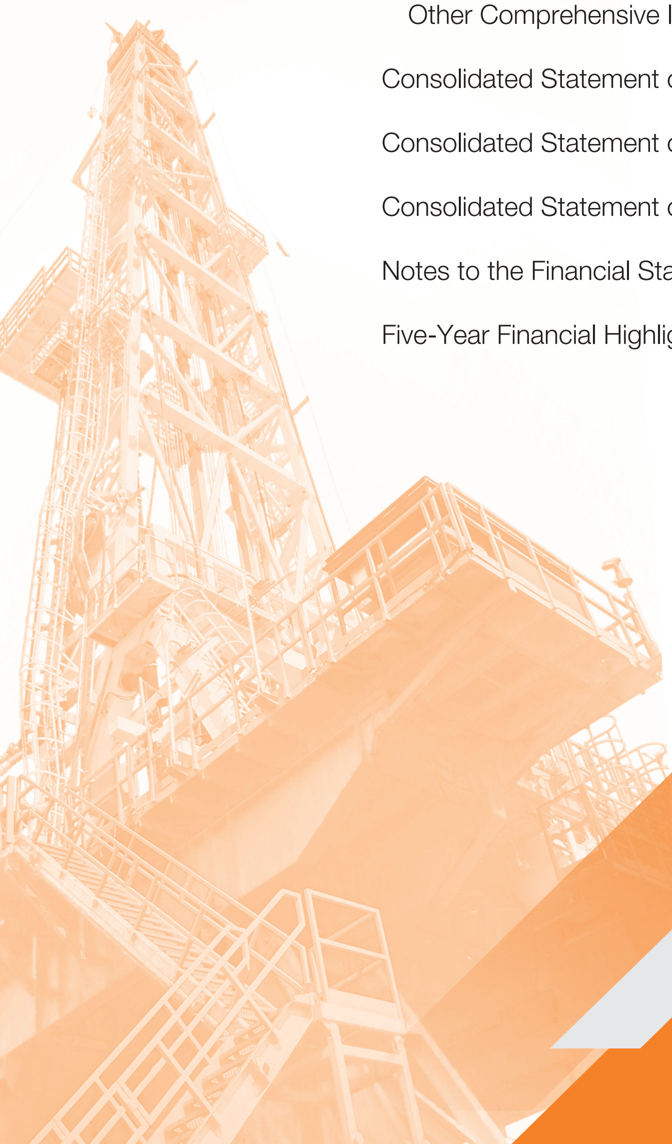
宏华集团有限公司
HONGHUA GROUP LIMITED

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

2023
ANNUAL REPORT

CONTENTS



CORPORATE INFORMATION

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. Wang Xu *(Chairman)*

Mr. Zhu Hua

NON-EXECUTIVE DIRECTORS

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

Mr. Yang Yong *(Resigned with effect from 4 February 2024)*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chen Guoming

Ms. Su Mei

Mr. Chang Qing

Mr. Wei Bin

Mr. Zhang Shiju

SECRETARY OF BOARD OF DIRECTOR

Ms. Zhuang Wenmin *(Resigned with effect from 9 January 2023)*

Mr. He Bin *(Appointed with effect from 9 January 2023)*

BOARD COMMITTEES

AUDIT COMMITTEE

Mr. Wei Bin *(Committee Chairman)*

Mr. Chen Guoming

Ms. Su Mei

Mr. Chang Qing

Mr. Zhang Shiju

REMUNERATION COMMITTEE

Ms. Su Mei *(Committee Chairman)*

Mr. Wang Xu

Mr. Wei Bin

Mr. Zhang Shiju

NOMINATION COMMITTEE

Mr. Wang Xu *(Committee Chairman)*

Mr. Chang Qing

Mr. Zhang Shiju

STRATEGIC INVESTMENT AND RISK CONTROL COMMITTEE

Mr. Wang Xu *(Committee Chairman)*

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

Mr. Zhu Hua

Mr. Chang Qing

JOINT COMPANY SECRETARIES

Ms. Zhuang Wenmin *(Resigned with effect from 9 January 2023)*

Mr. He Bin *(Appointed with effect from 9 January 2023)*

Ms. Lee Mei Yi

LEGAL ADVISOR

AS TO HONG KONG LAW

HAIWEN & PARTNERS LLP

CORPORATE INFORMATION

PRINCIPAL BANKERS AND NON-BANK FINANCIAL INSTITUTIONS

Bank of China Limited
Industrial Bank Co., Ltd.
Agricultural Bank of China Limited
China Citic Bank Co., Ltd.
Industrial and Commercial Bank of China Limited
The Export-Import Bank of China
China Development Bank
Industrial and Commercial Bank of China (Asia) Limited
China Development Fund Co., Ltd.
Shanghai Pudong Development Bank Co., Ltd.
Bank of Kunlun Co., Ltd.
Sichuan Bank Co., Ltd
Bank of Communications Co., Ltd.
China Construction Bank Corporation
Dongfang Electric Finance Co., Ltd.
China Everbright Bank Co.
China Minsheng Banking Corp., Ltd.
China Zheshang Bank Co., Ltd

AUDITOR

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

REGISTERED OFFICE

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

HEAD OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

STOCK CODE

The Stock Exchange of Hong Kong Limited: 0196

WEBSITE

http://www.hh-gltd.com

CHAIRMAN'S STATEMENT

For the global oil and gas market, 2023 was a year full of challenges and changes. The global economy faced multiple shocks, with world economic growth slowing down further, geopolitical conflicts occurring one after another, and international oil prices remaining high and volatile. The Company seized the recovery opportunities in the industry, actively expanded the international and domestic markets, and made every effort to ensure production and deliveries on schedule. With the joint efforts of all employees and the strong support of its shareholders and customers, the Company achieved an operating revenue of RMB5,473 million for the year, representing a year-on-year increase of 22.3%, with new orders of RMB6,199 million, representing a year-on-year increase of 22.87%, reflecting a significant improvement in the operating situation.

CHAIRMAN'S STATEMENT

At present, global energy development is in a period of important strategic opportunities. Overall, the world demand for oil and gas resources will persist for a rather long period of time, and the conventional fossil fuels still enjoy the dominant position. From the global perspective, the international energy market is still in the stage of continuous recovery. The geopolitical premium will gradually diminish in 2024. The crude oil market may remain in balance. and oil prices may continue to fluctuate at a high level. The oil and gas equipment and services business will show a positive trend in the short term, but the sustainability and uncertainty in the following two years will still be relatively high. China is actively and steadily promoting carbon peaking and carbon neutrality, and the conventional oil and gas drilling and extraction will shift to more complicated deep-ground or deep-sea development, with higher requirements of high-end, intelligent, green oil and gas exploration equipment. The National Energy Administration issued the Action Plan for Accelerating the Integration of Oil and Gas Exploration and Development with New Energy, which requires the integration of oil and gas exploration and development with new energy sources, and continues to promote the transformation and upgrades of the energy production and supply structure.

2024 is a crucial year of the Company's strategic implementation of the "14th Five-Year Plan". We will fully implement the "Leading Strategies", establish on the global market, centre on the industry layout of "equipment + services + related diversification", and insist on strengthening equipment, improving services and expanding related diversification, accelerate in the promotion of equipment intelligence, product digitization, industrial greening and digital industrialisation. We will promote the development of intelligent equipment, digital products, green industry and digital industry. At the same time, we will accelerate the cultivation and development of strategic emerging industries, and focus on the development of equipment for marine resources development, digital products for drilling and completing wells, unconventional oil and gas exploration equipment, and comprehensive development and application of new energy from oil and gas fields, with a view to further enhancing the core competitiveness of the Company.

In terms of internal management, we will continue to deepen reforms, further improve corporate governance and enhance our modern corporate governance capability and management efficiency; insist on technological innovation as the leading factor and implement "empowerment" reform for technological innovation, continue to improve the mechanism of scientific and technological innovation and the innovation system; accelerate the expansion of production and capacity and optimise the management of resource allocation, enhance the security and resilience of the supply chain, and further enhance our timely delivery capability; focus on profitability improvement and operational quality enhancement, deepen its efforts to improve quality and efficiency; continue to strengthen the ESG management to actively fulfill our social responsibility and promote green and sustainable development.

Lastly, on behalf of the Board of Directors, I would like to express our sincere gratitude towards all shareholders, customers, partners, people from all walks of life, and all employees of Honghua Group for their care and support to our development.

Wang Xu
Honghua Group Limited
Chairman of the Board

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

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

MARKET REVIEW

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

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

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

BUSINESS REVIEW

1. Drilling Equipment and Related Product Business Segment

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

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

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

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

2. Fracturing Equipment and Service Business

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

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

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

3. Oil and gas engineering service business

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

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

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

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

4. **New Energy Related Business**

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

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

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

QUALITY MANAGEMENT AND RESEARCH & DEVELOPMENT

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

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

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

HUMAN RESOURCES MANAGEMENT

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

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

FUTURE OUTLOOK

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

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

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

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

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

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

FINANCIAL REVIEW

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

Revenue

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

(i) Revenue by geographical locations

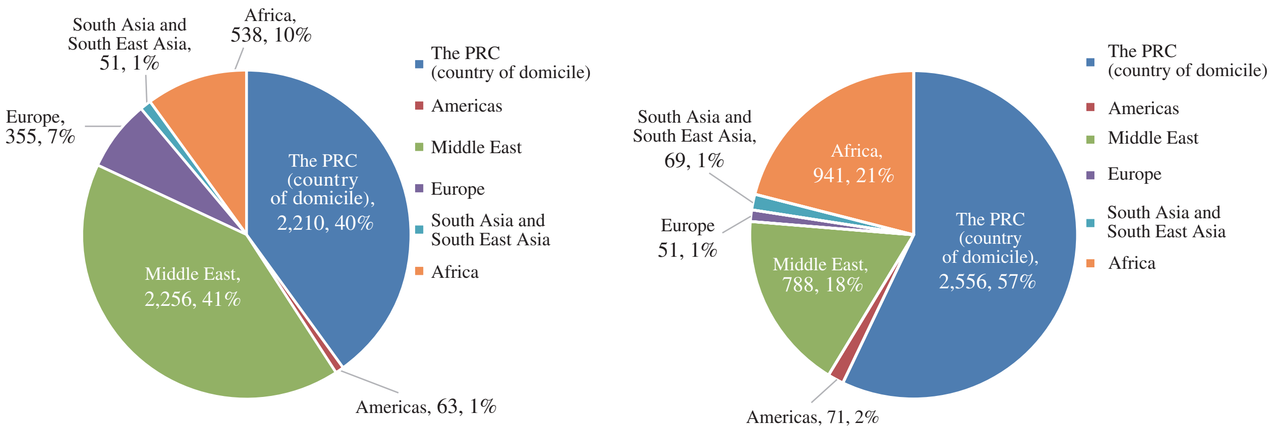
The Group's revenue by geographical segment during the year: (1) revenue generated from the PRC amounted to approximately RMB2,210 million, accounting for approximately 40.4% of the total revenue, representing an increase of RMB346 million as compared to the previous year; and (2) the Group's export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

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

Revenue by geographical locations

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

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



(ii) ***Revenue by operating segments***

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

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

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

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

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

Cost of Sales

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

Gross Profit and Gross Margin

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

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

Expenses in the Year

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

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

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

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

Loss before Income Tax

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

Income Tax Expense

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

Loss for the Year

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

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

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

Dividends

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

Source of Capital and Borrowings

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

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

Deposits and Cash Flow

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

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

Assets Structure and Changes

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

Liabilities

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

Equity

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

Capital Expenditure, Major Investment and Capital Commitments

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

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

Principal Risks and Uncertainties

The Group provides development equipment and engineering services of oil and gas fields. The main market risks and uncertainties come from the fluctuation of oil and gas price and oil and gas development activities. The Board of the Company pays close attention to the market conditions and will change the Group's market strategy in a timely manner according to the market changes to ensure a stable business development of the Group. The Group also faces the risks of international operation, market competition, strategic management and technology research and development. Through formulating strategic development objectives, increasing R&D investment, establishing core brand image, improving product price and delivery advantage, the Group aims to enhance the market competitiveness of the Company and reduce the impact of risks on the Company's operation.

Meanwhile, the Group's activities are exposed to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. Details of these financial risks (including exposure to fluctuations in exchange rates and any related hedges) are set out in note 35 to the notes to the consolidated financial statements for the year ended 31 December 2023.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Wang Xu (王旭先生), aged 50, has been the Executive Director and the Chairman of the Board of the Company since 25 November 2022. Mr. Wang is also the chairman of Nomination Committee, the chairman of Strategic Investment and Risk Control Committee and a member of Remuneration Committee of the Company. Mr. Wang joined Dongfang Electric Corporation ("Dongfang Electric"/"DEC") in 1995 and is currently an employee director of Dongfang Electric. Previously, he served as the head of the partymasses work department of Dongfang Electric and the head of the corporate culture department of Dongfang Electric Corporation Limited, the deputy secretary of the party committee and the secretary of the discipline inspection committee of Dongfang Electric Wind Power Co., Ltd. and the manager of the Coil Branch Factory of Dongfang Electric, as well as the secretary of the joint party branch of the production management department and the warehouse management center of DongFang Electric Machinery Corporation Limited, and deputy head of the production management department of DongFang Electric Machinery Corporation Limited. Mr. Wang has extensive experience in production management and enterprise management. Mr. Wang received his Bachelor's degree in Engineering from Chongqing University in 1995. Positions held by Mr. Wang in the Company's subsidiaries are set forth below.

Subsidiary	Position	Term of Office
Honghua Holdings Limited	Chairman	Since 16 December 2022
Honghua (China) Investment Co., Ltd.	Chairman	Since 16 December 2022
	Secretary of the Party Committee	Since 21 November 2022
Sichuan Honghua Petroleum Equipment Co., Ltd.	Chairman	Since 16 December 2022

Mr. Zhu Hua (朱驊先生), aged 40, has been the Executive Director and a member of Strategic Investment and Risk Control Committee of the Company since 4 July 2022 and has been the President of the Company with effect from 7 February 2024. Mr. Zhu joined the DEC in 2009 and once served as a director, general manager and party secretary of MHI Power Dongfang Boiler Co., Ltd., a subsidiary of DEC. He once served as the deputy director of the boiler technology department, the deputy director of the product project management department, the director of the marketing center and the director of the thermal power marketing department of Dongfang Boiler Co., Ltd. Mr. Zhu has extensive experience in technology and corporate management. Mr. Zhu obtained a Bachelor's Degree in Thermal and Power Engineering from Zhejiang University in 2006, a Master's Degree in Mechanical Engineering from the Hong Kong University of Science and Technology in 2008, and a Doctorate Degree in Power Engineering and Engineering Thermophysics from Xi'an Jiaotong University in 2020. Positions held by Mr. Zhu in the Company's subsidiaries are set forth below.

Subsidiary	Position	Term of Office
Honghua Holdings Limited	Director	Since 14 September 2022 to 10 February 2023
Honghua (China) Investment Co., Ltd.	Director	Since 14 September 2022 to 10 February 2023
Sichuan Honghua Petroleum Equipment Co., Ltd.	General Manager	Since 17 August 2022
	Director	Since 17 August 2022

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTORS

Mr. Zhang Mi (張弭先生), aged 67, has been the Non-executive Director and a member of Strategic Investment and Risk Control Committee of the Company since 1 January 2022 to 31 July 2023. He was the Executive Director from June 2007 to December 2021, the Chairman of the Board from June 2007 to March 2017 and the vice Chairman of the Board from March 2017 to December 2021. Mr. Zhang graduated from the Sichuan Petroleum Administration Vocational University in 1982, with a diploma in machinery manufacture, design and equipment. He graduated from the Party Institute of Sichuan Provincial Committee Correspondence College in 1998, with a Degree in Economics and Management. In 2004, he then obtained a senior engineer qualification granted by the Committee for Evaluation of Senior Technical Positions of the China National Petroleum Corp. He has been receiving special subsidies granted by the State Council of the PRC government since February 2007, for his significant contribution to the development of machinery engineering in the PRC.

Mr. Yang Yong (楊永先生), aged 50, has been the Non-executive Director of the Company since 4 July 2022 to 4 February 2024. Mr. Yang joined the DEC in 1998, and served as the Chairman and Party Secretary of DEC (Chengdu) Hydrogen Fuel Cell Technology Co., Ltd., the vice president of Central Research Institute of DEC and Deputy General Manager of DEC Academy of Science and Technology Co., Ltd. Mr. Yang has extensive experience in corporate management. Mr. Yang obtained a Bachelor's Degree from the School of materials Science and Engineering of Xi'an University of Technology specializing in casting in 1998, and completed a Doctoral Program in Management jointly organized by the University of Electronic Science and Technology of China and the University of Lisbon, Portugal in 2012 where he obtained a Doctorate in Management. Mr. Yang has been the Deputy Secretary of the Party Committee and Chairman of the Trade Union of Honghua (China) Investment Co., Ltd. He is currently a Director and Chairman of the Trade Union of Sichuan Honghua Petroleum Equipment Co., Ltd..

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chen Guoming (陳國明先生), aged 61, has been an Independent Non-executive Director of the Company since 18 January 2008. Mr. Chen is also a member of Audit Committee of the Company. Mr. Chen is now a Professor, a Ph.D. candidate supervisor, a member of the Academic Committee, the Chief officer of Research Centre of Security technique of the Offshore Oil & Gas Equipment, the Chief officer of Professor Committee in the Department of Mechanical and Electrical Engineering of China University of Petroleum. Mr. Chen is Currently the Chief officer of Shandong Key Laboratory of Petroleum Mechanical Engineering; a member of the Quality & Reliability Committee of the China Petroleum Society, the Offshore Engineering Committee of China Naval Architects and Marine Engineers' Society and China Mechanical Engineering Society. He has been receiving special subsidies granted by the State Council of the PRC government (政府特殊津貼) since August 2005. In 1982, Mr. Chen graduated from the Mechanical Department of the East China Petroleum Institute with a Bachelor's Degree. He earned his Master's Degree in 1986, from the Beijing Graduate School of East China Petroleum Institute. He obtained his Ph.D. Degree in 1999, and was promoted to Ph.D. candidate supervisor in 2000.

Ms. Su Mei (蘇梅女士), aged 54, has been an Independent Non-executive Director of the Company since 29 March 2017. Ms. Su is also the Chairman of Remuneration Committee and a member of Audit Committee of the Company. Ms. Su is currently the Co-Founder and President of Beijing YaMeiHeZhong Consultanting Co., Ltd.. Ms. Su once had leaderships in Discipline Inspection Commission of Sichuan Province and Sichuan Development and Reform Commission and State-owned Assets Supervision and Administration Commission of State Council, worked as the vice-president in Sichuan Provincial Investment Group, the chairman of Sichuan Chuantou Water Group and vice president of Joneson Group. Ms. Su obtained Doctor's Degree in Finance from Sichuan University in 2013, and obtained Bachelor's Degree of Chinese from Shandong University in 1991.

Mr. Chang Qing (常清先生), aged 66, has been an Independent Non-executive Director of the Company since 15 June 2017. Mr. Chang is also a member of Audit Committee, a member of Strategic Investment and Risk Control Committee and a member of Nomination Committee of the Company. Mr. Chang is currently the chairman of Jinpeng International Futures Co., Ltd. and a professor of College of Economics and Management of China Agricultural University. Mr. Chang is now acting as an independent non-executive director of Kangda International Environmental Company Limited and China Chengtong Development Group Limited. Mr. Chang graduated from the Chinese Academy of Social Sciences with a Doctorate Degree in Agricultural Economics and Management in 2001, graduated from Jilin University with both a Master's Degree in national economics in 1985 and a Bachelor's Degree in Economics in 1982.

Mr. Wei Bin (魏斌先生), aged 54, has been an Independent Non-executive Director of the Company since 29 August 2019. Mr. Wei is also the chairman of Audit Committee and a member of Remuneration Committee of the Company. Mr. Wei is currently the asset management senior partner of CDH Investments Management (Hong Kong) Limited and the independent non-executive director of Sinohealth Holdings Limited (stock code: 2361), ANE (Cayman) Inc (stock code: 9956) and Huize Holding Limited (a company listed on the NASDAQ, stock symbol: HUIZ). Mr. Wei was the chief accountant and the chief financial officer of the China Resources (Holdings) Company Limited. Mr. Wei holds a Bachelor's Degree in Auditing from Zhongnan University of Economics in China and a Master's Degree in Finance from Jinan University in China, and is a Senior Accountant and a Senior Auditor in China. He is also a non-practicing member of the Chinese Institute of Certified Public Accountants.

Mr. Zhang Shiju (張士舉先生), aged 46, has been an Independent Non-executive Director of the Company since 4 July 2022. Mr. Zhang is also a member of Audit Committee, a member of Remuneration Committee and a member of Nomination Committee of the Company. Mr. Zhang is currently a Senior Counsel of AllBright Law Firm Shanghai Office. Mr. Zhang holds a Master's Degree in Economic Law from Nanjing University. He is an external expert of the Shanghai Technology Exchange Expert Think Tank, and a management consulting service expert of the Management Consulting Professional Committee of the China Enterprise Confederation. Mr. Zhang served as a senior partner of Beijing Yingke Law Firm Shanghai Office, the Deputy Secretary-General of Shanghai Youth Entrepreneurship and Employment Foundation, a co-tutor for graduate students of Tsinghua University and Shanghai Jiaotong University Law School, and an adjunct professor of Jilin University Business School. Mr. Zhang has extensive experience in legal services such as investment and mergers and acquisitions, IPO listing, corporate governance, and industrial funds.

SENIOR MANAGEMENT

Mr. Luo Xiaoming (羅曉明先生), aged 56, has been the Vice President of the Company since 4 July 2022. Mr. Luo joined the DEC since 1992. He was the vice general manager of DEC International Cooperation Limited, Dongfang Electric Co., Ltd, International Engineering Branch and Dongfang Electric Co., Ltd., Import and Export Branch, respectively. Mr. Luo is experienced in international trade business. Mr. Luo obtained a bachelor's degree in thermal engineering from the thermal engineering department of Chongqing University in 1989 and holds a master's degree of engineering thermal physics from the power engineering department of Harbin Institute of Technology in 1992.

Ms. Jin Qian (金倩女士), aged 49, has been the Chief Financial Officer of the Company since 25 December 2022. Ms Jin has been working in Dongfang Electric since 1995. Previously, she served as deputy head of finance department of Dongfang Electric and Dongfang Electric Corporation Limited, respectively, and the chairman of the board of supervisors of Dongfang Electric (Chengdu) Hydrogen Fuel Cell Technology Co., Ltd.. Ms. Jin has extensive experience in financial management. Ms. Jin holds a master's degree in industrial engineering from Southwest Jiaotong University and a bachelor's degree in accounting from Chongqing University.

Mr. Ren Jie (任杰先生), aged 57, has been the Vice President of the Company since 1 January 2016. In 1990, Mr. Ren earned a Bachelor's Degree in mining machinery from Southwest Petroleum University, located in Sichuan Province, specializing in petroleum and natural gas. In 1995, Mr. Ren obtained an engineering qualification, granted by the China National Petroleum Corp., Sichuan Petroleum Administration. In November 2007, he also became a member of the 5th Edition Committee of the Oil Field Equipment Journal, and in 2012, he earned a Doctor's Degree in Mechanical Design and Theory from Southwest Petroleum University.

Mr. He Bin (何斌先生), aged 50, has been the Vice President since August 2018 and has been appointed as the secretary of Board of Director and Joint Company Secretary of the Company on 9 January 2023. He joined the Group in 2008 and has a wealth of experience in strategic investment, corporate governance and compliance control. He holds a Bachelor's Degree from Renmin University of China and a Master's Degree in Business Administration from University of Alberta in Canada.

Ms. Zhuang Wenmin (莊文敏女士), aged 43, has been the secretary of Board and a Joint Company Secretary of the Company since August 2018 to 9 January 2023. Ms. Zhuang was the director of the Legal & Securities Department of the Company and responsible for corporate governance and compliance, risk management and legal affairs of the Company. Ms. Zhuang holds a Master's Degree in Law from Southwestern University of Finance and Economics.

Ms. Lee Mei Yi (李美儀女士), aged 56, has been a Joint Company Secretary of the Company since 7 July 2015. Ms. Lee is an executive director of corporate services division of Tricor Services Limited and a fellow member of both The Hong Kong Chartered Governance Institute (formerly known as The Hong Kong Institute of Chartered Secretaries) and The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators). Ms. Lee has over 30 years' experience in company secretarial area.

CORPORATE GOVERNANCE REPORT

The Board is pleased to present this Corporate Governance Report in the Group's annual report for the year ended 31 December 2023.

CORPORATE GOVERNANCE PRACTICES

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 Board believes that good corporate governance practices are increasingly important for maintaining and promoting Shareholder value and investor confidence.

The Company has adopted and complied with the principles and code provisions of the Corporate Governance Code (the "CG Code") contained in Appendix C1 (formerly Appendix 14) to the Listing Rules as basis of the company's corporate governance practices.

The CG Code sets the principles of good corporate governance and two levels of corporate governance practices:

a) code provisions, which listed issuers are expected to comply with or to give considered reasons for any deviation; and

b) recommended best practices for guidance only, which listed issuers are encouraged to comply with or to give considered reasons for deviation.

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

The Company is committed to enhancing its corporate governance practices appropriate to the conduct and growth of its business and to reviewing and monitoring its corporate governance practices from time to time for the purpose of maintaining a high standard of corporate governance practices and complying the CG Code with the statutory and professional standards and align with the latest developments of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a set of code regarding Directors' dealings in the Company's securities (the "Code for Securities Trading") with terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix C3 (formerly Appendix 10) to the Listing Rules.

After the specific enquiries made by the Company, all Directors have confirmed that they have complied with the standards specified in both the Code for Securities Trading and the Model Code throughout the year ended 31 December 2023.

The Company has also established written guidelines no less exacting than the Model Code (the "Employees Written 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.

BOARD OF DIRECTORS

The Company is headed by an effective Board which assumes responsibility for its leadership and control and be collectively responsibility for promoting the Company's success by directing and supervising the Company's affairs. Directors take decisions objectively in the best interests of the Company.

The Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business and regularly reviews the contribution required from a Director to perform his responsibilities to the Company and whether the Director is spending sufficient time performing them that are commensurate with their role and the Board responsibilities. The Board includes a balanced composition of Executive Directors and Non-executive Directors (including Independent Non-executive Directors) so that there is a strong independent element on the Board, which can effectively exercise independent judgement.

The Company has established a Mechanism (the "Mechanism") to ensure the Board has independent views and which sets out the processes and procedures to ensure a strong independent element on the Board, mainly including: (i) the Board ensures the appointment of at least one-third of its members being Independent Non-executive Directors, with at least one Independent Non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise; (ii) the Nomination Committee is established with clear terms of reference to identify suitable candidates, including independent non-executive directors, for appointment as Directors; (iii) the independent non-executive directors affirm their independence to the company annually; (iv) the Directors are entitled to seek independent professional advice reasonably necessary for discharging their duties as Directors at the Group's expense; and (v) a Director who has a material interest in a contract, transaction or arrangement shall not vote or be counted in the quorum on any Board resolution approving the same.

The Board will regularly review the implementation of the Mechanism to ensure its effectiveness.

BOARD MEETINGS

Code provision C.5.1 of the CG Code stipulates that Board meetings should be held at least four times a year at approximately quarterly intervals with active participation of the majority of the Directors entitled to be present, either in person or through electronic means of communications.

