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宏华集团
HONGHUA GROUP

HONGHUA GROUP LIMITED

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

(Stock code: 196)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2024

FINANCIAL HIGHLIGHT

	For the year ended 31 December		Changes
	2024	2023	
Turnover (<i>RMB'000</i>)	5,633,410	5,473,234	2.9%
Gross profit (<i>RMB'000</i>)	676,504	541,773	24.9%
Gross profit margin (%)	12.0	9.9	2.1 percentage points
Operating profit/(loss) (<i>RMB'000</i>)	148,179	(199,862)	—
Profit/(loss) attributable to equity shareholders of the Company (<i>RMB'000</i>)	7,576	(386,597)	—
Profit/(loss) per share			
– Basic (<i>RMB cents</i>)	0.08	(5.54)	—
– Diluted (<i>RMB cents</i>)	0.08	(5.54)	—

The Board does not recommend payment of annual dividend for the year ended 31 December 2024.

ANNUAL RESULTS

The Board of the Company hereby announces the consolidated results of the Group for the year ended 31 December 2024 (the “**Relevant Year**”), together with the comparative figures for the year ended 31 December 2023.

The annual results have also been reviewed by the Audit Committee, which comprises one non-executive Director and two independent non-executive Directors, with one of the independent non-executive Directors serving as the chairman of the Audit Committee.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group’s consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the Year, as set out in this announcement, have been agreed by the Group’s auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the audited consolidated financial statements of the Group for the year as approved by the Board of Directors on 25 March 2025. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by Messrs. Deloitte Touche Tohmatsu on this announcement.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2024

		Year ended 31 December	
		2024	2023
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	3	5,633,410	5,473,234
Cost of sales	5	(4,956,906)	(4,931,461)
Gross profit		676,504	541,773
Distribution costs	5	(210,516)	(249,175)
Administrative expenses	5	(383,231)	(424,799)
Research and development expenses	5	(150,457)	(112,415)
Net impairment reversal/(losses) on financial assets and contract assets	14	124,347	(18,983)
Other income	4	67,416	44,871
Other gains or losses, net	6	24,116	18,866
Operating profit/(loss)		148,179	(199,862)
Finance income	7	24,770	38,277
Finance expenses	7	(155,110)	(213,877)
Finance expenses – net		(130,340)	(175,600)
Share of net gains/(losses) of an associate and a joint venture accounted for using the equity method		21,984	(35,544)
Profit/(loss) before income tax		39,823	(411,006)
Income tax expense	8	(35,087)	(8,259)
Profit/(loss) for the year		4,736	(419,265)
Profit/(loss) for the year attributable to:			
– Owners of the Company		7,576	(386,597)
– Non-controlling interests		(2,840)	(32,668)
		4,736	(419,265)
Earnings/(loss) per share attributable to owners of the Company			
Basic and diluted (RMB cents per share)	9	0.08	(5.54)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2024

	Year ended 31 December	
	2024	2023
	RMB'000	RMB'000
Profit/(loss) for the year	4,736	(419,265)
Other comprehensive income/(expense)		
<i>Items that may be reclassified to profit or loss</i>		
Exchange differences arising on translation of foreign operations	(14,734)	(52,604)
Fair value loss on hedging instruments designated as cash flow hedges	(10,454)	–
Income tax relating to items that will be reclassified to profit or loss	1,568	–
<i>Items that will not be reclassified to profit or loss</i>		
Currency translation differences	91,259	41,173
Change in the fair value of equity investments at fair value through other comprehensive income	11,747	4,528
Income tax relating to items that will not be reclassified to profit or loss	(1,295)	(679)
Other comprehensive income/(expense) for the year, net of tax	78,091	(7,582)
Total comprehensive income/(expense) for the year	82,827	(426,847)
Total comprehensive income/(expense) attributable to:		
– Owners of the Company	85,667	(394,179)
– Non-controlling interests	(2,840)	(32,668)
	82,827	(426,847)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2024

