



宏华集团有限公司 HONGHUA GROUP LIMITED

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

2024

INTERIM REPORT





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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Wang Xu (Chairman)

Mr. Zhu Hua

Mr. Yang Qiang (Appointed with effect from 17 May 2024)

Non-Executive Directors

Mr. Yang Yong (Resigned with effect from 7 February 2024)

Mr. Yang Yangzhuang (Appointed with effect from 28 June 2024)

Mr. Liu Xinggui (Appointed with effect from 28 June 2024)

Independent Non-Executive Directors

Mr. Chen Guoming (Resigned with effect from 28 June 2024)

Ms. Su Mei (Resigned with effect from 28 June 2024)

Mr. Chang Qing (Resigned with effect from 28 June 2024)

Mr. Wei Bin (Resigned with effect from 28 June 2024)

Mr. Zhang Shiju

Ms. Li Yuedong (Appointed with effect from 28 June 2024)

Mr. Wang Junren (Appointed with effect from 20 August 2024)

SECRETARY OF BOARD OF DIRECTOR

Mr. He Bin

BOARD COMMITTEES

Audit Committee

Mr. Wei Bin (Committee Chairman, resigned with effect from 28 June 2024)

Ms. Li Yuedong (Committee Chairman, appointed with effect from 28 June 2024)

Mr. Chen Guoming (Resigned with effect from 28 June 2024)

Ms. Su Mei (Resigned with effect from 28 June 2024)

Mr. Chang Qing (Resigned with effect from 28 June 2024)

Mr. Zhang Shiju

Mr. Yang Yangzhuang (Appointed with effect from 28 June 2024)

Remuneration Committee

Ms. Su Mei (Committee Chairman, resigned with effect from 28 June 2024)

Mr. Wang Xu

Mr. Wei Bin (Resigned with effect from 28 June 2024)

Mr. Zhang Shiju (Committee Chairman, appointed with effect from 28 June 2024)

Ms. Li Yuedong (Appointed with effect from 28 June 2024)

Mr. Liu Xinggui (Appointed with effect from 20 August 2024)

Mr. Wang Junren (Appointed with effect from 20 August 2024)

Nomination Committee

Mr. Wang Xu (Committee Chairman)

Mr. Chang Qing (Resigned with effect from 28 June 2024)

Mr. Zhang Shiju

Ms. Li Yuedong (Appointed with effect from 28 June 2024)

Strategic Investment Committee

Mr. Wang Xu (Committee Chairman)

Mr. Zhu Hua

Mr. Chang Qing (Resigned with effect from 28 June 2024)

Mr. Yang Qiang (Appointed with effect from 17 May 2024)

Mr. Yang Yangzhuang (Appointed with effect from 28 June 2024)

Mr. Liu Xinggui (Appointed with effect from 28 June 2024)

Mr. Wang Junren (Appointed with effect from 20 August 2024)

JOINT COMPANY SECRETARIES

Mr. He Bin

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

0196

WEBSITE

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

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT
DISCUSSION AND
ANALYSIS

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MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended 30 June 2024 (“Period” or “reporting period”), the Company’s turnover was RMB2,776 million, representing an increase of 11.3% as compared with RMB2,494 million in the corresponding period of Previous Year. Gross profit was approximately RMB302 million, representing an increase of 98.1% as compared to the gross profit of RMB152 million in the corresponding period of Previous Year. The profit attributable to shareholders was approximately RMB2 million.

MARKET REVIEW

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

BUSINESS REVIEW

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



MANAGEMENT DISCUSSION AND ANALYSIS

Drilling Equipment and Relevant Product Business

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

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

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

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

Fracturing Equipment and Service Business

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

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

MANAGEMENT DISCUSSION AND ANALYSIS



Drilling Engineering Service Business

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

New Energy Related Business

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

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

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

QUALITY MANAGEMENT

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

MANAGEMENT DISCUSSION AND ANALYSIS

INVESTMENT ON RESEARCH & DEVELOPMENT

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

HUMAN RESOURCES MANAGEMENT

As of 30 June 2024, the Group had a total headcount of 2,795 (as of 30 June 2023: the Group had a total headcount of 2,677). During the Period, the Group took a series of measures in the introduction of high-level talents, campus recruitment, staff training, contractual management of the tenure system, and diversified incentives. In terms of talent introduction, the Group focused on attracting high-level talents in high-end petrochemical equipment, power electronics and control, petroleum engineering, general technology, operation and management, and high-skilled talents, and recruited high-quality fresh graduates in "double first-class" key universities. In terms of personnel training, the Group vigorously implements comprehensive trainings for technical, market, management, and skilled personnel, and carried out composite training through job rotation, school-enterprise joint training bases, and skill master studios. In terms of talent incentives, the Group will promote the full coverage of the term contract or performance target responsibility letter, further strengthening the combination mechanism of "hard indicators" in performance, "high incentives" for salary and "rigid distribution" of benefits, and implementing incentive measures such as project profit sharing, sales commissions, and "decentralization and empowerment" of scientific and technological innovation.

MANAGEMENT DISCUSSION AND ANALYSIS

OUTLOOK

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

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

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

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

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

During the Period, the Group's gross profit and profit attributable to shareholders of the Company amounted to approximately RMB302 million and RMB2 million respectively, and gross margin and net profit margin amounted to 10.9% and 0.1% respectively. In the same period of Previous Year, the gross profit and loss attributable to shareholders of the Company amounted to approximately RMB152 million and RMB154 million respectively, and gross margin and net loss margin amounted to 6.1% and 6.2% respectively. In the stable domestic market, the Group actively expanded its international markets, resulting in an increase in overseas sales revenue. At the same time, the Group continuously optimized cost management and improved operational management standards, resulting in an increase in gross profit margin compared to the corresponding period of Previous Year.