CORPORATE GOVERNANCE REPORT

BOARD COMPOSITION

The Board currently comprises seven Directors, consisting of two Executive Directors and five Independent Non-executive Directors.

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

Independent Non-executive Directors
Mr. Chen Guoming
Ms. Su Mei
Mr. Chang Qing
Mr. Wei Bin
Mr. Zhang Shiju

The biographical information of Directors are set out under “Biographical Details of Directors and Senior Management” on pages 18 to 20 of this annual report.

None of the members of the Board is related to one another.

CHAIRMAN AND PRESIDENT

Mr. Zhu Hua, an Executive Director of the Company, and has been promoted to the President of the Company with effect from 7 February 2024. The President focuses on the Company’s business development and daily management and operations generally.

The position of Chairman is held by Mr. Wang Xu throughout the year ended 31 December 2023. The Chairman provides leadership and is responsible for the effective functioning and leadership of the Board.

INDEPENDENT NON-EXECUTIVE DIRECTORS

During the year ended 31 December 2023, the Board at all times met the requirements of the Listing Rules which requires that at least one-third of the Board members are independent non-executive directors, where to this end, the Board has appointed at least three independent non-executive directors at all times.

During the year ended 31 December 2023, the Company had five independent non-executive Directors with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise so that there is a strong independent element on the Board, which can effectively make independent judgment.

The Company has received written annual confirmation from each of the Independent Non-executive Directors in respect of their independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company considers all Independent Non-executive Directors are independent.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Code provision B.2.2 of the CG Code stipulates that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years, and code provision B.2.3 of the CG Code stipulates that if an independent non-executive director has served more than nine years, such director's further appointment should be subject to a separate resolution to be approved by shareholders.

Each of the Directors of the Company is appointed for a specific term of not exceeding three years and is subject to retirement by rotation at least once every three years.

RESPONSIBILITIES, ACCOUNTABILITIES AND CONTRIBUTIONS OF THE BOARD AND MANAGEMENT

The Board of Directors of the Company and the management are committed to upholding good corporate governance practices and business ethics. The Company believes that maintenance of high standard of business ethics and good corporate governance is essential for effective management, healthy business growth and fostering a contemporary corporate culture, which drives the Group to growing sustainably and safeguarding the interests of the shareholders of the Company.

The Board is responsible for leadership and control of the Company and collectively for directing and supervising the Company's affairs, and oversees the Group's businesses, strategic decisions and performance.

The senior management was delegated the authority and responsibility by the Board for the day-to-day management and operations of the Group. In addition, the Board directly, and indirectly through its committees, leads and provides direction to management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place. The Board has delegated to these Board committees various responsibilities as set out in their terms of reference.

All Directors have carried out duties in good faith, in compliance with the standards of applicable laws and regulations, and act in the interests of the Company and its Shareholders at all times.

All Directors, including the then non-executive Directors and the independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

The independent non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgement on corporate actions and operations.

All Directors have full and timely access to all the information of the Company as well as the services and advice from the company secretary and senior management. The Directors are always provided in a timely manner with comprehensive, accurate and detailed information on the Company's operation through monthly report, business operation report, important projects report and financial report so as to enable the Directors to make decisions and perform their duties and responsibilities. The Directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The Directors shall disclose to the Company details of other offices held by them.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management.

BOARD DIVERSITY POLICY

The Company has adopted board diversity policy (the "Board Diversity Policy") for setting out the approach to achieve diversity on the Board and the Board Diversity Policy has been made available on the Company's website. The Company recognizes and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in maintaining the Company's competitive advantage.

Pursuant to the Board Diversity Policy, the Board will review annually the structure, size and composition of the Board and where appropriate, make recommendations on changes to complement the Company's corporate strategy and to ensure that the Board maintains a balanced diverse profile. In relation to reviewing and assessing the Board composition, the Board is committed to diversity at all levels and will consider a number of aspects, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and regional and industry experience.

The Company aims to maintain an appropriate balance of diversity perspectives that are relevant to the Company's business growth and is also committed to ensuring that recruitment and selection practices at all levels (from the Board downwards) are appropriately structured so that a diverse range of candidates are considered.

The Board will consider setting measurable objectives to implement the Board Diversity Policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives.

One of the members of the Board is a female. The Nomination Committee will review the Board Diversity Policy, from time to time as appropriate, to ensure its effectiveness.

GENDER DIVERSITY

The Company values gender diversity across all levels of the Group. The following table sets out the gender ratio in the workforce of the Group, including the Board and senior management as at the date of this annual report:

	Male	Female
Board	88%	12%
	7	1
Senior Management	86%	14%
	6	1
Other employees	80%	20%
	2,229	572
Overall workforce	80%	20%
	2,239	574

DIRECTOR NOMINATION POLICY

The Company has adopted a director nomination policy (the "Director Nomination Policy") which sets out the selection criteria and process and the Board succession planning considerations in relation to nomination and appointment of Directors of the Company and aims to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company and the continuity of the Board and appropriate leadership at Board level.

The Director Nomination Policy sets out the factors for assessing the suitability and the potential contribution to the Board of a proposed candidate, including but not limited to the following:

- Character and integrity;
- Qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy;
- Diversity in all aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service;
- Requirements of independent Non-executive Directors on the Board and independence of the proposed Independent Non-Executive Directors in accordance with the Listing Rules; and
- Commitment in respect of available time and relevant interest to discharge duties as a member of the Board and Board committees of the Company.

The Director Nomination Policy also sets out the procedures for the selection and appointment of new Directors and re-election of Directors at general meetings.

The Board will review the Director Nomination Policy, from time to time and as appropriate, to ensure its effectiveness.

INDUCTION TRAINING AND CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

Directors shall keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that their contribution to the Board remains informed and relevant.

Every newly appointed director will receive formal, comprehensive and tailored made induction on the first occasion of his/her appointment, so as to ensure that he/she has adequate understanding of the business and operations and governance of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Internally-facilitated briefings for Directors would be arranged and reading material on relevant topics will be issued to Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses.

All the Directors have actively participated in the continuous professional development by way of attending seminar and/or conferences and/or forums and/or reading materials.

During the year ended 31 December 2023, the following Directors attended seminars/training sessions/in-house briefing/reading materials:

Directors	**Attending seminar and/or conferences and/or forums**	**Reading journals, updates, articles and/or materials, etc.**
Executive Directors		
Mr. Wang Xu	✓	✓
Mr. Zhu Hua	✓	✓
Non-Executive Directors		
Mr. Zhang Mi (resigned on 31 July 2023)	✓	✓
Mr. Yang Yong (resigned on 4 February 2024)	✓	✓
Independent Non-Executive Directors		
Mr. Chen Guoming	✓	✓
Ms. Su Mei	✓	✓
Mr. Chang Qing	✓	✓
Mr. Wei Bin	✓	✓
Mr. Zhang Shiju	✓	✓

BOARD COMMITTEES

The Board has established 4 committees, namely Audit Committee, Remuneration Committee, Nomination Committee and Strategic Investment and Risk Control Committee for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with specific written terms of reference which deal clearly with their authority and duties. The terms of reference of the Board committees are posted on the Company's website and the Stock Exchange's website and are available to shareholders upon request.

The list of the chairman and members of each Board committee is set out under "Corporate Information" on page 2 of this annual report.

AUDIT COMMITTEE

As at the date of publishment of this annual report, the Audit Committee comprises five independent non-executive Directors, namely Mr. Wei Bin (Committee Chairman), Mr. Chen Guoming, Mr. Chang Qing, Ms. Su Mei and Mr. Zhang Shiju. One of them possesses the appropriate professional qualifications or accounting or related financial management expertise.

The main duties of the Audit Committee include the following:

- To review the financial statements and reports and consider any significant or unusual items raised by the staff responsible for the accounting and financial reporting function or external auditors before submission to the Board;

- To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendations to the Board on the appointment, re-appointment and removal of external auditors;

- To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures and internal audit function; and

- To review the compliance of the corporate governance issues, the corporate governance report and the corporate governance policy.

The Audit Committee provides supervision on the internal control system of the Group and reports to the Board on any material issues, and makes recommendations to the Board.

During the year under review, the Audit Committee has reviewed the Group's annual results and annual report for the year ended 31 December 2023, the financial reporting and compliance procedures, the report from the management on the Company's internal control and risk management systems and processes, the compliance of the corporate governance issues, the corporate governance report and the corporate policy.

The Audit Committee held 3 meetings during the year ended 31 December 2023 and the attendance records are set out under "Attendance Records of Directors and Committee Members" on pages 32 to 33 of this Corporate Governance Report.

REMUNERATION COMMITTEE

As of the date of publication of this annual report, the Remuneration Committee comprises four members, including three independent non-executive Directors namely Ms. Su Mei (Committee Chairman), Mr. Wei Bin and Mr. Zhang Shiju, one executive Director namely Mr. Wang Xu.

The main duties of the Remuneration Committee include the following:

- To make recommendations to the Board on the remuneration policy and structure of the Directors and the senior management, the incentive mechanism, and the establishment of procedures for developing the remuneration policy and the incentive mechanism;

- To review and approve the remuneration packages of the executive Directors and the senior management by reference to the performance of the individual and the Company as well as market practice and conditions; and

- To review and approve the compensation arrangements for the executive Directors and the senior management in connection with (i) any loss or termination of their office or appointment and (ii) any dismissal or removal of directors for misconduct to ensure such arrangements are determined in accordance with contractual terms and that such compensation is reasonable and appropriate.

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

The Remuneration Committee held a meeting during the year ended 31 December 2023 and the attendance records are set out under "Attendance Records of Directors and Committee Members" on pages 32 to 33 of this Corporate Governance Report.

Details of the remuneration of the senior management by band are set out in note 9 in the notes to the Audited Financial Statements for the year ended 31 December 2023.

The remuneration policies of the Group focus on the efficiency of the employees and the position-value index, with reference to the individual ability and experience of an employee as well as the market value of the labour market, and emphasize on incentive-orientation and also the establishment of a fair and competitive remuneration system. For long-term incentive policies, the Company has adopted the Share Option Scheme and Restricted Share Award Scheme for eligible participants. Details are set out under the paragraphs headed "Share Option Scheme" and "Restricted Share Award Scheme" in the Report of the Directors.

The basis of determining the emolument of Directors is on various considerations, including Directors' capability, knowledge and experience, participation to the Board, job duties and responsibilities and is also made reference to the market practices and conditions. Except Mr. Wang Xu, the Chairman of the Board, whose remuneration consists of annual basic remuneration and annual performance appraisal remuneration, the remuneration of the Executive Directors is based on their administrative management positions. Independent Non-Executive Directors are entitled to a fixed emolument package. Non-Executive Directors may be entitled to a fixed remuneration under the service contract.

NOMINATION COMMITTEE

Pursuant to Rule 3.27A of the Listing Rules that the issuers should establish a nomination committee which is chaired by the chairman of the board or an independent non-executive director and comprises a majority of independent non-executive directors.

As of the date of publication of this annual report, the Nomination Committee comprises three members, including one Executive Director namely Mr. Wang Xu (Committee Chairman) and two Independent Non-Executive Directors namely Mr. Chang Qing and Mr. Zhang Shiju.

The primary objectives of the Nomination Committee include the following:

- To make recommendations to the Board on the composition of Board members according to the scale of the Company's operations and corporate governance and on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman and the chief executive;

- To review the structure, size and composition (including the skills, knowledge and experience) of the board at least annually and make recommendations on any proposed changes to the board to complement the issuer's corporate strategy;

- To identify individuals suitably qualified to become board members and select or make recommendations to the board on the selection of individuals nominated for directorships; and

- To assess the independence of Independent Non-Executive Directors.

The Nomination Committee normally meets at least once a year for reviewing and making recommendation to the Board on the nomination policy, diversity policy, structure, size and composition (including skills, knowledge and experience) of the Board at least annually and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy. During the year ended 31 December 2023, the Company did not convene a meeting of the Nomination Committee, but the members of the Nomination Committee discharged their duties by participating in the Board's review of the retirement by rotation of the Directors and the assessment of the independence of the independent non-executive Directors.

STRATEGIC INVESTMENT AND RISK CONTROL COMMITTEE

During the year 2023, Mr. Zhang Mi was resigned as the member of the Strategic Investment and Risk Control Committee on 31 July 2023.

As of the date of publication of this annual report, the Strategic Investment and Risk Control Committee comprises three members, including two Executive Directors namely Mr. Wang Xu (Committee Chairman) and Mr. Zhu Hua, one Independent Non-Executive Director namely Mr. Chang Qing.

The main duties of the Strategic Investment and Risk Control Committee include the following:

- To review the investment strategies of the Company;
- To review the investment risk control of the Company; and
- To recommend investment strategies and risk control policy and practices to the Board.

The Strategic Investment and Risk Control Committee normally meets at least once a year for reviewing the investment and risk control issues. The Strategic Investment and Risk Control Committee held a meeting during the year ended 31 December 2023 and the attendance records are set out under "Attendance Records of Directors and Committee Members" on pages 32 to 33 of this Corporate Governance Report.

ATTENDANCE RECORDS OF DIRECTORS AND COMMITTEE MEMBERS

During the year ended 31 December 2023, 10 Board meetings were held for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

Apart from regular Board meetings, the Chairman also held a meeting with the Independent Non-executive Directors without the presence of other Directors during the year ended 31 December 2023.

The summary of the attendance record of each Director at the Board meetings, Board Committee meetings and the general meetings during the year ended 31 December 2023 are set out below:

	Attendance/Number of Meetings							
Name of Director	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**	**Strategic Investment and Risk Control Committee**	**(note 1) Extraordinary General Meeting**	**(note 2) Annual General Meeting**	**Meeting between Chairman and independent non-executive Directors**
Mr. Wang Xu	8/10	–	1/1	–	1/1	–	1/1	1/1
Mr. Zhu Hua	5/10	–	–	–	1/1	–	1/1	–
Mr. Zhang Mi (resigned on 31 July 2023)	7/10	–	–	–	1/1	1/1	–	–
Mr. Yang Yong (resigned on 7 February 2024)	8/10	–	–	–	–	–	1/1	–
Mr. Chen Guoming	10/10	3/3	–	–	–	1/1	1/1	1/1
Ms. Su Mei	9/10	3/3	1/1	–	–	1/1	1/1	1/1
Mr. Chang Qing	10/10	3/3	–	–	1/1	1/1	1/1	1/1
Mr. Wei Bin	10/10	3/3	1/1	–	–	1/1	1/1	1/1
Mr. Zhang Shiju	10/10	3/3	1/1	–	–	1/1	1/1	1/1

The Directors attended the meetings via video or telephone conference, or in person.

Note 1: The extraordinary general meeting of the Company was held on 17 April 2023.

Note 2: The annual general meeting of the Company was held on 29 June 2023.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2023.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report on pages 58 to 62 of this annual report.

Where appropriate, a statement from the Audit Committee explaining its recommendation regarding the selection, appointment, resignation or dismissal of external auditors and the reasons why the Board has taken a different view from that of the Audit Committee.

AUDITORS' REMUNERATION

During the year ended 31 December 2023, the remuneration paid to the Company's auditor, Deloitte Touche Tohmatsu in respect of audit services is set out below:

Service Category	**Fees (in Renminbi)**
Audit Services	3,480,000

The auditors' remuneration disclosed in note 6 to the consolidated financial statements included the remuneration paid to Deloitte Touche Tohmatsu as detailed above. Audit services include review of financial information.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems.

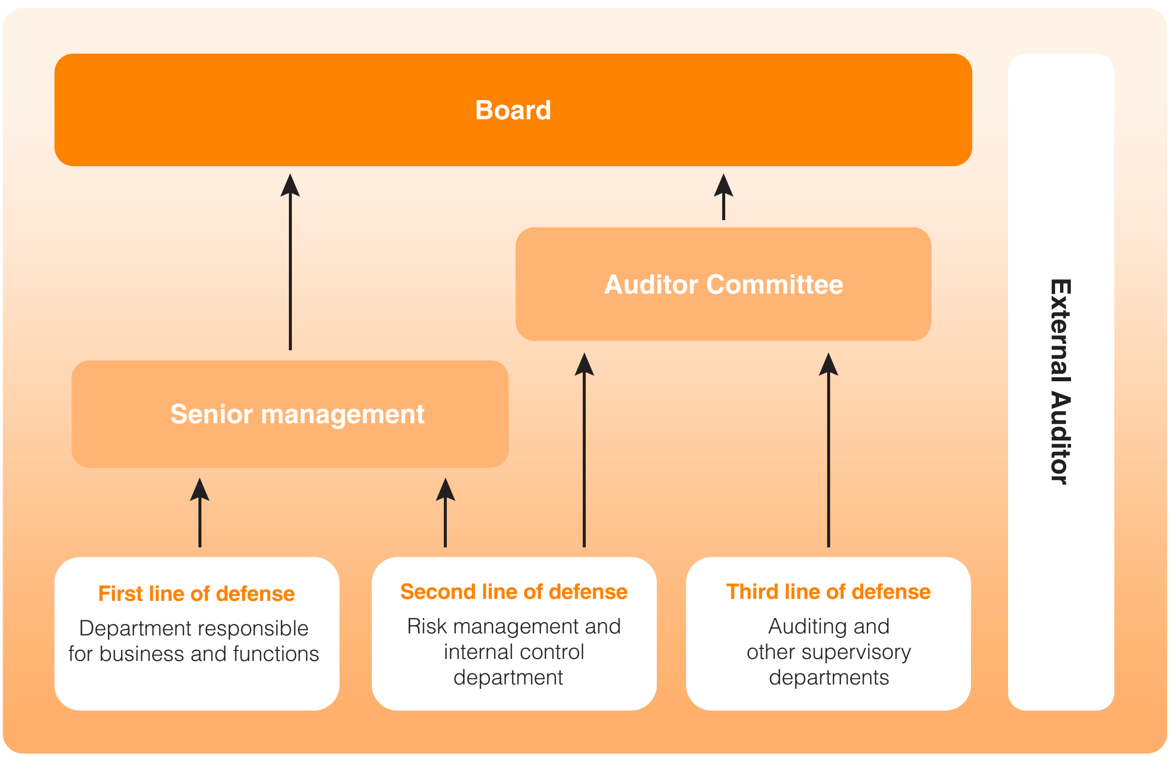
The Audit Committee assists the Board in leading the management and overseeing their design, implementation and monitoring of the risk management and internal control systems.

The Company has established and formulated appropriate policies and checks to ensure that there is no unauthorized use or disposal of asset. Reliable financial and accounting records are maintained in accordance with relevant rules and regulations, relevant accounting standards and regulatory reporting requirements. Material risks which may affect the performance of the Company are properly identified and managed. Such systems and internal controls can only provide reasonable and not absolute assurance against material misstatement or loss and are designed to manage rather than eliminate the risk of failure to achieve business objectives.

RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK

The Company has established a risk management organizational structure with clear responsibility rank and reporting procedure. The risk management and internal control department and the audit and monitoring department assist the Board and the Audit Committee in the continuous review of effectiveness of the Company's risk management and internal control system. The Directors regularly receive information on material risks which may affect the performance of the Company from these Committees and management.

The Company has adopted the following "three lines of defense" model as the guideline of risk management structure:



As the first line of defense, each department and subsidiary of the Company responsible for business management and internal control-related functions are the frontline of risk exposure and shall actively analyze the likelihood and impact of potential/actual risks in the course of ordinary business. They also carry out preliminary risk signal collection and identification, actively implement risk mitigation measures, participate in the risk management culture-building, and serve as the first-responsible-body for mitigation of risk events in order to facilitate the addressing and handling of risk events. The business units in the first line of defense are subject to the guidance and supervision of the risk management and internal control department.

As the second line of defense, the risk management and internal control department and the relevant departments of the Company are primarily responsible for the formulation of risk management policy, coordination and organisation of tackling risk events, coordinated planning and development, maintenance and enhancement of the risk management and internal control systems. In accordance with the Company's strategic goals and business plans, they set up the risk management mechanism and internal control mechanism, make recommendations on risk management strategy and internal control improvement, and report to the management and the Audit Committee.

As the third line of defense, the Audit Committee and the auditing and other supervisory departments of the Company are primarily responsible for the follow-up scrutiny, audit and monitoring of the tasks assigned to the first and second lines of defense, evaluation and organisation of continuous rectification of the risk management mechanism and risk controllability, and reporting to the Board. The audit department is responsible for performing independent review and assessment of the adequacy and effectiveness of the risk management and internal control systems, examining key issues in relation to the accounting practices and all material controls and providing its findings and recommendations for improvement to the Audit Committee.

With the assistance of the risk and internal control department and the auditing and other supervisory departments, the management of the Company is responsible for the design, implementation and monitoring of the risk management and internal control systems as well as the submission of regular reports to the Board on the effectiveness of these systems. During the year, the Board has obtained confirmation from the management on the effectiveness of the risk management and internal control systems of the issuer.

RISK MANAGEMENT AND INTERNAL CONTROL MEASURES

The Company has adopted several policies and programs to evaluate and prudently boost the effectiveness of the risk management and internal control system, including the requirement on the executive management of the Company to conduct evaluation and review the proper and effective operation of such matters every year. The Company believes that such measure shall strengthen future effectiveness of risk management and internal control.

During the year 2023, the Company has achieved the following key results in risk management system:

- The Company has established the 1+N internal control system, optimized and revised a series of management policies to consolidate the foundation of corporate governance, including the rules of procedure for the Board meetings, the management regulations on "Three Importance and One Significance" (三重一大) and decision-making on important matters, the working rules on prior communication and reporting on major matters, the working rules of the general manager, the management regulations on the internal control system and other corporate governance policies, as well as organisational performance management, fixed asset investment, asset appraisal, procurement management, project management, technology management, budget management, capital management, contract management and other operation and management policies.

- The Company has improved the risk management and internal control system, formulated the Internal Control System Regulations and Risk Management Policy to further clarify the risk management responsibilities from the Board to the management to each department under the internal control system. The risk management department organises the identification and assessment of significant risks at the Group level, and the management discusses, considers and implements the relevant risk management measures and corresponding countermeasures, and reports the results of such risk assessment to the Board and the Audit Committee on a regular basis. The Company also formulates of the Action Plan for Risk Prevention and Mitigation, and established the management principles of "rating and classification" of historical risks and "one strategy for one project" to effectively promote the mitigation of various types of historical risks. In the ordinary course of business, the Company actively carried out specialised risk screening and risk warning.

- The Company has further consolidated the legal working system, formulated the Regulations for Rule of Law Construction, and optimised the legal working mechanism. We continued to deepen the integration of legal services and businesses, solidly carried out the legitimacy and compliance review of economic contracts, major decisions and rules and regulations, and provided legal services to safeguard the operation in compliance with the law. The legal department participated in major projects in an intensive manner, and assisted in the steady progress of the Company's reforms. It revised the Contract Management Regulation, strengthened tracking of contract performance and execution of supervision and inspection, and effectively prevented contract risks. It issued the Legal Dispute Case Administrative Rules, improved the case handling mechanism, and strengthened the case disposal efforts.

- The Company has improved the compliance management system and revised the Compliance Management Regulation. We organised the preparation of compliance guidelines for key business areas, the list of key business process control and the list of compliance duties for different positions, thereby achieving full coverage of compliance duties for all positions. The Company has organised special activities for compliance culture, and built up a strong awareness of compliance through a series of activities such as filming of compliance videos, organisation of compliance competitions, conduct of compliance trainings and signing of compliance commitment letters.

- The Company’s internal audit and internal control assessment incorporated risk management to the state of audit planning, and prepared the internal control system self-assessment report for the year based on the Company’s comprehensive risk analysis;

During the year, the risk management and internal control department and the audit and monitoring department report their work in respect of the sufficiency and effectiveness of the risk management and internal control for the previous period to the Board, including but not limited to highlighting any failure in the implementation of these control procedures or any material deficiencies of the procedures.

REVIEW OF RISK MANAGEMENT AND INTERNAL CONTROL EFFECTIVENESS

The Audit Committee and the Board were not aware of any key findings that would have any substantive impact on the business or financial condition of the Company, and of the opinion that the existing risk management and internal control system is appropriate and effective in terms of sufficiency of resources, qualification and experience of staff, training program and financial budget, internal audit and financial report.

The Management reported to the Board and the Audit Committee on the effectiveness of the risk management and internal control system of the year as at 31 December 2023.

The Board, as supported by the Audit Committee as well as the management report and the internal audit findings, reviewed the risk management and internal control systems, including the financial, operational and compliance controls, for the year ended 31 December 20232, and considered that such systems are effective and adequate. The annual review also covered the financial reporting and internal audit function and staff qualifications, experiences and relevant resources.

INTERNAL AUDIT

The Company has specially established an internal audit and supervision department responsible for the internal control of the Group.

The internal audit and supervision department conducts regular supervision and examination over the business of the Group and also carries out the special supervision and examination for significant projects to regulate the management of the Group.

The internal audit and supervision department reports its work to the Audit Committee on a periodical basis while the Audit Committee reviews and approves the internal audit reports and the annual plan for internal audit annually. The audit opinions will be reported to the Board through the Audit Committee.

The Company has set up an independent reporting channel through which the staff of the Company can report the corrupt conducts of other staffs of the Company directly to the internal audit and supervision department, so that the Company can be held harmless from frauds and other misconducts.

INFORMATION DISCLOSURE

The Company has formulated a set of continuing disclosure obligation procedures in response to the inside information provisions under the SFO and the Listing Rules.

The Company proactively publishes voluntary announcements for the matters of significance involving the current development status of the Company so that Shareholders and investors can be timely aware of the current status of the business development of the Company.

COMPANY SECRETARY

On 9 January 2023, Ms. Zhuang Wenmin resigned as the Joint Company Secretaries of the Company and Mr. He Bin has been appointed as the Joint Company Secretaries of the Company. As of the date of publication of this annual report, the primary contact person of the Company is Mr. He Bin, one of the Joint Company Secretaries of the Company. Ms. Lee Mei Yi of Tricor Services Limited, an external service provider, has been appointed by the Company as one of its Joint Company Secretaries since 7 July 2015.

All Directors have access to the advice and services of the Joint Company Secretaries on corporate governance and board practices and matters.

During the year 2023, Mr. He Bin and Ms. Lee Mei Yi, the Joint Company Secretaries, have complied with Rule 3.29 of the Listing Rules by taking no less than 15 hours of the relevant professional training during the year.

SHAREHOLDERS' RIGHTS

To safeguard Shareholder interests and rights, separate resolutions are proposed for each substantially separate issue at Shareholders' meetings, including the election of individual Directors.

All resolutions put forward at Shareholders' meetings will be taken by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after Shareholders' meeting.

CONVENING AN EXTRAORDINARY GENERAL MEETING BY SHAREHOLDERS

The Board may, whenever it thinks fit, convene an extraordinary general meeting. Extraordinary general meetings may be convened by the Board on requisition of one or more Shareholders' holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the Secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

PUTTING FORWARD PROPOSALS AT GENERAL MEETINGS

There is no provision allowing Shareholders to move new resolutions at general meetings under the Cayman Islands Companies Law or the Articles of Association of the Company. Shareholders who wish to move a resolution may request the Company to convene a general meeting following the procedures set out in the preceding paragraph.

