted to approximately RMB608 million, representing an increase of RMB51 million or 9.1% as compared to RMB557 million in the same period last year.

During the Period, the Group's overall gross margin was 33.6%, representing an increase of 6.4 percentage points compared with the same period last year of 27.2%. The main reason is that the Group actively promote new products with high added value. In addition, under the influence of positive measures such as cost reduction, cost control and cost structure optimization, the gross profit has increased.

Expenses in the Period

During the Period, the Group's distribution expenses amounted to approximately RMB122 million, representing a decrease of RMB37 million or 23.3% as compared to RMB159 million in the same period last year. It is mainly due to the decrease of sales revenue that leads to the decrease of project related expenses.

During the Period, the Group's administrative expenses amounted to approximately RMB278 million, representing an increase of RMB98 million or 54.4% as compared to RMB180 million in the same period last year. This is mainly due to the adjustment of cost structure and the increase of R&D investment.

During the Period, the Group's net finance expenses amounted to approximately RMB110 million, representing an increase of RMB70 million, or 175.0% as compared to net finance expense of RMB40 million in the same period last year. The main reason is that the increase of loan scale in the period leads to the increase of interest cost; at the same time, affected by the fluctuation of the exchange rate, the exchange income in the period decreased compared with the same period last year.

Management Discussion and Analysis

Profit before Income Tax

During the Period, the Group's profit before income tax amounted to approximately RMB52 million, representing a decrease of RMB53 million or 50.6% as compared to profit before income tax of RMB105 million in the same period last year.

Income Tax Expense

During the Period, the Group's income tax expense amounted to approximately RMB13 million as compared to the income tax expense of approximately RMB34 million in the same period last year. It is mainly due to the decrease in sales revenue, and the income tax expenses decrease accordingly.

Profit for the Period

During the Period, the profit for the Period amounted to approximately RMB39 million as compared to the profit of approximately RMB71 million in the same period last year. Specifically, profit attributable to equity shareholders of the Company was approximately RMB31 million, while profit attributable to non-controlling interests was approximately RMB8 million. During the Period, net margin was 1.7%, as compared to a net margin of 3.0% in the same period last year.

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

During the Period, EBITDA amounted to RMB255 million, as compared to approximately RMB230 million in the same period last year, which was mainly attributable to the improvement of operation, leading to the increase of overall operating income. The EBITDA margin was 14.1%, as compared to 11.3% in the same period last year.

Dividends

As at 30 June 2020, the Board does not recommend payment of dividend.

Source of Capital and Borrowings

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

As at 30 June 2020, the Group's bank borrowings and senior notes amounted to approximately RMB4,809 million, representing an increase of RMB799 million as compared to 31 December 2019. Among which, borrowings repayable within one year amounted to approximately RMB2,518 million, representing an increase of RMB600 million or 31.3%, as compared to 31 December 2019.

Deposits and Cash Flow

As at 30 June 2020, the Group's cash and cash equivalents amounted approximately RMB933 million, representing an increase of approximately RMB43 million as compared to 31 December 2019. During the Period, the Group's net cash outflow from operating activities amounted to approximately RMB582 million; net cash outflow from investing assets amounted to approximately RMB53 million; and net cash inflow from financing activities amounted to approximately RMB676 million.

Management Discussion and Analysis

Assets Structure and Changes

As at 30 June 2020, the Group's total assets amounted to approximately RMB12,259 million, representing an increase of approximately RMB505 million or 4.3% as compared to 31 December 2019. Specifically, current assets amounted to approximately RMB6,695 million, accounting for 54.6% of total assets, representing an increase of RMB239 million as compared to 31 December 2019; and non-current assets amounted to approximately RMB5,564 million, accounting for 45.4% of total assets, representing an increase of approximately RMB266 million as compared to 31 December 2019.

Liabilities

As at 30 June 2020, the Group's total liabilities amounted to approximately RMB7,734 million, representing an increase of approximately RMB460 million as compared to 31 December 2019. Specifically, current liabilities amounted to approximately RMB5,317 million, accounting for approximately 68.7% of total liabilities, representing an increase of approximately RMB284 million as compared to 31 December 2019; and non-current liabilities amounted to approximately RMB2,417 million, accounting for approximately 31.3% of total liabilities, representing an increase of approximately RMB176 million as compared to 31 December 2019. As at 30 June 2020, the Group's total liabilities/total assets ratio was 63.1%, representing an increase of 1.9 percentage points as compared to 31 December 2019.

Equity

As at 30 June 2020, total equity amounted to approximately RMB4,526 million, representing an increase of RMB46 million as compared to 31 December 2019. Total equity attributable to equity shareholders of the Company amounted to approximately RMB4,302 million, representing an increase of RMB36 million as compared to 31 December 2019. Non-controlling interests amounted to approximately RMB223 million, representing an increase of RMB8 million as compared to 31 December 2019. During the Period, the Group's basic earnings per share was RMB0.0059, and diluted earnings per share was RMB0.0059.

Capital Expenditure, Major Investment and Capital Commitments

During the Period, capital expenditure of the Group on infrastructure and technical improvements amounted to approximately RMB121 million, representing a increase of approximately RMB79 million as compared to the same period last year, which was mainly used for the maintenance of the equipment and manufacturing base of the land drilling rigs segment as well as the optimization of the production capacity of the Group's drilling engineering service and fracturing business.

As at 30 June 2020, capital commitment of the Group amounted to approximately RMB12 million, which was used to optimize and adjust the Group's business and production capacity.

Corporate Governance Report

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

The Group is committed to achieving high standards of corporate governance to safeguard the interests of Shareholders and to enhancing corporate value and accountability.

The Group strives to attain and maintain high standards of corporate governance to enhance Shareholder value and safeguard Shareholder interests. The Group's corporate governance principles emphasize a quality Board, effective internal controls and accountability to Shareholders.

The Company has adopted the principles and code provisions as set out in the Corporate Governance Code (the "CG Code") as contained in Appendix 14 of the Listing Rules.

The Company has complied with most of the code provisions of the CG Code throughout the six months period from 1 January 2020 to 30 June 2020, except for the deviation of the Code Provision A.5.1 of the CG Code as mentioned below.

2. MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a set of Code for Securities Trading with terms no less exacting than that of the Model Code for Securities Transactions by Directors of Listed Issuer (the "Model Code") set out in Appendix 10 of the Listing Rules. After the specific enquiry made by the Company, all the Directors have confirmed that they have complied with the standards specified in both the Code for Securities Trading and the Model Code throughout the six months ended 30 June 2020.

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

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

Corporate Governance Report

3. INDEPENDENT NON-EXECUTIVE DIRECTORS

During the six months ended 30 June 2020, the Board at all times met the requirements of the Listing Rules relating to the appointment of independent non-executive directors representing at least one-third of the board.

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

4. AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") with written terms of reference in compliance with Rules 3.21 and 3.22 of the Listing Rules. The 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 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 six Independent Non-executive Directors, namely Mr. Wei Bin (Chairman), Mr. Liu Xiaofeng, Mr. Chen Guoming, Ms. Su Mei, Mr. Poon Chiu Kwok and Mr. Chang Qing. Three of Independent Non-executive Directors possess 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 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 2020 of the Company and the Group.

Corporate Governance Report

5. NOMINATION COMMITTEE

Code Provision A.5.1 of the CG Code stipulates that Nomination Committee should be established with the Chairman of the Board or Independent Non-executive Director to be the chairman of the Nomination Committee.

For improving work efficiency, the Nomination Committee of the Group was dismissed with effect from 19 March 2013 and that its duties were taken over by the Board for reviewing its own structure, size and composition regularly (including taking into account of the board diversity policy of the Company) to ensure that it has a balance of expertise, skills and experience board members appropriate for the requirements of the business of the Company.

Report of the Directors

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

As at 30 June 2020, the interests and short positions of each Director and Chief Executive in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of the SFO), as recorded in the register required to be kept by the Company under Section 352 of Part XV of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code contained in Appendix 10 to the Listing Rules were as follows:

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

	Long/Short position	Nature of interest	Number of shares held	% of the issued share capital of the Company
Mr. Zhang Mi	Long	Personal interest, corporate interest and settlor of a discretionary trust	608,568,632[(1)]	11.36%
Mr. Ren Jie	Long	Personal interest, corporate interest and settlor of a discretionary trust	89,357,526[(2)]	1.66%
Ms. Su Mei	Long	Personal interest	150,000[(3)]	0.002%

(1) Zhang Mi individually owns 3,050,000 Shares. Yi Langlin, spouse of Zhang Mi owns 2,156,000 Shares. Zhang Mi is the settlor of a discretionary trust, The ZYL Family Trust, whose trustee, through Wealth Afflux Limited, holds 36% of the issued share capital of Ally Giant Limited which holds 445,562,632 Shares. The Trustee of The ZYL Family Trust is deemed to be interested in 603,362,632 Shares.