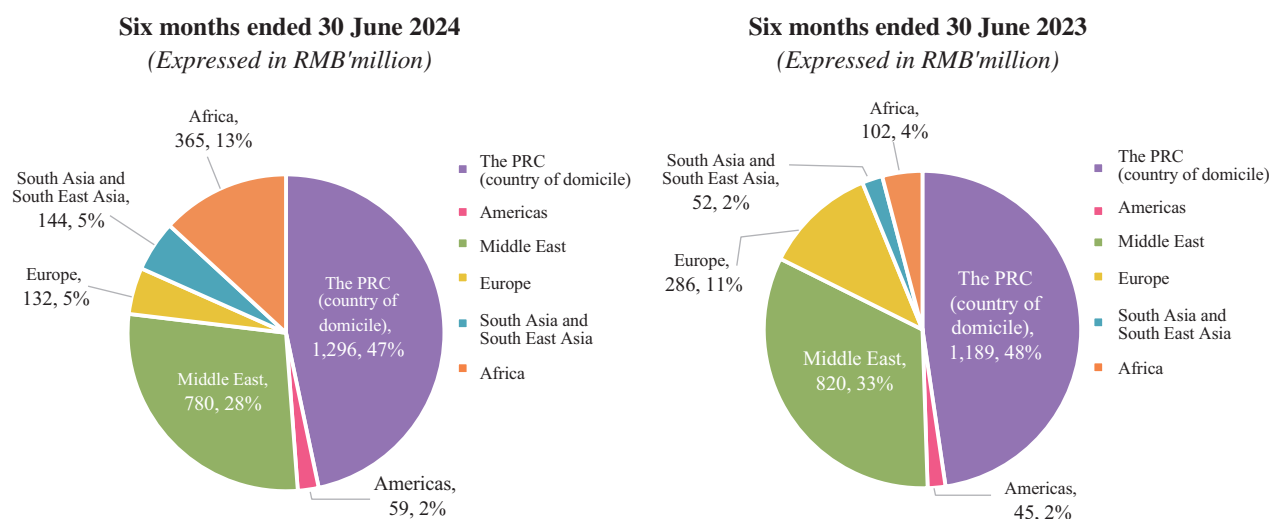
Turnover

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

(i) Revenue by geographical locations

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

Revenue by geographical locations



MANAGEMENT DISCUSSION AND ANALYSIS

(ii) Revenue by operating segments

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

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

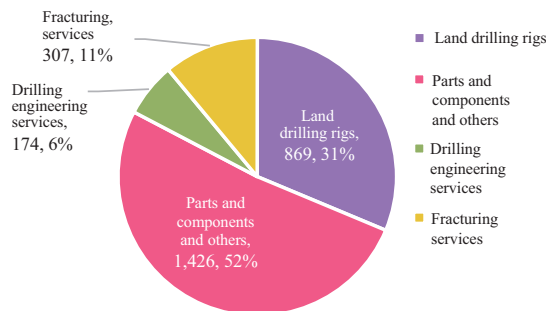
During the Period, external revenue from parts and components and others amounted to approximately RMB1,426 million, representing an increase of RMB544 million or 61.7% as compared to approximately RMB882 million in the same period of Previous Year.

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

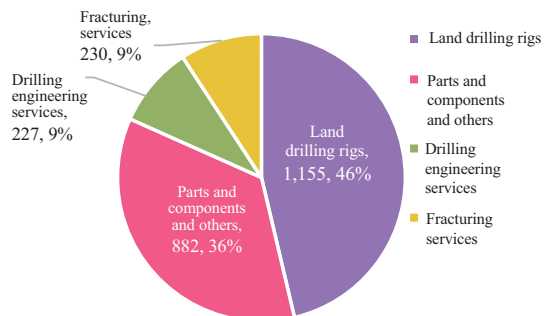
During the Period, revenue from fracturing business amounted to approximately RMB307 million, representing an increase of RMB77 million or 33.5% as compared to approximately RMB230 million in the same period of Previous Year.

Revenue by operating segments

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



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



MANAGEMENT DISCUSSION AND ANALYSIS

Cost of Sales

During the Period, the Group's cost of sales amounted to approximately RMB2,474 million, representing an increase of RMB132 million or approximately 5.6% as compared to RMB2,342 million in the same period of Previous Year. Mainly affected by the increase in sales revenue, the cost of sales of each sector increased accordingly.

Gross profit and Gross Margin

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

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

Expenses in the Period

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

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

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

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

Profit/(Loss) before Income Tax

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

MANAGEMENT DISCUSSION AND ANALYSIS

Income Tax expense

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

Profit/(Loss) for the Period

During the Period, the loss for the Period amounted to approximately RMB3 million as compared to the loss of approximately RMB168 million in the same period of Previous Year. Specifically, profit attributable to equity shareholders of the Company was approximately RMB2 million, and the loss attributable to non-controlling interests was approximately RMB5 million. During the Period, the net profit margin was 0.1%, as compared to the net loss margin of 6.2% in the same period of Previous Year.

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

During the Period, EBITDA amounted to approximately RMB232 million, as compared to approximately RMB134 million in the same period of Previous Year. Mainly due to the expansion of sales scale and effective cost control, the profitability of the Group has improved. The EBITDA profit margin was 8.4%, as compared to an EBITDA profit margin of 5.4% in the same period of Previous Year.

Dividends

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

Source of Capital and Borrowings

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

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

Deposits and Cash Flow

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Assets Structure and Changes

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

Liabilities

As at 30 June 2024, the Group's total liabilities amounted to approximately RMB9,148 million. Specifically, current liabilities amounted to approximately RMB7,009 million, accounting for approximately 76.6% of total liabilities, representing an increase of RMB247 million as compared to 31 December 2023. And non-current liabilities amounted to approximately RMB2,139 million, accounting for approximately 23.4% of total liabilities, representing a decrease of RMB37 million as compared to 31 December 2023. As at 30 June 2024, the Group's total liabilities/total assets ratio was 71.63%, representing an increase of 0.24 percentage points as compared to 31 December 2023. As at 30 June 2024, the Group had no significant contingent liabilities.