PUTTING FORWARD ENQUIRIES TO THE BOARD

For putting forward any enquiries to the Board of the Company, shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

CONTACT DETAILS

Shareholders may send their enquiries or requests as mentioned above to the following:

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

Email: shareholder@hhcp.com.cn

For the avoidance of doubt, Shareholders must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address or 99 East Road, Information Park, Jinniu District, Chengdu, Sichuan, People's Republic of China and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The general meetings of the Company provide a forum for communication between the Board and the Shareholders. The Chairman of the Board as well as chairmen of the Audit Committee, Remuneration Committee, Nomination Committee and Strategic Investment and Risk Control Committee or, in their absence, other members of the respective committees normally attend the annual general meetings and other relevant Shareholders' meetings to answer questions of Shareholders. Notices to Shareholders for annual general meetings and all other general meetings will be sent to the Shareholders before such meetings pursuant to the requirement of the Listing Rules.

Information relating to the Company's financial results, corporate details, major projects and events are disseminated through publications of interim and annual reports, announcements, circulars and other corporate communications and publications available on the websites of the Stock Exchange and the Company.

To promote effective communication, the Company maintains a website at http://www.hh-gltd.com, where up-to date information and updates on the Company's business operations and developments, financial information, corporate governance practices and other information are available for public access.

SHAREHOLDERS COMMUNICATION POLICY

The Company has in place a Shareholders' Communication Policy ("Shareholders' Communication Policy"). The policy aims at promoting effective communication with Shareholders and other stakeholders, encouraging Shareholders to engage actively with the Company and enabling Shareholders to exercise their rights as Shareholders effectively. The Board reviewed the implementation and effectiveness of the Shareholders' Communication Policy and the results were satisfactory.

The Company has established a number of channels for maintaining an on-going dialogue with its Shareholders as follows:

(a) Corporate Communication

"Corporate Communication" as defined under the Listing Rules refers to any document issued or to be issued by the Company for the information or action of holders of any of its securities, including but not limited to the following documents of the Company: (a) the Directors' report, annual accounts together with a copy of the auditor's report and, where applicable, its summary financial report; (b) the interim report and, where applicable, its summary interim report; (c) a notice of meeting; (d) a listing document; (e) a circular; and (f) a proxy form. The Corporate Communication of the Company will be published on the Stock Exchange's website (www.hkex.com.hk) in a timely manner as required by the Listing Rules. Corporate Communication will be provided to Shareholders and non-registered holders of the Company's securities in both English and Chinese versions or where permitted, in a single language, in a timely manner as required by the Listing Rules. Shareholders and non-registered holders of the Company's securities shall have the right to choose the language (either English or Chinese) or means of receipt of the Corporate Communication (in printed form or through electronic means).

(b) **Announcements and Other Documents pursuant to the Listing Rules**

The Company shall publish announcements (on inside information, corporate actions and transactions etc.) and other documents (e.g. Memorandum and Articles of Association) on the Stock Exchange's website in a timely manner in accordance with the Listing Rules.

(c) **Corporate Website**

Any information or documents of the Company posted on the Stock Exchange's website will also be published on the Company's website (https://www.hh-gltd.com).

(d) **Shareholders' Meetings**

The annual general meeting and other general meetings of the Company are primary forum for communication between the Company and its Shareholders. The Company shall provide Shareholders with relevant information on the resolutions(s) proposed at a general meeting in a timely manner in accordance with the Listing Rules. The information provided shall be reasonably necessary to enable Shareholders to make an informed decision on the proposed resolution(s). Shareholders are encouraged to participate in general meetings or to appoint proxies to attend and vote at the meetings for and on their behalf if they are unable to attend the meetings. Where appropriate or required, the Chairman of the Board and other Board members, the chairmen of board committees or their delegates, and the external auditors should attend general meetings of the Company to answer Shareholders' questions (if any). The chairman of the independent board committee (if any) should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that is subject to independent Shareholders' approval.

(e) **Shareholders' Enquiries**

Enquiries about Shareholdings

Shareholders should direct their enquiries about their shareholdings to the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, call its hotline at (852) 2862 8555, or go in person to its public counter at Shops 1712-1716 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

Enquiries about Corporate Governance or Other Matters to be put to the Board and the Company

The Company will not normally deal with verbal or anonymous enquiries. Shareholders may send any enquiries or requests to the Board by email: shareholder@hhcp.com.cn or by post to 5/F, Manulife Place, 348 Kwun Tong Road, Kowloon, Hong Kong for any assistance.

(f) **Other Investor Relations Communication Platforms**

Investors/analysts briefings, roadshows, media interviews etc.

DIVIDEND POLICY

The Company has adopted a dividend policy (the "Dividend Policy"). With an emphasis on providing reasonable investment return to its Shareholders, the Company strives to implement a sustained and stable dividend policy by considering the current actual operating conditions of the Company, the sustainability and the interests of the Shareholders as a whole. The Company may distribute dividends to the Shareholders in cash, in shares or in other forms as the Board considers appropriate. According to the Dividend Policy, subject to the relevant criteria, based on the audited annual statements and the net profit attributable to the Shareholders for the Year and on the premise that the distributable profit is positive and there is sufficient working capital, the Company may distribute annual dividends to the Shareholders in cash in proportion to at least 30% of the annual distributable profit in principle. In deciding whether to propose a dividend and in determining the dividend amount, the Board shall consider the following factors as a whole: the financial results, the cash flows, the future operations and revenue, the capital requirements and capital expenditure plan, the Shareholders' interests of the Company and its subsidiaries as well as any other relevant factors. The Board will review the Dividend Policy from time to time and may exercise at its sole and absolute discretion to update, amend and/or modify the Dividend Policy at any time as it seems fit and necessary. There is no assurance that dividends will be paid in any particular amount for any given period.

AMENDMENTS TO CONSTITUTIONAL DOCUMENTS

During the year under review, the Company has amended its Articles of Association. An up to date version of the Company's Articles of Association is also available on the Company's website and the Stock Exchange's website.

REPORT OF THE DIRECTORS

The Board presents this annual report, together with the audited consolidated financial statements of the Group for the year ended 31 December 2023.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The Group principally engages in research, design, manufacture, setting and sale of land rigs and related parts and components, design and manufacture the offshore drilling module. Meanwhile it also provides clients with technical support services and drilling engineering services. During the Year, the nature of principal activities of the Group has no substantial change.

RESULTS AND DISTRIBUTION

The results of the Group for the year ended 31 December 2023 are set out in the consolidated financial statements on pages 63 to 173 of this annual report. The Board did not recommend a final dividend for the year ended 31 December 2023.

SHARE CAPITAL

Changes in the share capital of the Company during the Year are set out in note 29 to the consolidated financial statements.

PRE-EMPTIVE RIGHT

There is no provision of pre-emptive right under the Articles of Association and the laws of the Cayman Islands stipulating that the Company shall offer new Shares to existing Shareholders in proportion.

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

Save as disclosed below, neither the Company nor any of its subsidiaries has repurchased, sold or redeemed any of the listed securities of the Company during the Year.

In order to further strengthen the Company's capital base by raising additional funds for the Group, on 18 January 2023, the Company entered into a subscription agreement with Dongfang Electric International Investment Co., Limited (東方電氣集團國際投資有限公司) ("Dongfang Investment"), pursuant to which the Company agreed to issue and Dongfang Investment agreed to subscribe for 4,000,000,000 ordinary shares of the Company at a consideration of HK$967,200,000. Due to unforeseen fluctuations in the exchange rate between Renminbi and Hong Kong dollars since the signing of the subscription agreement, Dongfang Investment and the Company signed a supplemental subscription agreement on 30 June 2023 (together with the subscription agreement, the "Dongfang Subscription Agreements") and the parties agreed to adjust the number of the shares to be subscribed by Dongfang Investment from 4,000,000,000 shares to 3,684,494,251 shares ("Dongfang Subscription Shares"), and to adjust the total amount of consideration to be paid by Dongfang Investment to HK$890,910,710 (the "Dongfang Subscription"). For details, please refer to the announcements dated 18 January 2023, 17 April 2023, 30 June 2023 and 18 July 2023 and the circular dated 23 March 2023 of the Company. Unless otherwise defined, capitalised term used in this section (i.e., REPERCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY) shall have the same meanings as those defined in the circular of the Company dated 23 March 2023. Under the Dongfang Subscription Agreements, the conditions precedent for completion of the Dongfang Subscription include:

(a) the passing of a resolution by the Dongfang Independent Shareholders to approve the Dongfang Subscription and the grant of the Dongfang Specific Mandate to the Board to issue the Dongfang Subscription Shares in accordance with the Listing Rules and the Takeovers Code;

(b) the passing of a resolution by the Dongfang Independent Shareholders to approve the Whitewash Waiver at the extraordinary general meeting in accordance with the Takeovers Code;

(c) the Securities and Futures Commission of Hong Kong granting the Whitewash Waiver;

(d) the Listing Committee of the Stock Exchange granting approval for the listing of, and permission to deal in, Dongfang Subscription Shares (and such approval not being subsequently revoked prior to completion of the Dongfang Subscription); and

(e) Dongfang Investment or its group companies having obtained in respect of the Dongfang Subscription all applicable approvals, filings, registrations, permits or authorisations of competent authorities of the PRC government in connection with the offshore investment and outbound funds transfer by PRC enterprises.

The completion of the Dongfang Subscription took place on 18 July 2023. Under the Dongfang Subscription, 3,684,494,251 ordinary shares of nominal value of HK$0.10 each were issued by the Company to Dongfang Investment at the issue price of HK$0.2418 per share. The net price to the Company were approximately HK$0.2407 per share and the aggregate nominal value of the Dongfang Subscription Shares is HK$368,449,425.1. The market price of the shares issued by the Company to Dongfang Investment on the date when the terms of issue were fixed (i.e. 18 January 2023) was HK$0.246 per share. Details of the gross proceeds raised under the Dongfang Subscription and the use of proceeds are set out in the section headed "Utilisation and Adjustment of Proceeds" in the Report of the Directors.

In order to further strengthen the Company's capital base by raising additional funds for the Group, on 18 January 2023, the Company entered into a subscription agreement (the "Chengtong Subscription Agreement") with China Chengtong Investment Company Limited ("Chengtong"), pursuant to which the Company agreed to issue and Chengtong agreed to subscribe for 223,000,000 shares of the Company at a subscription price of RMB0.2418 per share for HK$53,921,400 (the "Chengtong Subscription"). The conditions precedent for completion of the Chengtong Subsciption under the Chengtong Subscription Agreement are set out in the circular dated 23 March 2023 of the Company. As the conditions precedent for the Chengtong Subscription were not fulfilled subsequently, the Chengtong Subscription was terminated and the Group did not issue any shares to Chengtong. For details of the Chengtong Subscription, please refer to the announcements dated 18 January 2023, 17 April 2023 and 30 June 2023 and the circular dated 23 March 2023 of the Company.

UTILISATION AND ADJUSTMENT OF PROCEEDS

On 18 July 2023, the Dongfang Subscription Shares, namely the 3,684,494,251 Shares, were duly allotted and issued by the Company to Dongfang Investment at HK$0.2418 per Dongfang Subscription Share pursuant to the Dongfang Specific Mandate sought from the Dongfang Independent Shareholders at the EGM. The total amount of consideration paid by Dongfang Investment for the Dongfang Subscription was HK$890,910,710. After deducting the related costs and expenses, the net proceeds was approximately HK$886,740,000. As at 29 February 2024, the utilisation of the proceeds was as follows:

Original intended use of proceeds	Original amount of proceeds to be used (HK$ million)	Proportion of originally intended use of proceeds to the total proceeds	Actual utilised amount as at 29 February 2024 (HK$ million)	Unutilised amount as at 29 February 2024 (HK$ million)
Repaying the Group's interest-bearing borrowings	505.44	57%	503.08	2.36
Investment in construction and technical transformation of production line of the Group's offshore segment	106.41	12%	0	106.41
Supplementing the Group's working capital for general purpose	274.89	31%	252.97	21.92
Total	886.74	100%	756.05	130.69

As indicated in the table above, the unutilised amount as at 29 February 2024 was approximately HK$130.69 million. Based on the operational and development needs of the Company, in order to enhance the efficiency of the utilisation of funds and reduce its finance costs, the Board of Directors of the Group considered and decided to utilise the unused funds of approximately HK$106.41 million which was originally intended to apply in the Group's offshore segment for repaying the interest-bearing borrowings and supplementing the working capital for general purpose on 26 March 2024. The use of unutilised funds of approximately HK$2.36 million intended for repayment of the Group's interest-bearing borrowings and approximately HK$21.92 million intended for supplementing the Group's working capital for general purpose will remain unchanged. All the unutilised proceeds of approximately HK$130.69 million are expected to be fully utilised on or before 31 December 2024.

RESERVES

As of 31 December 2023, the Group has a total of approximately RMB2,560 million worth of reserve. Details of movements in the reserves of the Group during the Year are set out in the consolidated statement of changes in equity in the consolidated financial statements.

SUBSIDIARIES

Details of the Company's principal subsidiaries as of 31 December 2023 are set out in note 11 to the consolidated financial statements.

DISPOSAL OF SUBSIDIARIES, ASSOCIATES OR JOINT VENTURES

On 12 December 2023, Honghua Holdings Limited ("Honghua Holdings"), a wholly-owned subsidiary of the Company, entered into an equity transfer agreement with DEC Investment Management Company Limited ("DEC Investment"), a subsidiary of Dongfang Electric, pursuant to which Honghua Holdings sold its entire equity and debts of Honghua Financial Leasing (Shanghai) Co., Ltd. ("Shanghai Leasing") to DEC Investment for an aggregate consideration of RMB199,049,669.51 (the "Disposal"). Upon completion of the Disposal, the Group ceases to have any interest in Shanghai Leasing.

Dongfang Electric indirectly holds approximately 58.52% of the total issued share capital of the Company through its wholly-owned subsidiaries, and is therefore a controlling Shareholder and a connected person of the Company. Dongfang Electric holds 100% interests in DEC Investment, thus DEC Investment is an associate of Dongfang Electric and in turn a connected person of the Company under Chapter 14A of the Listing Rules. Therefore, the Disposal constitutes a connected transaction of the Company.

For details of the principal terms of the equity transfer agreement, reasons for and benefits of the Disposal, please refer to the announcement dated 12 December 2023 and the circular dated 5 January 2024 of the Company.

DIRECTORS

The existing Directors of the Company during the Year and as of the date of this annual report are set out on page 2 the section "Corporate Information" of this annual report.

The status of all the Directors of the Company holding their offices during the year is set out in the section "Corporate Information".

In accordance with the Articles of Association, one third of the Directors (or closest to but not less than one third if the number is not three or a multiple of three) shall retire from office by rotation at each annual general meeting and each Director is required to retire at least once every three years and any Director appointed by the Board shall hold office only until the next general meeting and shall then be eligible for re-election at the meeting.

According to the independent guidelines under the Listing Rules, the Company has received the annual confirmation of their independence from each Independent Non-executive Director, and the Company still considers such Independent Non-executive Directors as independent.

DIRECTORS' SERVICE CONTRACTS

Each of the Director of the Company is engaged on a service contract for a term of 3 years. The appointment may be terminated by not less than 3 months' written notice. The Directors shall retire by rotation and be eligible for re-election subject to the Articles of Association.

None of the Directors has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

PERMITTED INDEMNITY

Pursuant to the Company's Articles of Association, subject to the Companies Law, every Director shall be indemnified out of the assets of the Company against all costs, charges, expenses, losses and liabilities which he/she may sustain or incur in the execution of his/her office or otherwise in relation thereto. The Company has taken out insurance against the liability and costs associated with defending any proceedings which may be brought against directors of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed under the sections headed "CONNECTED TRANSACTIONS" and "CONNECTING CONNECTED TRANSACTIONS", none of the Directors directly or indirectly had any material interest in the contracts of significance in relation to the Group's business to which the Company or its holding company or any of its subsidiaries was a party at the end of the Year or at any time during the Year.

REMUNERATION FOR DIRECTORS AND SENIOR MANAGEMENT

For the year ended 31 December 2023, details of remuneration for the Directors and Senior Management of the Company are set out in notes 8 and 9 to the consolidated financial statements.

The emoluments of the Executive Director and Senior Management by bands are as follows:

	2023 Number of individuals
RMB0 to RMB1,000,000	6
RMB1,000,001 to RMB2,000,000	–
RMB2,000,001 to RMB3,000,000	–
RMB3,000,001 to RMB4,000,000	–
RMB4,000,001 to RMB5,000,000	–
RMB5,000,001 to RMB6,000,000	–

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

At 31 December 2023, the interests and short positions of each Director and Chief Executive in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of the SFO), as recorded in the register required to be kept by the Company under Section 352 of Part XV of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code contained in Appendix C3 (formerly Appendix 10) to the Listing Rules were as follows:

A) ORDINARY SHARES OF HK$0.1 EACH OF THE COMPANY

Name	Long/Short position	Nature of interest	Number of shares held	% of the issued share capital of the Company
Mr. Zhang Mi *(Resigned with effect from 31 July 2023)*	Long	Personal interest, corporate interest and settlor of a discretionary trust	323,408,548(1)	3.57%
Ms. Su Mei	Long	Personal interest	150,000(2)	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 318,202,548 Shares.

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

B) SHARE OPTIONS OF THE COMPANY

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

Save as disclosed above, as at 31 December 2023, none of the Directors and Chief Executives (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for Shares (or warrants or debentures, if applicable) of the Company and its associated corporations required to be disclosed pursuant to the SFO.

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 31 December 2023, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors and Chief Executives of the Company.

		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
Tricor Equity Trustee Limited	Long	–	–	–	660,145,019	660,145,019[1]	7.30%
Dongfang Electric International Investment Co., Limited	Long	–	5,290,494,251	–	–	5,290,494,251[2]	58.52%
Dongfang Electric Corporation	Long	–	–	5,290,494,251	–	5,290,494,251[2]	58.52%

Notes:

(1) Tricor Equity Trustee Limited, as the trustee of The ZYL Family Trust and the 4 other Trusts, holds 660,145,019 Shares in total.

(2) Dongfang Electric International Investment Co., Limited is owned 100% by Dongfang Electric Corporation and holds 5,290,494,251 Shares.

Save as disclosed above, to the best of the Directors and the Chief Executives of the Company's knowledge, as at 31 December 2023, none of the persons, other than the Directors or the Chief Executives of the Company, had interests or short positions in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or recorded in the register as required under Section 336 of the SFO.

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 Pre-IPO Share Option Scheme will remain in force for a period of ten years from the date of grant until 20 January 2018. Save as disclosed below, no options were granted or to be granted under the Share Option Scheme. As at 1 January 2023 and 31 December 2023, no options were available for grant under the scheme mandate. For the year ended 31 December 2023, no shares may be issued in respect of options granted under the Share Option Schemes. Details of the Share Option Scheme are as follows:

Purpose

The purpose of the Share Option Scheme is to provide incentives or rewards to Participants for their contribution to the Group and/or to enable the Group to recruit and retain high caliber employees and attract human resources that are available to the Group. The Share Option Scheme will give the Participants an opportunity to have a personal stake in the Company and will (a) motivate the Participants to optimise their performance and efficiency; and (b) attract and retain the Participants whose contributions are important to the long-term growth and profitability of the Group.

Participants

The Participants of the Share Option Scheme are (a) any executive director, employee or proposed employee (whether full time or part time) of any member of the Group; (b) any non-executive director (including independent non-executive directors) of any member of the Group; (c) any supplier of goods or services to any member of the Group; (d) any customer of any member of the Group; (e) any person or entity that provides research, development or other technological support or any advisory, consultancy, professional or other services to any member of the Group; (f) any shareholder of any member of the Group or any holder of any securities issued by any member of the Group; (g) any joint venture partner, business or strategic alliance partner, in each case of any member of the Group; (h) any discretionary trust whose discretionary objects may be any executive director, employee or proposed employee (whether full time or part time) and any non-executive director (including independent non-executive directors) of any member of the Group, any supplier of goods or services to any member of the Group, any customer of any member of the Group, any person or entity that provides research, development or other technological support or any advisory, consultancy, professional or other services to any member of the Group, any shareholder of any member of the Group or any holder of any securities issued by any member of the Group, and any joint venture partner, business or strategic alliance partner, in each case of any member of the Group.

Total number of Shares available for issue under the Share Option Scheme and % of issued share capital as at the date of this annual report

There are no Shares available for issue pursuant to the Share Option Scheme.

Maximum entitlement of each Participant

The total number of Shares issued and to be issued upon exercise of options granted to any Participant (including both exercised and outstanding options) under the Share Option Scheme, in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue. Any further grant of options in excess of such limit must be separately approved by Shareholders in general meeting with such Participant and his associates abstaining from voting. In such event, the Company must send a circular to the Shareholders containing the identity of the Participant, the number and terms of the options to be granted (and options previously granted to such Participant), and all other information required under the Listing Rules. The number and terms (including the exercise price) of the options to be granted must be fixed before the approval of the Shareholders and the date of the Board meeting proposing such further granted should be taken as the date of grant for the purpose of calculating the subscription price.

Time of exercise of option

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

Vesting period

The Share Option Scheme does not provide for a vesting period for the options granted or to be granted under the Share Option Scheme.

Amounts to be paid on acceptance of share options

The amount payable by the grantee of an option to the Company on acceptance of the offer for the grant of an option is HK$1.00.

Basis of determining the exercise price

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be a price solely determined by the Board and notified to a Participant and shall be at least the higher of: (a) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option; (b) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant of the option; and (c) the nominal value of a Share on the date of grant of the option.

Details of the grant share options under the Share Option Scheme in the validity period ended 31 December 2023 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
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

Particulars and movements of share options under the Share Option Scheme during the year ended 31 December 2023 were as follows:

Name or category of participant	Number of share options: Outstanding as at 01/01/2023	Granted during the Year	Exercised during the Year	Lapsed during the Year	Cancelled during the Year	Outstanding as at 31/12/2023	Date of grant (DD/MM/YY)	Exercise period (DD/MM/YY)	Exercise price per Share HK$	Price immediately preceding the grant date of share options HK$
Directors										
Mr. Zhang Mi *(Resigned with effect from 31 July 2023)*	1,190,000	–	–	–	–	1,190,000	02/07/2014	02/07/2014-01/07/2024	1.96	1.92
Mr. Chen Guoming	550,000	–	–	–	–	550,000	24/03/2014	24/04/2014-23/03/2024	2.024	2.02
	500,000	–	–	–	–	500,000	21/09/2016	21/09/2017-20/09/2026	0.44	0.435
Sub-total	2,240,000	–	–	–	–	2,240,000				
Other										
Employee	2,650,000	–	–	–	–	2,650,000	24/03/2014	24/04/2014-23/03/2024	2.024	2.02
Employee	12,935,308	–	–	605,760	–	12,329,548	02/07/2014	02/07/2014-01/07/2024	1.96	1.92
Employee	32,521,000	–	–	1,050,000	–	31,471,000	21/09/2016	21/09/2017-20/09/2026	0.44	0.435
Sub-total	48,106,308	–	–	1,655,760	–	46,450,548				
Total	50,346,308	–	–	1,655,760	–	48,690,548				

(B) SHARE OPTION SCHEME OF 2017

The 2017 Share Option Scheme is conditionally adopted by the Shareholders at the annual general meeting held on 14 June 2017. As at 31 December 2023, no options were granted or to be granted under the 2017 Share Option Scheme. No share options were granted to the following persons under the 2017 Share Option Scheme since the adoption thereof and up to the date of this report:

(i) each of the directors, chief executive or substantial shareholders of the Company, or their respective associates;

(ii) each participant with options to be granted in excess of the 1% individual limit;

(iii) each related entity participant or service provider with options to be granted in any 12-month period exceeding 0.1% of the relevant class of shares in issue of the Company;

(iv) the five highest paid individuals during the financial year; and

(v) other employee participants, related entity participants and service providers.

As at 1 January 2023 and 31 December 2023, 513,742,090 and 513,742,090 options were available for grant under the scheme mandate. For the year ended 31 December 2023, 513,742,090 shares may be issued in respect of options granted under the 2017 Share Option Scheme. Details of the 2017 Share Option Scheme are as follows:

Purpose

The purpose of the Scheme is to provide incentives or rewards to Participants for their contribution to the Group and/or to enable the Group to recruit and retain high caliber employees and attract human resources that are available to the Group. The Scheme will give the Participants an opportunity to have a personal stake in the Company and will (a) motivate the Participants to optimise their performance and efficiency; and (b) attract and retain the Participants whose contributions are important to the long-term growth and profitability of the Group.

Participants

(a) any Executive Director, employee or proposed employee (whether full time or part time) of any member of the Group; (b) any Non-executive Director (including Independent Non-executive Director) of any member of the Group; (c) any supplier of goods or services to any member of the Group; (d) any customer of any member of the Group; (e) any advisor, consultant, any person or entity with professional or other services who provides research, development or other technical support to any member of the Group; (f) any joint venture, business or strategic alliance partner of any member of the Group; (g) discretionary trust whose discretionary objects are as follows: any Executive Director, employee or prospective employee (whether full time or part time) and any Non-executive Director (including Independent Non-executive Director) of any member of the Group, any supplier of goods or services to any member of the Group, any customer of any member of the Group, any advisor, consultant, any person or entity with professional or other services who provides research, development or other technical support to any member of the Group, and any joint venture, business or strategic alliance partner of any member of the Group.

Total number of Shares available for issue under the 2017 Share Option Scheme and % of issued share capital as at the date of this annual report

The total number of Shares available for issue under the 2017 Share Option Scheme are 513,742,090 shares, accounting for 5.68% of the issued share capital of the Company as at the date of this annual report. As at the date of this annual report, no options were granted under the 2017 Share Option Scheme.

Maximum entitlement of each participant

The total number of Shares issued and to be issued upon exercise of options granted to any Participant (including both exercised and outstanding options) under the Share Option Scheme, in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue. Any further grant of options in excess of such limit must be separately approved by Shareholders in general meeting with such Participant and his associates (as defined under the Listing Rules) abstaining from voting. In such event, the Company must send a circular to the Shareholders containing the identity of the Participant, the number and terms of the options to be granted (and options previously granted to such Participant), and all other information required under the Listing Rules. The number and terms (including the exercise price) of the options to be granted must be fixed before the approval of the Shareholders and the date of the Board meeting proposing such further granted should be taken as the date of grant for the purpose of calculating the subscription price.

The period in which Shares must be taken up for under the Share Option Scheme

An offer for the grant of options must be made to a Participant on a trading day by letter in such form as the Board may from time to time determine, requiring the Participant to undertake to hold the option on the terms on which it is to be granted and to be bound by the provisions of the Share Option Scheme and shall remain open for acceptance by the Participant concerned within seven days inclusive of the day on which such offer was made.

The minimum period, if any, for which a share option must be held before it can be exercised

Unless otherwise determined by the Board and stated in the offer of grant of share options to the grantee, there is no minimum period for which a share option must be held before it can be exercised. The 2017 Share Option Scheme does not provide for a vesting period for the options granted or to be granted under the 2017 Share Option Scheme.

Time of exercise of option

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

Amounts to be paid on acceptance of share options

Grantee of share option must pay HK$1.00 to the Company upon acceptance of share option offer.

Basis of determining the exercise price

The subscription price of the share option granted under the Share Option Scheme is solely determined and notified to the participants by the Board of Directors, but not less than the highest of (i) the closing price of the Company's Shares as stated in the daily quotations sheet of the Stock Exchange on the date of the grant; (ii) the average closing price of the Company's Shares as stated in the Stock Exchange's daily quotations sheet for the five trading days immediately preceding the date of the grant; and (iii) the nominal value of the Company's Shares as at date of grant.