		At 31 December	
		2024	2023
	Notes	RMB'000	RMB'000
Non-current assets			
Property, plant and equipment		2,541,627	2,597,483
Right of use assets		414,398	310,699
Intangible assets		391,337	353,691
Investments accounted for using the equity method		55,455	38,096
Deferred tax assets		268,163	272,282
Financial assets at fair value through other comprehensive income		95,329	86,440
Trade and other receivables		472,391	719,486
Other non-current assets		55,909	75,137
		<u>4,294,609</u>	<u>4,453,314</u>
Current assets			
Inventories	11	1,303,599	1,780,023
Contract costs		194,913	176,668
Contract assets		1,472,915	942,206
Trade and other receivables	10	3,638,072	4,243,826
Current tax recoverable		12,545	11,503
Financial assets at fair value through other comprehensive income		170,544	26,539
Pledged bank deposits		50,418	43,392
Cash and cash equivalents		790,586	777,660
		<u>7,633,592</u>	<u>8,001,817</u>
Assets classified as held for sale		–	64,408
		<u>7,633,592</u>	<u>8,066,225</u>
Total assets		<u>11,928,201</u>	<u>12,519,539</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION – CONTINUED

AT 31 DECEMBER 2024

		At 31 December	
		2024	2023
	<i>Notes</i>	RMB'000	RMB'000
Current liabilities			
Contract liabilities		514,307	538,965
Trade and other payables	<i>12</i>	3,407,501	3,797,675
Income tax payable		25,676	23,695
Borrowings		2,110,702	2,324,052
Other financial liabilities		10,454	–
Provisions for other liabilities and charges		34,499	41,025
Deferred income		1,120	6,422
Lease liabilities		39,173	23,699
		6,143,432	6,755,533
Liabilities associated with assets classified as held for sale		–	6,571
		6,143,432	6,762,104
Non-current liabilities			
Borrowings	<i>13</i>	2,039,052	2,146,017
Deferred income		28,655	17,306
Lease liabilities		52,473	12,350
		2,120,180	2,175,673
Total liabilities		8,263,612	8,937,777
EQUITY			
Share capital		823,804	823,804
Other reserves		4,781,708	4,722,640
Amounts recognised in other comprehensive income and accumulated in equity relating to disposal group held for sale		–	9,869
Accumulated losses		(2,135,616)	(2,172,084)
Equity attributable to owners of the Company		3,469,896	3,384,229
Non-controlling interests		194,693	197,533
		3,664,589	3,581,762
Total liabilities and equity		11,928,201	12,519,539

1. GENERAL

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

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.

These financial statements are presented in Renminbi (“RMB”), which is different from the Company’s functional currency of Hong Kong dollars (“HKD”), unless otherwise stated, and were approved for issue by the Board of Directors of the Company on 25 March 2025.

2. MATERIAL ACCOUNTING POLICY INFORMATION

2.1 Basis of preparation

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

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

Amendments to IFRS 16	Lease Liability in a Sale and Leaseback
Amendments to IAS 1	Classification of Liabilities as Current or Non-Current
Amendments to IAS 1	Non-current Liabilities with Covenants
Amendments to IAS 7 and IFRS 7	Supplier Finance Arrangements

The application of the amendments to IFRS Accounting Standards 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.

2.2 New and amendments to IFRS Accounting Standards in issue but not yet effective

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

Amendments to IFRS 9 and IFRS 7	Amendments to the Classification and Measurement of Financial Instruments ³
Amendments to IFRS 9 and IFRS 7	Contracts Referencing Nature-dependent Electricity ³
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ¹
Amendments to IFRS Accounting Standards	Annual Improvements to IFRS Accounting Standards – Volume 11 ³
Amendments to IAS 21	Lack of Exchangeability ²
IFRS 18	Presentation and Disclosure in Financial Statements ⁴

¹ Effective for annual periods beginning on or a date to be determined.

² Effective for annual periods beginning on or after 1 January 2025.

³ Effective for annual periods beginning on or after 1 January 2026.

⁴ Effective for annual periods beginning on or after 1 January 2027.

3. SEGMENT INFORMATION

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

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

The offshore engineering segment of the Group primarily includes businesses such as offshore wind power jacket foundations, marine oil and gas equipment, and specialised vessels. Starting in the current year, the offshore engineering segment, which was originally grouped under the parts and components and others segment, was presented separately as a standalone segment. Comparative segment information have also been restated correspondingly.