(2) Ren Jie individually owns 1,549,000 Shares. He is the settlor of a discretionary trust. The Trustee of The RJDJ Victory Trust owns 87,808,526 Shares.

(3) Su Mei individually owns 150,000 Shares.

Report of the Directors

(B) Share Options of the Company

	Long/Short Position	Number of options held – Personal interest
Mr. Zhang Mi	Long	1,190,000
Mr. Ren Jie	Long	2,885,000
Mr. Liu Xiaofeng	Long	2,450,000
Mr. Chen Guoming	Long	1,800,000

Save as disclosed above, as at 30 June 2020, none of the Directors and Chief Executives (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for Shares (or warrants or debentures, if applicable) of the Company and its associated corporations required to be disclosed pursuant to the SFO.

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

The register of substantial shareholders required to be kept under section 336 of Part XV of the SFO shows that, as at 30 June 2020, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors and Chief Executives of the Company.

		Number of shares held					
		Personal interest					
Name	Long/ Short Position	Share option	Shares Interest	Corporate interest	Corporate interest and settlor of a discretionary trust	Total	% of the issued share capital of the Company
Ally Giant Limited	Long	–	445,562,632	–	–	445,562,632(1)	8.31%
Wealth Afflux Limited	Long	–	157,800,000	445,562,632	–	603,362,632(2)	11.26%
Tricor Equity Trustee Limited	Long	–	–	–	1,021,504,049	1,021,504,049(3)	19.07%
Yi Langlin	Long	–	2,156,000 607,602,632 (family interest)		–	609,758,632(4)	11.38%
Kehua Technology Co., Limited	Long	–	1,606,000,000	–	–	1,606,000,000(5)	29.98%
Shenzhen Aerospace Industry Technology Research Institute	Long	–	–	1,606,000,000	–	1,606,000,000(5)	29.98%
China Aerospace Science and Industry Corporation Limited	Long	–	–	1,606,000,000	–	1,606,000,000(5)	29.98%

Report of the Directors

Notes:

(1) Ally Giant Limited is owned by Wealth Afflux Limited and others 33 shareholders, holding 445,562,632 Shares in total.

(2) Wealth Afflux Limited is held by Tricor Equity Trustee Limited (as the trustee of The ZYL Family Trust). The ZYL Family Trust is a discretionary trust established by Zhang Mi (as the settlor), with Tricor Equity Trustee Limited (as the trustee). The beneficiaries under The ZYL Family Trust are Zhang Mi and his family members.

(3) Tricor Equity Trustee Limited, as the trustee of The ZYL Family Trust and the 8 other Trusts, holds 1,021,504,049 Shares in total.

(4) Yi Langlin, spouse of Zhang Mi, is deemed to be interested in 609,758,632 Shares in which Zhang Mi holds 1,190,000 share options.

(5) Kehua Technology Co., Limited is owned 40% by Shenzhen Aerospace Industry Technology Research Institute and 60% by China Aerospace Science and Industry Corporation Limited and holds 1,606,000,000 Shares.

Save as disclosed above, to the best of the Directors and the Chief Executives of the Company's knowledge, as at 30 June 2020, none of the persons, other than the Directors or the Chief Executives of the Company, had interests or short positions in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or recorded in the register as required under Section 336 of the SFO.

SHARE OPTION SCHEME

(A) Share Option Scheme

Upon conditional approval by resolution in writing by all shareholders of the Company on 21 January 2008, the Company adopted a share option scheme (the "Share Option Scheme"). The vesting period of the Pre-IPO Share Option Scheme is ten years from the date of grant until 20 January 2018. Details of the grant share options under the Share Option Scheme in the validity period ended 30 June 2020 were as follows:

Date of grant	Number of grant *(shares)*	Exercise price per Share *(HK$)*	Exercise period of share options	Valid period of the share options
20 June 2011	7,600,000	0.83	up to 30% of the share options granted to each grantee from 19 July 2011 to 19 June 2012; up to 60% of the share options granted to each grantee on or before 19 June 2013; all the remaining share options granted to each grantee on or after 20 June 2013	up to 19 June 2021

Report of the Directors

Date of grant	Number of grant *(shares)*	Exercise price per Share *(HK$)*	Exercise period of share options	Valid period of the share options
5 April 2012	15,400,000	1.19	Up to 30% of the share options granted to each grantee from 5 April 2013 to 4 April 2014; up to 60% of the share options granted to each grantee on or before 4 April 2015; all the remaining share options granted to each grantee on or after 5 April 2015	up to 4 April 2022
24 March 2014	3,200,000	2.024	up to 30% of the share options granted to each grantee from 24 April 2014 to 23 April 2015; up to 60% of the share options granted to each grantee on or before 23 April 2016; all the remaining share options granted to each grantee on or after 24 April 2016	up to 23 March 2024
2 July 2014	40,575,000	1.96	Vesting of the share options is conditional upon the achievement of corporate goals of the Company and the individual performance of the respective Grantees. The share options or any portion thereof shall lapse if the relevant corporate goals cannot be achieved. Up to 30% of the share options granted to each grantee after April 2015; up to 60% of the share options granted to each grantee after April 2016; all the remaining share options granted to each grantee after April 2017.	up to 1 July 2024
21 September 2016	41,350,000	0.44	up to 30% of the Share Options granted to each Grantee from 21 September 2017 to 20 September 2018;up to 60% of the Share Options granted to each Grantee on or before 20 September 2019;all the remaining Share Options granted to each Grantee on or after 21 September 2019.	up to 20 September 2026

Report of the Directors

Particulars and movements of share options under the Share Option Scheme during the six months ended 30 June 2020 were as follows:

Name or category of participant	Number of share options: Outstanding as at 01/01/2020	Granted during the six months ended 30 June 2020	Exercised during the six months ended 30 June 2020	Lapsed during the six months ended 30 June 2020	Cancelled during the six months ended 30 June 2020	Outstanding as at 30/06/2020	Date of grant (DD/MM/YY)	Exercise period (DD/MM/YY)	Exercise price per Share *HK$*	Price immediately preceding the grant date of share options *HK$*
Directors										
Mr. Zhang Mi	1,190,000	–	–	–	–	1,190,000	02/07/2014	02/07/2014-01/07/2024	1.96	1.92
Mr. Ren Jie	885,000	–	–	–	–	885,000	02/07/2014	02/07/2014-01/07/2024	1.96	1.92
	2,000,000	–	–	–	–	2,000,000	21/09/2016	21/09/2017-20/09/2026	0.44	0.435
Mr. Chen Guoming	750,000	–	–	–	–	750,000	20/06/2011	19/07/2011-19/06/2021	0.83	0.79
	550,000	–	–	–	–	550,000	24/03/2014	24/04/2014-23/03/2024	2.024	2.02
	500,000	–	–	–	–	500,000	21/09/2016	21/09/2017-20/09/2026	0.44	0.435
Mr. Liu Xiaofeng	1,000,000	–	–	–	–	1,000,000	20/06/2011	19/07/2011-19/06/2021	0.83	0.79
	750,000	–	–	–	–	750,000	24/03/2014	24/04/2014-23/03/2024	2.024	2.02
	700,000	–	–	–	–	700,000	21/09/2016	21/09/2017-20/09/2026	0.44	0.435
Sub-total	**8,325,000**	**–**	**–**	**–**	**–**	**8,325,000**				

Report of the Directors

Name or category of participant	Number of share options: Outstanding as at 01/01/2020	Granted during the six months ended 30 June 2020	Exercised during the six months ended 30 June 2020	Lapsed during the six months ended 30 June 2020	Cancelled during the six months ended 30 June 2020	Outstanding as at 30/06/2020	Date of grant (DD/MM/YY)	Exercise period (DD/MM/YY)	Exercise price per Share *HK$*	Price immediately preceding the grant date of share options *HK$*
Other										
Employee	5,543,000	–	–	–	–	5,543,000	20/06/2011	19/07/2011-19/06/2021	0.83	0.79
Employee	10,906,000	–	–	–	–	10,906,000	05/04/2012	05/04/2013-04/04/2022	1.19	1.20
Employee	1,900,000	–	–	–	–	1,900,000	24/03/2014	24/04/2014-23/03/2024	2.024	2.02
Employee	14,037,436	–	–	377,500	–	13,659,936	02/07/2014	02/07/2014-01/07/2024	1.96	1.92
Employee	34,202,000	–	–	600,000	–	33,602,000	21/09/2016	21/09/2017-20/09/2026	0.44	0.435
Sub-total	**66,588,436**	**–**	**–**	**977,500**	**–**	**65,610,936**				
Total	**74,913,436**	**–**	**–**	**977,500**	**–**	**73,935,936**				

(B) Share Option Scheme of 2017

The 2017 Share Option Scheme is conditionally adopted by the Shareholders at the annual general meeting proposed to be held on 14 June 2017. As at 30 June 2020, no options were granted under the 2017 Share Option Scheme.