The remaining life of the 2017 Share Option Scheme

Subject to early termination of the Share Option 2017 Scheme pursuant to the terms thereof, the 2017 Share Option Scheme shall remain valid and effective for 10 years commencing on the date of its adoption on 14 June 2017. As at the date of this annual report, the remaining life of the 2017 Share Option Scheme is less than 4 years.

RESTRICTED SHARE AWARD SCHEME

On 30 December 2011, the Board approved and adopted a restricted share award scheme ("the Original Scheme"). The Original Scheme has expired at 30 December 2021 for a term of 10 years commencing on the Adoption Date. As at 30 December 2021, in accordance with the Original Scheme Rules, the Trustee has purchased 97,817,000 of the Company's Shares, accounting for 1.08% of the issued share capital of the Company and total of 36,917,700 shares were granted to the Selected Participants and out of which 190,000 Shares were subsequently cancelled. 61,089,300 Shares may be administered and have not yet been granted (representing approximately 0.67% of the total number of issued Shares of the Company).

At the Board meeting of the Company held on 29 December 2021, the Board adopted the 2021 Restricted Share Award Scheme. The 2021 Scheme shall be effective for a term of 10 years commencing on the Adoption Date (29 December 2021). As at the date of this annual report, the remaining life of the 2021 Restricted Share Award Scheme is less than 8 years. As at 1 January 2022 and 31 December 2022, 267,799,745 and 267,799,745 restricted shares were available for grant under the scheme mandate. There are 267,799,745 restricted shares to be granted under the 2021 Restricted Share Award Scheme. With the prior approval of the Board, the Trustee may purchase Shares up to 5% of the issued share capital of the Company from time to time in accordance with the Scheme Rules (including the Shares which may be administered and have not yet been granted under the original Scheme). The Shares will be held in trust for the relevant Selected Participant until such Shares are vested with the relevant Selected Participants in accordance with the Scheme Rules. The Scheme shall be subject to the administration of the Board in accordance with the Scheme Rules. Details of the 2021 Restricted Share Award Scheme and the terms thereof are set out in the announcement of the Company dated 30 December 2021.

Purpose

The purpose of the 2021 Restricted Share Award Scheme is to recognise the contributions by the eligible participants and to give incentives in order to retain them for their continuing operation and development and to attract suitable personnel for further development of the Group, and to provide them with a direct economic interest in attaining the long-term business objectives of the Company.

Participants

Any employee or Director, any consultant or adviser of the Company or any member of the Group.

Total number of Shares available for issue under the 2021 Restricted Share Award Scheme and % of issued share capital as at the date of this annual report

No new Shares will be granted under the 2021 Restricted Share Award Scheme.

Maximum entitlement of each participant

The maximum number of the Restricted Shares which may be awarded to a Selected Participant under the Scheme shall not exceed 1% of the issued share capital of the Company from time to time.

Vesting Period

When the Selected Participant has satisfied all vesting conditions specified by the Board in the written grant letter at the time of making the award and become entitled to the Shares forming the subject of the award, the Trustee shall transfer the relevant vested Shares to that Selected Participant. The 2021 Restricted Share Award Scheme does not provide for a vesting period of the restricted share granted or to be granted under the 2021 Restricted Share Award Scheme.

Amounts to be paid on acceptance of the restricted shares

The 2021 Restricted Share Award Scheme does not provide for the amounts to be paid on acceptance of the restricted shares.

Basis of determining the purchase price

The 2021 Restricted Share Award Scheme does not provide for the basis of determining the purchase price of the restricted shares granted under the 2021 Restricted Share Award Scheme.

Movement of the restricted shares granted under the Restricted Share Award Scheme

No restricted shares were granted under the 2021 Restricted Share Award Scheme since the adoption thereof and up to the date of this report.

CONNECTED TRANSACTIONS

Save as disclosed in the sections headed "REPERCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY" and "DISPOSAL OF SUBSIDIARIES, ASSOCIATES OR JOINT VENTURES", the Group did not conduct any other one-off connected transactions during the year which are required to be disclosed under Chapter 14A of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

During the Year, the Group has the following continuing connected transactions which are required to be disclosed in this report in accordance with Chapter 14A of the Listing Rules. Certain related parties transactions disclosed in note 34 to the consolidated financial statements were not disclosed below as they fulfilled the exemption requirements in Chapter 14A of the Listing Rules.

PURCHASE, SALES AND FINANCE LEASE FRAMEWORK AGREEMENT BETWEEN DFEC AND THE GROUP

On 30 September 2022, the Company entered into the Purchase Framework Agreement with Dongfang Electric Co., Ltd. ("DFEC"), pursuant to which, The Group will purchase products (including but not limited to materials and equipments such as steel, oil storage tanks, casing heads and preventers, semi-finished products, parts and components, production tools and others) and services (including but not limited to processing services, technical services, inspection and testing services, after-sales and engineering services, transportation services and others) from DFEC Group. The annual cap under the Purchase Framework Agreement for the year 2023 is RMB1,000 million and the actual amount was RMB209.622 million.

On 30 September 2022, the Company entered into the Sales Framework Agreement with DFEC, pursuant to which, the Group will sell products (including but not limited to structural parts such as weldments products for containers, steel structure products, semi-finished products, accessories, equipments such as fuel tank, oil tank and pressure vessels, parts and components and others) and provide services (including but not limited to processing services, technical services, inspection and testing services, sales of electronic control, electric machinery products and after-sales services, engineering services and others) to DFEC Group. The annual cap under the Sales Framework Agreement for the year 2023 is RMB800 million and the actual amount was RMB302.717 million.

On 30 September 2022, the Company entered into the Finance Lease Framework Agreement with DFEC, pursuant to which, the Group will provide DFEC Group with finance leasing services. The annual caps (including principal, lease interest and handling fees) under the Finance Lease Framework Agreement for the year 2023 is RMB150 million and the actual amount was RMB0 million.

The terms of the above framework agreements are from 26 October 2022 to 31 December 2024.

Dongfang Electric Corporation holds 5,290,494,251 shares (representing 58.52% of the total issued share capital of the Company) of the Company through its wholly-owned subsidiary Electric Investment, and it is a substantial shareholder within the meaning of the Listing Rules and is therefore a connected person of the Company. Dongfang Electric Corporation is the controlling shareholder of DFEC within the meaning of the Listing Rules. DFEC is an associate of Dongfang Electric Corporation and therefore a connected person of the Company. Accordingly, the above Purchase, Sales and Finance Lease Framework Agreements and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

FINANCIAL SERVICES FRAMEWORK AGREEMENT BETWEEN DONGFANG ELECTRIC FINANCE AND THE GROUP

On 30 September, 2022, the Company entered into the Financial Services Framework Agreement with Dongfang Electric Finance Co., Ltd. ("Dongfang Electric Finance"), pursuant to which, Dongfang Electric Finance will provide the Group with deposit services, lending services and settlement services.The term of the Financial Services Framework Agreement is from 26 October 2022 to 31 December 2024. The daily maximum balance of deposits placed by the Group with Dongfang Electric Finance for the year 2023 is RMB1.8 Billion and the actual amount was RMB0 million; the cap of lending provided by Dongfang Electric Finance to the Group and secured by the Group's assets is RMB1.8 Billion and the actual amount was RMB0 million.

As of 29 June 2022, Dongfang Electric Corporation holds 5,290,494,251 shares (representing 58.52% of the total issued share capital of the Company) of the Company through its wholly-owned subsidiary Electric Investment, and therefore is a substantial shareholder and connected person of the Company. DFEC holds 95% of the shares of Dongfang Electric Finance, and Dongfang Electric Corporation holds 5% of the shares of Dongfang Electric Finance, thus Dongfang Electric Finance is an associate of Dongfang Electric Corporation and in turn a connected person of the Company. Therefore, the transactions under the Financial Services Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

All the Independent Non-executive Directors have reviewed the above continuing connected transactions and confirmed that these transactions have been entered into are:

(1) in the ordinary and usual course of the business of the Group;

(2) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and

(3) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interest of the Shareholders as a whole.

In accordance with Rule 14A.56 of the Listing Rules, the Company is required to obtain a letter from its auditor to confirm that nothing has come to their attention that causes them to believe that these continuing connected transactions:

(1) have not been approved by the board of directors of the company;

(2) were not made in accordance with the pricing policy of the Company;

(3) were not conducted, in all material respects, in accordance with the relevant agreement governing those transactions; and

(4) have exceeded the cap disclosed in previous announcements.

The Company's auditors were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have issued to the Board an unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed by the Group in pages 54 to 56 of this annual report in accordance with Rule 14A.56 of Listing Rules.

The details of the connected transactions and continuing connected transactions required to be disclosed under Chapter 14A of the Listing Rules during the year set out above are also included in note 34 to the consolidated financial statements. Save as disclosed above, the other related party transactions set out in note 34 to the consolidated financial statements are not connected transactions or continuing connected transactions under chapter 14A of the Listing Rules. The disclosure of the above connected transactions and continuing connected transactions by the Company has complied with the disclosure requirements under Chapter 14A of the Listing Rules.

BANK LOANS

Details of our bank loans and other borrowings are set out in note 25 to the consolidated financial statements.

FINANCIAL SUMMARY

Our financial summary for the past five years are set out in the section headed "Five-Year Financial Highlights" of this annual report.

STAFF RETIREMENT AND BENEFIT SCHEME

Details of the staff retirement and benefit scheme are set out in notes 9 and 30 to the consolidated financial statements.

FIXED ASSETS

Details of the changes of the fixed assets of the Group are set out in note 15 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

1. During the Year, the Group's five largest suppliers in total accounted for approximately 13.4% of total purchase, and the largest supplier accounted for approximately 4.5% of total purchase.

2. During the Year, the Group's five largest customers accounted for approximately 30.9% of total sales and the largest customer accounted for approximately 10.1% of revenue.

3. None of the Directors of the Company, their associates or any Shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the above suppliers or customers.

ENTRUST DEPOSITS AND ENTRUST LOANS

As at 31 December 2023, the Company has no entrust deposits or entrust loans being placed with commercial banks or non-commercial banks and other finance institutions.

TAXATION POLICY

The details of the Group's applicable income taxation policy and income tax rate are set out in note 12 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained sufficient public float since its Listing Date.

MANAGEMENT CONTRACTS

There was no contract concerning the management or administration of the whole or any substantial part of the business of the Company which was entered into or existed during the Year.

AUDITOR

On 31 October 2022, PricewaterhouseCoopers ("PwC") resigned as the auditor of the Company, and in order to fill the vacancy following the resignation of PwC, the Company appointed Deloitte Touche Tohmatsu ("Deloitte") as the auditor of the Company with effect from 1 November 2022.

The financial statements of the Group for the year ended 31 December 2023 have been audited by Deloitte who will retire at the forthcoming annual general meeting and being eligible, offer themselves for reappointment. A resolution for the re-appointment of Deloitte as auditor of the Company will be proposed at the forthcoming annual general meeting of the Company.

By the order of the Board
Honghua Group Limited
Chairman
Wang Xu

Hong Kong, 26 March 2024

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF HONGHUA GROUP LIMITED
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Honghua Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 63 to 173, which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information and other explanatory information.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter

Impairment assessment on trade receivables from a customer domicile in Ukraine

We identified the impairment assessment on trade receivables due from a customer domicile in Ukraine as a key audit matter due to the significance of the balance to the Group's consolidated financial statements, combined with the involvement of significant management estimations in assessing the expected credit loss ("ECL") of the trade receivables due from such customer.

As disclosed in notes 3(a) and 35.3.2(i) to the consolidated financial statements, the provision of ECL was assessed by the management with the support of an independent qualified professional valuer engaged by the Company and approved by management and the ECL is determined by the Group based on default probability and default loss rate. During the year ended 31 December 2023, in view of the Russia-Ukraine War, the Group made individual assessment on trade receivables due from a customer domicile in Ukraine. The provision is made based on key assumptions that (i) 0%-50% of the receivable from such customer will be covered and reimbursed by the insurance company if these balances are ratified to be uncollectible by insurance company; and (ii) the management expect to recover 20% of the remaining uncollectible balance after insurance coverage upon necessary collection actions being taken.

As disclosed in Note 21(b) to the consolidated financial statements, as at 31 December 2023, carrying amount of trade receivables from the customer domicile in Ukraine amounting to approximately RMB468,201,000 (net of cumulative impairment loss of approximately RMB254,278,000). During the year ended 31 December 2023, the Group provided ECL of approximately RMB10,623,000 in respect of such receivables.

Our procedures in relation to the impairment assessment on trade receivables from a customer domicile in Ukraine include:

- Obtaining an understanding on the process of how the management determined the ECL of trade receivables including the individual assessment on the credit-impaired trade receivables with the involvement of independent qualified professional valuer engaged by the Company, including but not limited to an understanding on the methodology and key assumptions made in determining the default probability and default loss rate for the ECL assessment;

- Testing the accuracy and completeness on key data sources applied in the ECL assessment by checking to the Group's relevant sales contracts and other supporting information;

- Assessing the reasonableness on the rate of insurance coverage adopted by the management;

- Evaluating, together with our internal valuation specialists, the reasonableness and appropriateness on the ECL methodology and key assumptions applied in determining the default probability and default loss rate, with reference to the economic information related to the customer; and

- Evaluating the competence, capabilities and objectivity of the independent qualified professional valuer engaged by the Company and obtaining an understanding on their scope of work.

Key audit matter	How our audit addressed the key audit matter
Allowance for inventories	
We identified the allowance for inventories as a key audit matter due to the significance of the balance to the Group's consolidated financial statements as a whole, combined with the involvement of significant management estimations in assessing of net realisable value ("NRV") of inventories. As disclosed in note 3(b) to the consolidated financial statements, inventories are stated at the lower of cost and NRV. NRV is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. The management reviews the aging of inventories at the end of the reporting period and estimates allowance for obsolete and slow-moving inventory items identified, as well as those inventories with carrying amount less than NRV, using the key inputs including the latest selling prices, and estimated costs of completion. As set out in Note 20 to consolidated financial statements, the carrying amount of the Group's inventories was approximately RMB1,780,023,000 (net of proviosn of inventory of approximately RMB245,540,000) as at 31 December 2023. During the year ended 31 December 2023, the Group recognised allowance for inventories of approximately RMB56,617,000.	Our procedures in relation to allowance for inventories include: • Obtaining an understanding on the process of how the management estimates the allowance for inventories; • Assessing the appropriateness on the management's estimation of cost necessary to make the sale included in NRV assessments; • Testing the estimated selling prices by referencing to the selling prices of the recent sales transactions from customers and/or the contract prices, on a sample basis; and • Evaluating the reasonableness on the estimated costs of completion by comparing the estimated gross margin ratio with the similar historical contracts with customers, on a sample basis.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Chan, Benjie Pak Kin.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
26 March 2024

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2023

	Notes	Year ended 31 December 2023 RMB'000	2022 RMB'000
Revenue	4	**5,473,234**	4,476,104
Cost of sales	6	**(4,931,461)**	(4,016,211)
Gross profit		**541,773**	459,893
Distribution costs	6	**(249,175)**	(215,290)
Administrative expenses	6	**(424,799)**	(356,056)
Research and development expenses	6	**(112,415)**	(123,587)
Net impairment losses on financial assets and contract assets	35.3.2	**(18,983)**	(299,193)
Other income	5	**44,871**	68,367
Other gains or losses, net	7	**18,866**	32,663
Operating loss		**(199,862)**	(433,203)
Finance income	10	**38,277**	67,533
Finance expenses	10	**(213,877)**	(256,782)
Finance expenses – net		**(175,600)**	(189,249)
Share of net losses of an associate and a joint venture accounted for using the equity method	18	**(35,544)**	(2,331)
Loss before income tax		**(411,006)**	(624,783)
Income tax expense	12	**(8,259)**	(328)
Loss for the year		**(419,265)**	(625,111)
(Loss)/profit for the year attributable to:			
– Owners of the Company		**(386,597)**	(634,418)
– Non-controlling interests		**(32,668)**	9,307
		(419,265)	(625,111)
Loss per share attributable to owners of the Company			
Basic and diluted (RMB cents per share)	14	**(5.54)**	(11.98)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2023

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2023

	Notes	At 31 December 2023 RMB'000	2022 RMB'000
Non-current assets			
Property, plant and equipment	15	**2,597,483**	2,656,996
Right of use assets	16	**310,699**	322,625
Intangible assets	17	**353,691**	275,402
Investments accounted for using the equity method	18	**38,096**	35,624
Deferred tax assets	28	**272,282**	263,994
Financial assets at fair value through other comprehensive income	35.4.1	**86,440**	81,599
Trade and other receivables	21	**719,486**	712,801
Other non-current assets	19	**75,137**	86,995
		4,453,314	4,436,036
Current assets			
Inventories	20	**1,780,023**	1,491,298
Contract costs		**176,668**	170,979
Contract assets	4	**942,206**	631,374
Trade and other receivables	21	**4,243,826**	4,656,550
Current tax recoverable		**11,503**	3,762
Financial assets at fair value through other comprehensive income	35.4.1	**26,539**	31,238
Pledged bank deposits	22	**43,392**	210,249
Term deposits	22	**–**	90,000
Cash and cash equivalents	22	**777,660**	601,001
		8,001,817	7,886,451
Assets classified as held for sale	23	**64,408**	–
		8,066,225	7,886,451
Total assets		**12,519,539**	12,322,487
Current liabilities			
Contract liabilities	4	**538,965**	760,953
Trade and other payables	24	**3,797,675**	3,199,298
Income tax payable		**23,695**	27,209
Borrowings	25	**2,324,052**	4,324,420
Provisions for other liabilities and charges	26	**41,025**	29,748
Deferred income	27	**6,422**	6,949
Lease liabilities	16	**23,699**	28,490
		6,755,533	8,377,067
Liabilities associated with assets classified as held for sale	23	**6,571**	–
		6,762,104	8,377,067

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2023

	Notes	At 31 December 2023 RMB'000	2022 RMB'000
Non-current liabilities			
Trade and other payables	24	**–**	78,197
Borrowings	25	**2,146,017**	623,174
Deferred income	27	**17,306**	12,550
Lease liabilities	16	**12,350**	37,504
		2,175,673	751,425
Total liabilities		**8,937,777**	9,128,492
EQUITY			
Share capital	29	**823,804**	488,023
Other reserves	31	**4,722,640**	4,264,762
Amounts recognised in other comprehensive income and accumulated in equity relating to disposal group held for sale	23	**9,869**	–
Accumulated losses		**(2,172,084)**	(1,788,991)
Equity attributable to owners of the Company		**3,384,229**	2,963,794
Non-controlling interests		**197,533**	230,201
		3,581,762	3,193,995
Total liabilities and equity		**12,519,539**	12,322,487

The consolidated financial statements on pages 63 to 173 were approved and authorised for issue by the board of directors on 26 March 2024 and are signed on its behalf by:

Director

Director

	Attributable to owners of the Company											
	Share capital RMB'000 (Note 29)	Share premium RMB'000 (Note 31)	Other Reserve RMB'000 (Note 31)	Capital reserve RMB'000 (Note 31)	Surplus reserve RMB'000 (Note 31)	Exchange reserve RMB'000 (Note 31)	Fair value reserve RMB'000 (Note 31)	Shares held for share award scheme RMB'000 (Note 30)	Accumulated losses RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2022	488,023	3,597,179	61,199	517,213	470,512	(332,989)	18,087	(124,618)	(1,156,970)	3,537,636	208,760	3,746,396
(Loss)/profit for the year	–	–	–	–	–	–	–	–	(634,418)	(634,418)	9,307	(625,111)
Other comprehensive income/ (expense)	–	–	–	–	–	68,224	(7,648)	–	–	60,576	–	60,576
Total comprehensive income/ (expense)	–	–	–	–	–	68,224	(7,648)	–	(634,418)	(573,842)	9,307	(564,535)
Transactions with owners												
Donation from shareholders	–	–	–	–	–	–	–	–	–	–	12,134	12,134
Options lapsed under share option schemes	–	–	–	(4,892)	–	–	–	–	4,892	–	–	–
Appropriation to surplus reserve	–	–	–	–	2,495	–	–	–	(2,495)	–	–	–
Total transactions with owners, recognised directly in equity	–	–	–	(4,892)	2,495	–	–	–	2,397	–	12,134	12,134
Balance at 31 December 2022	488,023	3,597,179	61,199	512,321	473,007	(264,765)	10,439	(124,618)	(1,788,991)	2,963,794	230,201	3,193,995
Loss for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(386,597)**	**(386,597)**	**(32,668)**	**(419,265)**
Other comprehensive (expense)/ income	**-**	**-**	**-**	**-**	**-**	**(11,431)**	**3,849**	**-**	**-**	**(7,582)**	**-**	**(7,582)**
Total comprehensive (expense)/ income	**-**	**-**	**-**	**-**	**-**	**(11,431)**	**3,849**	**-**	**(386,597)**	**(394,179)**	**(32,668)**	**(426,847)**
Transactions with owners												
Issue of shares (Note 29)	**335,781**	**478,833**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**814,614**	**-**	**814,614**
Options lapsed under share option schemes	**-**	**-**	**-**	**(354)**	**-**	**-**	**-**	**-**	**354**	**-**	**-**	**-**
Appropriation to surplus reserve	**-**	**-**	**-**	**-**	**(3,150)**	**-**	**-**	**-**	**3,150**	**-**	**-**	**-**
Total transactions with owners, recognised directly in equity	**335,781**	**478,833**	**-**	**(354)**	**(3,150)**	**-**	**-**	**-**	**3,504**	**814,614**	**-**	**814,614**
Balance at 31 December 2023	**823,804**	**4,076,012**	**61,199**	**511,967**	**469,857**	**(276,196)**	**14,288**	**(124,618)**	**(2,172,084)**	**3,384,229**	**197,533**	**3,581,762**

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2023

	Notes	Year ended 31 December 2023 RMB'000	2022 RMB'000 (Note)
Operating activities			
Cash generated from/(used in) operations	32	**87,478**	(142,373)
Income tax paid		**(25,434)**	(16,277)
Net cash from/(used in) operating activities		**62,044**	(158,650)
Investing activities			
Payment for additions of property, plant and equipment and construction in progress		**(114,169)**	(37,218)
Payment for registered capital of an associate		**(39,151)**	–
Proceeds from disposal of property, plant and equipment		**1,906**	23,029
Proceeds from disposal of right of use assets		**5,545**	–
Proceeds from government grants related to assets		**12,347**	3,772
Receipts of loans to related parties		**100,000**	12,515
Dividends received		**2,002**	–
Receipt of debt investments		**–**	52,094
Expenditure on development projects and other intangible assets		**(109,905)**	(56,854)
Withdraw of term deposits		**90,000**	–
Proceeds from acquisition of subsidiary, net of cash acquired		**–**	6,741
Net cash (used in)/from investing activities		**(51,425)**	4,079
Financing activities			
Proceeds from issue of shares		**814,614**	–
Proceeds from borrowings		**5,359,068**	4,623,497
Share issue cost paid		**(3,338)**	–
Repayment of senior notes		**–**	(1,201,040)
Repayments of borrowings		**(5,727,247)**	(3,182,778)
Interest and charges paid		**(217,796)**	(208,986)
Payments of lease liabilities		**(29,945)**	(5,431)
Net cash from financing activities		**195,356**	25,262
Net increase/(decrease) in cash and cash equivalents		**205,975**	(129,309)
Cash and cash equivalents at the beginning of year		**601,001**	703,417
Effect of foreign exchange rate changes		**4,297**	26,893
Cash and cash equivalents at end of the year		**811,273**	601,001
Represented by cash and cash equivalents	22	**777,660**	601,001
Represented by assets classified as held for sale	23	**33,613**	–

Note: Certain comparative information has been reclassified to conform with current year's presentation.

1. GENERAL

The Group are principally engaged in manufacturing of drilling rigs, oil and gas exploitation equipment, providing drilling services and fracturing.

The Company was incorporated in the Cayman Islands on 15 June 2007 as an exempted company with limited liability under the Companies Law, Cap22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Its parent is Dongfang Electric International Investment Co., Limited (東方電氣集團國際投資有限公司, "Dongfang Investment", incorporated in Hong Kong) and its ultimate parent is Dongfang Electric Corporation (中國東方電氣集團有限公司, "DEC", incorporated in People's Republic of China (the "PRC")). The address of the Company's registered office is Windward 3, Regatta Office Park, PO Box 1350, Grand Cayman, KY1-1108, Cayman Islands. The principal place of business of the Group is 99 East Road, Information Park, Jinniu District, Chengdu, Sichuan, PRC.

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

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

2. MATERIAL ACCOUNTING POLICY INFORMATION

2.1 Basis of preparation

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

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

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

2. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

2.1 Basis of preparation *(Continued)*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of *IFRS 2 Share-based Payment*, leasing transactions that are accounted for in accordance with *IFRS 16 Leases* and measurements that have some similarities to fair value but are not fair value, such as net realisable value in *IAS 2 Inventories or value in use in IAS 36 Impairment of Assets*.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For financial instruments which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The material accounting policy information are set out below.

2. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 New and amendments to IFRSs that are mandatorily effective for the current year

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

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

Except as explained below, the application of the new and amendments to IFRSs in the current year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

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

The Group has applied the amendments for the first time in the current year. The amendments narrow the scope of the recognition exemption of deferred tax liabilities and deferred tax assets in pararaphs 15 and 24 of IAS 12 *Income Taxes* so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

In accordance with the transition provision, the Group has applied the new accounting policy retrospectively to leasing transactions that occurred on or after 1 January 2022.

The application of the amendments in the current year had no material impact on the consolidated financial statements.

2. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.1 New and amendments to IFRSs that are mandatorily effective for the current year (Continued)

Impacts on application of Amendments to IAS 1 and IFRS Practice Statement 2 Disclosure of Accounting Policies

The Group has applied the amendments for the first time in the current year. IAS 1 *Presentation of Financial Statements* is amended to replace all instances of the term “significant accounting policies” with “material accounting policy information”. Accounting policy information is material if, when considered together with other information included in an entity’s financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transacions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obsecure material accounting policy information.

IFRS Practice Statement 2 *Making Materiality Judgements* (the “Practice Statement”) is also amended to illustrate how an entity applies the “four-step materiality process” to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements.

The application of the amendments has had no material impact on the Group’s financial position and performance but has affected the disclosure of the Group’s accounting policies set out in Note 2 to the consolidated financial statements.

2. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.2 Amendments to IFRSs in issue but not yet effecitve

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

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

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

Except for the amendments to IFRSs mentioned below, the directors of the Company anticipate that the application of all amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

Amendments to IAS 1 Classification of Liabilities as Current or Non-current (the "2020 Amendments") and Amendments to IAS 1 Non-current Liabilities with Covenants ("the 2022 Amendments")

The 2020 Amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying IAS 32 *Financial Instruments: Presentation*.

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that the classification should not be affected by management intentions or expectations to settle the liability within 12 months.

2. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.2 Amendments to IFRSs in issue but not yet effecitve (Continued)

Amendments to IAS 1 Classification of Liabilities as Current or Non-current (the "2020 Amendments") and Amendments to IAS 1 Non-current Liabilities with Covenants ("the 2022 Amendments") (Continued)

For rights to defer settlement for at least twelve months from reporting date which are conditional on the compliance with covenants, the requirements introduced by the 2020 Amendments have been modified by the 2022 Amendments. The 2022 Amendments specify that only covenants which an entity is required to comply with on or before the end of the reporting period affect the entity's right to defer settlement of a liability for at least twelve months after the reporting date. Covenants which are required to comply with only after the reporting period do not affect whether that right exists at the end of the reporting period.