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;

(d) fracturing services; and

(e) offshore engineering.

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

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

The following table presents revenue and profit information regarding the Group's operating segments for the years ended 31 December 2024 and 2023 respectively. The Group derives revenue from the transfer of good and services over time and at a point in the following operating segments.

	Land drilling rigs		Parts and components and others		Drilling engineering services		Fracturing services		Offshore engineering		Total	
	Year ended 31 December		Year ended 31 December		Year ended 31 December		Year ended 31 December		Year ended 31 December		Year ended 31 December	
	2024	2023	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	RMB'000	RMB'000
Segment revenue	2,034,969	2,631,142	2,542,015	2,859,619	355,149	413,797	1,035,741	527,884	1,048,753	549,937	7,016,627	6,982,379
Inter-segment revenue	(83,651)	(276,863)	(879,799)	(1,090,289)	(18,213)	(17,543)	(212,603)	(3,077)	(188,951)	(121,373)	(1,383,217)	(1,509,145)
Revenue from external customers	1,951,318	2,354,279	1,662,216	1,769,330	336,936	396,254	823,138	524,807	859,802	428,564	5,633,410	5,473,234
Timing of revenue recognition for contracts with customers												
– At a point in time	490,129	978,152	2,464,234	2,523,738	–	–	86,960	10,979	980,128	444,531	4,021,451	3,957,400
– Over time	1,544,840	1,652,990	8,040	207,814	355,149	413,797	948,781	516,905	68,625	105,406	2,925,435	2,896,912
Lease income	–	–	69,741	128,067	–	–	–	–	–	–	69,741	128,067
Reportable segment profit/(loss)	34,256	81,469	145,086	19,537	18,485	(19,236)	(82,917)	(190,267)	(11,302)	(74,164)	103,608	(182,661)
<i>Other segment information:</i>												
Depreciation and amortisation (Note)	60,877	72,945	113,224	109,828	43,699	49,752	47,550	29,687	56,983	46,907	322,333	309,119
Impairment on trade and other receivables and contract assets, net of reversal	(100,662)	12,982	(6,369)	(9,471)	(5,880)	18,551	1,171	(3,567)	(12,607)	488	(124,347)	18,983
Allowance for inventories	43,926	17,756	30,203	16,010	866	5,290	667	(292)	25,512	17,853	101,174	56,617
Write-down of contract costs	–	–	–	535	–	17,110	–	(971)	–	–	–	16,674
Impairment provision on property, plant and equipment	–	–	–	2,541	18,920	11,888	–	–	–	34,631	18,920	49,060

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

Given the manufacturing processes of the Group's businesses are in a form of vertical integration, the CODM considered segment assets and liabilities information was not relevant in assessing performance of and allocating resources to the operations segments. During the year ended 31 December 2024 and 2023, such information was not reviewed by the Group's CODM. Accordingly, no segment assets and liabilities are presented.

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

	Year ended 31 December	
	2024	2023
	RMB'000	RMB'000
Segment profit/(loss)		
– for reportable segments	103,608	(182,661)
Elimination of inter-segment profit	(15,608)	(69,621)
Segment profit/(loss) derived from the Group's external customers	88,000	(252,282)
Share of profit/(loss) of an associate and a joint venture	21,984	(35,544)
Other income and other gains or losses, net	91,532	63,737
Finance income	24,770	38,277
Finance expenses	(155,110)	(213,877)
Unallocated head office and corporate expenses	(31,353)	(11,317)
Profit/(loss) before income tax	39,823	(411,006)

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

	Year ended 31 December	
	2024	2023
	RMB'000	RMB'000
Land drilling rigs	1,951,318	2,354,279
Parts and components and others	1,662,216	1,769,330
Drilling engineering services	336,936	396,254
Fracturing services	823,138	524,807
Offshore engineering	859,802	428,564
	5,633,410	5,473,234