RESTRICTED SHARE AWARD SCHEME

On 30 December 2011, the Board approved and adopted a restricted share award scheme in which Selected Participant(s) including any Employee or Director (including, without limitation, any Executive Directors, Non-executive Directors or Independent Non-executive Directors), any consultant or adviser (whether on any employment or contractual or honorary basis and whether paid or unpaid) of the Company or any member of the Group, who in the absolute opinion of the Board, have contributed to the Company or the Group. Pursuant to the Scheme Rules, existing Shares will be purchased by the Trustee from the market out of cash contributed by the Company and be held in trust for the relevant Selected Participant until such Shares are vested with the relevant Selected Participants in accordance with the Scheme Rules. The Scheme shall be effective for a term of 10 years commencing on the Adoption Date subject to any early termination as may be determined by the Board. The Board will implement the Scheme in accordance with the Scheme Rules including providing necessary funds to the Trustee to purchase for Shares up to 5% of the issued share capital of the Company from time to time. The Selected Participant is not entitled to receive any income or distribution, such as dividend derived from the

Report of the Directors

Restricted Shares allocated to him, prior to the vesting of the Restricted Shares in the Selected Participants. As at 30 June 2020, the Trustee has purchased 97,817,000 of the Company's Shares, accounting for 1.82% of the issued share capital of the Company and total of 36,917,700 shares were granted to the Selected Participants and out of which 190,000 Shares were subsequently cancelled.

Particulars and movements of the Restricted Share Award Scheme during the six months ended 30 June 2020 were as follows:

	Number of Shares					
	Outstanding as at 01/01/2020	Purchased during the six months ended 30 June 2020	Granted during the six months ended 30 June 2020	Vested during the six months ended 30 June 2020	Cancelled during the six months ended 30 June 2020	Outstanding as at 30/06/2020
Total	**61,089,300**	**–**	**–**	**–**	**–**	**61,089,300**

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

Neither the Company nor any of its subsidiaries has purchased, sold or bought back any of the Company's Shares during the six months ended 30 June 2020.

By the order of the Board
Honghua Group Limited
Jin Liliang
Chairman

PRC, 26 August 2020

Review Report

羅兵咸永道

Report On Review of Interim Financial Information
To the Board of Directors of Honghua Group Limited
(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 29 to 68, which comprises the interim condensed consolidated balance sheet of Honghua Group Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2020 and the interim condensed consolidated statement of profit or loss, the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Group is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26 August 2020

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Unaudited Interim Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2020

	Notes	Unaudited Half-year 2020 RMB'000	Unaudited Half-year 2019 RMB'000
Revenue	2	**1,807,058**	2,048,478
Cost of sales		**(1,199,171)**	(1,491,451)
Gross profit		**607,887**	557,027
Distribution expenses		**(122,440)**	(158,545)
Administrative expenses		**(278,226)**	(180,132)
Net impairment losses on financial assets		**(65,626)**	(105,954)
Other income		**47,034**	24,740
Other (losses)/gains, net		**(15,140)**	10,559
Operating profit	3	**173,489**	147,695
Finance income		**16,309**	54,799
Finance expenses		**(126,256)**	(95,238)
Finance expenses – net		**(109,947)**	(40,439)
Share of net loss of investments accounted for using the equity method	14	**(11,500)**	(1,806)
Profit before income tax		**52,042**	105,450
Income tax expense	4	**(13,139)**	(34,451)
Profit for the half-year		**38,903**	70,999
Profit attributable to:			
– Owners of the Company		**31,161**	60,812
– Non-controlling interests		**7,742**	10,187
		38,903	70,999
Earnings per share for profit attributable to the ordinary equity holders of the Company (expressed in RMB cents per share)			
Basic and diluted	5	**0.59**	1.15

The above condensed consolidated statement of profit or loss should be read in conjunction with the accompanying notes.

Unaudited Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2020

	Unaudited Half-year	
	2020	2019
	RMB'000	*RMB'000*
Profit for the half-year	**38,903**	70,999
Other comprehensive income		
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	**6,593**	4,630
Other comprehensive income for the half-year, net of tax	**6,593**	4,630
Total comprehensive income for the half-year	**45,496**	75,629
Total comprehensive income for the half-year attributable to:		
Owners of the Company	**36,894**	68,813
Non-controlling interests	**8,602**	6,816
	45,496	75,629

The above condensed consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Unaudited Interim Condensed Consolidated Balance Sheet

As at 30 June 2020

	Notes	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
ASSETS			
Non-current assets			
Right of use assets	7	**187,510**	187,769
Property, plant and equipment	8	**1,752,735**	1,641,678
Intangible assets	9	**194,480**	180,342
Debt investments	15	**67,585**	97,906
Investments accounted for using the equity method	14	**29,829**	31,259
Deferred income tax assets		**278,341**	273,347
Financial assets at fair value through other comprehensive income	17	**87,129**	87,129
Trade and other receivables	18	**1,283,574**	1,281,354
Loan to an associate and other related party	13	**1,425,777**	1,450,181
Other non-current assets		**57,455**	67,502
Pledged bank deposits		**200,000**	–
Total non-current assets		**5,564,415**	5,298,467
Current assets			
Inventories		**1,247,730**	1,267,356
Contract assets		**404,657**	219,937
Trade and other receivables	18	**3,821,644**	3,593,152
Debt investments	15	**43,003**	24,915
Loan to an associate and other related party	13	**106,191**	88,278
Current tax recoverable		**8,241**	8,341
Financial assets at fair value through other comprehensive income	17	**77,989**	95,407
Pledged bank deposits		**52,194**	268,673
Cash and cash equivalents		**933,433**	889,802
Total current assets		**6,695,082**	6,455,861
Total assets		**12,259,497**	11,754,328

Unaudited Interim Condensed Consolidated Balance Sheet (Continued)

As at 30 June 2020

	Notes	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
EQUITY			
Equity attributable to owners of the Company			
Share capital		**488,023**	488,023
Other reserves		**4,258,461**	4,253,108
Accumulated losses		**(444,010)**	(475,551)
		4,302,474	4,265,580
Non-controlling interests		**223,399**	214,797
Total equity		**4,525,873**	4,480,377
LIABILITIES			
Non-current liabilities			
Deferred income		**40,264**	54,464
Borrowings	11	**2,290,746**	2,091,779
Lease liabilities	7	**85,667**	94,299
Total non-current liabilities		**2,416,677**	2,240,542
Current liabilities			
Contract liabilities		**48,357**	163,799
Deferred income		**10,949**	10,497
Trade and other payables	19	**2,595,755**	2,826,518
Current income tax liabilities		**62,345**	46,297
Lease liabilities	7	**11,710**	16,673
Borrowings	11	**2,518,056**	1,917,590
Provisions for other liabilities and charges	10	**69,775**	52,035
Total current liabilities		**5,316,947**	5,033,409
Total liabilities		**7,733,624**	7,273,951
Total equity and liabilities		**12,259,497**	11,754,328

The above condensed consolidated balance sheet should be read in conjunction with the accompanying notes.