Equity

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

Capital Expenditure, Major Investment and Capital Commitments

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

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

Material Investments, Acquisitions and Disposals of Subsidiaries, Associated Companies and Joint Ventures

There were no material investments, acquisitions or disposals of subsidiaries, associated companies and joint ventures undertaken by the Group during the reporting period.

CORPORATE GOVERNANCE REPORT

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

The Group is committed to achieving high standards of corporate governance to safeguard the interests of shareholders, potential investors and business parties and to enhance corporate value and accountability.

The Group strives to attain and maintain high standards of corporate governance to enhance shareholder value and safeguard the interests of shareholders, potential investors and business parties. The Group's corporate governance principles emphasize a good 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, enhancing corporate value, formulating our business strategies and policies, risk management and internal controls, transparency and accountability.

The Company has adopted and complied with the principles and all the code provisions as set out in the Corporate Governance Code (the "CG Code") as contained in part 2 of Appendix C1 to the Listing Rules as the standard of the Company's corporate governance practices except for code provision F.2.2 throughout the six months period from 1 January 2024 to 30 June 2024. Code provision F.2.2 provides that the Chairman of the Board should attend the annual general meeting. Mr. Wang Xu, a Chairman of the Board was unable to attend the annual general meeting of the Company held on 26 June 2024 due to other engagements. Mr. Wang will use his best endeavours to attend all future annual general meeting of the Company.

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

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

The Board will continue to review and monitor the corporate governance practices of the Company for the purpose of complying with the CG Code and maintaining a high standard of corporate governance practices of the Company.

CORPORATE GOVERNANCE REPORT

2. MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

After the specific enquiry made by the Company, all the Directors have confirmed that they have complied with the standards specified in both the Code for Securities Trading and the Model Code throughout the six months ended 30 June 2024.

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

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

3. INDEPENDENT NON-EXECUTIVE DIRECTORS

Reference is made to the announcement of the Company dated 28 June 2024 in relation to, among others, the resignation of independent non-executive directors and appointment of directors. Following the change in the board members as disclosed in the announcement, the Company has (i) two independent non-executive directors, which is below the minimum requirement under Rule 3.10(1) of the Listing Rules; (ii) less than one-third of independent non-executive directors on the Board, which does not meet the percentage requirement under Rule 3.10A of the Listing Rules during the six months ended 30 June 2024.

As a remedial measure, the Board has used its best effort to identify suitable candidates to fill the vacancy of an independent non-executive director and appointed Mr. Wang Junren as an independent non-executive director of the Company on 20 August 2024. Following the appointment of Mr. Wang Junren, the Company has three independent non-executive directors representing at least one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise and has met requirements under Rules 3.10(1), 3.10(2) and 3.10A of the Listing Rules up to the date of this report,

4. AUDIT COMMITTEE

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

Up to the date of this report, the Audit Committee comprises three members of the Board, among of two independent non-executive Directors, namely Ms. Li Yuedong (Chairman of Audit Committee) and Mr. Zhang Shiju, and one non-executive Director, namely Mr. Yang Yangzhuang. One of independent non-executive Directors possesses the appropriate professional qualifications or accounting or related financial management expertise.

CORPORATE GOVERNANCE REPORT

The Audit Committee shall hold at least two meetings a year and review opinions of internal auditors, internal control, risk management and financial reporting. The Audit Committee has reviewed the unaudited financial interim reports for the six months ended 30 June 2024 of the Company and the Group.

5. REMUNERATION COMMITTEE

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

Up to the date of this report, the Remuneration Committee comprises five members of the Board, including three independent non-executive Directors, namely Mr. Zhang Shiju (Chairman of Remuneration Committee), Ms. Li Yuedong and Mr. Wang Junren, one executive Director namely Mr. Wang Xu, and one non-executive Director namely Mr. Liu Xingui.

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

6. NOMINATION COMMITTEE

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

Up to the date of this report, the Nomination Committee comprises three members of the Board, including one executive Director, namely Mr. Wang Xu (Chairman of Nomination Committee) and two independent non-executive Directors, namely Mr. Zhang Shiju and Ms. Li Yuedong.

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

7. CHANGE IN DIRECTOR’S BIOGRAPHICAL DETAILS UNDER RULE 13.51B(1) OF THE LISTING RULES

There is no change in the information of the Directors of the Company as required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules as at 30 June 2024.

REPORT OF THE DIRECTORS

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

As at 30 June 2024, the interests and short positions of each Director and Chief Executive in the ordinary shares issued by the Company (the "Shares"), underlying Shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance (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 of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code contained in Appendix C3 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
Ms. Su Mei (Resigned with effect from 28 June 2024)	Long	Personal interest	150,000 ⁽¹⁾	0.002%

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

(B) Share Options of the Company

Name	Long/Short Position	Number of options held – Personal interest
Mr. Chen Guoming (Resigned with effect from 28 June 2024)	Long	500,000

Save as disclosed above, as at 30 June 2024, none of the Directors and Chief Executives (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for Shares (or warrants or debentures, if applicable) of the Company and its associated corporations required to be disclosed pursuant to the SFO.

REPORT OF THE DIRECTORS

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

The register of substantial shareholders required to be kept under section 336 of Part XV of the SFO shows that, as at 30 June 2024, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors and Chief Executives of the Company.