In addition, the 2022 Amendments specify the disclosure requirements about information that enables users of financial statements to understand the risk that the liabilities could become repayable within twelve months after the reporting period, if the entity classify liabilities arising from loan arrangements as non-current when the entity's right to defer settlement of those liabilities is subject to the entity complying with covenants within twelve months after the reporting period.

The 2022 Amendments also defer the effective date of applying the 2020 Amendments to annual reporting periods beginning on or after 1 January 2024. The 2022 Amendments, together with the 2020 Amendments, are effective for annual reporting periods beginning on or after 1 January 2024, with early application permitted. If an entity applies the 2020 amendments for an earlier period after the issue of the 2022 Amendments, the entity should also apply the 2022 Amendments for that period.

Based on the Group's outstanding liabilities as at 31 December 2023, the application of the 2020 and 2022 Amendments will not result in reclassification of the Group's liabilities.

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

2. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

2.2 Subsidiaries *(Continued)*

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Indicators of impairment of the investments in subsidiaries include the receipt of dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill. The amount of impairment is calculated as the difference between the recoverable amount of the investment in the subsidiary and its carrying value.

2.3 Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in associates include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If an investment in a joint venture becomes an investment in an associate, the Group continues to apply the equity method and does not remeasure the retained interest.

The Group's share of post-acquisition profit or loss is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's consolidated financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gains or losses on dilution of equity interest in associates are recognised in profit or loss.

2. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

2.4 Joint arrangements

The Group has applied IFRS 11 to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. The Group's investments in joint ventures include goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Group's share of the net fair value of the joint ventures' identifiable assets and liabilities is accounted for as goodwill. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.5 Non-current assets held for sale

Non-current assets (and disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in the relevant subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell, except for financial assets within the scope of HKFRS 9, which continue to be measured in accordance with the accounting policies as set out in respective sections.

2. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

2.6 Foreign currency translation

2.6.1 Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in RMB, which is the Group's and Company's presentation currency. The Company's functional currency is in HKD.

2.6.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are generally recognised in profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses are presented in the statement of profit or loss within 'other gains or losses, net'.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equity instruments measured at fair value through other comprehensive income, are included in other comprehensive income.

2.6.3 Group companies

The results and financial position of the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(b) income and expenses for each statement of profit or loss are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and

(c) all resulting currency translation differences are recognised in other comprehensive income.

2. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

2.6 Foreign currency translation *(Continued)*

2.6.4 Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the owners of the company are reclassified to profit or loss.

2.7 Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of profit or loss during the financial period in which they are incurred.

For the drilling rigs used for drilling engineering services included in plant and machinery, the depreciation is calculated using units-of-production method. Drilling rig is depreciated over an approximate of 5,000~6,000-day period, after provision for residual values.

Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

• Freehold land	No depreciation
• Buildings held for own use	20-35 years
• Plant and machinery	5-10 years
• Furniture, fittings and equipment	5-10 years
• Motor vehicles	5-6 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within 'other gains or losses, net' in profit or loss.

2. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

2.7 Property, plant and equipment *(Continued)*

Construction-in-progress ("CIP") represents buildings under construction and plant and equipment pending for installation, and are stated at cost less impairment loss. Costs include construction and acquisition costs. No provision for depreciation is made on CIP until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

If a property becomes an investment property because its use has changed as evidenced by end of owner-occupation, the property was transferred to investment property at carrying amount. No remeasurement of the fair value of investment property was carried out at the date of transfer.

2.8 Intangible assets

Capitalised development costs

Capitalised development costs that are directly attributable to the design and testing of new or improved products when meet relevant criteria as set out in Note 2.24. Amortisation is calculated using the straight-line method over its estimated useful life of 5 to 10 years.

2.9 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The recoverable amount shall be estimated for the individual asset, and if it is not possible to estimate the recoverable amount of the individual asset, the Group determines the recoverable amount of the cash-generating unit to which the asset belongs (CGU). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting date. Corporate assets are allocated to the relevant CGU when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of CGU for which a reasonable and consistent allocation basis can be established.

2. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

2.10 Financial assets

2.10.1 Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income ("OCI") or through profit or loss), and

- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ("FVTOCI").

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

2.10.2 Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

2.10.3 Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

2. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

2.10 Financial assets *(Continued)*

2.10.3 Measurement *(Continued)*

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in 'other gains or losses, net' together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

- FVTOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVTOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'other gains or losses, net'. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in 'other gains or losses, net' and impairment expenses are presented as separate line item in the statement of profit or loss.

- FVTPL: Assets that do not meet the criteria for amortised cost or FVTOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in profit or loss and presented net within 'other gains or losses, net' in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVTPL are recognised in 'other gains or losses, net' in the statement of profit or loss as applicable.

2. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

2.10 Financial assets *(Continued)*

2.10.4 Impairment

The Group assesses on a forward-looking basis the expected credit losses ("ECL") associated with its debt instruments carried at amortised cost and FVTOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 35.3.2 for further details.

2.11 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position where there is a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.13 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See Note 21 for further information about the Group's accounting for trade receivables and Note 35.3.2 for a description of the Group's impairment policies.

2. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

2.14 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.15 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.16 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Borrowing costs include interest expense, finance charges in respect of finance lease and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. The exchange gains and losses that are an adjustment to interest costs include the interest rate differential between borrowing costs that would be incurred if the entity had borrowed funds in its functional currency, and the borrowing costs actually incurred on foreign currency borrowings. Such amounts are estimated based on interest rates on similar borrowings in the entity's functional currency.

2. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

2.16 Borrowing costs *(Continued)*

When the construction of the qualifying assets takes more than one accounting period, the amount of foreign exchange differences eligible for capitalisation is determined for each annual period and are limited to the difference between the hypothetical interest amount for the functional currency borrowings and the actual interest incurred for foreign currency borrowings. Foreign exchange differences that did not meet the criteria for capitalisation in previous years should not be capitalised in subsequent years.

2.17 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

2.17.1 Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the consolidated statement of financial position date in the countries where the Company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2.17.2 Deferred income tax

Inside basis differences

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit and at the time of the transaction does not give rise to equal taxable and deductible temporary differences. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the consolidated statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

2.17 Current and deferred income tax *(Continued)*

2.17.2 Deferred income tax (Continued)

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.18 Employee benefits

2.18.1 Pension obligations

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiaries of the Group participates in defined contribution retirement benefit schemes (the "Schemes") organised by the PRC municipal government authorities whereby the Group is required to make contributions to the Schemes. The local government authority is responsible for the entire pension obligations payable to retired employees. The contributions to the schemes are charged to profit or loss as and when incurred.

2.18.2 Housing fund and other benefits

All full-time employees of the Group's subsidiaries in the PRC are entitled to participate in various government-sponsored housing and other benefits funds. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees. The Group's liability in respect of these funds is limited to the contributions payable in each period.

2. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

2.18 Employee benefits *(Continued)*

2.18.3 Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (and share premium).

2.19 Provision

Provisions for warranties costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the net cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

2.20 Revenue recognition

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

2. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

2.20 Revenue recognition *(Continued)*

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

2.20.1 Sales of goods

Revenue recognised at a point of time

The Group manufactures and sells land drillings rigs, parts and components to the ultimate customers. Sales are recognised when control of the products has transferred, being when the customer has the ability to direct the use of and obtain substantially all of the remaining benefits from the products. The control of products is transferred when products have been shipped to the specified location, being when customer has accepted the products and collectability of the related parted receivables is reasonably assured.

Revenue recognised over time

Revenue is recognised over time for contracts (related to manufacture and sell of land drilling rigs) that the Group’s performance does not create an asset with alternative use and the Group has an enforceable right to payment for performance completed to date. Revenue is measured on the basis of the Group’s efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation, which best depicts the Group’s performance in transferring control of goods.

The sales commission is the incremental cost of obtaining a contract and the Group expenses these costs as incurred where the expected amortisation period is one year or less.

For contracts that contain more than one performance obligations, typically sales of products, transportation as well as installation services in one contract, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

2. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

2.20 Revenue recognition *(Continued)*

2.20.1 Sales of goods (Continued)

Revenue recognised over time (Continued)

The Group's obligation to repair or replace faulty products under the standard warranty terms is recognised as a provision, see Note 26.

Instalment sales, under which the consideration is receivable by instalments. Financing components shall be considered for certain contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group adjusts the transaction prices for the time value of money.

As receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

2.20.2 Sales of services

The Group provides drilling engineering services and fracturing services, other services represented in parts and components and others. Revenue is recognised on the basis of outputs to the satisfaction of the performance obligation relative to the total expected outputs to the satisfaction of that performance obligation.

2.20.3 Contract costs – costs to fulfil a contract

The Group incurs costs to fulfil a contract in its drilling engineering services and fracturing services. The Group first assesses whether these costs qualify for recognition as an asset in terms of other relevant standards, failing which it recognises an asset for these costs only if they meet all of the following criteria:

- the costs relate directly to a contract or to an anticipated contract that the Group can specifically identify;
- the costs generate or enhance resources of the Group that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and
- the costs are expected to be recovered.
- The asset so recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate. The asset is subject to impairment review.

2. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

2.20 Revenue recognition *(Continued)*

2.20.4 Incremental costs of obtaining a contract

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained.

The Group recognises such costs as an asset if it expects to recover these costs. The asset so recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate.

The Group applies the practical expedient of expensing all incremental costs (ie. commission) to obtain a contract if these costs would otherwise have been fully amortised to profit or loss within one year.

2.21 Leases

Leases are recognised as a right of use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Contracts may contain both lease and non-lease components. For lease that contants both lease and no-lease components, the Group has elected not to separate lease and non-lease components and instead accounts the lease as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

2. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

2.21 Leases *(Continued)*

The variable lease payments which are not based on an index or a rate are not included in the measurement of the lease liability initially, and are recognised in profit or loss in the period in which the event or condition that triggers those payments occurs.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right of use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the entities within the Group, which does not have recent third party financing; and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right of use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs, and
- restoration costs.

Right of use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right of use asset is depreciated over the underlying asset's useful life.

2. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

2.21 Leases *(Continued)*

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term or on another systematic basis. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income.

Amounts due from lessees under finance leases are recognised as receivables at commencement date at amounts equal to net investments in the leases, measured using the interest rate implicit in the respective leases. Interest income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

The respective leased assets are included in the consolidated statement of financial position based on their nature.

In classifying a sublease, the intermediate lessor shall classify the sublease as a finance lease or an operating lease as follows:

- if the head lease is a short-term lease that the Group, as a lessee, has accounted this lease on a straight-line basis over the lease term as an expense in profit or loss, the sublease shall be classified as an operating lease;

- otherwise, the sublease shall be classified by reference to the right of use assets arising from the head lease, rather than by reference to the underlying asset.

2.22 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in noncurrent liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

2. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

2.23 Interest income

Interest income on financial assets at amortised cost and financial assets at FVTOCI calculated using the effective interest method is recognised in the consolidated statement of profit or loss as part of other income.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes, see Note 10 below. Any other interest income is included in other income.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2.24 Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

- it is technically feasible to complete the intangible asset so that it will be available for use or sale;
- management intends to complete the intangible asset and use or sell it;
- there is an ability to use or sell the intangible asset;
- it can be demonstrated how the intangible asset will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Impairment assessment on trade receivables due from a customer domicile in Ukraine

The Group determines ECL based on default probability and default loss rate.

During the year ended 31 December 2023, in view of the Russia-Ukraine War, the Group made individual assessment on trade receivables due from a customer domicile in Ukraine. The provision of ECL was assessed by the management with the support of an independent qualified professional valuer engaged by the Company and approved by management. When determines the ECL of such receivables, the Group takes into account the insurance coverage, as well as the economic information related to the customer. As at 31 December 2023, carrying amount of trade receivables due from the customer domicile in Ukraine amounted to approximately RMB468,201,000 (2022: RMB648,562,000), net of ECL of approximately RMB254,278,000 (2022: RMB243,655,000).

Details of the Group's measurement of ECL is in Note 35.3.2(i).

(b) Allowance for inventories

Inventories are stated at the lower of cost and net realisable value ("NRV"). NRV is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. The management reviews the aging of inventories at the end of the reporting period and estimates allowance for obsolete and slow-moving inventory items identified, as well as those inventories with carrying amount less than NRV, using the key inputs including the latest selling prices, and estimated costs of completion. Due to changes in market conditions, actual selling price and costs of completion may be different from estimation and profit or loss could be affected by differences in this estimation. As at 31 December 2023, the carrying amount of inventories amounted to RMB1,780,023,000 (2022: RMB1,491,298,000). During the year ended 31 December 2023, the Group recognised allowance for inventories of approximately RMB56,617,000 (2022: RMB85,569,000).

(c) Deferred tax assets

As at 31 December 2023, a deferred tax asset of RMB76,447,000 (2022: RMB71,303,000) in relation to unused tax losses for certain operating subsidiaries has been recognised in the consolidated statement of financial position. No deferred tax asset has been recognised on the tax losses of RMB2,170,046,000 (2022: RMB1,937,660,000) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future, which is a key source of estimation uncertainty. In cases where the actual future taxable profits generated are less or more than expected, or change in facts and circumstances which result in revision of future taxable profits estimation, a material reversal or further recognition of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal or further recognition takes place.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(d) Impairment of non-financial assets

If circumstances indicate that the carrying value of non-financial assets may not be recoverable, these assets may be considered impaired, and an impairment loss may be recognised in accordance with IAS 36 Impairment of Assets. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When an asset is impaired, the carrying amount is reduced to the recoverable amount. The recoverable amount is the greater of the fair value less costs of disposal and the value in use. In determining that value in use, expected cash flows generated by the assets are discounted to their present value, which requires significant judgement relating to revenue, gross margin and pre-tax discount rate. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and amount of operating costs.

4. SEGMENT INFORMATION

The senior executive management is the Group's chief operating decision maker("CODM"). Management has determined the operating segments based on the information reviewed by the senior executive management for the purposes of allocating resources and assessing performance.

The Group manages its businesses by divisions, which are organised by business lines. In a manner consistent with the way in which information is reported internally to the Group's CODM for the purposes of resource allocation and performance assessment, the Group has identified four reportable segments. No operating segments have been aggregated in arriving at the reportable segments of the Group.

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

(a) land drilling rigs;

(b) parts and components and others;

(c) drilling engineering services; and

(d) fracturing services.

The senior executive management assesses the performance of the operating segments based on a measure of segment profit or loss. This measurement basis excludes the share of loss of the associate and joint venture, other gains or losses and other income and unallocated head office and corporate expenses. Finance income and expenses are also not allocated to segments, as this type of activity is driven by the central treasury function, which manages the cash position of the Group. Other information provided, except as noted below, to the CODM is measured in a manner consistent with that in the consolidated financial statements.

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

4. SEGMENT INFORMATION *(Continued)*

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

	Land drilling rigs Year ended 31 December		Parts and components and others Year ended 31 December		Drilling engineering services Year ended 31 December		Fracturing services Year ended 31 December		Total Year ended 31 December	
	2023 RMB'000	2022 RMB'000	**2023 RMB'000**	2022 RMB'000	**2023 RMB'000**	2022 RMB'000	**2023 RMB'000**	2022 RMB'000	**2023 RMB'000**	2022 RMB'000
Segment revenue	**2,631,142**	885,619	**3,409,556**	3,002,218	**413,797**	430,233	**527,884**	1,062,253	**6,982,379**	5,380,323
Inter-segment revenue	**(276,863)**	(142,436)	**(1,211,662)**	(747,442)	**(17,543)**	(10,941)	**(3,077)**	(3,400)	**(1,509,145)**	(904,219)
Revenue from external customers	**2,354,279**	743,183	**2,197,894**	2,254,776	**396,254**	419,292	**524,807**	1,058,853	**5,473,234**	4,476,104
Timing of revenue recognition for contracts with customers										
– At a point in time	**978,152**	545,380	**2,968,269**	2,893,272	**–**	–	**10,979**	476,727	**3,957,400**	3,915,379
– Over time	**1,652,990**	340,239	**313,220**	–	**413,797**	430,233	**516,905**	585,526	**2,896,912**	1,355,998
Lease income	**–**	–	**128,067**	108,946	**–**	–	**–**	–	**128,067**	108,946
Reportable segment profit/ (loss)	**81,469**	(82,300)	**(54,627)**	(256,282)	**(19,236)**	(39,982)	**(190,267)**	(98,715)	**(182,661)**	(477,279)
Other segment information:										
Depreciation and amortisation (Note)	**72,945**	56,738	**156,735**	161,509	**49,752**	32,010	**29,687**	80,837	**309,119**	331,094
Impairment on trade and other receivables and contract assets	**12,982**	221,934	**(8,983)**	17,613	**18,551**	79,299	**(3,567)**	(19,653)	**18,983**	299,193
Allowance for inventories	**17,756**	–	**33,863**	85,569	**5,290**	–	**(292)**	–	**56,617**	85,569
Write-down of contract costs	**–**	–	**535**	–	**17,110**	56,886	**(971)**	3,399	**16,674**	60,285
Impairment provision of property, plant and equipment	**–**	–	**37,172**	–	**11,888**	18,112	**–**	–	**49,060**	18,112

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

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

4. SEGMENT INFORMATION *(Continued)*

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

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

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

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

4. SEGMENT INFORMATION *(Continued)*

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

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

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

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

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

4. SEGMENT INFORMATION *(Continued)*

Assets and liabilities related to contracts with customers

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

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

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

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

Contract assets and contract liabilities are recognised under fracturing service, drilling engineering service and Idrilling rigs segments. The contract assets primarily relate to the Group's right to consideration for work completed and not billed because the rights are conditioned on the Group's future performance. The contract assets are transferred to trade receivables when the rights become unconditional.

The Group also recognised a loss allowance for contract assets in accordance with IFRS 9, see Note 35.3.2 for further information.

4. SEGMENT INFORMATION *(Continued)*

Assets and liabilities related to contracts with customers *(Continued)*

(b) Revenue recognised in relation to contract liabilities

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

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

(c) Unsatisfied performance

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

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

5. OTHER INCOME

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

6. EXPENSES BY NATURE

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

Note: The amount does not include staff costs of the research and development department of approximately RMB60,739,000 (2022: RMB70,524,000) and relevant amortisation and depreciation of approximately RMB28,931,000 (2022: RMB29,247,000), which are included in the total staff costs as disclosed in Note 9 and total depreciation and amortisation in Notes 15 and 17, respectively.

7. OTHER GAINS OR LOSSES, NET

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

8. BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' emoluments

The remuneration of the directors and the chief executive is set out below:

For the year ended 31 December 2023

Name	Fees RMB'000	Basic salaries, allowances and other benefits in kind RMB'000	Contributions to defined contribution retirement scheme RMB'000	Discretionary bonuses RMB'000	Equity-settled share-based payment expenses RMB'000	Total RMB'000
Chairman and Executive Director						
Wang Xu (i)	–	511	82	12	–	605
Executive Director						
Zhu Hua (ii)	–	565	82	60	–	707
Non-executive Directors						
Zhang Mi(iii)	–	–	–	–	–	–
Yang Yong (iv)	–	–	–	–	–	–
Independent Non-executive Directors						
Chen Guoming	110	–	–	–	–	110
Su Mei	110	–	–	–	–	110
Chang Qing	110	–	–	–	–	110
Wei Bin	220	–	–	–	–	220
Zhang Shiju (v)	110	–	–	–	–	110
Total	660	1,076	164	72	–	1,972

8. BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(a) Directors' emoluments *(Continued)*

For the year ended 31 December 2022

Name	Fees RMB'000	Basic salaries, allowances and other benefits in kind RMB'000	Contributions to defined contribution retirement scheme RMB'000	Discretionary bonuses RMB'000	Equity-settled share-based payment expenses RMB'000	Total RMB'000
Chairman and Executive Directors						
Wang Xu (i)	–	54	7	–	–	61
Jin Liliang (vi)	–	667	113	653	–	1,433
Executive Directors						
Zhu Hua (ii)	–	239	41	–	–	280
Ren Jie (vii)	–	536	78	59	–	673
Non-executive Directors						
Zhang Mi(iii)	–	–	–	–	–	–
Yang Yong (iv)	–	–	–	–	–	–
Chen Wenle (viii)	–	–	–	–	–	–
Wang Xiuchang (ix)	–	–	–	–	–	–
Independent Non-executive Directors						
Chen Guoming	103	–	–	–	–	103
Su Mei	103	–	–	–	–	103
Chang Qing	103	–	–	–	–	103
Wei Bin	206	–	–	–	–	206
Zhang Shiju (v)	52	–	–	–	–	52
Total	567	1,496	239	712	–	3,014

8. BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(a) Directors' emoluments *(Continued)*

For the year ended 31 December 2022 *(Continued)*

Notes:

(i) Mr. Wang Xu was appointed as the Chairman and Executive Director of the Company with effect from 25 November 2022.

(ii) Mr. Zhu Hua was appointed as the Executive Director of the Company with effect from 4 July 2022.

(iii) Mr. Zhang Mi was re-designated as the Non-Executive Director from an Executive Director on 1 January 2022 and tendered his resignation as the Non-executive Director of the Company with effect from 31 July 2023.

(iv) Mr. Yang Yong was appointed as the Non-Executive Director of the Company with effect from 4 July 2022.

(v) Mr. Zhang Shiju was appointed as the Independent Non-Executive Director of the Company with effect from 4 July 2022.

(vi) Mr. Jin Liliang tendered his resignation as the Chairman and Executive Director of the Company with effect from 25 November 2022.

(vii) Mr. Ren Jie tendered his resignation as Executive Director of the Company with effect from 4 July 2022.

(viii) Mr. Chen Wenle tendered his resignation as the Non-Executive Director of the Company with effect from 4 July 2022.

(ix) Mr. Wang Xiuchang tendered his resignation as the Non-Executive Director of the Company with effect from 4 July 2022.

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

The non-executive directors' emoluments shown above were for their services as directors of the Company and its subsidiaries, if applicable.

The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

(b) Directors' retirement benefits and termination benefits

For the years ended 31 December 2023 and 2022, no special retirement and termination benefits plans to the directors for the year. No other retirement and termination benefits were paid to or receivable by those directors in respect of their other services in connection with the management of the affairs of the Company or its subsidiary undertaking.

8. BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(c) Consideration provided to third parties for making available directors' services

During the year ended 31 December 2023, the Company did not provide any consideration to any third party for making available director's services (2022: nil).

(d) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

During the year ended 31 December 2023 no loans, quasi-loans or other dealings in favour of directors of the Company, controlled bodies corporate by and connected entities with such directors (2022: nil).

(e) Directors' material interests in transactions, arrangements or contracts

Save for contracts amongst group companies and the interests in transactions, arrangements or contracts mentioned in Note 34, no other significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

9. EMPLOYEE BENEFIT EXPENSE

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Contributions to defined contribution retirement schemes	**194,759**	50,619
Salaries, wages and other benefits	**423,824**	488,973
	618,583	539,592

Five highest paid individuals

The five individuals whose emoluments were highest in the Group for the year ended 31 December 2023 did not include any director (2022: nil). The emoluments of the directors are reflected in the analysis disclosed as Note 9. The emoluments payable to the five (2022: five) individuals for the years ended 31 December 2023 and 2022 are as follows:

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Basic salaries, allowances and other benefits in kind	**1,245**	7,079
Discretionary bonuses	**5,726**	2,685
Contributions to defined contribution retirement schemes	**418**	295
	7,389	10,059

9. EMPLOYEE BENEFIT EXPENSE *(Continued)*

Five highest paid individuals *(Continued)*

The emoluments of the above individual fell within the following bands:

	Number of individuals	
	2023	2022
HKD1,000,001 to HKD1,500,000	**2**	–
HKD1,500,001 to HKD2,000,000	**3**	1
HKD2,000,001 to HKD2,500,000	**–**	2
HKD2,500,001 to HKD3,000,000	**–**	2

10. FINANCE EXPENSES, NET

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

11. PARTICULARS OF SUBSIDIARIES

The following is a list of the principal subsidiaries as at 31 December 2023 and 2022:

Name of companies	Place of incorporation	Place of operation	Particulars of issued and paid-up capital	Attributable equity interest 2023	2022	Principal activities
Directly held:						
Honghua Holdings Limited ("Honghua Holdings")	Hong Kong	Hong Kong	1 ordinary share	**100%**	100%	Investment holding
Indirectly held:						
Honghua (China) Investment Co., Ltd. ("Honghua China") ((b) and (c))	The PRC	The PRC	Registered capital United States Dollars ("USD") 320,000,000	**100%**	100%	Investment holding
Sichuan Honghua Petroleum Equipment Co., Ltd. ("Honghua Company") ((a) and (c))	The PRC	The PRC	Registered capital RMB2,200,000,000	**100%**	100%	Manufacturing of petroleum equipment
Sichuan Honghua Electric Co., Ltd. ("Honghua Electric") ((a) and (c))	The PRC	The PRC	Registered capital RMB100,000,000	**84%**	84%	Manufacturing of panel of drilling rigs
Honghua International Co., Ltd. ("Honghua International") ((a) and (c))	The PRC	The PRC	Registered capital RMB51,200,000	**91%**	91%	Trading of drilling rigs and related parts
Honghua Oil & Gas Engineering Technology Services Limited ("Sichuan Oil & Gas Services") ((a) and (c))	The PRC	The PRC	Registered capital RMB732,600,000	**100%**	100%	Drilling engineering service and fracturing service
Gansu Hongteng Oil & Gas Equipment Co., Ltd. ("Gansu Hongteng") ((a) and (c))	The PRC	The PRC	Registered capital RMB120,000,000	**70%**	70%	Manufacturing of related parts of drilling rigs
Honghua Oil & Gas Engineering Services Limited ("Hongkong Oil & Gas Services")	Hong Kong	Iraq	Registered capital USD41,080,000	**100%**	100%	Drilling engineering service and fracturing service
Newco (H.K.) Limited	Hong Kong	Hong Kong	1,000 ordinary shares	**100%**	100%	Trading of drilling rigs and related parts
Honghua America, LLC	United States of America	United States of America	Registered capital USD3,414,000	**100%**	100%	Trading of drilling rigs and related parts
Han Zheng Testing Technology Co., Ltd. ("Han Zheng Testing") ((b) and (c))	The PRC	The PRC	Registered capital RMB11,103,000	**100%**	100%	Testing service
Honghua Golden Coast Equipment FZE	United Arab Emirates	United Arab Emirates	Registered capital Arab Emirates Dirham 1,000,000	**100%**	100%	Trading of drilling rigs and related parts
Honghua Energy Equipment Limited	Russia Federation	Russia Federation	Registered capital RUB13,340,000	**100%**	100%	Trading of drilling rigs and related parts

11. PARTICULARS OF SUBSIDIARIES *(Continued)*

Name of companies	Place of incorporation	Place of operation	Particulars of issued and paid-up capital	Attributable equity interest 2023	Attributable equity interest 2022	Principal activities
Honghua Offshore Oil and Gas Equipment (Jiangsu) Co., Ltd. ("Honghua (Jiangsu)") ((a) and (c))	The PRC	The PRC	Registered capital RMB874,993,000	**100%**	100%	Manufacturing of wind power equipment

Notes:

(a) These entities are domestic limited liability companies established in the PRC.

(b) The entity is a wholly-owned foreign invested company established in the PRC.

(c) The official names of these companies are in Chinese. The English translation of the company name is for reference only.