Unaudited Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2020

	Unaudited											
	Attributable to owners of the Company											
	Share capital *RMB'000*	Share premium *RMB'000*	Other reserve *RMB'000*	Capital reserve *RMB'000*	Surplus reserve *RMB'000*	Exchange reserve *RMB'000*	Fair value reserve *RMB'000*	Shares held for share award scheme *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
Balance at 1 January 2020	488,023	3,597,179	60,588	520,424	453,413	(263,777)	9,899	(124,618)	(475,551)	4,265,580	214,797	4,480,377
Comprehensive income												
Profit for the half-year	-	-	-	-	-	-	-	-	31,161	31,161	7,742	38,903
Other comprehensive income	-	-	-	-	-	5,733	-	-	-	5,733	860	6,593
Total comprehensive income	-	-	-	-	-	5,733	-	-	31,161	36,894	8,602	45,496
Transactions with owners												
Options lapsed under share option schemes	-	-	-	(380)	-	-	-	-	380	-	-	-
Total transactions with owners, recognised directly in equity	-	-	-	(380)	-	-	-	-	380	-	-	-
Balance at 30 June 2020	488,023	3,597,179	60,588	520,044	453,413	(258,044)	9,899	(124,618)	(444,010)	4,302,474	223,399	4,525,873

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

For the six months ended 30 June 2020

		Unaudited											
		Attributable to owners of the Company											
	Notes	Share capital *RMB'000*	Share premium *RMB'000*	Other reserve *RMB'000*	Capital reserve *RMB'000*	Surplus reserve *RMB'000*	Exchange reserve *RMB'000*	Fair value reserve *RMB'000*	Shares held for share award scheme *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
Balance at 1 January 2019		488,015	3,597,096	60,588	535,560	437,655	(283,255)	885	(124,618)	(583,183)	4,128,743	190,168	4,318,911
Comprehensive income													
Profit for the half-year		–	–	–	–	–	–	–	–	60,812	60,812	10,187	70,999
Other comprehensive income		–	–	–	–	–	8,001	–	–	–	8,001	(3,371)	4,630
Total comprehensive income		–	–	–	–	–	8,001	–	–	60,812	68,813	6,816	75,629
Transactions with owners													
Equity-settled share-based transactions		–	–	–	450	–	–	–	–	–	450	–	450
Share issued under share option schemes	12	8	83	–	(57)	–	–	–	–	–	34	–	34
Options lapsed under share option schemes		–	–	–	(15,531)	–	–	–	–	15,531	–	–	–
Total transactions with owners, recognised directly in equity		8	83	–	(15,138)	–	–	–	–	15,531	484	–	484
Balance at 30 June 2019		488,023	3,597,179	60,588	520,422	437,655	(275,254)	885	(124,618)	(506,840)	4,198,040	196,984	4,395,024

The above condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Unaudited Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2020

	Unaudited Half-year	
	2020	2019
	RMB'000	*RMB'000*
Cash flows from operating activities		
Cash used in operations	**(556,506)**	(547,914)
Income tax paid	**(25,554)**	(15,458)
Cash flows used in operating activities – net	**(582,060)**	(563,372)
Cash flows from investing activities		
Proceeds from financing lease as lessor	**10,994**	–
Payment for additions of property, plant and equipment and construction in progress	**(53,577)**	(38,940)
Dividends received	**441**	–
Proceeds on disposal of property, plant and equipment	**8,021**	18,639
Payment for additional investment to a joint venture	**(9,350)**	–
Receipts of debt investments	**12,233**	–
Expenditure on development projects and other intangible assets	**(24,834)**	(22,517)
Receipts of loans to related parties	**–**	20,999
Loans to related parties	**–**	(2,802)
Interest received	**2,855**	–
Cash flows used in investing activities – net	**(53,217)**	(24,621)
Cash flows from financing activities		
Repayments of borrowings	**(997,478)**	(792,909)
Payments of lease liabilities	**(11,538)**	–
Proceeds from borrowings	**1,757,496**	1,406,778
Interest paid	**(72,176)**	(85,322)
Cash flows generated from financing activities – net	**676,304**	528,547
Net increase/(decrease) in cash and cash equivalents	**41,027**	(59,446)
Cash and cash equivalents at the beginning of the period	**889,802**	685,500
Exchange gains	**2,604**	1,006
Cash and cash equivalents at end of the period	**933,433**	627,060

The above condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2020

1 GENERAL INFORMATION

Honghua Group Limited ("the Company") and its subsidiaries (together "the Group") are principally engaged in manufacturing of drilling rigs, oil and gas exploitation equipment, providing drilling engineering services and facturing.

The Company was incorporated in the Cayman Islands on 15 June 2007 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman, KY1-1108, Cayman Islands.

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

The outbreak of the 2019 Novel Coronavirus ("COVID-19") has brought unprecedented challenges and added uncertainties to the economy. COVID-19 may affect the financial performance and position of the industry of Oil & Gas Equipment & Services. Since the outbreak of COVID-19, the Group has kept continuous attention on the situation of the COVID-19 and reacted actively to its impact on the financial position and operating results of the Group. The operating results of the Group for the six months ended 30 June 2020 has been adversely affected by COVID-19 to some extent.

This interim condensed consolidated financial information is presented in Chinese Renminbi ("RMB"), unless otherwise stated, and was approved for issue by the Board of Directors of the Company on 26 August 2020.

This interim condensed consolidated financial information has not been audited.

2 SEGMENT AND REVENUE INFORMATION

(i) Description of segments

The Group is a diversified group which derives its revenues and profits from a variety of sources. The Group's senior executive management is the Group's chief operating decision-maker. Management considers the business by divisions, which are organised by business lines (land drilling rigs, parts and components and others, drilling engineering services and fracturing) and geographically. In a manner consistent with the way in which information is reported internally to the Group's chief operating decision maker ("CODM") for the purposes of resource allocation and performance assessment, the Group has identified four reportable segments.

As the business of fracturing becomes large enough, the CODM requested changes to the internal management reporting to show separately the performance of fracturing. As a result of the changes, the segment of fracturing was established and the segment of oil and gas engineering service changed to drilling engineering services which only focuses on drilling engineering services without fracturing engineering services from 1 January 2020. The Group has also restated the comparative segment information.

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

For the six months ended 30 June 2020

2 SEGMENT AND REVENUE INFORMATION (CONTINUED)

(ii) Segment information

The table below shows the segment information and the basis on which revenue is recognised regarding the Group's reportable segments for the half-year ended 30 June 2020 and 2019 respectively.

	Land drilling rigs Half-year		Parts and components and others Half-year		Drilling engineering services Half-year		Facturing Half-year		Total Half-year	
	2020 RMB'000	2019 RMB'000	**2020 RMB'000**	2019 RMB'000	**2020 RMB'000**	2019 RMB'000	**2020 RMB'000**	2019 RMB'000	**2020 RMB'000**	2019 RMB'000
Segment revenue	**618,672**	928,364	**675,699**	747,864	**181,653**	191,982	**537,012**	439,317	**2,013,036**	2,307,527
Inter-segment revenue	**-**	(98,880)	**(205,978)**	(160,169)	**-**	–	**-**	–	**(205,978)**	(259,049)
Revenue from external customers	**618,672**	829,484	**469,721**	587,695	**181,653**	191,982	**537,012**	439,317	**1,807,058**	2,048,478
Timing of revenue recognition										
At a point in time	**618,672**	829,484	**463,670**	575,032	**-**	–	**274,973**	318,584	**1,357,315**	1,723,100
Over time	**-**	–	**6,051**	12,663	**181,653**	191,982	**262,039**	120,733	**449,743**	325,378
	618,672	829,484	**469,721**	587,695	**181,653**	191,982	**537,012**	439,317	**1,807,058**	2,048,478
Reportable segment profit	**6,537**	37,819	**76,470**	60,054	**8,233**	14,138	**81,607**	75,776	**172,847**	187,787

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 post-tax loss of joint ventures, other income and other (losses)/gains, net. Finance income and expenses are not allocated to segments, as this type of activity is driven by the central treasury function, which manages the cash position of the Group. Other information provided, except as noted below, to the senior executive management is measured in a manner consistent with that in the financial statements.

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

For the six months ended 30 June 2020

2 SEGMENT AND REVENUE INFORMATION (CONTINUED)

(ii) Segment information (continued)

Given the manufacturing processes of the Group's business are in a form of vertical integration, the Group's chief operating decision maker 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 2020, such information was not reviewed by the Group's chief operating decision maker. Accordingly, no segment assets and liabilities are presented.

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

	Half-year	
	2020	2019
	RMB'000	*RMB'000*
Segment profit		
– for reportable segments	**172,847**	187,787
Elimination of inter-segment profit	**(870)**	(32,575)
Segment profit derived from Group's external customers	**171,977**	155,212
Share of post-tax losses of joint ventures	**(11,500)**	(1,806)
Other income and other (losses)/gains, net	**31,894**	35,299
Finance income	**16,309**	54,799
Finance expenses	**(126,256)**	(95,238)
Unallocated head office and corporate expenses	**(30,382)**	(42,816)
Profit before income tax	**52,042**	105,450

Sales between segments are carried out in the ordinary course of business and in accordance with the terms of the underlying agreements. The revenue from external parties reported to the senior executive management is measured in a manner consistent with that in the interim condensed consolidated statement of profit or loss.