Name	Long/ Short Position	Number of shares held					% of the issued share capital of the Company
		Personal interest		Corporate interest	Corporate interest and settlor of a discretionary trust	Total	
		Share option	Shares interest				
Tricor Equity Trustee Limited	Long	–	–	–	562,622,260	562,622,260 ⁽¹⁾	6.22%
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 4 Family Trusts, holds 562,622,260 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 30 June 2024, none of the persons, other than the Directors or the Chief Executives of the Company, had interests or short positions in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or recorded in the register as required under Section 336 of the SFO.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME

(A) Share Option Scheme

Upon conditional approval by resolution in writing by all shareholders of the Company on 21 January 2008, the Company adopted a share option scheme (the "Share Option Scheme"). The vesting period of the Pre-IPO Share Option Scheme is ten years from the date of grant until 20 January 2018. Save as disclosed below, no options were granted or to be granted under the Share Option Scheme. As at 1 January 2024 and 30 June 2024, no options were available for grant under the scheme mandate. For the six month ended 30 June 2024, no shares may be issued in respect of options granted under the Share Option Schemes. Details of the share options granted under the Share Option Scheme in the validity period 30 June 2024 were as follows:

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

REPORT OF THE DIRECTORS

Particulars and movements of share options under the Share Option Scheme during the six months ended 30 June 2024 were as follows:

Name or category of participant	Number of share options					Outstanding as at 30/06/2024	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\$
	Granted during the six months ended 30 June 2024	Exercised during the six months ended 30 June 2024	Lapsed during the six months ended 30 June 2024	Cancelled during the six months ended 30 June 2024						
	Outstanding as at 01/01/2024	ended 30 June 2024	ended 30 June 2024	ended 30 June 2024						
Directors										
Mr. Chen Guoming <i>(Resigned with effect from 28 June 2024)</i>	550,000	–	–	550,000	–	0	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	1,050,000	–	–	550,000	–	500,000				
Other										
Employee	2,650,000	–	–	2,650,000	–	0	24/03/2014	24/04/2014-23/03/2024	2.024	2.02
Employee	13,519,548	–	–	991,560	–	12,527,988	02/07/2014	02/07/2014-01/07/2024	1.96	1.92
Employee	31,471,000	–	–	1,920,000	–	29,551,000	21/09/2016	21/09/2017-20/09/2026	0.44	0.435
Sub-total	47,640,548	–	–	5,561,560	–	42,078,988				
Total	48,690,548	–	–	6,111,560	–	42,578,988				

REPORT OF THE DIRECTORS

(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 30 June 2024, 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 2024 and 30 June 2024, 513,742,090 and 513,742,090 options were available for grant under the scheme mandate. No service providers were included as the eligible participants under the 2017 Share Option Scheme.

During the reporting period, no share options or share awards were granted in respect of which shares may be issued under any of the schemes of the Company.

RESTRICTED SHARE AWARD SCHEME

Reference is made to the announcement of the Company dated 30 December 2011 (the "2011 Announcement"). Capitalized terms used in this paragraph shall have the same meanings as those defined in the 2011 Announcement. 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 from the open market, accounting for approximately 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 issued share capital of the Company).

REPORT OF THE DIRECTORS

Reference is made to the announcement of the Company dated 29 December 2021 (the “2021 Announcement”). Capitalized terms used in this paragraph shall have the same meanings as those defined in the 2021 Announcement. At the Board meeting of the Company held on 29 December 2021, the Board approved and adopted the 2021 Restricted Share Award Scheme (the “2021 Restricted Share Award Scheme”). The 2021 Restricted Share Award Scheme shall be effective for a term of 10 years commencing on the adoption date (29 December 2021). As at the date of this interim report, the remaining life of the 2021 Restricted Share Award Scheme is less than 8 years. As at 1 January 2024 and 30 June 2024, 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 61,089,300 Shares which may be administered and have not yet been granted under the original Scheme). The Shares will be held in trust for the relevant Selected Participant until such Shares are vested with the relevant Selected Participants in accordance with the Scheme Rules. The Scheme shall be subject to the administration of the Board in accordance with the Scheme Rules. The Selected Participant is not entitled to receive any dividend derived from the Restricted Shares prior to the vesting of the Restricted Shares in the Selected Participants. 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.

During the reporting period, no share options or share awards were granted in respect of which shares may be issued under all schemes of the Company.

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

As at 30 June 2024 and during the reporting period, the Company did not hold any treasury shares (including any treasury shares held or deposited with the Central Clearing and Settlement System). Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's Shares listed on the Stock Exchange (including sale of treasury shares) during the reporting period.

EVENTS AFTER THE END OF THE REPORTING PERIOD

There were no significant events occurred that may affect the Company nor any its subsidiaries after the reporting period and up to the date of publication of this interim report.

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

PRC, 27 August 2024

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2024

		Unaudited Six months ended 30 June	
	Notes	2024 RMB'000	2023 RMB'000
Revenue	2	2,776,000	2,494,437
Cost of sales		(2,474,486)	(2,342,235)
Gross profit		301,514	152,202
Distribution expenses		(79,988)	(82,161)
Administrative expenses		(130,201)	(121,462)
Research and development expenses		(58,212)	(37,018)
Net impairment losses on financial assets and contract assets		12,079	(26,010)
Other income, net		32,110	25,610
Other gains or losses, net		3,668	66,276
Operating profit/(loss)	3	80,970	(22,563)
Finance income		11,130	12,475
Finance expenses		(79,978)	(155,690)
Finance expenses – net		(68,848)	(143,215)
Share of net gains/(losses) of an associate and a joint venture accounted for using the equity method	10	376	(1,371)
Profit/(loss) before income tax		12,498	(167,149)
Income tax expense	4	(15,114)	(971)
Loss for the period		(2,616)	(168,120)
Profit/(loss) attributable to:			
– Owners of the Company		2,419	(154,192)
– Non-controlling interests		(5,035)	(13,928)
		(2,616)	(168,120)
Profit/(loss) per share attributable to the owners of the Company (expressed in RMB cents per share)			
Basic and diluted	5	0.03	(2.91)