Material non-controlling interests

The total non-controlling interests as at 31 December 2023 was approximately RMB197,533,000 (2022: RMB230,201,000), of which approximately RMB171,168,000 (2022: RMB202,751,000) is attributed to Honghua Electric, approximately RMB23,663,000 (2022: RMB21,891,000) is attributed to Honghua International and approximately RMB2,702,000 (2022: RMB5,559,000) is attributed to Gansu Hongteng. The summarized financial information on Honghua Electric with material non-controlling interests is set out below. The amounts disclosed are before inter-company eliminations.

Summarised financial information on subsidiaries with material non-controlling interests

Summarised statement of financial position

	Honghua Electric As at 31 December	
	2023 RMB'000	2022 RMB'000
Current		
Assets	**2,743,074**	2,703,946
Liabilities	**(1,824,919)**	(1,591,677)
Total current net assets	**918,155**	1,112,269
Non-current		
Assets	**565,461**	392,925
Liabilities	**(344,980)**	(191,440)
Total non-current net assets	**220,481**	201,485
Net assets	**1,138,636**	1,313,754

11. PARTICULARS OF SUBSIDIARIES *(Continued)*

Summarised financial information on subsidiaries with material non-controlling interests *(Continued)*

Summarised statement of profit or loss and other comprehensive income

	Honghua Electric Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Revenue	**1,119,335**	1,269,792
(Loss)/profit before income tax	**(198,731)**	41,370
Income tax credit/(expense)	**25,479**	(4,707)
(Loss)/profit for the year	**(173,252)**	36,663
Other comprehensive (expense)/income for the year	**–**	–
Total comprehensive (expense)/income for the year	**(173,252)**	36,663
Total comprehensive (expense)/income allocated to non- controlling interests	**(31,583)**	4,020

Summarised cash flows

	Honghua Electric Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Cash flows (used in)/generated from operating activities		
Cash (used in)/generated from operations	**(71,755)**	150,996
Income tax paid	**(6,394)**	(496)
Net cash (used in)/generated from operating activities	**(78,149)**	150,500
Net cash used in investing activities	**(14,919)**	(63,359)
Net cash generated from/(used in) financing activities	**174,928**	(297,272)

12. INCOME TAX EXPENSE

Taxation in the consolidated statement of profit or loss represents:

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Current income tax – Hong Kong Profits Tax (a)		
Provision for the year	**135**	1,693
Current income tax – the PRC (b)		
Provision for the year	**5,249**	–
Over provision in respect of prior years	**(14,070)**	(16,009)
	(8,821)	(16,009)
Current income tax – Other jurisdictions (c)		
Provision for the year	**23,009**	21,024
Over provision in respect of prior years	**–**	(193)
	23,009	20,831
Total current income tax	**14,323**	6,515
Deferred income tax (Note 28)		
– Current year	**(6,064)**	(6,187)
Income tax expense	**8,259**	328

(a) **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 for the years ended 31 December 2023 and 2022.

12. INCOME TAX EXPENSE *(Continued)*

(b) The PRC

Pursuant to the income tax rules and regulations of the PRC, the subsidiaries of the Group in the PRC are subject to PRC enterprise income tax at a rate of 25% for the years ended 31 December 2023 and 2022, except for the following companies:

(i) Honghua Company, Han Zheng Testing, Gansu Hongteng, Honghua (Jiangsu) and Sichuan Oil & Gas Services

Corporate income tax ("CIT") of Honghua Company, Han Zheng Testing, Gansu Hongteng, Honghua (Jiangsu) and Sichuan Oil & Gas Services is accrued at a tax rate of 15% applicable for Hi-tech enterprises pursuant to the relevant PRC tax rules and regulations for the years ended 31 December 2023 and 2022.

(ii) Honghua Electric

On 23 April 2020, State Taxation Administration issued Notice 23(2020) ("the Notice") in respect of favourable CIT policy applicable to qualified enterprises located in western China. Honghua Electric applied and obtained an approval from in-charge tax authority under the policy for the 15% preferential CIT rate and is qualified for the 15% preferential CIT rate from 2021 to 2030.

(c) Others

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

(d) 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 in 2023 and 2022. In order to retain the fundings for operations and future development, it was resolved that the Group's PRC subsidiaries will not distribute dividend to the offshore holding companies in the foreseeable future. Any dividends to be declared by the Company will be distributed from the share premium account.

12. INCOME TAX EXPENSE *(Continued)*

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

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

Amounts recognised directly in other comprehensive income

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

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

13. DIVIDENDS

No dividend was approved or paid in respect of the previous financial years for the years ended 31 December 2023 and 2022.

No dividend was proposed for the year ended 31 December 2023.

14. LOSS PER SHARE

Basic and diluted loss per share

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

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

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

15. PROPERTY, PLANT AND EQUIPMENT

	Freehold land RMB'000	Buildings held for own use RMB'000	Plant and machinery RMB'000	Furniture, fittings and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2022							
Cost	–	1,667,865	1,750,982	659,191	93,956	127,898	4,299,892
Accumulated depreciation and impairment	–	(294,772)	(570,982)	(455,750)	(55,633)	(891)	(1,378,028)
Closing net book amount	–	1,373,093	1,180,000	203,441	38,323	127,007	2,921,864
Year ended 31 December 2022							
Opening net book amount	–	1,373,093	1,180,000	203,441	38,323	127,007	2,921,864
Additions	–	938	13,906	17,673	127	29,508	62,152
Acquisition of a subsidiary	–	–	–	198	161	–	359
Transfer from construction in progress	–	72	1,257	43,505	–	(44,834)	–
Transfer from inventories	–	–	73,232	88,798	–	–	162,030
Disposals	–	–	(49,178)	(2,192)	(39)	–	(51,409)
Transfer to inventories	–	–	(95,611)	(73,891)	–	–	(169,502)
Transfer from investment properties	–	608	–	–	–	–	608
Depreciation charge	–	(101,316)	(32,872)	(154,243)	(2,422)	–	(290,853)
Currency translation difference	–	466	(4,313)	44,401	(693)	(2)	39,859
Impairment provision	–	–	(18,112)	–	–	–	(18,112)
Closing net book amount	–	1,273,861	1,068,309	167,690	35,457	111,679	2,656,996
At 31 December 2022							
Cost	–	1,659,858	1,623,366	718,501	90,389	111,679	4,203,793
Accumulated depreciation and impairment	–	(385,997)	(555,057)	(550,811)	(54,932)	–	(1,546,797)
Net book amount	–	1,273,861	1,068,309	167,690	35,457	111,679	2,656,996
Year ended 31 December 2023							
Opening net book amount	–	1,273,861	1,068,309	167,690	35,457	111,679	2,656,996
Additions	–	2,320	84,075	9,409	2,724	65,982	164,510
Transfer from construction in progress	–	2,045	20,637	2,670	–	(25,352)	–
Transfer from inventories	–	–	153,134	–	–	–	153,134
Transfer from investment properties	–	582	–	–	–	–	582
Disposals	–	–	76	(970)	(237)	–	(1,131)
Transfer to inventories	–	–	(63,999)	–	–	(7,228)	(71,227)
Transfer to investment properties	–	(1,191)	–	–	–	–	(1,191)
Transfer to right of use assets	–	–	–	(1,440)	–	–	(1,440)
Depreciation charge	–	(98,703)	(126,623)	(34,311)	(1,684)	–	(261,321)
Currency translation difference	–	100	6,601	917	13	–	7,631
Impairment provision	–	–	(13,010)	–	–	(36,050)	(49,060)
Closing net book amount	–	1,179,014	1,129,200	143,965	36,273	109,031	2,597,483
At 31 December 2023							
Cost	–	1,664,471	1,820,963	726,514	88,279	145,081	4,445,308
Accumulated depreciation and impairment	–	(485,457)	(691,763)	(582,549)	(52,006)	(36,050)	(1,847,825)
Net book amount	–	1,179,014	1,129,200	143,965	36,273	109,031	2,597,483

15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Depreciation expense of approximately RMB213,243,000 (2022: RMB235,939,000) has been charged in cost of sales, RMB6,444,000 (2022: RMB12,183,000) in distribution expenses, RMB40,168,000 (2022: RMB39,761,000) in administrative expenses and RMB1,466,000 (2022: RMB2,970,000) in research and development expenses.

As at 31 December 2023, the Group was in the process of obtaining the legal title of buildings with carrying amount of approximately RMB75,799,000 (2022: RMB144,972,000).

The Group has capitalised borrowing costs amounting to approximately RMB148,000 (2022: RMB492,000) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings at 4.86% in 2022.

For the year ended 31 December 2023, inventories were transferred to property, plant and equipment using to provide services to the customers, and property, plant and equipment was transferred out to inventories for rebuild and future sale.

Net rental income amounting to approximately RMB115,505,000 (2022: RMB98,789,000) relating to the lease of plant and machinery is included in profit or loss.

The category of plant and machinery and furniture fittings and equipment leased by the Group to third parties under operating leases with the following carrying amount:

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Cost	**508,456**	468,906
Accumulated depreciation at 1 January	**(154,578)**	(125,248)
Additions	**46,912**	73,232
Deduction	**(40,420)**	(33,682)
Depreciation charge for the year	**(29,029)**	(29,330)
Net book amount	**331,341**	353,878

16. LEASES

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

(a) Amounts recognised in the consolidated statement of financial position

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

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Right of use assets		
Lease prepayments for land use rights	**309,310**	320,162
Buildings and equipment	**1,389**	2,463
	310,699	322,625
Lease liabilities		
Current	**23,699**	28,490
Non-current	**12,350**	37,504
	36,049	65,994

Additions to the right of use assets during the year ended 31 December 2023 was approximately RMB2,771,000 (2022: RMB11,323,000).

Lease liabilities are payable at the followings:

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Within one year	**23,699**	28,490
Within a period of more than one year but not exceeding two years	**12,350**	26,054
Within a period of more than two years but not exceeding five years	**–**	11,450
	36,049	65,994

The incremental borrowing rates applied to lease liabilities range from 4.25% to 5.75% (2022: from 4.25% to 4.29%).

16. LEASES *(Continued)*

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

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

	Note	**2023 RMB'000**	2022 RMB'000
Depreciation charge of right of use assets			
Lease prepayments for land use rights		**7,682**	10,593
Buildings and equipment		**2,845**	1,666
Interest expense (included in finance cost)	10	**626**	2,685
Expense (included in cost of goods sold and distribution expenses) relating to:			
– short-term leases		**289,120**	289,929
– variable lease payment (not included in short-term leases)		**251,579**	179,967

The total cash outflow for leases in 2023 was RMB571,270,000 (2022: RMB485,475,000).

(c) The Group's leasing activities and how these are accounted for

The Group leases various offices, warehouses and equipment. Rental contracts are typically made for fixed periods of 1 to 3 years without extension or termination options. Lease terms are negotiated on an individual basis. The lease agreements do not impose any covenants in relation to security interests in the leased assets that are held by the lessor. Leased assets are not used as security for borrowing purposes.

17. INTANGIBLE ASSETS

	Technical know-how RMB'000	Development cost and others RMB'000	Total RMB'000
At 1 January 2022			
Cost	348,839	333,336	682,175
Accumulated amortisation and impairment	(348,839)	(86,806)	(435,645)
Net book amount	–	246,530	246,530
Year ended 31 December 2022			
Opening net book amount	–	246,530	246,530
Additions	–	56,854	56,854
Amortisation charge	–	(27,982)	(27,982)
Closing net amount	–	275,402	275,402
At 31 December 2022			
Cost	–	390,190	390,190
Accumulated amortisation and impairment	–	(114,788)	(114,788)
Net book amount	–	275,402	275,402
Year ended 31 December 2023			
Opening net book amount	**–**	**275,402**	**275,402**
Additions	**–**	**109,905**	**109,905**
Amortisation charge	**–**	**(31,600)**	**(31,600)**
Reclass to assets held for sale	**–**	**(16)**	**(16)**
Closing net amount	**–**	**353,691**	**353,691**
At 31 December 2023			
Cost	**348,839**	**499,906**	**848,745**
Accumulated amortisation and impairment	**(348,839)**	**(146,215)**	**(495,054)**
Net book amount	**–**	**353,691**	**353,691**

The above intangible assets have finite useful lives. Such intangible assets are amortised on a straight line basis over the following years.

Development cost and others	5 to 10 years

Amortisation expense of approximately RMB4,135,000 (2022: RMB1,705,000) has been charged in cost of sales, and RMB27,465,000 (2022: RMB26,277,000) in research and development expenses.

18. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The amounts recognised in the consolidated statement of financial position are as follows:

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Investment in an associate and a joint venture	**38,096**	35,624

The amounts recognised in profit or loss are as follows:

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Investment in an associate and a joint venture	**(37,292)**	(2,331)

Movement of investment in an associate and a joint venture are as follows:

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
At 1 January	**35,624**	34,037
Capital injection	**39,151**	–
Share of losses	**(37,292)**	(2,331)
Currency translation differences	**613**	3,918
At 31 December	**38,096**	35,624

Investment in an associate

Set out below is the associate of the Group as at 31 December 2023, which is held directly by the Group.

Name of company	Place of establishment	% of ownership interest		Measurement method
		2023	2022	
Honghua Financial Leasing (Shenzhen) Co., Ltd. ("Honghua (Shenzhen)")	The PRC	**45%**	N/A	Equity

The associate is unlisted company and there is no quoted market price available for its equity. There is no contingent liabilities to the Group's interest in the associate.

18. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(Continued)*

Investment in an associate *(Continued)*

Honghua (Shenzhen) was incorporated in 2014 and mainly engages in providing leasing services. As at 31 December 2022, the Group's voting rights in the board of directors of Honghua (Shenzhen) is 50%, and Honghua (Shenzhen) was accounted as a joint venture. On 7 July 2023, Chengdu Ronghe Modern Agriculture Development Co., Ltd, a third party which owned 10% equity interest in Honghua (Shenzhen), acquired additional 45% equity interest of Honghua (Shenzhen). The Group's voting rights in the board of directors of Honghua (Shenzhen) decreased to 40%, and Honghua (Shenzhen) is accounted as an associate as at 31 December 2023. On 9 October 2023, the Group paid the remaining registered capital of Honghua (Shenzhen) amounted to RMB39,151,000 and as a result, the equity interests in Honghua (Shenzhen) increased to 45% (2022: 41%).

Set out below are the summarised financial information for Honghua (Shenzhen) which are accounted for using the equity method. The information disclosed reflects the amounts presented in the financial statements of the associate and not the Group's share of those amounts. They have been amended to reflect adjustments made by the Group when using the equity method, including fair value adjustments and modifications for differences in accounting policy.

Honghua (Shenzhen)

Summarised statement of financial position

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Current assets	**253,499**	348,323
Non-current assets	**120,521**	224,165
Current liabilities	**(118,082)**	(232,939)
Non-current liabilities	**(262,991)**	(427,523)
Net liabilities	**(7,053)**	(87,974)

18. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(Continued)*

Investment in an associate *(Continued)*

Honghua (Shenzhen) *(Continued)*

Summarised statement of comprehensive income

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Revenue	**201,569**	780,516
Depreciation and amortisation	**(107,522)**	(356,171)
Profit for the year	**4,761**	13,682
Total comprehensive income	**4,761**	13,682

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of its interest in the associate.

	2023	2022
	RMB'000	RMB'000
Opening net assets 1 January	**(87,974)**	(101,656)
Profit for the year	**4,761**	13,682
Increase in registered capital	**76,160**	–
Closing net liabilities	**(7,053)**	(87,974)
Proportion of the Group's interest in Honghua (Shenzhen)	**45%**	41%
The Group's share of net liabilities of Honghua (Shenzhen)	**(3,174)**	(36,069)
Adjustment (i)	**3,174**	36,069
Carrying value	**–**	–

(i) As at 31 December 2023 and 2022, Honghua (Shenzhen) was still suffered from losses and the net assets were negative, thus the carrying value of the investment is zero at both period end date. Cumulative unrecognised share of loss of Honghua (Shenzhen) was RMB3,174,000 as at 31 December 2023 (2022: RMB36,069,000).

18. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(Continued)*

Investments in a joint venture

Set out below are a joint venture of the Group as at 31 December 2023, which are held directly by the Group.

Nature of investment in joint ventures as at 31 December 2023 and 2022:

Name of companies	Place of establishment	% of ownership interest 2023	% of ownership interest 2022	Measurement method
Egyptian Petroleum HH Rigs Manufacturing Co. S.A.E. ("HH Egyptian Company")	Egypt	**50%**	40%	Equity
Honghua (Shenzhen)	The PRC	**N/A**	41%	Equity

HH Egyptian Company was established in 2006 by the Group and three other entities ("JV Partners") and is mainly engages in the manufacturing and sale of drilling rigs, parts and components. According to the joint venture agreement, HH Egyptian Company consists of 8 directors and each of the Group and JV Partners are entitled to nominate 4 directors to HH Egyptian Company. The Group's voting rights in the board of directors of HH Egyptian Company is 50%, and HH Egyptian Company is accounted as a joint venture.

The joint venture is unlisted companies and there is no quoted market price available for its equity.

There are no contingent liabilities relating to the Group's interest in the joint venture.

Set out below are the summarised financial information for HH Egyptian Company which are accounted for using the equity method. The information disclosed reflects the amounts presented in the financial statements of the joint venture and not the Group's share of those amounts. They have been amended to reflect adjustments made by the Group when using the equity method, including fair value adjustments and modifications for differences in accounting policy.

HH Egyptian Company

Summarised statement of financial position

	As at 31 December 2023 RMB'000	As at 31 December 2022 RMB'000
Current assets	**50,626**	23,646
Non-current assets	**110,301**	110,636
Current liabilities	**(84,739)**	(63,035)
Net assets	**76,188**	71,247

18. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(Continued)*

Investments in a joint venture *(Continued)*

HH Egyptian Company *(Continued)*

Summarised statement of comprehensive income

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Revenue	**126,414**	19,686
Profit/(loss) for the year	**4,382**	(4,661)
Other comprehensive income	**559**	7,834
Total comprehensive income	**4,941**	3,173

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of its interest in the joint venture.

	2023	2022
	RMB'000	RMB'000
Opening net assets 1 January	**71,247**	68,074
Profit/(loss) for the year	**4,382**	(4,661)
Currency translation differences	**559**	7,834
Closing net assets	**76,188**	71,247
Proportion of the Group's interest in HH Egyptian Company	**50%**	50%
The Group's share of net assets of HH Egyptian Company	**38,094**	35,624

19. OTHER NON-CURRENT ASSETS

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Investment properties (Note)	**54,493**	58,881
Right of use assets improvements	**7,186**	12,320
Others	**13,458**	15,794
	75,137	86,995

Note: The Group leases out various offices under operating leases with rentals payable monthly. The leases typically run for an initial period of 1 to 2 years (2022: 1 to 2 years). Majority of the lease contracts contain market review clauses in the event the lessee exercises the option to extend.

The Group is not exposed to foreign currency risk as a result of the lease arrangements, as all leases are denominated in the respective functional currencies of group entities. The lease contracts do not contain residual value guarantee and/or lessee's option to purchase the property at the end of lease term.

Movement of the investment properties is as below:

	RMB'000
COST	
At 1 January 2022	86,112
Transfer	(9,135)
At 31 December 2022	76,977
Transfer	1,534
At 31 December 2023	78,511
DEPRECIATION AND AMORTISATION	
At 1 January 2022	(19,772)
Transfer	4,582
Charge for the year	(2,906)
At 31 December 2022	(18,096)
Transfer	(251)
Charge for the year	(5,671)
At 31 December 2023	(24,018)
CARRYING AMOUNT	
At 31 December 2023	54,493
At 31 December 2022	58,881

20. INVENTORIES

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

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

Movement on the provision for inventories is as follows:

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

21. TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Trade receivables (Notes (a & b))	**3,099,587**	3,628,254
Bills receivables	**324,960**	404,350
Less: provision for impairment of trade receivables and bills receivables	**(543,808)**	(614,276)
	2,880,739	3,418,328
Amounts due from related parties (Note 34(c))		
– Trade (Note (c))	**594,309**	338,272
– Non-trade	**123,722**	283,938
– Less: provision for impairment of trade receivables for amounts due from related parties	**(8,849)**	(9,195)
	709,182	613,015
Finance lease receivables	**307,218**	432,263
Less: provision for impairment of finance lease receivables	**(62,554)**	(81,461)
Value-added tax recoverable	**191,142**	116,985
Prepayments	**762,607**	684,456
Less: provision for impairment of prepayments	**(23,969)**	(28,333)
Other receivables	**340,347**	412,286
Less: provision for impairment of other receivables	**(141,400)**	(198,188)
	4,963,312	5,369,351
Representing by:		
– Current portion (Note (d))	**4,243,826**	4,656,550
– Non-current portion (Note (e))	**719,486**	712,801
	4,963,312	5,369,351

21. TRADE AND OTHER RECEIVABLES *(Continued)*

Notes:

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

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Within 1 year	**2,621,342**	3,256,390
Over 1 year	**573,269**	491,015
	3,194,611	3,747,405

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

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

The following were the Group's bills receivables as at 31 December 2023 and 2022 that were transferred to banks or suppliers by discounting/endorsing on a full recourse basis. As the Group has not transferred the significant risks and rewards, it continues to recognise the full carrying amount and has recognised the cash received on the transfer as borrowing.

As at 31 December 2023	**Bills discounted to banks with full recourse RMB'000**	**Bills endorsed to suppliers with full recourse RMB'000**	**Total RMB'000**
Carrying amount of transferred assets	**10,050**	**220,683**	**230,733**
Carrying amount of associated liabilities	**(10,050)**	**(220,683)**	**(230,733)**
Net position	**–**	**–**	**–**

21. TRADE AND OTHER RECEIVABLES *(Continued)*

Notes: *(Continued)*

(a) *(Continued)*

As at 31 December 2022	Bills discounted to banks with full recourse RMB'000	Bills endorsed to suppliers with full recourse RMB'000	Total RMB'000
Carrying amount of transferred assets	111,415	89,232	200,647
Carrying amount of associated liabilities	(111,415)	(89,232)	(200,647)
Net position	–	–	–

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

Due to the current Russia-Ukraine War, the National Bank of Ukraine has imposed certain restrictions over the payments of foreign currencies to foreign entities starting from 24 February 2022. Therefore, the Ukrainian customer was unable to repay part of the instalments which was originally due before 2023. The management has been taking active measures to closely monitor the credit risk exposures of such balance by holding periodic meetings with such customer to understand the latest development of the conflict and to collect the latest information regarding the physical status of the drilling rigs sold, and also the latest status on the national restrictions, etc. On 30 March 2023, the Ukrainian customer repaid overdue instalments of USD26,740,000 (equivalent to RMB184,607,000). In view of the potential credit-impaired characteristics, the management has individually assessed the recoverability of the balance. During the year ended 31 December 2023, the Group provided further ECL of approximately RMB10,623,000 (2022: RMB230,698,000). Note 35.3.2(i) provides details about the impairment assessment.

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

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

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

21. TRADE AND OTHER RECEIVABLES *(Continued)*

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

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

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

As at 31 December 2023, bills receivables of approximately RMB10,050,000 (2022: RMB159,396,000), trade receivables of RMB524,928,000 (2022: RMB409,745,000) were secured for borrowings (Note 25).

Finance lease receivables

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

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

21. TRADE AND OTHER RECEIVABLES *(Continued)*

Finance lease receivables *(Continued)*

The net investment in finance leases is analysed as follows:

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

Impairment and risk exposure

The Group applies the IFRS 9 simplified approach to measuring ECL which uses a lifetime expected loss allowance for all trade receivables, finance lease receivables and contract assets. Note 35.3.2 provides details about the calculation of the allowance.

22. CASH AND CASH EQUIVALENTS/PLEDGED BANK DEPOSITS/TERM DEPOSITS

Cash and cash equivalents

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Cash on hand	**796**	2,879
Cash at bank	**776,864**	598,122
Cash and cash equivalents	**777,660**	601,001

Pledged bank deposits

As at 31 December 2023, the deposits are pledged to banks as security against letters of guarantee for bills payable and performance-related bonds (2022: letters of guarantee for bills payable and borrowings).

Term deposits

As at 31 December 2023, the Group dose not have term deposits (2022: RMB90,000,000). The interest rate of the term deposits ranging from 2.85% to 3.6% per annum and will be due to recover in 2022.

The fair value of the term deposit is approximately RMB88,392,000 as at 31 December 2022.

23. DISPOSAL GROUP HELD FOR SALE

On 12 December 2023, to streamline its organisation structure and accelerate its capital turover, Honghua Holdings, a wholly subsidiary of the Compay entered into an agreement on the transfer of entire equity interest and obligation it held in Honghua Financial Leasing (Shanghai) Co., Ltd. ("Shanghai Leasing") with DEC Investment Management Company Limited, a subsidiary of DEC, at an aggregate consideration of RMB199,050,000 (including consideration for intragroup balances which are eliminated at the consolidated financial statements). On 29 Feburary 2024, the Group loss of control over Shanghai Leasing. Details of the transaction are set out in the Company's announcement dated 12 December 2023.

The major classes of assets and liabilities of Shanghai Leasing classified as held for sale are as follows:

	As at 31 December RMB'000
Cash and cash equivalents	**33,613**
Financial assets at FVTOCI	**27,400**
Trade and other receivables	**3,375**
Intangible assets	**16**
Property, plant and equipment	**4**
Total assets classified as held for sale	**64,408**
Deferred tax liabilities	**(2,903)**
Income tax payable	**(2,151)**
Trade and other payables	**(1,517)**
Total liabilities classified as held for sale	**(6,571)**

Cumulative amount of RMB9,869,000 relating to the disposal group classified as held for sale has been recognised in other comprehensive income and included in equity.

24. TRADE AND OTHER PAYABLES

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Trade payables	**2,048,025**	1,667,336
Amounts due to related companies (Note 34(d))		
– Trade	**303,080**	472,170
– Non-trade	**113,775**	10,505
Bills payable	**787,828**	553,179
Other payables	**544,967**	574,305
	3,797,675	3,277,495
Representing by:		
– Current portion	**3,797,675**	3,199,298
– Non-current portion	**–**	78,197
	3,797,675	3,277,495

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

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

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

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

25. BORROWINGS

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

25. BORROWINGS *(Continued)*

Notes:

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

(ii) As at 3 March 2023, Honghua (China) Investment Co., Ltd. ("Honghua China"), a subsidiary of the Group had entered into a loan agreements with 東方電氣集團財務有限公司 ("Dongfang Electric Finance") and Dongfang Electric Finance agreed to provide RMB490,000,000 credit facility to the Honghua China. At the end of 31 December 2023, Honghua China had drawdown RMB445,000,000 from Dongfang Electric Finance, which carries interest at variable market rates of Loan Prime Rate plus a fixed interest of 0.35% and is repayable after three years since the date of drawdown.

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

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

The borrowings at 31 December 2023 bore annual interest ranging from 1.2% to 6.30% annually (2022: 1.91%-5.61% annually).

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

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

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

25. BORROWINGS *(Continued)*

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

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

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

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

These facilities have been arranged for financing daily operations.

26. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

	Compensation to ex-shareholder RMB'000 (Note)	**Legal claims** RMB'000	**Product warranties** RMB'000	**Others** RMB'000	**Total** RMB'000
At 1 January 2022	15,919	2,550	6,123	3,386	27,978
Provisions during the year	–	–	15,310	240	15,550
Utilised during the year	–	–	(13,780)	–	(13,780)
At 31 December 2022	15,919	2,550	7,653	3,626	29,748
Provisions during the year	–	–	34,115	–	34,115
Utilised during the year	–	(2,350)	(18,987)	(1,501)	(22,838)
At 31 December 2023	**15,919**	**200**	**22,781**	**2,125**	**41,025**

Note: Pursuant to the agreement signed in 2020 between the Company and Kehua Technology Co., Limited ("Kehua Technology", a wholly-owned subsidiary of 中國航天科工集團有限公司 China Aerospace Science and Industry Corporation Limited, "CASIC"), the Company should compensate CASIC for certain litigations and issues which cause losses. The rights to this compensation was transferred to Dongfang Investment upon change in the shareholder in 2022. At 31 December 2023, as some issues have not been settled, the Group estimated that about RMB15,919,000 may need to be compensated to Dongfang Investment upon those issues are finalised. The Group recorded such estimated compensation amount as "Provision for other liabilities and charges" and recognised in the profit or loss as other losses.

27. DEFERRED INCOME

Deferred income of the Group represented the grant received from the government in relation to the acquisition of certain property, plant and equipment and costs incurred for certain operating projects. Movement on the deferred income is as follows:

	2023 **RMB'000**	2022 RMB'000
At 1 January	**19,499**	31,807
Government grants received during the year	**12,347**	3,772
Credited to profit or loss	**(8,118)**	(16,080)
At 31 December	**23,728**	19,499
Representing by:		
– Current portion	**6,422**	6,949
– Non-current portion	**17,306**	12,550

28. DEFERRED TAXATION

The analysis of deferred tax assets/(liabilities) is as follows:

	As at 31 December	
	2023 **RMB'000**	2022 RMB'000
Deferred tax assets	**342,819**	343,000
Deferred tax liabilities	**(70,537)**	(79,006)
Deferred tax assets, net	**272,282**	263,994

28. DEFERRED TAXATION *(Continued)*

Movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax assets

	Provision for inventories and contract cost RMB'000	Provision for product warranties RMB'000	Unrealised profit on inventories RMB'000	Impairment losses on financial assets, contract assets and prepayments RMB'000	Accruals RMB'000	Government grants RMB'000	Lease liabilities RMB'000	Tax losses RMB'000	Provision for investment in a former associate RMB'000 (Note)	Total RMB'000
At 1 January 2022	16,959	918	872	109,499	12,812	4,741	–	133,687	61,634	341,122
Credited/(charged) to profit or loss	17,112	648	2,562	51,469	(5,742)	(1,787)	–	(62,384)	–	1,878
Currency translation differences	–	–	–	–	–	–	–	–	–	–
At 31 December 2022	34,071	1,566	3,434	160,968	7,070	2,954	–	71,303	61,634	343,000
Credited/(charged) to profit or loss	1,195	1,881	8,503	(40,295)	22,850	626	302	5,144	–	206
Reclass to held for sale assets	–	–	–	(387)	–	–	–	–	–	(387)
At 31 December 2023	**35,266**	**3,447**	**11,937**	**120,286**	**29,920**	**3,580**	**302**	**76,447**	**61,634**	**342,819**

Note: The amount represents deferred tax previously recognised in relation to the impairment loss on the investment in Honghua (Jiangsu), which was previously an associate of the Group with 49% interest, by Honghua Company. During 2021, the remaining 51% interest in Honghua (Jiangsu) was acquired by another wholly-owned subsidiary of the Group and Honghua (Jiangsu) became a subsidiary of the Group thereafter.

28. DEFERRED TAXATION *(Continued)*

Deferred tax liabilities

	Changes in fair value of property, plant and equipment RMB'000	Right of use assets RMB'000	Instalment sales RMB'000	Changes in fair value of FVOCI RMB'000	Total RMB'000
At 1 January 2022	(57,765)	–	(22,144)	(4,483)	(84,392)
Credited/(charged) to profit or loss	5,358	–	(1,049)	–	4,309
Credited to other comprehensive income	–	–	–	1,077	1,077
At 31 December 2022	(52,407)	–	(23,193)	(3,406)	(79,006)
Credited/(charged) to profit or loss	5,099	(394)	1,153	–	5,858
Charged to other comprehensive income	–	–	–	(679)	(679)
Reclass to liabilietis associated with held for sale assets	–	–	–	3,290	3,290
At 31 December 2023	**(47,308)**	**(394)**	**(22,040)**	**(795)**	**(70,537)**

The Group has not recognised deferred income tax assets in respect of tax losses of approximately RMB2,170,046,000 as at 31 December 2023 (2022: RMB1,937,660,000) as it is not probable that future taxable profits against which the losses can be utilised in the relevant tax jurisdictions of those entities. These tax losses will be expired in 5 to 10 years.

As at 31 December 2023, deferred income tax liabilities of approximately RMB58,798,000 (2022: RMB65,525,000) had not been recognised for the withholding tax that would be payable on the unremitted earnings of certain subsidiaries. Unremitted earnings totalled approximately RMB1,175,951,000 as at 31 December 2023 (2022: RMB1,310,509,000). The Group does not intend to remit these unremitted earnings from the relevant subsidiaries in the foreseeable future.

29. SHARE CAPITAL

Ordinary shares, issued and fully paid:

	Number of Shares (thousands)	Amount RMB'000
At 1 January 2022, and 31 December 2022	5,355,995	488,023
Issue of shares (Note)	3,684,494	335,781
At 31 December 2023	9,040,489	823,804

The total authorised number of ordinary shares is 10,000,000,000 shares (2022: 10,000,000,000 shares) with a par value of HKD0.1 per share (2022: HKD0.1 per share).

Note: On 18 July 2023, 3,684,494,251 ordinary shares have been issued by the Company to one of shareholders, through a subscription agreement, at a price of HKD0.2418 per share. Proceeds amounting to HKD368,449,000 (equivalent to approximately RMB335,781,000), representing the par value of the share issued were credited to the share capital of the Company, the remaining proceeds RMB478,833,000 were credited to the share premium. For details of the transaction, please refer to the Company's announcement dated 18 July 2023.

30. SHARE-BASED PAYMENTS

Share Option Scheme

The Company adopted a share option scheme ("the Share Option Scheme") on 21 January 2008 for any eligible employees of the entities within the Group. The terms and conditions of the grants that existed during the year are as follows, whereby all options are settled by physical delivery of shares:

Options granted date	Number of share options (thousands)	Vesting conditions	Contractual life of options
On 20 June 2011	7,600 (a)	(i) 30% on 19 July 2011 (ii) 30% on 19 June 2012 (iii) 40% on 20 June 2013	10 years
On 5 April 2012	15,400	(i) 30% on 5 April 2013 (ii) 30% on 5 April 2014 (iii) 40% on 5 April 2015	10 years
On 24 March 2014	3,200 (b)	(i) 30% on 24 April 2014 (ii) 30% on 24 April 2015 (iii) 40% on 24 April 2016	10 years
On 2 July 2014	40,575 (c)	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 of 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	10 years
On 21 September 2016	41,350 (d)	(i) 30% on 21 September 2017 (ii) 30% on 21 September 2018 (iii) 40% on 21 September 2019	10 years
Total share options	108,125		

Notes:

(a) 5,200,000 shares are granted to the directors of the Company.

(b) 3,200,000 shares are granted to the directors of the Company.

(c) 4,577,000 shares are granted to the directors of the Company.

(d) 8,450,000 shares are granted to the directors of the Company.

30. SHARE-BASED PAYMENTS *(Continued)*

Share Option Scheme *(Continued)*

The number and weighted average exercise prices of share options are as follows:

	2023		2022	
	Weighted average exercise price	**Number of share options (thousands)**	Weighted average exercise price	Number of share options (thousands)
At 1 January	**HKD0.97**	**50,346**	HKD1.22	63,266
Lapsed	**HKD1.00**	**(1,655)**	HKD1.12	(12,920)
At 31 December	**HKD0.97**	**48,691**	HKD0.97	50,346

Number of share options outstanding as at 31 December 2023 and 2022 are as below:

	Number of outstanding options	
	2023	2022
Options grant date		
On 24 March 2014	**3,200,000**	3,200,000
On 2 July 2014	**13,519,548**	14,125,308
On 21 September 2016	**31,971,000**	33,021,000
	48,690,548	50,346,308

The share options outstanding at 31 December 2023 had an exercise price in the range of HKD0.44 to HKD2.02 (2022: HKD0.44 to HKD2.02) and a weighted average remaining contractual life of 1.13 years (2022: 2.93 years).

No share options were exercised during the year ended 31 December 2023 and 2022.

Share Award Scheme

On 30 December 2011, the board of directors approved to adopt a Restricted Share Award Scheme (the "Scheme"). Under the Scheme, the Company may grant shares of the Company to certain selected participants at specified consideration.

Pursuant to the Scheme rules, existing issued shares will be purchased by the trustee of the Scheme (the "Trustee") from the market out of funds provided by the Company in accordance with the Scheme rules.

As at 31 December 2023 and 2022, no restricted shares has been granted or vested.

No shares were acquired by the Trustee under the Scheme for the years ended 31 December 2023 and 2022. As at 31 December 2023, 61,089,300 shares were held by the Trustee under the Scheme (2022: 61,089,300 shares).

31. OTHER RESERVES

Share premium

The application of the share premium account is governed by the Companies Law (Revised) of the Cayman Islands. The balance in the share premium account of the Company is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

Other reserve

The other reserve represents the difference between the nominal value of share of the subsidiaries acquired over the nominal value of the shares issued by the Company in exchange; the difference between acquisitions of non-controlling interests and entities under common control over the consideration given; and the contribution of technology licenses by a shareholder in previous years.

Capital reserve

Capital reserve represents the value of employee services in respect of the equity-settled share-based payments as set out in Note 30, waiver of debts by the immediate holding company and capital contribution arising on shareholders' indemnity.

Surplus reserve

Surplus reserve comprises of the statutory reserve and maintenance and production reserve.

Statutory reserve

Pursuant to the applicable PRC regulations, PRC entity is required to appropriate 10% of its profit after tax (after offsetting prior year losses) to the reserve until such reserve reaches 50% of the registered capital. The transfer to the reserve must be made before distribution of dividends to shareholders. The surplus reserve can be utilised, upon approval by the relevant authorities, to offset accumulated losses or to increase registered capital of the PRC subsidiaries, provided that the balance after such issue is not less than 50% of its registered capital.

Maintenance and production reserve

Pursuant to the relevant PRC regulations, the Group is required to transfer maintenance and production funds at fixed rates based on relevant bases, such as revenue amount, to a specific reserve account. The maintenance and production funds could be utilised when expenses or capital expenditures on production maintenance and safety measures are incurred. The amount of maintenance and production funds utilised would be transferred from the specific reserve account to retained earnings.

Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside the PRC which are dealt with in accordance with the accounting policies as set out in Note 2.6.

31. OTHER RESERVES *(Continued)*

Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of equity investments at FVTOCI held at the end of the reporting period and is dealt with in accordance with the accounting policies in Note 2.10.

32. CASH GENERATED FROM/(USED IN) OPERATIONS

Reconciliation of loss before income tax to net cash generated from/(used in) operations:

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000 (Note)
Loss before income tax	**(411,006)**	(624,783)
Adjustments for:		
– Depreciation of property, plant and equipment and investment properties	**282,653**	293,759
– Depreciation of right of use assets	**10,527**	12,259
– Amortisation of intangible assets	**31,600**	27,982
– Interest expense	**215,754**	211,671
– Share of net losses from an associate and a joint venture	**35,544**	2,331
– Gains on disposals of property, plant and equipment	**(775)**	(1,060)
– Gains on disposals of right of use assets	**(2,266)**	–
– Foreign exchange gain	**(15,199)**	(192,416)
– Provision for impairment of property, plant and equipment	**49,060**	18,112
– Release of deferred income	**(8,118)**	(16,080)
– Loss on derecognition of a subsidiary	**–**	15,533
– Share issue cost	**3,338**	–
Operating cash flows before movements in working capital	**191,112**	(252,692)
Changes in working capital:		
– (Increase)/decrease in inventories and contract costs	**(376,321)**	154,453
– Decrease/(increase) in trade and other receivables	**247,856**	(1,283,233)
– Decrese/(increase) pledged bank deposits	**166,857**	(5,609)
– Increase in trade and other payables	**379,517**	827,908
– Increase in contract assets	**(310,832)**	(182,549)
– (Decrease)/increase in contract liabilities	**(221,988)**	597,579
– Increase in provisions for other liabilities and charges	**11,277**	1,770
Cash generated from/(used in) operations activities	**87,478**	(142,373)

Note: Certain comparative information has been reclassified to conform with current year's presentation.

32. CASH GENERATED FROM/(USED IN) OPERATIONS *(Continued)*

Proceeds from disposal of property, plant and equipment

In the consolidated statements of cash flows, proceeds from disposal of property, plant and equipment comprise:

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Net book amount (Note 15)	**1,131**	51,409
Gains on disposals of property, plant and equipment	**775**	1,060
Non-cash investing activities	**–**	–
Proceeds received/receivable from disposal of property, plant and equipment	**1,906**	52,469

Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Cash and cash equivalents (Note 22)	**777,660**	601,001
Borrowings – repayable within one year (Note 25)	**(2,324,052)**	(4,324,420)
Borrowings – repayable after one year (Note 25)	**(2,146,017)**	(623,174)
Net debt	**(3,692,409)**	(4,346,593)
Cash and cash equivalents (Note 22)	**777,660**	601,001
Gross debt – fixed interest rates	**(1,676,839)**	(3,246,956)
Gross debt – variable interest rates	**(2,793,230)**	(1,700,638)
Net debt	**(3,692,409)**	(4,346,593)

32. CASH GENERATED FROM/(USED IN) OPERATIONS *(Continued)*

Net debt reconciliation *(Continued)*

	Assets	Liabilities from financing activities		
	Cash and cash equivalents RMB'000	**Borrowings due within one year** RMB'000	**Borrowings due after one year** RMB'000	**Total** RMB'000
At 1 January 2022	703,417	(5,145,838)	–	(4,442,421)
Cashflows	(129,309)	21,800	(261,479)	(368,988)
Foreign exchange adjustments	26,893	190,935	12,319	230,147
Other non-cash movements	–	608,683	(374,014)	234,669
At 31 December 2022	601,001	(4,324,420)	(623,174)	(4,346,593)
Cashflows	205,975	985,751	(617,572)	574,154
Foreign exchange adjustments	4,297	–	(1,877)	2,420
Other non-cash movements	(33,613)	1,014,617	(903,394)	77,610
At 31 December 2023	777,660	(2,324,052)	(2,146,017)	(3,692,409)

During the year, settlement of the relevant bills receivables received by the banks directly amounting to RMB111,346,000 are non-cash transactions and have not been reflected in the consolidated statement of cash flows.

33. CAPITAL COMMITMENTS

Capital expenditure contracted for or authorised but not contracted for at the date of consolidated statement of financial position but not yet incurred is as follows:

	As at 31 December	
	2023 **RMB'000**	2022 RMB'000
Contracted for	**7,615**	5,747

34. RELATED PARTIES DISCLOSURE

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 years ended 31 December 2023 and 2022, and balances arising from related party transactions as at 31 December 2023 and 2022.

(a) Related parties relationship

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

34. RELATED PARTIES DISCLOSURE *(Continued)*

(a) Related parties relationship *(Continued)*

Name of related parties	Relationship
Dongfang Electric Jieneng Technology Chengdu Co., Ltd. 東方電氣潔能科技成都有限公司 ("Jieneng Technology")	Subsidiary of DEC
Dongfang Electric (Deyang) Electric Auto Technology Co., Ltd. 東方電氣(德陽)電動機技術有限責任公司 ("Deyang Electric Auto Technology")	Subsidiary of DEC
Dongfang Electric Corporation Science Technology Research Institute 東方電氣集團科學技術研究院有限公司 ("Science Technology Research")	Subsidiary of DEC
Dongfang Electric (Guangzhou) Heavy Machine Co., Ltd. 東方電氣(廣州)重型機器有限公司("GZ Heavy Machine")	Subsidiary of DEC
Dongfang Electric New Energy Technology (Chengdu) Co., Ltd. 東方電氣新能科技(成都)有限公司 ("New Energy Chengdu")	Subsidiary of DEC
Dongfang Electric Group Dajian Logistics Co., Ltd. 東方電氣集團大件物流有限公司 ("Dajian Logistics")	Subsidiary of DEC
Dongfang Electric Qineng (Shenzhen) Technology Co., Ltd 東方電氣啟能(深圳)科技有限公司 ("Electric Qineng")	Subsidiary of DEC
Dongfang Lingri Boiler Co., Ltd 東方菱日鍋爐有限公司 ("Lingri boiler")	Joint venture of DEC

34. RELATED PARTIES DISCLOSURE *(Continued)*

(b) Significant related party transactions

Purchases of parts and components and others

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Sichuan Property	**192,607**	–
Honghua (Shenzhen)	**27,898**	–
Electric Control	**2,069**	5,018
International Cooperation	**–**	93,501
Other related companies	**–**	3,337
	222,574	101,856

Sales of drilling rigs, parts and components and others

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
HH Egyptian Company	**104,516**	12,675
Dongfang Turbine	**56,629**	3,022
Dongfang Furnace	**83,047**	19,361
Wind Power	**70,452**	4,159
Science Technology Research	**28,646**	7,792
Dongfang Electric Machine	**26,714**	21,526
Auto Control Engineering	**13,524**	3,284
Honghua (Shenzhen)	**11,947**	294,167
Lingri boiler	**4,542**	–
Deyang Electric Auto Technology	**3,931**	–
GZ Heavy Machine	**1,106**	–
Other related companies	**739**	399
	405,793	366,385

34. RELATED PARTIES DISCLOSURE *(Continued)*

(b) Significant related party transactions *(Continued)*

Service income

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
GZ Heavy Machine	**17,056**	5,453
Honghua (Shenzhen)	**2,541**	–
Auto Control Engineering	**–**	20,291
Other related companies	**–**	127
	19,597	25,871

Consulting service provided

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Dajian Logistics	**14,946**	–
Honghua (Shenzhen)	**2,121**	1,519
Other related companies	**–**	1,307
	17,067	2,826

Rental income

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Wind Power	**917**	–
New Energy Chengdu	**–**	1,970
Other related companies	**–**	447
	917	2,417

34. RELATED PARTIES DISCLOSURE *(Continued)*

(b) Significant related party transactions *(Continued)*

Miscellaneous expenses

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Other related company	**–**	479

Short-term lease expenses

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Honghua (Shenzhen)	**251,579**	179,967

Leasing activities

According to the tripartite agreements signed by the Group, Honghua (Shenzhen) and third party leasing companies, for the year ended 31 December 2019, the Group sold products amounted to approximately RMB960,177,000 to those third party leasing companies, meanwhile, those third party leasing companies have provided finance lease on these products to Honghua (Shenzhen), and the risk and rewards of those products have been transferred to Honghua (Shenzhen).

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

For the year ended 31 December 2023, the total operating lease expense incurred charged to the profit or loss in respect of these lease agreements entered by the Group stated above approximately RMB251,579,000 (2022: RMB179,967,000).

34. RELATED PARTIES DISCLOSURE *(Continued)*

(b) Significant related party transactions *(Continued)*

Financing activities

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Receipt of loan to		
– Honghua (Shenzhen)	**–**	53,949
Receipt of loan from		
– Dongfang Electric Finance	**1,418,000**	–
– Honghua (Shenzhen)	**–**	20,000
	1,418,000	20,000
Repayment of loan from		
– Dongfang Electric Finance	**440,000**	–
– Honghua (Shenzhen)	**–**	20,000
	440,000	20,000
Financial income		
– Honghua (Shenzhen)	**–**	3,932
Financial expenses		
– Dongfang Electric Finance	**5,693**	–
– Honghua (Shenzhen)	**–**	750
	5,693	750

34. RELATED PARTIES DISCLOSURE *(Continued)*

(c) Amounts due from related companies

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Trade-related (Note 21)		
– Honghua (Shenzhen)	**285,060**	153,840
– HH Egyptian Company	**79,151**	45,667
– Dongfang Turbine	**60,127**	4,715
– Dongfang Furnace	**43,680**	30,292
– Wind Power	**25,134**	7,137
– International Cooperation	**28,516**	31,471
– Auto Control Engineering	**17,389**	22,751
– Dongfang Electric Machine	**14,340**	25,164
– Science Technology Research	**13,069**	7,751
– GZ Heavy Machine	**10,854**	1,208
– Deyang Electric Auto Technology	**5,202**	1,341
– Lingri boiler	**1,800**	–
– Electric Qineng	**811**	–
– New Energy Chengdu	**41**	2,220
– Other related companies	**286**	740
	585,460	334,297
Non trade-related (Note 21)		
– Honghua (Shenzhen)	**109,994**	262,253
– HH Egyptian Company	**13,571**	15,831
– Other related companies	**157**	634
	123,722	278,718

The non-trade amounts due from related companies are unsecured, interest-free and repayable on demand (Note 21).

34. RELATED PARTIES DISCLOSURE *(Continued)*

(d) Amounts due to related companies

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Trade(Notes 4 and 24)		
– Honghua (Shenzhen)	**147,898**	377,291
– HH Egyptian Company	**13,562**	8,453
– Sichuan Property	**113,705**	–
– Dajian Logistics	**14,391**	–
– Dongfang Electric Machine	**7,973**	–
– Science Technology Research	**7,024**	–
– Electric Control	**3,149**	–
– International Cooperation	**2,675**	90,017
– Dongfang Furnace	**2,525**	12,491
– Other related companies	**13,171**	4,709
	326,073	492,961
Non-trade (Notes 24 and 25)		
– Dongfang Electric Finance	**978,000**	–
– Dongfang Investment	**100,000**	–
– Dajian Logistics	**1,137**	–
– Honghua (Shenzhen)	**4**	7,518
– HH Egyptian Company	**–**	2,818
– Other related companies	**12,634**	169
	1,091,775	10,505

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

(e) Key management compensation

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Basic salaries, allowances and other benefits in kind	**1,898**	5,359
Contributions to defined contribution retirement schemes	**672**	816
Discretionary bonus	**4,239**	4,129
	6,809	10,304

35. FINANCIAL INSTRUMENTS

35.1 Capital risk management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as ageing concern, so that it can continue to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group's capital structure is regularly reviewed and managed in accordance with the capital management practices of the Group and in light of changes in economic conditions affecting the Group, to the extent that these do not conflict with the directors' fiduciary duties towards the Group.

Consistent with others in the industry, the Group monitors capital risk on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including "current and non-current borrowings" as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as "equity" as shown in the consolidated statement of financial position plus net debt. The Group aims to maintain the gearing ratio at a reasonable level.

For the year ended 31 December 2023, the Group's strategy, which was unchanged from 2022, was to maintain sufficient capital to cover any net debt position by adjusting the amount of dividends paid to shareholders or issue new shares. The gearing ratios as at 31 December 2023 and 2022 were as follows:

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Total borrowings (Note 25)	**4,470,069**	4,947,594
Less: cash and cash equivalents (Note 22)	**(777,660)**	(601,001)
Net debt	**3,692,409**	4,346,593
Total equity	**3,581,762**	3,193,995
Total capital	**7,274,171**	7,540,588
Gearing ratio	**51%**	58%

35. FINANCIAL INSTRUMENTS *(Continued)*

35.2 Categories of financial instruments

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Financial assets		
Financial assets at amortised cost	**4,582,996**	5,146,691
Financial assets at FVTOCI	**112,979**	112,837
	4,695,975	5,259,528
Financial liabilities		
Financial liabilities at amortised cost	**8,169,544**	8,106,663
Lease liabilities	**36,049**	65,994
	8,205,593	8,172,657

The Group's exposure to various risks associated with the financial instruments is discussed in this note. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.

35.3 Financial risk factors

The Group's activities expose to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by the senior executive management of the Group. The senior executive management of the Group identifies, evaluates and hedges financial risks in close cooperation with the Group's operating units. The board provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

35. FINANCIAL INSTRUMENTS *(Continued)*

35.3 Financial risk factors *(Continued)*

35.3.1 Market risk

Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD, Euros ("EUR") and RMB. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency. Management has set up a policy to require the Group companies to manage their foreign exchange risk against their functional currency.

RMB is not freely convertible into foreign currencies. All foreign exchange transactions involving RMB must take place through the People's Bank of China or other institutions authorised to buy and sell foreign currencies. The exchange rate adopted for the foreign exchange transactions are the rates of exchange quoted by the commercial banks that are based on the middle price quoted by People's Bank of China and determined largely by supply and demand.

The following tables detailed the Group's exposure at 31 December 2023 and 2022 to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate at 31 December 2023 and 2022.

	Exposure to foreign currency		
	USD items RMB'000	**EUR items RMB'000**	**RMB items RMB'000**
At 31 December 2023			
Cash and cash equivalents	**191,579**	**2,608**	**24,303**
Trade and other receivables	**494,537**	**2,796**	**54,865**
Trade and other payables	**(243,895)**	**(8,467)**	**(2,209)**
Overall net exposure	**442,221**	**(3,063)**	**76,959**

35. FINANCIAL INSTRUMENTS *(Continued)*

35.3 Financial risk factors *(Continued)*

35.3.1 Market risk *(Continued)*

Foreign exchange risk (Continued)

	Exposure to foreign currency		
	USD items RMB'000	EUR items RMB'000	RMB items RMB'000
At 31 December 2022			
Cash and cash equivalents	412,678	642	1,510
Trade and other receivables	633,828	–	–
Borrowings	(1,205,207)	–	–
Trade and other payables	(31,227)	–	–
Lease liabilities	(56,897)	–	–
Overall net exposure	(246,825)	642	1,510

As at 31 December 2023 and 2022, the Group did not have any forward exchange contracts to hedge its exposure to foreign exchange risk.

As at 31 December 2023, if RMB had weakened/strengthened by 5% (2022: 5%) against the USD with all other variables held constant, the Group's post-tax loss for the year then ended would have been approximately RMB18,794,000 higher/lower (2022: RMB10,492,000 higher/lower), mainly as a result of foreign exchange (losses)/gains on translation of USD-denominated assets and liabilities.

The sensitivity analysis above represents an aggregation of the instantaneous effects on each of the group entities loss after tax measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of the reporting period for presentation purposes.

35. FINANCIAL INSTRUMENTS *(Continued)*

35.3 Financial risk factors *(Continued)*

35.3.1 Market risk (Continued)

Cash flow and fair value interest rate risk

The Group's interest rate risk arises primarily from borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. All borrowings obtained at fixed rates expose the Group to fair value interest rate risk. The Group's policy is to manage its interest rate risk to ensure there are no undue exposures to significant interest rate movements. The Group does not use derivative financial instruments to hedge its fixed and variable rate debt obligations.

As at 31 December 2023, it is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would have increased/decreased the Group's loss after tax by approximately RMB8,570,000 (2022: RMB6,868,000).

The sensitivity analysis above indicates the instantaneous change in the Group's loss after tax that would arise assuming that the change in interest rates had occurred as at 31 December 2023 and 2022, the impact on the Group's loss after tax is estimated as annualised impact on interest expense of such a change in interest rates.

35.3.2 Credit risk

Credit risk arises from cash and cash equivalents, contractual cash flows of debt instruments carried at amortised cost and at FVTOCI and deposits with banks, as well as credit exposures to customers, including outstanding receivables.

Risk management

Credit risk is managed on a group basis. Management has a credit policy in place and the exposures to these credit risks are monitored on an on-going basis.

Risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the management. The compliance with credit limits by customers is regularly monitored by line management.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer and the industry in which the customers operate. Significant concentration of credit risk primarily arises when the Group has significant exposure to individual customers. As at 31 December 2023, 14% (2022: 18%) and 26% (2022: 33%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively. The Group also has significant concentration of credit risk on customers in the oil drilling industry and the volatility in global oil prices may affect the financial results and ability of customers to make payments.