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

For the six months ended 30 June 2020

2 SEGMENT AND REVENUE INFORMATION (CONTINUED)

(ii) Segment information (continued)

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

	Half-year	
	2020	2019
	RMB'000	*RMB'000*
PRC (country of domicile)	**1,001,667**	774,333
Americas	**16,351**	184,507
Middle East	**331,441**	692,932
Europe and Central Asia	**220,448**	340,616
South Asia and South East Asia	**97,214**	7,146
Africa	**139,937**	48,944
	1,807,058	2,048,478

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

	30 June 2020	31 December 2019
	RMB'000	*RMB'000*
PRC (country of domicile)	**1,781,259**	1,670,303
Americas	**3,973**	2,711
Middle East	**345,238**	342,140
Europe and Central Asia	**61,710**	62,137
Africa	**29,829**	31,259
	2,222,009	2,108,550

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

For the six months ended 30 June 2020

2 SEGMENT AND REVENUE INFORMATION (CONTINUED)

(ii) Segment information (continued)

For the half-year ended 30 June 2020, revenues of approximately RMB274,973,000 and RMB226,165,000 were derived from two external customers respectively. These revenues were attributable to the sales of fracturing pumps in PRC (country of domicile) and the sales of land drilling rigs in Middle East respectively.

For the half-year ended 30 June 2019, revenues of approximately RMB363,058,000, RMB339,240,000, RMB318,584,000 and RMB248,985,000 were derived from four external customers respectively. These revenues were attributable to the sales of land drilling rigs in Europe and Central Asia, the sales of land drilling rigs in Middle East, the sales of parts and components in PRC (country of domicile) and the sales of land drilling rigs in Middle East respectively.

3 OPERATING PROFIT

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

	Half-year	
	2020	2019
	RMB'000	*RMB'000*
Write down of inventories	**30,533**	64,982
Provision for impairment of financial assets	**65,626**	105,954
Provision for impairment of contract assets	**879**	266
Provision for impairment of property, plant and equipment, lease prepayment and other intangible assets	**–**	7,648
Losses/(gains) on disposal of property, plant and equipment, lease prepayment and other intangible assets	**3,453**	(2,423)

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

For the six months ended 30 June 2020

4 INCOME TAX EXPENSE

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

	Half-year	
	2020	2019
	RMB'000	*RMB'000*
Current income tax		
– Hong Kong Profits Tax (i)	**–**	–
– the People's Republic of China (the "PRC") (ii)	**12,319**	20,900
– Other jurisdictions (iii)	**5,814**	5,512
Deferred income tax	**(4,994)**	8,039
	13,139	34,451

(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 2020 and 2019.

(ii) 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 2020 and 2019, except for the following companies:

(a) Sichuan Honghua Petroleum Equipment Co., Ltd ("Honghua Company"), Honghua Oil & Gas Engineering Technology Services Limited ("Sichuan Oil & Gas Services") and Han Zheng Testing Technology Co., Ltd. ("Han Zheng Testing")

Corporate income tax ("CIT") of Honghua Company, Sichuan Oil & Gas Services 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 2020 and 2019.

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

On 6 April 2012, State Taxation Administration issued Notice 12(2012) in respect of favourable CIT policy applicable to qualified enterprises located in western China. Honghua Electric applied and obtained an approval from in-charge tax authority under the policy for the 15% preferential CIT rate and is qualified for the 15% preferential CIT rate from 2012 to 2020.

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

For the six months ended 30 June 2020

4 INCOME TAX EXPENSE (CONTINUED)

(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 2020 and 2019. 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.

Income tax expense is recognised based on management's estimate of the weighted average effective annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the year ending 31 December 2020 is 20%, compared to 20% for the six months ended 30 June 2019.

5 EARNINGS PER SHARE

The calculation of basic earnings per share for the half-year ended 30 June 2020 is based on the profit attributable to owners of the Company for the period of RMB31,161,000 (six months ended 30 June 2019: profit of RMB60,812,000) and the weighted average number of shares of 5,293,906,000 (six months ended 30 June 2019: 5,293,828,000 shares) in issue during the period.

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

For the six months ended 30 June 2020

5 EARNINGS PER SHARE (CONTINUED)

Diluted earnings per share is the same as basic earnings per share as there are no potential dilutive shares outstanding for all periods presented.

	Half-year	
	2020	2019
Profit attributable to owners of the Company (RMB'000)	**31,161**	60,812
Weighted average number of ordinary shares in issue (thousands)	**5,355,995**	5,355,905
Effect of the share award scheme (thousands)	**(62,089)**	(62,089)
Effect of share options exercised (thousands)	**–**	12
Adjusted weighted average number of ordinary shares in issue (thousands)	**5,293,906**	5,293,828
Basic earnings per share (RMB cents per share)	**0.59**	1.15

6 DIVIDENDS

No dividend was approved or paid in respect of the previous financial year during the half-year ended 30 June 2020 (half-year ended 30 June 2019: Nil).

The board of directors does not recommend the payment of an interim dividend for the half-year ended 30 June 2020 (half-year ended 30 June 2019: Nil).

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

For the six months ended 30 June 2020

7 LEASES

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

(i) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	30 June 2020 *RMB'000*	31 December 2019 *RMB'000*
Right-of-use assets		
Lease prepayments for land use rights	**184,940**	184,652
Buildings and equipment	**2,570**	3,117
	187,510	187,769
Lease liabilities		
Current	**11,710**	16,673
Non-current	**85,667**	94,299
	97,377	110,972

Additions to the right-of-use assets during the six months ended 30 June 2020 were RMB2,585,000 (six months ended 30 June 2019: RMB2,120,000).

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

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

	Half-year	
	2020	2019
Depreciation charge of right-of-use assets		
Lease prepayments for land use rights	**2,297**	2,275
Buildings and equipment	**547**	344
Interest expense (included in finance cost)	**3,124**	3,510
Expense relating to short-term and low-value assets leases (included in cost of goods sold and distribution expenses)	**9,716**	5,401

The total cash outflow for leases during the six months ended 30 June 2020 was RMB11,538,000 (six months ended 30 June 2019: RMB3,640,000).

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

For the six months ended 30 June 2020

8 PROPERTY, PLANT AND EQUIPMENT

	Freehold land	Buildings held for own use	Plant and machinery	Furniture, fittings and equipment	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2019							
Cost	512	689,954	1,598,197	490,708	113,077	147,935	3,040,383
Accumulated depreciation and impairment	–	(235,458)	(759,190)	(341,135)	(62,031)	(891)	(1,398,705)
Net book amount	512	454,496	839,007	149,573	51,046	147,044	1,641,678
Half-year ended 30 June 2020							
Opening net book amount	**512**	**454,496**	**839,007**	**149,573**	**51,046**	**147,044**	**1,641,678**
Additions	**–**	**6,942**	**20,266**	**16,588**	**256**	**53,687**	**97,739**
Transfer from construction in progress	**–**	**1,666**	**58,690**	**19,876**	**–**	**(80,232)**	**–**
Transfer from inventories	**–**	**–**	**–**	**–**	**–**	**111,339**	**111,339**
Disposals	**–**	**(12)**	**(11,126)**	**(289)**	**(47)**	**–**	**(11,474)**
Depreciation	**–**	**(17,114)**	**(26,045)**	**(35,518)**	**(2,702)**	**–**	**(81,379)**
Currency translation difference	**–**	**(612)**	**(873)**	**(3,596)**	**(87)**	**–**	**(5,168)**
Closing net amount	**512**	**445,366**	**879,919**	**146,634**	**48,466**	**231,838**	**1,752,735**
At 30 June 2020							
Cost	**512**	**697,938**	**1,659,372**	**520,867**	**112,204**	**232,729**	**3,223,622**
Accumulated depreciation and impairment	**–**	**(252,572)**	**(779,453)**	**(374,233)**	**(63,738)**	**(891)**	**(1,470,887)**
Net book amount	**512**	**445,366**	**879,919**	**146,634**	**48,466**	**231,838**	**1,752,735**

Bank loans and secured loan from related party were secured by certain buildings and machinery of the Group with a net book value of approximately RMB19,532,000 as at 30 June 2020 (as at 31 December 2019: Nil) (Note 11).

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

For the six months ended 30 June 2020

9 INTANGIBLE ASSETS

	Development cost and others *RMB'000*
At 31 December 2019	
Cost	228,654
Accumulated amortisation and impairment	(48,312)
Net book amount	180,342
Half-year ended 30 June 2020	
Opening net book amount	**180,342**
Additions	**23,415**
Amortisation	**(9,277)**
Closing net book amount	**194,480**
At 30 June 2020	
Cost	**252,069**
Accumulated amortisation and impairment	**(57,589)**
Net book amount	**194,480**

During the half-year ended 30 June 2020, the Group capitalised development cost of approximately RMB21,072,922 (half-year ended 30 June 2019: RMB23,874,000).