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2024

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

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2024

	Notes	Unaudited 30 June 2024 RMB'000	Audited 31 December 2023 RMB'000
Non-current assets			
Property, plant and equipment	7	2,497,398	2,597,483
Right of use assets	8	306,622	310,699
Intangible assets	9	359,654	353,691
Investments accounted for using the equity method	10	38,710	38,096
Deferred income tax assets		270,537	272,282
Financial assets at fair value through other comprehensive income	17	86,459	86,440
Trade and other receivables	11	719,062	719,486
Other non-current assets		71,588	75,137
		4,350,030	4,453,314
Current assets			
Inventories		1,661,382	1,780,023
Contract costs		286,858	176,668
Contract assets		961,435	942,206
Trade and other receivables	11	4,454,942	4,243,826
Current tax recoverable		17,923	11,503
Financial assets at fair value through other comprehensive income	17	43,850	26,539
Pledged bank deposits		33,031	43,392
Cash and cash equivalents		961,252	777,660
		8,420,673	8,001,817
Assets classified as held for sale		–	64,408
		8,420,673	8,066,225
Total assets		12,770,703	12,519,539

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2024

	Notes	Unaudited 30 June 2024 RMB'000	Audited 31 December 2023 RMB'000
EQUITY			
Share capital		823,804	823,804
Other reserves		4,763,180	4,722,640
Amounts recognised in other comprehensive income and accumulated in equity relating to disposal group held for sale		–	9,869
Accumulated losses		(2,156,777)	(2,172,084)
Equity attributable to owners of the Company		3,430,207	3,384,229
Non-controlling interests		192,498	197,533
		3,622,705	3,581,762
Non-current liabilities			
Borrowings	12	2,105,617	2,146,017
Deferred income		17,154	17,306
Lease liabilities	8	16,252	12,350
		2,139,023	2,175,673
Current liabilities			
Contract liabilities		582,153	538,965
Trade and other payables	13	3,613,738	3,797,675
Income tax payable		27,186	23,695
Borrowings	12	2,737,370	2,324,052
Provisions for other liabilities and charges	14	34,936	41,025
Deferred income		4,985	6,422
Lease liabilities	8	8,607	23,699
		7,008,975	6,755,533
Liabilities associated with assets classified as held for sale		–	6,571
		7,008,975	6,762,104
Total liabilities		9,147,998	8,937,777
Total equity and liabilities		12,770,703	12,519,539

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2024

	Unaudited											
	Attributable to owners of the Company											
	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000	Capital reserve RMB'000	Surplus reserve RMB'000	Exchange reserve RMB'000	Fair value reserve RMB'000	Shares held for share award scheme RMB'000	Accumulated losses RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2024	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
Comprehensive income												
Profit/(loss) for the period	-	-	-	-	-	-	-	-	2,419	2,419	(5,035)	(2,616)
Other comprehensive income	-	-	-	-	-	40,768	2,791	-	-	43,559	-	43,559
Total comprehensive income/(expense)	-	-	-	-	-	40,768	2,791	-	2,419	45,978	(5,035)	40,943
Transactions with owners												
Disposal of a subsidiary	-	-	-	-	-	-	(12,775)	-	12,775	-	-	-
Options lapsed under share option schemes	-	-	-	(1,718)	-	-	-	-	1,718	-	-	-
Appropriation to surplus	-	-	-	-	1,605	-	-	-	(1,605)	-	-	-
Total transactions with owners, recognised directly in equity	-	-	-	(1,718)	1,605	-	(12,775)	-	12,888	-	-	-
Balance at 30 June 2024	823,804	4,076,012	61,199	510,249	471,462	(235,428)	4,304	(124,618)	(2,156,777)	3,430,207	192,498	3,622,705
Balance at 1 January 2023	488,023	3,597,179	61,199	512,321	473,007	(264,765)	10,439	(124,618)	(1,788,991)	2,963,794	230,201	3,193,995
Comprehensive income												
Loss for the period	-	-	-	-	-	-	-	-	(154,192)	(154,192)	(13,928)	(168,120)
Other comprehensive income/(expense)	-	-	-	-	-	4,480	(111)	-	-	4,369	-	4,369
Total comprehensive income/(expense)	-	-	-	-	-	4,480	(111)	-	(154,192)	(149,823)	(13,928)	(163,751)
Transactions with owners												
Options lapsed under share option schemes	-	-	-	(173)	-	-	-	-	173	-	-	-
Appropriation to surplus	-	-	-	-	1,566	-	-	-	-	1,566	-	1,566
Total transactions with owners, recognised directly in equity	-	-	-	(173)	1,566	-	-	-	173	1,566	-	1,566
Balance at 30 June 2023	488,023	3,597,179	61,199	512,148	474,573	(260,285)	10,328	(124,618)	(1,943,010)	2,815,537	216,273	3,031,810

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2024

	Unaudited Six months ended 30 June	
	2024 RMB'000	2023 RMB'000
Operating activities		
Cash generated from operations	63,025	97,484
Income tax paid	(22,723)	(16,739)
Net cash generated from operating activities	40,302	80,745
Investing activities		
Payment for additions of property, plant and equipment, intangible assets and construction in progress	(95,014)	(82,843)
Proceeds on disposal of property, plant and equipment	1,198	72
Net cash inflow on disposal of a subsidiary (Note 18)	61,185	—
Payment for additional shares acquired on an associate	(13,823)	—
Dividends received	1,527	2,048
Others	(282)	—
Net cash used in investing activities	(45,209)	(80,723)
Financing activities		
Repayments of borrowings	(1,774,948)	(2,783,802)
Proceeds from borrowings	2,023,566	3,072,988
Interest and charges paid	(110,998)	(111,973)
Net cash from financing activities	137,620	177,213
Net increase in cash and cash equivalents	132,713	177,235
Cash and cash equivalents at the beginning of the period	811,273	601,001
Effect of foreign exchange rate changes	17,266	12,167
Cash and cash equivalents at end of the period	961,252	790,403

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2024

1 GENERAL INFORMATION

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

The Company was incorporated in the Cayman Islands on 15 June 2007 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Its parent is Dongfang Electric International Investment Co., Limited (東方電氣集團國際投資有限公司, “Dongfang Investment”, incorporated in Hong Kong) and its ultimate parent is Dongfang Electric Corporation (中國東方電氣集團有限公司, “DEC”, incorporated in People’s Republic of China (the “PRC”)). The address of its registered office is Windward 3, Regatta Office Park, PO Box 1350, Grand Cayman, KY1-1108, Cayman Islands. The principal place of business of the Group is 99 East Road, Information Park, Jinniu District, Chengdu, Sichuan, PRC.