35. FINANCIAL INSTRUMENTS *(Continued)*

35.3 Financial risk factors *(Continued)*

35.3.2 Credit risk (Continued)

Risk management (Continued)

The credit risk on cash at bank, pledged bank deposits and term deposit is limited as the counterparties are banks with sound credit standing. Majority of the Group's cash and cash equivalents at bank and pledged bank deposits were deposited at the state owned commercial banks in the PRC.

Impairment of financial assets

The Group has the following types of financial assets and contract assets that are subject to the ECL model:

- trade receivables (including bills receivables and amounts due from related parties) for sales of goods and from the provision of services
- contract assets for sales of goods and from the provision of services
- bank acceptance bill receivables carried at FVTOCI
- finance lease receivables
- other financial assets (including amounts due from related parties) at amortised cost
- pledged bank deposits
- term deposit, and
- cash and cash equivalents

While pledged bank deposits, term deposit and cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

Trade receivables and contract assets

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

If the balances are significant and/or credit-impaired, the credit losses of those trade receivables are assessed separately. If not, to measure the ECL, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

35. FINANCIAL INSTRUMENTS *(Continued)*

35.3 Financial risk factors *(Continued)*

35.3.2 Credit risk (Continued)

Impairment of financial assets (Continued)

Trade receivables and contract assets *(Continued)*

The expected loss rates are based on the payment profiles of sales over a period of 24 months before 31 December 2023 or 1 January 2023, respectively, and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the GDP of the countries in which it sells its goods and services and the international crude oil price index to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

On that basis, the loss allowance as at 31 December 2023 and 2022 was determined as follows for both trade receivables and contract assets:

(i) As at 31 December 2023 and 2022, receivables with amounts subject to separate assessment for impairment are as below:

31 December 2023	**More than 90 days past due**	**Total**
Expected loss rate	**48.57%**	**N/A**
Gross carrying amount		
– trade receivables (RMB'000)	**1,017,208**	**1,017,208**
– contract assets (RMB'000)	**76,678**	**76,678**
Loss allowance (RMB'000)	**(531,302)**	**(531,302)**

31 December 2022	More than 90 days past due	Total
Expected loss rate	47.26%	N/A
Gross carrying amount		
– trade receivables (RMB'000)	1,209,315	1,209,315
– contract assets (RMB'000)	15,707	15,707
Loss allowance (RMB'000)	(578,888)	(578,888)

35. FINANCIAL INSTRUMENTS *(Continued)*

35.3 Financial risk factors *(Continued)*

35.3.2 Credit risk (Continued)

Impairment of financial assets (Continued)

Trade receivables and contract assets *(Continued)*

(i) As at 31 December 2023 and 2022, receivables with amounts subject to separate assessment for impairment are as below: *(Continued)*

As the above debtors suffered in several lawsuits, operation difficulty or payment restriction due to current Russia-Ukraine War, the Group estimated it is not able to collect these amount under the original terms, provisions for impairment on those receivables were made.

As set out in Note 21, the Group made individual assessment on trade receivables due from a customer domicile in Ukraine. During the year ended 31 December 2023, the Group made ECL of approximately RMB10,623,000 (2022: RMB230,698,000) for such customer. The provision is made based on the key assumptions that: (1) 0%-50% of the receivable from such customer will be covered and reimbursed by the insurance company if these balances are ratified to be uncollectible by the insurance company; and (2) the management expect to recover 20% of the remaining uncollectible balance after insurance coverage upon necessary collection action being taken.

(ii) As at 31 December 2023 and 2022, trade receivables and contract assets that are not separately assessed have been grouped on the basis of shared credit risk characteristics and the days past due for the measurement of ECL:

- bank acceptance bill receivables group at amortised cost

As at 31 December 2023, the total amount of bank acceptance bills was RMB147,351,000 (As at 31 December 2022: RMB172,607,000), these bills will be accepted by large state-owned banks or commercial banks. The Group believes that there is no significant credit losses due to the bank default.

35. FINANCIAL INSTRUMENTS *(Continued)*

35.3 Financial risk factors *(Continued)*

35.3.2 Credit risk (Continued)

Impairment of financial assets (Continued)

Trade receivables and contract assets *(Continued)*

(ii) As at 31 December 2023 and 2022, trade receivables and contract assets that are not separately assessed have been grouped on the basis of shared credit risk characteristics and the days past due for the measurement of ECL: *(Continued)*

- revenue of land drilling rigs group

31 December 2023	**Current**	**1-30 days past due**	**31- 60 days past due**	**61 – 90 days past due**	**More than 90 days past due**	**Total**
Expected loss rate	**0.67%**	**0.49%**	**2.16%**	**N/A**	**12.16%**	**N/A**
Gross carrying amount						
– trade receivables (RMB'000)	**62,672**	**159,594**	**42,323**	**-**	**44,792**	**309,381**
– contract assets (RMB'000)	**559,719**	**-**	**-**	**-**	**-**	**559,719**
Loss allowance (RMB'000)	**(4,166)**	**(781)**	**(916)**	**-**	**(5,445)**	**(11,308)**

31 December 2022	Current	1-30 days past due	31- 60 days past due	61 – 90 days past due	More than 90 days past due	Total
Expected loss rate	0.93%	0.97%	8.49%	10.34%	11.23%	N/A
Gross carrying amount						
– trade receivables (RMB'000)	153,127	2,254	216	77	13,011	168,685
– contract assets (RMB'000)	243,700	–	–	–	–	243,700
Loss allowance (RMB'000)	(3,682)	(22)	(18)	(8)	(1,462)	(5,192)

35. FINANCIAL INSTRUMENTS *(Continued)*

35.3 Financial risk factors *(Continued)*

35.3.2 Credit risk (Continued)

Impairment of financial assets (Continued)

Trade receivables and contract assets *(Continued)*

(ii) As at 31 December 2023 and 2022, trade receivables and contract assets that are not separately assessed have been grouped on the basis of shared credit risk characteristics and the days past due for the measurement of ECL: *(Continued)*

- revenue of fracturing group

31 December 2023	Current	1-30 days past due	31- 60 days past due	61 – 90 days past due	More than 90 days past due	Total
Expected loss rate	0.07%	N/A	0.18%	N/A	0.76%	N/A
Gross carrying amount – trade receivables (RMB'000)	62,672	–	13,336	–	13,218	192,156
Gross carrying amount – contract assets (RMB'000)	248,978	–	–	–	–	248,978
Loss allowance (RMB'000)	(297)	–	(24)	–	(101)	(422)

31 December 2022	Current	1-30 days past due	31- 60 days past due	61 – 90 days past due	More than 90 days past due	Total
Expected loss rate	0.44%	0.49%	4.15%	7.89%	8.03%	N/A
Gross carrying amount – trade receivables (RMB'000)	769,830	44,271	1,369	6,398	64,057	885,925
Gross carrying amount – contract assets (RMB'000)	153,323	–	–	–	–	153,323
Loss allowance (RMB'000)	(4,081)	(218)	(57)	(505)	(5,146)	(10,007)

35. FINANCIAL INSTRUMENTS *(Continued)*

35.3 Financial risk factors *(Continued)*

35.3.2 Credit risk (Continued)

Impairment of financial assets (Continued)

Trade receivables and contract assets *(Continued)*

(ii) As at 31 December 2023 and 2022, trade receivables and contract assets that are not separately assessed have been grouped on the basis of shared credit risk characteristics and the days past due for the measurement of ECL: *(Continued)*

- revenue of parts and components and others group

31 December 2023	**Current**	**1-30 days past due**	**31- 60 days past due**	**61- 90 days past due**	**More than 90 days past due**	**Total**
Expected loss rate	**0.26%**	**0.27%**	**0.56%**	**1.35%**	**4.91%**	**N/A**
Gross carrying amount						
– trade receivables (RMB'000)	**943,248**	**127,957**	**70,503**	**17,729**	**880,021**	**2,039,458**
Loss allowance (RMB'000)	**(2,477)**	**(349)**	**(393)**	**(239)**	**(43,184)**	**(46,642)**

31 December 2022	Current	1-30 days past due	31- 60 days past due	61- 90 days past due	More than 90 days past due	Total
Expected loss rate	1.01%	1.05%	1.45%	3.99%	6.26%	N/A
Gross carrying amount						
– trade receivables (RMB'000)	892,134	207,876	210,040	10,644	445,464	1,766,158
Loss allowance (RMB'000)	(8,995)	(2,175)	(3,048)	(425)	(27,877)	(42,520)

35. FINANCIAL INSTRUMENTS *(Continued)*

35.3 Financial risk factors *(Continued)*

35.3.2 Credit risk (Continued)

Impairment of financial assets (Continued)

Trade receivables and contract assets *(Continued)*

(ii) As at 31 December 2023 and 2022, trade receivables and contract assets that are not separately assessed have been grouped on the basis of shared credit risk characteristics and the days past due for the measurement of ECL: *(Continued)*

- revenue of drilling engineering services group

31 December 2023	Current	1-30 days past due	31- 60 days past due	61-90 Days past due	More than 90 days past due	Total
Expected loss rate	0.39%	N/A	N/A	N/A	1.28%	N/A
Gross carrying amount – trade receivables (RMB'000)	12,342	–	–	–	29,372	41,714
Gross carrying amount – contract assets (RMB'000)	94,640	–	–	–	–	94,640
Loss allowance (RMB'000)	(416)	–	–	–	(376)	(792)

31 December 2022	Current	1-30 days past due	31- 60 days past due	61-90 Days past due	More than 90 days past due	Total
Expected loss rate	0.90%	0.95%	1.14%	2.04%	4.73%	N/A
Gross carrying amount – trade receivables (RMB'000)	162,637	52,628	26,411	23,117	76,000	340,793
Gross carrying amount – contract assets (RMB'000)	240,269	–	–	–	–	240,269
Loss allowance (RMB'000)	(3,620)	(500)	(300)	(471)	(3,598)	(8,489)

35. FINANCIAL INSTRUMENTS *(Continued)*

35.3 Financial risk factors *(Continued)*

35.3.2 Credit risk (Continued)

Impairment of financial assets (Continued)

Trade receivables and contract assets *(Continued)*

(ii) As at 31 December 2023 and 2022, trade receivables and contract assets that are not separately assessed have been grouped on the basis of shared credit risk characteristics and the days past due for the measurement of ECL: *(Continued)*

The closing loss allowances for trade receivables and contract assets as at 31 December 2023 and 2022 reconcile to the opening loss allowances as follows:

	Contract assets		**Trade receivables**	
	2023 RMB'000	2022 RMB'000	**2023 RMB'000**	2022 RMB'000
Opening loss allowance as at 1 January	**(21,625)**	(11,265)	**(623,471)**	(484,068)
Increase in loss allowance recognised in profit or loss during the year	**(16,724)**	(9,819)	**(15,775)**	(227,962)
Decrease in loss allowance during the year due to the acquisition of a subsidiary	**–**	–	**–**	126,884
Receivables written off during the year as uncollectible	**–**	–	**169,086**	531
Exchange rate changes	**540**	(541)	**(20,186)**	(38,856)
Other changes	**–**	–	**(62,311)**	–
Closing loss allowances as at 31 December	**(37,809)**	(21,625)	**(552,657)**	(623,471)

Trade receivables and contract assets are written off where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments.

Impairment losses on trade receivables and contract assets are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

35. FINANCIAL INSTRUMENTS *(Continued)*

35.3 Financial risk factors *(Continued)*

35.3.2 Credit risk (Continued)

Impairment of financial assets (Continued)

Financial assets at FVTOCI

Bank acceptance bill receivables carried at FVOCI are considered to have low credit risk, and the loss allowance recognised during the period was therefore limited to 12 months expected losses. Management considers 'low credit risk' for the instruments as the issuers have strong capacity to meet its contractual cash flow obligations in the near term.

Finance lease receivables

The Group applies the IFRS 9 simplified approach to measuring ECL which uses a lifetime expected loss allowance for finance lease receivables.

To measure the ECL, finance lease receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the historical payment profiles of revenue and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the GDP of the countries in which it rents its inventory out through financing lease and the International crude oil price index to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

On that basis, the loss allowance as at 31 December 2023 and 2022 was determined as follows for finance lease receivables:

(i) As at 31 December 2023 and 2022, finance lease receivables with amounts subject to separate assessment for impairment are as below:

31 December 2023	**Credit-impaired**
Expected loss rate	**100%**
Gross carrying amount	
– finance lease receivables (RMB'000)	**58,665**
Loss allowance (RMB'000)	**(58,665)**

35. FINANCIAL INSTRUMENTS *(Continued)*

35.3 Financial risk factors *(Continued)*

35.3.2 Credit risk *(Continued)*

Impairment of financial assets (Continued)

Finance lease receivables *(Continued)*

(i) As at 31 December 2023 and 2022, finance lease receivables with amounts subject to separate assessment for impairment are as below: *(Continued)*

31 December 2022	Credit-impaired
Expected loss rate	100%
Gross carrying amount	
– finance lease receivables (RMB'000)	76,410
Loss allowance (RMB'000)	(76,410)

As the above debtors suffered in several lawsuits or operation difficulty, the Group cannot be able to collect the amount under the original terms, provisions for impairment on those receivables were made.

(ii) As at 31 December 2023 and 2022, finance lease receivables, which are not credit impaired, have been grouped on the basis of shared credit risk characteristics and the days past due for the measurement of ECL:

31 December 2023	**Current**	**Total**
Expected loss rate	**1.56%**	**N/A**
Gross carrying amount		
– finance lease receivables (RMB'000)	**248,553**	**248,553**
Loss allowance (RMB'000)	**(3,889)**	**(3,889)**

31 December 2022	Current	Total
Expected loss rate	1.42%	N/A
Gross carrying amount		
– finance lease receivables (RMB'000)	355,853	355,853
Loss allowance (RMB'000)	(5,051)	(5,051)

35. FINANCIAL INSTRUMENTS *(Continued)*

35.3 Financial risk factors *(Continued)*

35.3.2 Credit risk (Continued)

Impairment of financial assets (Continued)

Other financial assets at amortised cost

Other financial assets at amortised cost include other receivables. The closing loss allowances for other financial assets as at 31 December 2023 and 2022 reconcile to the opening loss allowances as follows:

	2023 **RMB'000**	2022 RMB'000
Opening loss allowance as at 1 January	**(198,188)**	(136,740)
Increase in the allowance recognised in profit or loss during the year	**(4,035)**	(58,074)
Receivables written off during the year as uncollectible	**1,296**	–
Exchange rate changes	**(2,784)**	(3,374)
Other changes	**62,311**	–
Closing loss allowance as at 31 December	**(141,400)**	(198,188)

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

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

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

35. FINANCIAL INSTRUMENTS *(Continued)*

35.3 Financial risk factors *(Continued)*

35.3.3 Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short-term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's management when the borrowings exceed certain predetermined levels of authority.

The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutes to meet its liquidity requirements in the short and long term.

The Group has significant concentration of credit risk on customers in the oil and gas industry. The volatility in global oil prices may affect the ability of customers to make payments and demand of the Group's goods and services and hence may affect the liquidity of the Group.

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

31 December 2023	**On demand or 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**
Trade and other payables (Note)	**3,699,475**	**–**	**–**	**–**	**3,699,475**
Borrowings	**2,310,101**	**646,790**	**1,732,995**	**–**	**4,689,886**
Lease liabilities	**24,454**	**12,430**	**–**	**–**	**36,884**
Total financial liabilities	**6,034,030**	**659,220**	**1,732,995**	**–**	**8,426,245**

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

Note: Trade and other payables include trade payables, bills payable, amounts due to related companies and other payables.

35. FINANCIAL INSTRUMENTS *(Continued)*

35.4 Fair value estimation

35.4.1 Fair value hierarchy

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

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 third-party information is used to measure fair values, then management of the Group assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

The following table presents the Group's financial assets that are measured at fair value at 31 December 2023 and 2022.

31 December 2023	**Level 1 RMB'000**	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
Financial asset at FVTOCI				
– Investment in unlisted companies	**–**	**–**	**86,440**	**86,440**
– Bank acceptance bill receivables	**–**	**–**	**26,539**	**26,539**
	–	**–**	**112,979**	**112,979**

31 December 2022	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial asset at FVTOCI				
– Investment in unlisted companies	–	–	109,312	109,312
– Bank acceptance bill receivables	–	–	3,525	3,525
	–	–	112,837	112,837

35. FINANCIAL INSTRUMENTS *(Continued)*

35.4 Fair value estimation *(Continued)*

35.4.1 Fair value hierarchy (Continued)

There were no transfers among levels 1, 2 and 3 during 2023 and 2022. There were no other changes in valuation techniques during 2023 and 2022.

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.

35.4.2 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.

- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

35. FINANCIAL INSTRUMENTS *(Continued)*

35.4 Fair value estimation *(Continued)*

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

	Investments in unlisted companies RMB'000 (Note)	Bank acceptance bill receivables RMB'000	Total RMB'000
Opening balance 1 January 2022	117,902	1,371	119,273
Acquisitions	–	102,019	102,019
Disposals	–	(99,865)	(99,865)
Changes in fair value	(8,590)	–	(8,590)
Closing balance 31 December 2022	109,312	3,525	112,837
Acquisitions	–	259,954	259,954
Disposals	–	(236,940)	(236,940)
Changes in fair value	4,528	–	4,528
Reclass to assets classified as held for sale (Note 23)	(27,400)	–	(27,400)
Closing balance 31 December 2023	86,440	26,539	112,979

Note: The above unlisted equity investments represent the Group's equity interest in two private entities established in the PRC. The directors of the Company have elected to designate these investments in equity instruments as at FVTOCI as they believe that recognising short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realising their performance potential in the long run.

There is no unrealised gains or losses recognised in profit or loss attributable to balances held at the end of the reporting period.

The carrying amounts of the Group's financial assets and liabilities including cash and cash equivalents, pledged bank deposits, trade and other receivables, trade and other payables and borrowings, approximate their fair values due to their short maturities. The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair value of term deposit and non-current 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.

35.4.4 Valuation inputs and relationships to fair value

Description	Fair value at 31 December 2023 RMB'000	2022 RMB'000	Unobservable inputs	Relationship of unobservable inputs to fair value
Unlisted companies – current	-	27,713	Adjustments (size alignments) to recent transaction price	Positive
Unlisted companies – non-current	86,440	81,599	Adjustments (size alignments) to recent transaction price	Positive
Bank acceptance bill receivables	26,539	3,525	Discount rate	Negative

36. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

Statement of financial position of the Company

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Non-current assets		
Investments in subsidiaries	**3,376,516**	3,303,812
Amounts due from subsidiary	**807,139**	–
	4,183,655	3,303,812
Current assets		
Other receivables	**220**	–
Amounts due from subsidiaries	**11,980**	51,604
Cash and cash equivalents	**788**	831
	12,988	52,435
Total assets	**4,196,643**	3,356,247
Current liability		
Other payables	**5,600**	5,467
	5,600	5,467
EQUITY		
Equity attributable to owners of the Company		
Share capital	**823,804**	488,023
Other reserves	**4,327,373**	3,807,721
Accumulated losses	**(960,134)**	(944,964)
	4,191,043	3,350,780
Total liabilities and equity	**4,196,643**	3,356,247

The statement of financial position of the Company was approved by the Board of Directors on 26 March 2024 and was signed on its behalf:

Director Director

36. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY *(Continued)*

Reserve movement of the Company

	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000	Capital reserve RMB'000	Exchange reserve RMB'000	Shares held for share award scheme RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2022	488,023	3,597,179	389,691	97,615	(436,351)	(124,618)	(840,781)	3,170,758
Loss for the year	–	–	–	–	–	–	(109,075)	(109,075)
Other comprehensive income	–	–	–	–	289,097	–	–	289,097
Total comprehensive income/(expense)	–	–	–	–	289,097	–	(109,075)	180,022
Transactions with owners								
Options lapsed under share option schemes	–	–	–	(4,892)	–	–	4,892	–
Total transactions with owners, recognised directly in equity	–	–	–	(4,892)	–	–	4,892	–
Balance at 31 December 2022	488,023	3,597,179	389,691	92,723	(147,254)	(124,618)	(944,964)	3,350,780
Loss for the year	**-**	**-**	**-**	**-**	**-**	**-**	**(15,524)**	**(15,524)**
Other comprehensive income	**-**	**-**	**-**	**-**	**41,173**	**-**	**-**	**41,173**
Total comprehensive income/(expense)	**-**	**-**	**-**	**-**	**41,173**	**-**	**(15,524)**	**25,649**
Transactions with owners								
Issue of shares	**335,781**	**478,833**	**-**	**-**	**-**	**-**	**-**	**814,614**
Options lapsed under share option schemes	**-**	**-**	**-**	**(354)**	**-**	**-**	**354**	**-**
Total transactions with owners, recognised directly in equity	**335,781**	**478,833**	**-**	**(354)**	**-**	**-**	**354**	**814,614**
Balance at 31 December 2023	**823,804**	**4,076,012**	**389,691**	**92,369**	**(106,081)**	**(124,618)**	**(960,134)**	**4,191,043**

37. EVENTS AFTER REPORTING PERIOD

On 20 November 2023, Shanghai Honghua Offshore Oil & Gas Equipment Co., Ltd. ("Honghua (Shanghai)"), a subsidiary located in China, filed for bankruptcy liquidation to the local court. The court appointed Zhonghua Certified Public Accountants LLP as the administrator on 12 January 2024. As at the date of the report, Honghua (Shanghai) is in the stage of creditors' declaration of debts and asset verification. The progress of declaration of debts by creditors will be completed before 11 April 2024, and the first meeting of creditors is scheduled to be held on 18 April 2024.

FIVE-YEAR FINANCIAL HIGHLIGHTS

	2023 RMB'000	2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000
Consolidated Statement of profit or loss					
Revenue	**5,473,234**	4,476,104	2,936,604	3,931,492	4,425,686
Cost of sales	**(4,931,461)**	(4,016,211)	(2,573,600)	(2,751,127)	(3,109,852)
Gross profit	**541,773**	459,893	363,004	1,180,365	1,315,834
Distribution costs	**(249,175)**	(215,290)	(161,975)	(177,878)	(357,273)
Administrative expenses	**(424,799)**	(356,056)	(480,621)	(547,597)	(503,486)
Research and development expenses	**(112,415)**	(123,587)	0	0	0
Impairment losses on financial and contract assets	**(18,983)**	(299,193)	(363,100)	(267,752)	(190,989)
Other income	**44,871**	68,367	89,308	87,612	(11,954)
Other gains/(losses), net	**18,866**	32,663	(56,829)	(47,334)	126,259
Operating (loss)/profit	**(199,862)**	(433,203)	(610,213)	227,416	378,391
Finance expenses – net	**(175,600)**	(189,249)	(132,671)	(126,359)	(208,903)
Share of net losses of associates and joint ventures accounted for using the equity method	**(35,544)**	(2,331)	(2,460)	(14,967)	(3,223)
(Loss)/profit before income tax	**(411,006)**	(624,783)	(745,344)	86,090	166,265
Income tax (expense)/credit	**(8,259)**	(328)	11,343	(25,950)	(33,776)
(loss)/Profit from continuing operations	**(419,265)**	(625,111)	(734,001)	60,140	132,489
Discontinued operations					
Loss from discontinued operations	**–**	–	–	–	–
(Loss)/profit for the year	**(419,265)**	(625,111)	(734,001)	60,140	132,489
(loss)/Profit attributable to:					
Owners of the company	**(386,597)**	(634,418)	(717,191)	49,660	107,472
Non-controlling interests	**(32,668)**	9,307	(16,810)	10,480	25,017
Basic (loss)/profit per share	**(5.54)**	(11.98)	(13.54)	0.94	2.03
Diluted (loss)/profit per share	**(5.54)**	(11.98)	(13.54)	0.94	2.03
Dividend	**–**	–	–	–	–
Dividends declared and paid	**–**	–	–	–	–
Dividends declared and paid per share	**–**	–	–	–	–
Dividend proposed after balance sheet date	**–**	–	–	–	–
Dividend proposed after balance sheet date per share	**–**	–	–	–	–

	2023 RMB'000	2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000
Consolidated Balance Sheet					
Total non-current assets	**4,453,314**	4,436,036	4,998,483	4,240,975	5,298,467
Total current assets	**8,066,225**	7,886,451	6,749,427	7,771,402	6,455,861
Total assets	**12,519,539**	12,322,487	11,747,910	12,012,377	11,754,328
Total current liabilities	**6,762,104**	8,377,067	7,793,243	5,170,292	5,033,409
Total non-current liabilities	**2,175,673**	751,425	208,271	2,347,458	2,240,542
Total liabilities	**8,937,777**	9,128,492	8,001,514	7,517,750	7,273,951
Total equity	**3,581,762**	3,193,995	3,746,396	4,494,627	4,480,377
Key financial ratios					
Profitability					
Gross margin from continuing operations	**9.9%**	10.3%	12.4%	30.0%	29.7%
EBITDA (loss margin)/margin	**1.3%**	(2.3)%	(14.7)%	10.4%	12.6%
Net (loss margin)/margin	**(7.1)%**	(14.2)%	(24.4)%	1.3%	2.4%
Return					
Return on average equity	**(12.2)%**	(19.5)%	(18.4)%	1.2%	2.6%
Return on average assets	**(3.1)%**	(5.3)%	(6.0)%	0.4%	1.0%
Liquidity					
Current ratio	**1.19**	0.94	0.87	1.50	1.28
Quick ratio	**0.90**	0.74	0.63	1.24	1.03
Turnover					
Turnover of average trade and bills receivable	**210**	267	386	297	247
Turnover of average trade and bills payable	**187**	189	292	292	239
Turnover of average inventory	**134**	158	225	174	166
Gearing					
Total debts/Total assets	**35.7%**	40.2%	43.8%	37.3%	34.1%
Gearing ratio	**71.4%**	74.1%	68.1%	62.6%	61.9%
EBIT/Interest expenses	**(1.09)**	(2.08)	(2.73)	0.98	1.66

Note:

Profitability

Gross margin	=	Gross profit/Revenue
EBITDA	=	(Loss)/profit from operations + Share of net losses of associates and joint ventures accounted for using the equity method + Depreciation + Amortisation
EBITDA (loss margin)/margin	=	EBITDA/Revenue
Net (loss margin)/margin	=	(Loss)/profit attributable to equity shareholders of the Company/Revenue

Return

Return on average assets	=	(Loss)/profit attributable to equity shareholders of the Company/Average assets
Return on average equity	=	(Loss)/profit attributable to equity shareholders of the Company/Average equity attributable to equity shareholders of the Company

Liquidity

Current ratio	=	Current assets/Current liabilities
Quick ratio	=	(Current assets – Inventory)/Current liabilities

Turnover

Turnover of average trade and bills receivable	=	365.25 * Average trade and bills receivable/Revenue
Turnover of average trade and bills payable	=	365.25 * Average trade and bills payable/Cost of sales
Turnover of average inventory	=	365.25 * Average inventory/Cost of sales

Gearing

Total debts/Total assets	=	(Long term interest-bearing borrowings + Short term interest-bearing borrowings)/Total assets
Gearing ratio	=	Total liabilities/Total assets
EBIT/Interest expenses	=	((Loss)/profit from operations + Share of net losses of associates and joint ventures accounted for using the equity method)/Interest expenses (including capitalised interest)

宏华集团有限公司

HONGHUA GROUP LIMITED