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

For the six months ended 30 June 2020

10 PROVISION FOR OTHER LIABILITIES AND CHARGES

	Product warranties *RMB'000*	Onerous contract *RMB'000*	Compensation to shareholder[(i)] *RMB'000*	Legal claims *RMB'000*	Total *RMB'000*
At 31 December 2019	**45,465**	**6,570**	**–**	**–**	**52,035**
Provisions during the period	**–**	**–**	**15,919**	**15,199**	**31,118**
Utilised during the period	**(6,808)**	**(6,570)**	**–**	**–**	**(13,378)**
At 30 June 2020	**38,657**	**–**	**15,919**	**15,199**	**69,775**

(i) Pursuant to the subscription agreement and supplemental document dated 19 December 2016 entered into between the Company and China Aerospace Science and Industry Corporation (中國航天科工集團有限公司) ("CASIC"), the Company will compensate CASIC for certain litigations and issues which cause losses. As at 30 June 2020, the Company has agreed with CASIC to compensate RMB16,112,000 to CASIC, the amount was recorded as "Trade and other payables" (Note 16 and Note 19) and recognised in profit or loss as other losses. As at 30 June 2020, as some issues haven't been settled, the Group estimated that about RMB15,919,000 may need to be compensated to CASIC upon those issues are finalised. The Group recorded such estimated compensation amount as "Provision for other liabilities and charges" and recognised in profit or loss as other losses.

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

For the six months ended 30 June 2020

11 BORROWINGS

	30 June 2020 RMB'000	31 December 2019 RMB'000
Bank loans		
Secured (i)		
– Current portion	136,532	125,231
– Non-current portion	490,000	490,000
	626,532	615,231
Unsecured		
– Current portion	1,621,524	839,686
– Non-current portion	387,682	218,000
	2,009,206	1,057,686
Total bank loans	2,635,738	1,672,917
Unsecured loans from related party (Note 16)		
– Current portion	690,000	952,673
	690,000	952,673
Other loans		
Secured loan from related party (i) (Note 16)	70,000	–
Senior notes (ii)	1,413,064	1,383,779
	1,483,064	1,383,779
Current borrowings	2,518,056	1,917,590
Non-current borrowings	2,290,746	2,091,779
Total borrowings	4,808,802	4,009,369

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

For the six months ended 30 June 2020

11 BORROWINGS (CONTINUED)

(i) As at 30 June 2020, the bank loans and the secured loan from related party were secured by letters of guarantee as collateral of RMB200,000,000, property, plant and equipment of approximately RMB19,532,000, trade receivable of RMB56,865,000, bills receivable of RMB3,000,000 and 20% equity interest of Honghua Company, a subsidiary of the Group.

As at 31 December 2019, the bank loans and the secured loan from related party were secured by letters of guarantee as collateral of RMB200,000,000, bills receivable of RMB31,700,000 and 20% equity interest of Honghua Company, a subsidiary of the Group.

(ii) On 1 August 2019, the Company issued listed senior notes in the aggregate principal amount of USD200,000,000 ("Senior Notes"). The Senior Notes bear interest at 6.375% per annum, payable semi-annually in arrears and will be due in 2022.

The Senior Notes are guaranteed by the Group's existing subsidiaries, Honghua Holdings Limited, Newco (H.K.) Limited, Honghua Oil & Gas Engineering Services Limited, Honghua Golden Coast Equipment FZE as stated in the Company's offering memorandum on 25 July 2019.

The Group had the undrawn borrowing facilities at respective end of the period/year were set out as follows:

	30 June 2020 *RMB'000*	31 December 2019 *RMB'000*
Fixed rate		
Expiring within one year (bank loans and bill facilities)	**4,759,987**	6,318,289

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

For the six months ended 30 June 2020

11 BORROWINGS (CONTINUED)

Movements in borrowings are analysed as follows:

	RMB'000
Half-year ended 30 June 2020	
Opening amount as at 1 January 2020	**4,009,369**
Additions	**1,757,496**
Amortised cost changes based on effective interest rate	**2,080**
Repayments	**(997,478)**
Currency translation differences	**37,335**
Closing amount as at 30 June 2020	**4,808,802**

As at 30 June 2020 and 31 December 2019, the contractual maturities of the Group's financial liabilities were as follows:

Contractual maturities of financial liabilities	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total contractual cash flows RMB'000	Carrying amount RMB'000
At 30 June 2020						
Trade and other payables (i)	2,517,190	–	–	–	2,517,190	2,517,190
Senior notes	90,264	90,264	1,461,032	–	1,641,560	1,413,064
Borrowings (excluding senior notes)	2,626,059	513,090	327,526	50,293	3,516,968	3,395,738
Lease liabilities	24,634	24,634	70,079	–	119,347	97,377
Total	5,258,147	627,988	1,858,637	50,293	7,795,065	7,423,369

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

For the six months ended 30 June 2020

11 BORROWINGS (CONTINUED)

Contractual maturities of financial liabilities	Less than 1 year *RMB'000*	Between 1 and 2 years *RMB'000*	Between 2 and 5 years *RMB'000*	Over 5 years *RMB'000*	Total contractual cash flows *RMB'000*	Carrying amount *RMB'000*
At 31 December 2019						
Trade and other payables (i)	2,826,117	–	–	–	2,826,117	2,826,117
Senior notes	88,947	88,947	1,484,187	–	1,662,081	1,383,779
Borrowings (excluding senior notes)	2,005,442	449,297	238,313	50,600	2,743,652	2,625,590
Lease liabilities	24,275	24,275	70,313	–	118,863	110,972
Total	4,944,781	562,519	1,792,813	50,600	7,350,713	6,946,458

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

12 EQUITY SECURITIES ISSUED

	2020 Shares *(thousands)*	2019 Shares *(thousands)*	***2020 RMB'000***	2019 *RMB'000*
Ordinary shares, issued and fully paid during the half-year				
Shares issued under share option scheme	**–**	90	**–**	8

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

For the six months ended 30 June 2020

13 LOAN TO AN ASSOCIATE AND OTHER RELATED PARTY

In 2018, the Group signed agreements with Jiangsu Hongjieding Energy Technology Co., Ltd. ("Jiangsu Hongjieding") and Shanghai Honghua Offshore Oil & Gas Equipment Co., Ltd. ("Honghua (Shanghai)") with the following key transaction terms and disposed offshore drilling rigs segment accordingly:

i) The Group agreed to sell its 51% equity interests in both Honghua Offshore Oil and Gas Equipment (Jiangsu) Co., Ltd. ("Honghua (Jiangsu)") and Honghua (Shanghai) for a cash consideration of RMB1 respectively;

ii) The Group agreed to sell its 25% equity interests in FSP LNG B.V. and 70% equity interests in Hong Kong Tank Tek Limited ("HK Tank") for a cash consideration of USD1 respectively;

iii) The Group agreed to sell its 30% equity interests in Prime FSP, LLC for a cash consideration of USD1.

The Group also entered debt repayment agreements with Honghua (Jiangsu) and HK Tank respectively, pursuant to which Honghua (Jiangsu) and HK Tank shall repay the existing debt, together with relevant interest to the Group after the completion of the above equities transfer. The Group recorded these debts as "loan to an associate and other related party".

As at 30 June 2020, the current loan to an associate and other related party is RMB106,191,000 (as at 31 December 2019: RMB88,278,000) and non-current loan to an associate and other related party is RMB1,425,777,000, which will be due after 1 year but within 4 years (as at 31 December 2019: RMB1,450,181,000). The Group recorded these debts as "loan to an associate and other related party". The Group made a provision for the credit risk of RMB9,331,000 during the six months ended 30 June 2020 (six months ended 30 June 2019: RMB40,840,000) and the balance of the provision for the loan to an associate and other related party was RMB59,218,000 as at 30 June 2020 (as at 31 December 2019: RMB49,887,000). The debts are secured by equity interests held by Jiangsu Hongjieding as well as certain assets of Honghua (Jiangsu) and Honghua (Shanghai). The interest of the loans to Honghua (Jiangsu) and HK Tank are 4.75% and 6% respectively.

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

For the six months ended 30 June 2020

14 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The carrying amount of equity-accounted investments has changed as follows in the half-year ended 30 June 2020:

	Half-year ended 30 June 2020 ***RMB'000***
Beginning of the period	**31,259**
Addition (i)	**9,350**
Loss for the period	**(11,500)**
Exchange differences	**720**
End of the period	**29,829**

(i) On 29 June 2020, the Group increased the investment in Honghua Financial Leasing (Shenzhen) Co., Ltd. ("Honghua (Shenzhen)") by RMB9,350,000. As a result, the equity interests in Honghua (Shenzhen) increased to 41%. On 29 April 2020, Honghua (Shenzhen) appropriated dividend of RMB400,000 to the Group. Due to the accumulated unrealised gains between the Group and Honghua (Shenzhen) exceeded the carrying amount of investment in Honghua (Shenzhen), thus the carrying value of the investment is reduced to zero as at 30 June 2020.