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

This interim condensed consolidated financial information is presented in Chinese Renminbi (“RMB”), unless otherwise stated, and was approved for issue by the Board of Directors of the Company on 27 August 2024.

This interim condensed consolidated financial information has not been audited.

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2024

2 SEGMENT AND REVENUE INFORMATION

(i) Description of segments

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

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

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

- (a) land drilling rigs;
- (b) parts and components and others;
- (c) drilling engineering services; and
- (d) fracturing services.

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

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

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2024

2 SEGMENT AND REVENUE INFORMATION (Continued)

(ii) Segment information

The table below shows the segment information and the basis on which revenue is recognized regarding the Group's reportable segments for the six months ended 30 June 2024 and 2023 respectively:

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

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2024

2 SEGMENT AND REVENUE INFORMATION *(Continued)***(ii) Segment information** *(Continued)*

Given the manufacturing processes of the Group's business are in a form of vertical integration, the Group's CODM considered segment assets and liabilities information was not relevant in assessing performance of and allocating resources to the operations segments. During the six months ended 30 June 2024, such information was not reviewed by the Group's CODM. Accordingly, no segment assets and liabilities are presented.

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

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

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2024

2 SEGMENT AND REVENUE INFORMATION (Continued)**(ii) Segment information** (Continued)

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

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

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

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

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

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2024

3 OPERATING PROFIT/(LOSS)

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

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

4 INCOME TAX EXPENSE

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

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

(i) Hong Kong

The provision for Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits of the subsidiaries of the Group incorporated in Hong Kong during the six months ended 30 June 2024 and 2023.

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2024

4 INCOME TAX EXPENSE *(Continued)***(ii) The PRC**

Pursuant to the income tax rules and regulations of the PRC, the subsidiaries of the Group in the PRC are subject to PRC enterprise income tax at a rate of 25% during the six months ended 30 June 2024 and 2023, except for the following companies:

(a) *Sichuan Honghua Petroleum Equipment Co., Ltd. ("Honghua Company"), Gansu Hongteng Oil & Gas Equipment Co., Ltd. ("Gansu Hongteng"), Honghua Offshore Oil and Gas Equipment (Jiangsu) Co., Ltd. ("Honghua (Jiangsu)") and Han Zheng Testing Technology Co., Ltd. ("Han Zheng Testing")*

Corporate income tax ("CIT") of Honghua Company, Gansu Hongteng, Honghua (Jiangsu) and Han Zheng Testing is accrued at a tax rate of 15% applicable for Hi-tech enterprises pursuant to the relevant PRC tax rules and regulations during the six months ended 30 June 2024 and 2023.

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

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

(iii) Others

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

(iv) Withholding tax

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

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

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2024

5 PROFIT/(LOSS) PER SHARE

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

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

	Six months ended 30 June	
	2024	2023
Profit/(loss) attributable to owners of the Company (RMB'000)	2,419	(154,192)
Weighted average number of ordinary shares in issue (thousands)	9,040,489	5,355,995
Effect of the share award scheme (thousands)	(61,089)	(61,089)
Adjusted weighted average number of ordinary shares in issue (thousands)	8,979,400	5,294,906
Basic and diluted profit/(loss) per share (RMB cents per share)	0.03	(2.91)

6 DIVIDENDS

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

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

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2024

7 PROPERTY, PLANT AND EQUIPMENT

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

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2024

8 LEASES

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

(i) Amounts recognised in the statement of financial position

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

	30 June 2024 RMB'000	31 December 2023 RMB'000
Right of use assets		
Lease prepayments for land use rights	304,902	309,310
Buildings and equipment	1,720	1,389
	306,622	310,699
Lease liabilities		
Current	8,607	23,699
Non-current	16,252	12,350
	24,859	36,049

Additions to the right-of-use assets during the six months ended 30 June 2024 were RMB1,335,000 (six months ended 30 June 2023: RMB1,399,000).

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

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

	Six months ended 30 June	
	2024 RMB'000	2023 RMB'000
Depreciation charge of right-of-use assets		
Lease prepayments for land use rights	4,408	4,479
Buildings and equipment	1,004	1,314
Interest expense (included in finance cost)	26	1,010
Expense relating to short-term and low-value assets leases (included in cost of goods sold and distribution expenses)	179,284	204,474

The total cash outflow for leases during the six months ended 30 June 2024 was RMB346,370,000 (six months ended 30 June 2023: RMB216,395,000).

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2024

9 INTANGIBLE ASSETS

	Technical know-how RMB'000	Development cost and others RMB'000	Total RMB'000
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
Six months ended 30 June 2024			
Opening net book amount	–	353,691	353,691
Additions	–	25,652	25,652
Disposal of a subsidiary (Note 18)	–	(13)	(13)
Amortisation	–	(19,676)	(19,676)
Closing net book amount	–	359,654	359,654
At 30 June 2024			
Cost	348,839	524,284	873,123
Accumulated amortisation and impairment	(348,839)	(164,630)	(513,469)
Net book amount	–	359,654	359,654

During the six months ended 30 June 2024, the Group capitalized development cost amounted to RMB93,109,000 (six months ended 30 June 2023: nil).

10 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The carrying amount of equity-accounted investments has changed as follows in the six months ended 30 June 2024:

	Six months ended 30 June 2024 RMB'000
Beginning of the period	38,096
Profit for the period	376
Currency translation difference	238
End of the period	38,710

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2024

11 TRADE AND OTHER RECEIVABLES

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

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2024

11 TRADE AND OTHER RECEIVABLES *(Continued)*

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

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

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

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2024

12 BORROWINGS

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

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2024

12 BORROWINGS *(Continued)*

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

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

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

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

As at 3 March 2023, Honghua (China) Investment Co., Ltd. (“Honghua China”), a subsidiary of the Group, had entered into a loan agreements with Dongfang Electric Finance and Dongfang Electric Finance agreed to provide RMB490,000,000 credit facility to the Honghua China. At the end of 31 December 2023, Honghua China had drawdown RMB445,000,000 from Dongfang Electric Finance, which carries interest at variable market rates of Loan Prime Rate (“LPR”) plus a fixed interest of 0.35% and is repayable after three years since the date of drawdown. On 21 May 2024, Honghua China had entered into a loan supplementary agreement with Dongfang Electric Finance, the interest rate of RMB490,000,000 credit facility has been changed to a variable market rates of LPR minus a fixed interest of 0.65% and 四川銀行股份有限公司 (“Sichuan Bank”) transferred part of its loan to Honghua China, amounting to RMB395,000,000, to Dongfang Electric Finance, which carries interest market rates of LPR minus a fixed interest of 0.65% and is repayable on 6 March 2026.

- (iii) The amount of RMB110,409,000 as at 30 June 2024 (2023: RMB122,006,000) represents transfer of equipment to an independent third party that does not satisfy the requirements as a sale in accordance with IFRS 15. Hence, the Group continues to recognise the assets and accounts for the transfer proceeds as other borrowings within the scope of IFRS 9.

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2024

12 BORROWINGS (Continued)

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

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

As at 30 June 2024 and 31 December 2023, the contractual maturities of the Group's financial liabilities were as follows:

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Total contractual cash flows RMB'000
Contractual maturities of financial liabilities				
At 30 June 2024				
Trade and other payables (i)	3,529,762	–	–	3,529,762
Borrowings	2,812,436	342,340	1,801,091	4,955,867
Lease liabilities	8,705	16,537	–	25,242
Total	6,350,903	358,877	1,801,091	8,510,871

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Total contractual cash flows RMB'000
Contractual maturities of financial liabilities				
At 31 December 2023				
Trade and other payables (i)	3,699,475	–	–	3,699,475
Borrowings	2,310,101	646,790	1,732,995	4,689,886
Lease liabilities	24,454	12,430	–	36,884
Total	6,034,030	659,220	1,732,995	8,426,245

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

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2024

13 TRADE AND OTHER PAYABLES

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

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

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

14 PROVISIONS FOR OTHER LIABILITIES AND CHARGES

	Product warranties RMB'000	Compensation to shareholder RMB'000	Legal claims RMB'000	Others RMB'000	Total RMB'000
At 31 December 2023	22,781	15,919	200	2,125	41,025
Provisions during the period	3,223	–	–	–	3,223
Utilised during the period	(7,270)	–	–	(2,042)	(9,312)
At 30 June 2024	18,734	15,919	200	83	34,936

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2024

15 EQUITY SECURITIES ISSUED

No security was issued by the Group during the six months ended 30 June 2024 (six months ended 30 June 2023: Nil).

16 RELATED-PARTY TRANSACTIONS

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

The following is a summary of the significant related party transactions carried out between the Group and its related parties in the ordinary course of business during the six months ended 30 June 2024 and 2023, and balances arising from related party transactions as at 30 June 2024 and 31 December 2023.

Name of related parties	Relationship
Egyptian Petroleum HH Rigs Manufacturing Co. S.A.E. ("HH Egyptian Company")	Joint venture of the Group
Honghua Financial Leasing (Shenzhen) Co., Ltd. ("Honghua (Shenzhen)")	Associate of the Group
Dongfang Investment	Subsidiary of DEC
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

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2024

16 RELATED-PARTY TRANSACTIONS (Continued)

Name of related parties	Relationship
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
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
Honghua Financial Leasing (Shanghai) Co., Ltd. (“Shanghai Leasing”) (Note)	Subsidiary of DEC (from 29 February 2024)
Honghua Huyi Financial Leasing (Shanghai) Co., Ltd. (“Huyi Leasing”) (Note)	Subsidiary of DEC (from 29 February 2024)

Note:

On 29 February 2024, Shanghai Leasing has been sold to DEC Investment Management Company Limited (“DEC Investment”), a subsidiary of DEC. Accordingly, these entities, being the subsidiary of DEC, became the related parties of the Group with effect from 29 February 2024. For further details, please refer to Note 18.