15 DEBT INVESTMENTS AT AMORTISED COST

	30 June 2020 ***RMB'000***	31 December 2019 *RMB'000*
Loan to a joint venture	**93,418**	105,651
Loan to a third party	**17,170**	17,170
	110,588	122,821
Current portion	**43,003**	24,915
Non-current portion	**67,585**	97,906
	110,588	122,821

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

For the six months ended 30 June 2020

15 DEBT INVESTMENTS AT AMORTISED COST (CONTINUED)

The loan to a joint venture, Honghua (Shenzhen), is for a period of 4 years, repayable in quarterly instalments at effective annual interest rate of 7.51% per annum. The loan is repayable in full on 19 July 2023. During the six months ended 30 June 2020, the Group received repayments from Honghua (Shenzhen) with the amount of RMB12,233,000 (six months ended 30 June 2019: Nil).

The loan to a third party is for a period of 16 months with effective annual interest rate of 6% and is repayable in full on 31 March 2021.

16 RELATED-PARTY TRANSACTIONS

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

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the six months ended 30 June 2020 and 2019, and balances arising from related party transactions as at 30 June 2020 and 31 December 2019.

Name of party	Relationship
CASIC	Shareholder
Guanghan Hongtai Business Trading Co., Ltd. (廣漢市宏泰商貿有限公司) ("Hongtai")	Hongtai is a party of which spouses of certain directors and management have equity interests
Sichuan Deep & Fast Oil Drilling Tools Co., Ltd. (四川深遠石油鑽井工具有限公司) ("Sichuan Shenyuan")	Sichuan Shenyuan is a party of which the spouse of a director has equity interests
Aerospace Science & Industry Finance CORP (航天科工財務有限責任公司) ("ASFIC")	ASFIC is the subsidiary of CASIC
Egyptian Petroleum HH Rigs Manufacturing Co. S.A.E. ("HH Egyptian Company")	Joint venture
Honghua (Shenzhen)	Joint venture
Honghua (Jiangsu)	Associate
Honghua (Shanghai)	Associate

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

For the six months ended 30 June 2020

16 RELATED-PARTY TRANSACTIONS (CONTINUED)

(i) Significant related party transactions

	Half-year	
	2020	2019
	RMB'000	*RMB'000*
Purchases of parts and components		
– HH Egyptian Company	**267**	166
Sales of drilling rigs, parts and components		
– HH Egyptian Company	**9,134**	1,045
– Hongtai	**51**	–
	9,185	1,045
Detection service provided to		
– Honghua (Jiangsu)	**7**	134
– Honghua (Shanghai)	**–**	114
	7	248
Consulting service provided from		
– Honghua (Shenzhen)	**17,288**	4,194
Lease expenses		
– Honghua (Shenzhen)	**182,616**	82,999
Loans to related parties		
– HH Egyptian Company	**–**	934
– Honghua (Jiangsu)	**–**	1,868
	–	2,802
Receipts of loans to related parties		
– Honghua (Shenzhen)	**12,233**	–
– HH Egyptian Company	**–**	244
– Hongtai	**–**	185
– Honghua (Jiangsu)	**–**	20,570
	12,233	20,999

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

For the six months ended 30 June 2020

16 RELATED-PARTY TRANSACTIONS (CONTINUED)

(i) Significant related party transactions (continued)

	Half-year	
	2020	2019
	RMB'000	*RMB'000*
Proceeds from borrowings		
– ASFIC	**180,000**	372,673
Repayments of borrowings		
– ASFIC	**372,673**	–
– Honghua (Shenzhen)	**–**	1,971
	372,673	1,971
Interest expense		
– CASIC	**11,457**	11,425
– ASFIC	**11,226**	2,958
– Honghua (Shenzhen)	**–**	67
	22,683	14,450
Interest income		
– Honghua (Shenzhen)	**3,629**	–
– ASFIC	**6**	–
– Honghua (Jiangsu) (Note 13)	**–**	48,469
	3,635	48,469
Compensation to CASIC		
– CASIC (Note 10)	**16,112**	–

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

For the six months ended 30 June 2020

16 RELATED-PARTY TRANSACTIONS (CONTINUED)

(ii) Amounts due from related parties

	30 June 2020 *RMB'000*	31 December 2019 *RMB'000*
Trade		
– Joint ventures	**153,250**	123,129
– Associates	**92,660**	55,625
– Other related companies	**5,036**	4,984
	250,946	183,738
Non-trade		
– Associates (a)	**1,443,375**	1,445,674
– Joint ventures (b)	**387,125**	400,321
– Other related companies (a)	**111,523**	109,852
	1,942,023	1,955,847

(a) As at 30 June 2020, the current loan to an associate and other related party (Note 13) was RMB106,191,000 (as at 31 December 2019: RMB88,278,000) and non-current loan to an associate and other related party was RMB1,425,777,000 (as at 31 December 2019: RMB1,450,181,000).

(b) As at 30 June 2020, the current portion and non-current portion of debt investments to joint venture is RMB25,833,000 (as at 31 December 2019: RMB24,915,000) and RMB67,585,000 (as at 31 December 2019: RMB80,736,000) respectively (Note 15).

The other amounts due from other related companies are unsecured, interest-free and repayable on demand. No provision was made against the other amounts due from related companies during the six months ended 30 June 2020 and 2019.

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

For the six months ended 30 June 2020

16 RELATED-PARTY TRANSACTIONS (CONTINUED)

(iii) Amounts due to related parties

	30 June 2020 *RMB'000*	31 December 2019 *RMB'000*
Trade		
– Associates	**6,630**	–
– Joint ventures	**3,673**	6,979
– Other related companies	**61**	1,702
	10,364	8,681
Non-trade		
– Joint ventures	**17,228**	2,079
– Associates	**800**	800
– Other related companies	**56,809**	40,337
	74,837	43,216

The amounts due to related parties are unsecured, interest-free and have no fixed repayment terms.

(iv) Borrowings

	30 June 2020 *RMB'000*	31 December 2019 *RMB'000*
ASFIC (a)	**760,000**	952,673

(a) As at 30 June 2020, the loans from ASFIC were secured by property, plant and equipment of approximately RMB19,532,000. The loans from ASFIC bear fixed interest rate of 4.35% and all of them will be due for repayment within one year.

(v) Amounts due from certain shareholders

As at 30 June 2020, the amounts due from certain shareholders was an amount of approximately RMB7,197,000 (as at 31 December 2019: RMB21,032,000), being the amount indemnified by certain shareholders in relation to a legal claim.

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

For the six months ended 30 June 2020

16 RELATED-PARTY TRANSACTIONS (CONTINUED)

(vi) Key management compensation

	Half-year	
	2020	2019
	RMB'000	*RMB'000*
Basic salaries, allowances and other benefits in kind	**10,345**	3,508
Contributions to defined contribution retirement schemes	**184**	388
	10,529	3,896

17 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

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

(i) Fair value hierarchy

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

The following table presents the Group's financial assets measured and recognised at fair value at 30 June 2020 and 31 December 2019 on a recurring basis:

At 30 June 2020	**Level 1** ***RMB'000***	**Level 2** ***RMB'000***	**Level 3** ***RMB'000***	**Total** ***RMB'000***
Financial assets				
Financial assets at fair value through other comprehensive income				
– Investment in unlisted companies	**–**	**–**	**104,263**	**104,263**
– Bank acceptance bill receivables	**–**	**–**	**60,855**	**60,855**
	–	**–**	**165,118**	**165,118**

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

For the six months ended 30 June 2020

17 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

(i) Fair value hierarchy (continued)

At 31 December 2019	Level 1	Level 2	Level 3	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets				
Financial assets at fair value through other comprehensive income				
– Investment in unlisted companies	–	–	104,263	104,263
– Bank acceptance bill receivables	–	–	78,273	78,273
	–	–	182,536	182,536

There were no transfers among levels 1, 2 and 3 for the six months ended 30 June 2020 and 2019. There were no other changes in valuation techniques for the six months ended 30 June 2020 and 2019.

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

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

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

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

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

For the six months ended 30 June 2020

17 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

(ii) Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

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

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

	Fair value through other comprehensive income - Investment in unlisted companies *RMB'000*
Opening balance 31 December 2019	**104,263**
Changes in fair value	–
Closing balance 30 June 2020	**104,263**

	Fair value through other comprehensive income - Bank acceptance bill receivables *RMB'000*
Opening balance 31 December 2019	78,273
Additions	61,904
Disposals	(79,322)
Closing balance 30 June 2020	**60,855**

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

For the six months ended 30 June 2020

17 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

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

(a) Valuation inputs

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

(b) Valuation process

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

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

(iv) Fair values of other financial instruments (unrecognised)

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

	30 June 2020 *RMB'000*	31 December 2019 *RMB'000*
Carrying amount		
Bank loans	**2,635,738**	1,672,917
Unsecured loans from related party	**690,000**	952,673
Secured loan from related party	**70,000**	–
Senior notes	**1,413,064**	1,383,779
Fair value		
Bank loans	**2,684,045**	1,675,718
Unsecured loans from related party	**691,639**	954,911
Secured loan from related party	**70,166**	–
Senior notes	**1,391,122**	1,398,728

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

For the six months ended 30 June 2020

18 TRADE AND OTHER RECEIVABLES

	30 June 2020 RMB'000	31 December 2019 RMB'000
Trade receivables (i)	3,751,198	3,501,437
Bills receivable	246,893	266,165
Less: provision for impairment of trade receivables	(320,831)	(266,775)
	3,677,260	3,500,827
Amount due from related parties		
Trade	278,728	211,449
Non-trade	316,637	311,738
Less: provision for impairment of trade receivables for amount due from related parties	(27,782)	(27,711)
	567,583	495,476
Finance lease receivable (ii)	294,204	315,371
Less: provision for impairment of finance lease receivable	(77,239)	(77,239)
Value-added tax recoverable	63,212	74,929
Prepayments	402,640	425,549
Less: provision for prepayments	(36,695)	(36,970)
Other receivables	349,768	299,408
Less: provision for impairment of other receivables	(135,515)	(122,845)
	5,105,218	4,874,506
Representing:		
Current portion	3,821,644	3,593,152
Non-current portion	1,283,574	1,281,354
	5,105,218	4,874,506

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

For the six months ended 30 June 2020

18 TRADE AND OTHER RECEIVABLES (CONTINUED)

(i) As at 30 June 2020 and 31 December 2019, 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 2020 *RMB'000*	31 December 2019 *RMB'000*
Within 3 months	**2,277,616**	2,517,145
3 to 12 months	**905,170**	564,943
Over 1 year	**745,420**	602,477
	3,928,206	3,684,565

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.

(ii) As at 30 June 2020, lease liabilities of RMB84,550,000 (as at 31 December 2019: RMB94,025,000) were secured by finance lease receivables of RMB82,196,000 (as at 31 December 2019: RMB88,999,000).

19 TRADE AND OTHER PAYABLES

	30 June 2020 *RMB'000*	31 December 2019 *RMB'000*
Trade payables	**1,424,329**	1,538,066
Amounts due to related companies		
Trade	**10,364**	8,681
Non-trade	**74,837**	43,216
Bills payable	**603,295**	689,010
Receipts in advance	**–**	401
Other payables	**482,930**	547,144
	2,595,755	2,826,518

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

For the six months ended 30 June 2020

19 TRADE AND OTHER PAYABLES (CONTINUED)

As at 30 June 2020 and 31 December 2019, the ageing analysis of the trade payables and bills (including amounts due to related parties of trading in nature) is as follows:

	30 June 2020	31 December 2019
	RMB'000	*RMB'000*
Within 3 months	**632,654**	446,514
3 to 6 months	**553,334**	492,896
6 to 12 months	**760,211**	747,348
Over 1 year	**91,789**	548,999
	2,037,988	2,235,757

20 BASIS OF PREPARATION OF HALF-YEAR REPORT

This interim condensed consolidated financial information for the half-year reporting period ended 30 June 2020 has been prepared in accordance with International Accounting Standard IAS 34 Interim Financial Reporting.

The interim 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 2019 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.

(i) New and amended standards adopted by the Group

The following amendments to standards have been adopted by the Group for financial period beginning on 1 January 2020:

IAS 1 and IAS 8 (Amendment)	Definition of Material
IFRS 3 (Amendment)	Definition of a Business
Conceptual Framework	Revised Conceptual Framework for Financial Reporting

The adoption of these standards and new accounting policies disclosed did not have any significant impact on the Group's accounting policies and did not require retrospective adjustments.

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

For the six months ended 30 June 2020

20 BASIS OF PREPARATION OF HALF-YEAR REPORT (CONTINUED)

(ii) New standards and amendments not yet effective for the financial period beginning on 1 January 2020 and not early adopted by the Group

Up to the date of issuance of this report, the following new standards and amendments to existing standards have been issued which are not yet effective and have not been early adopted by the Group:

Standards, Amendments or Interpretations	Subject	Effective for annual accounting periods beginning on or after
Amendment to IFRS 16	Leases-Covid-19 related rent concessions	1 June 2020
Amendments to IAS 1	Presentation of financial statements on classification of liabilities	1 January 2022
Amendments to IFRS 3	Business combinations	1 January 2022
Amendments to IAS 16	Property, plant and equipment	1 January 2022
Amendments to IAS 37	Provisions, contingent liabilities and contingent assets	1 January 2022
Annual improvements to IFRS 9	Financial instruments	1 January 2022
IFRS 10 and IAS 28 (Amendment)	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

The Group has already commenced an assessment of the impact of these new or revised standards, interpretation and amendments. According to the preliminary assessment made by the directors, no significant impact on the financial performance and position of the Group is expected when they become effective.

21 SEASONALITY OF OPERATIONS

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

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

For the six months ended 30 June 2020

22 COMMITMENTS

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

	30 June 2020 *RMB'000*	31 December 2019 *RMB'000*
Contracted for	**10,947**	10,891
Authorised but not contracted for	**702**	–
	11,649	10,891

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

	30 June 2020 *RMB'000*	31 December 2019 *RMB'000*
Within 1 year	**57,200**	–

23 CONTINGENCIES

On June 2018, the Group received a Notification of Proceeding served by the Court pursuant to which Shanghai Shangshi International Trade (Group) Co., Ltd. (上海上實國際貿易(集團)有限公司) (the "Plaintiff") commenced a legal proceedings against Honghua (Jiangsu) as the first defendant and Honghua China Investment Co., Ltd ("Honghua China") as the second defendant.

Pursuant to the civil complaint, the plaintiff signed the purchase agency contract with Honghua (Jiangsu) in 2015 pursuant to which, the Plaintiff was engaged by Honghua (Jiangsu) to purchase equipment and materials. The purchase was guaranteed by Honghua China. The Plaintiff alleged that, up to now, Honghua (Jiangsu) and Honghua China should pay RMB320,693,000 to the Plaintiff for the materials and equipment procurement costs, agency fee and respective interests thereon.

On 5 August 2015, Honghua (Jiangsu) and LNG Power Shipping Co., Ltd. ("LNG Power Shipping") entered into a shipbuilding contract pursuant to which Honghua (Jiangsu) shall build and sell to LNG Power Shipping 200 sets of LNG power ships. Due to the fact that the payment by LNG Power Shipping for the ships was not paid in the progress as expected and due to the project management of LNG Power Shipping, the progress of the shipbuilding was delayed, resulting in Honghua (Jiangsu)'s failure to pay the Plaintiff relevant fees on time.

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

For the six months ended 30 June 2020

23 CONTINGENCIES (CONTINUED)

On 17 October 2018, Plaintiff requested that Honghua (Jiangsu) and Honghua China should pay compensation of RMB190,289,000 for payment overdue.

On 17 May 2019, Honghua (Jiangsu) filed an appeal to Shanghai Maritime Court and requested to terminate the purchase agency contract with the Plaintiff as there was serious quality problem on the equipment and materials purchased by Honghua (Jiangsu) from the Plaintiff, which resulted the progress of the shipbuilding was delayed.

On 7 November 2019, the first judgement was issued by Shanghai Maritime Court of Appeals that Honghua (Jiangsu) should pay an aggregate amount of RMB336,621,000 and the late payment penalty thereon from 15 February 2018 which is calculated at 1.3 times of the Renminbi benchmark loan interest rate for financial institutions of the same terms published by the People's Bank of China up to the date of actual payment.

On 11 November 2019, Honghua (Jiangsu) and the Group filed an appeal to the Shanghai Higher People's Court. The judgement has not yet to be made as at 30 June 2020.

As at 30 June 2020, Honghua (Jiangsu) has already made the liabilities for the above materials and equipment procurement costs and agency fee of RMB302,140,000. Based on the assessment of the directors of the Company, the Group believed that the possibility of paying the liabilities arising from the guarantee provided by Honghua China was relatively low.

24 EVENTS OCCURRING AFTER THE REPORTING PERIOD

On 13 August 2020, Shanghai Higher People's Court has started second instance for litigation between Shanghai Shangshi International Trade (Group) Co., Ltd. with Honghua (Jiangsu), Honghua China and LNG Power Shipping Co., Ltd. (Note 23). The further judgement has not yet to be made as at the date on which this set of financial statements were authorised to issue.

宏华集团有限公司
HONGHUA GROUP LIMITED