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2024

16 RELATED-PARTY TRANSACTIONS (Continued)

(i) Significant related party transactions

	Six months ended 30 June	
	2024 RMB'000	2023 RMB'000
Purchases of parts and components		
– Sichuan Property	174,868	58,497
– Wind Power	14,846	–
– Electric Control	–	1,969
– Other related companies	230	–
	189,944	60,466
Sales of drilling rigs, parts and components and others		
– Dongfang Turbine	22,632	23,464
– Science Technology Research	21,704	1,548
– Dongfang Furnace	20,847	30,888
– Dongfang Electric Machine	14,587	8,848
– HH Egyptian Company	9,287	20,734
– Auto Control Engineering	1,310	7,784
– Deyang Electric Auto Technology	1,264	887
– Wind Power	168	11,002
– Honghua (Shenzhen) (a)	–	11,947
– Other related companies	476	1,593
	92,275	118,695

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

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

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2024

16 RELATED-PARTY TRANSACTIONS (Continued)

(i) Significant related party transactions (Continued)

	Six months ended 30 June	
	2024 RMB'000	2023 RMB'000
Service provided to		
– Dongfang Turbine	6,247	5,151
– GZ Heavy Machine	2,187	14,557
– Dongfang Furnace	815	–
– Dongfang Electric Machine	670	811
– Deyang Electric Auto Technology	123	241
– Auto Control Engineering	79	398
– Other related companies	44	731
	10,165	21,889
Service provided from		
– Dajian Logistics	29,951	4,234
– Sichuan Property	19,896	–
	49,847	4,234
Rental income		
– Wind Power	–	917
Lease expenses		
– Honghua (Shenzhen) (b)	15,498	56,574

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

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2024

16 RELATED-PARTY TRANSACTIONS *(Continued)***(i) Significant related party transactions** *(Continued)*

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

For the six months ended 30 June 2024, the total operating lease expense incurred and charged to the profit or loss from the above mentioned lease agreements was approximately RMB15,498,000 (six months ended 30 June 2023: RMB56,574,000).

	Six months ended 30 June	
	2024 RMB'000	2023 RMB'000
Receipts of loans from related parties		
– Dongfang Electric Finance	527,653	445,000
– DEC	60,000	–
	587,653	445,000
Repayments of loans from related parties		
– Dongfang Electric Finance	130,000	–
Interest expense		
– Dongfang Electric Finance	16,577	5,125
– Shanghai Leasing	1,188	–
	17,765	5,125
Interest income		
– Dongfang Electric Finance	9	–
Miscellaneous expenses		
– Other related companies	–	61

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2024

16 RELATED-PARTY TRANSACTIONS (Continued)

(ii) Amounts due from related parties

	30 June 2024 RMB'000	31 December 2023 RMB'000
Trade		
– Honghua (Shenzhen)	272,619	285,060
– HH Egyptian Company	79,430	79,151
– Other related companies	265,690	221,249
	617,739	585,460
Non-trade		
– Honghua (Shenzhen)	79,106	109,994
– HH Egyptian Company	13,044	13,571
– Other related companies	206,772	157
	298,922	123,722

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

The balance of the provision for the amount due from related parties was RMB8,400,000 (as at 31 December 2023: RMB8,849,000).

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2024

16 RELATED-PARTY TRANSACTIONS (Continued)

(iii) Amounts due to related parties

	30 June 2024 RMB'000	31 December 2023 RMB'000
Trade		
– HH Egyptian Company	8,168	13,562
– Honghua (Shenzhen)	–	147,898
– Other related companies	338,151	164,613
	346,319	326,073
Non-trade		
– Dongfang Electric Finance	1,375,653	978,000
– DEC	60,000	–
– Honghua (Shenzhen)	–	4
– Other related companies	195,926	113,771
	1,631,579	1,091,775

(iv) Key management compensation

	Six months ended 30 June 2024 RMB'000	2023 RMB'000
Basic salaries, allowances and other benefits in kind	2,224	1,807
Contributions to defined contribution retirement schemes	358	284
	2,582	2,091

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2024

17 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

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

(i) Fair value hierarchy

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

The following table presents the Group's financial assets measured and recognized at fair value at 30 June 2024 and 31 December 2023 on a recurring basis:

At 30 June 2024

	Level 3 RMB'000
Financial assets	
Financial assets at fair value through other comprehensive income	
– Investment in unlisted companies	86,459
– Bank acceptance bill receivables	43,850
	130,309

At 31 December 2023

	Level 3 RMB'000
Financial assets	
Financial assets at fair value through other comprehensive income	
– Investment in unlisted companies	86,440
– Bank acceptance bill receivables	26,539
	112,979

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2024

17 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS *(Continued)*

(i) Fair value hierarchy *(Continued)*

There were no transfers among levels 1, 2 and 3 for the six months ended 30 June 2024 and 2023. There were no other changes in valuation techniques for the six months ended 30 June 2024 and 2023.

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

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

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

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

(ii) Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

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

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2024

17 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS *(Continued)*

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

	Investment in unlisted companies RMB'000	Bank acceptance bill receivables RMB'000
Opening balance 31 December 2023	86,440	26,539
Acquisitions	–	43,850
Disposals	–	(26,539)
Exchange realignment	19	–
Closing balance 30 June 2024	86,459	43,850

(a) Valuation inputs

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

(b) Valuation process

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

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

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

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

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2024

18 DISPOSAL OF A SUBSIDIARY

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

Consideration

	RMB'000
Total consideration received	195,677

Analysis of assets and liabilities over which control was lost:

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

Loss on disposal of Shanghai Leasing

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

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2024

18 DISPOSAL OF A SUBSIDIARY *(Continued)***Net cash inflow arising on disposal**

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

19 BASIS OF PREPARATION OF INTERIM FINANCIAL REPORT

This interim condensed consolidated financial information for the six months reporting period ended 30 June 2024 has been prepared in accordance with International Accounting Standard IAS 34 Interim Financial Reporting.

The interim condensed consolidated financial information does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2023 and any public announcements made by the Group during the interim reporting period.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the adoption of new and amended standards as set out below.

In the current interim period, the Group has applied the following new and amendments to IFRSs for the first time, which are mandatorily effective for the Group's annual period beginning on 1 January 2024 for the preparation of the Group's condensed consolidated financial statements:

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

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2024

19 BASIS OF PREPARATION OF INTERIM FINANCIAL REPORT *(Continued)*

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

20 SEASONALITY OF OPERATIONS

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

21 COMMITMENTS

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

	30 June 2024 RMB'000	31 December 2023 RMB'000
Contracted for	10,516	7,615

22 EVENTS OCCURRING AFTER REPORTING PERIOD

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