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

	Year ended 31 December	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
The PRC (country of domicile)	2,618,076	2,210,059
Middle East	1,881,781	2,255,816
<i>Including: United Arab Emirates</i>	739,620	254,133
<i>Kuwait</i>	454,441	1,060,637
<i>Iraq</i>	303,721	299,228
<i>Oman</i>	253,562	602,705
<i>Saudi Arabia</i>	130,083	18,570
Africa	619,779	538,363
<i>Including: Nigeria</i>	583,431	163,782
Europe	231,420	354,596
South Asia and South East Asia	172,311	51,026
Americas	110,043	63,374
	<u>5,633,410</u>	<u>5,473,234</u>

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

	At 31 December	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
The PRC (country of domicile)	3,037,834	2,973,302
Middle East	377,919	362,917
<i>Including: Iraq</i>	345,794	356,635
Africa	41,863	38,096
Europe	1,036	699
Americas	74	92
	<u>3,458,726</u>	<u>3,375,106</u>

Revenue from customers of the corresponding years contributing over 10% of the total revenue of the Group are as follows:

	Year ended 31 December	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
Customer A ¹	729,961	195,696 ²
Customer B ¹	582,766	167,432 ²
Customer C ¹	26,735 ²	551,548

¹ Revenue from “Land drilling rigs” and “Parts and components and others”;

² The corresponding revenue did not contribute over 10% of the revenue of the Group.

Assets and liabilities related to contracts with customers

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

	At 31 December	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
Contract assets – current	1,511,268	980,015
<i>Less: loss allowance</i>	<u>(38,353)</u>	<u>(37,809)</u>
Contract assets, net	<u>1,472,915</u>	<u>942,206</u>
Contract liabilities – current	<u>514,307</u>	<u>538,965</u>

As at 1 January 2023, contract assets and contract liabilities amounted to RMB631,374,000 and RMB760,953,000, respectively.

Included in contract assets and contract liabilities represented amount of approximately RMB57,553,000 and RMB14,739,000 (2023: RMB38,326,000 and RMB22,993,000), respectively, received from the Group’s related companies.

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

(b) Revenue recognised in relation to contract liabilities

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

	Year ended 31 December	
	2024	2023
	RMB'000	RMB'000
Revenue recognised that was included in the contract liabilities balance at the beginning of the year		
Sales of goods	503,749	695,826

(c) Unsatisfied performance

As at 31 December 2024, the aggregate amount of the transaction price allocated to contracts that are partially or fully unsatisfied is RMB2,943,568,000 (2023: RMB2,944,164,000).

The management estimates that 81% or RMB2,371,344,000 (2023: 89% or RMB2,630,295,000) of the transaction price allocated to unsatisfied performance obligations as at 31 December 2024 will be recognised as revenue during the next reporting period. The remaining will be recognised in the 2026 financial year and afterwards.

4. OTHER INCOME

	Year ended 31 December	
	2024	2023
	RMB'000	RMB'000
Government grants	33,541	33,637
Sales of scrap materials	29,688	7,583
Others	4,187	3,651
	67,416	44,871

5. EXPENSES BY NATURE

	Year ended 31 December	
	2024	2023
	RMB'000	RMB'000
Raw materials and consumables used	2,603,138	3,263,646
Employee benefit expenses	542,026	555,028
Service fee	717,717	712,622
Depreciation and amortisation		
– Property, plant and equipment	253,852	261,321
– Intangible assets	48,178	31,600
– Right of use assets	15,747	10,527
– Investment properties	4,556	5,671
Transportation	110,639	138,623
Changes in inventories of finished goods and work in progress and contract costs	380,869	(407,329)
Provision for inventory write-down	101,174	56,617
Provision for contract costs	–	16,674
Research and development costs (<i>Note</i>)	103,228	56,130
<i>Less: amount capitalised into intangible assets</i>	<i>(74,659)</i>	<i>(33,385)</i>
Utilities	141,549	129,670
Short-term and variable lease expenses	495,047	540,699
Travelling expenses	112,168	132,363
(Reversal of)/provision for impairment of prepayments	(897)	5,891
Repairs and maintenance expenditure on property, plant and equipment	951	15,661
Other taxes	32,773	33,111
Provision for warranty	41,602	34,115
Auditors' remuneration	3,600	3,480
Impairment provision on property, plant and equipment	18,920	49,060
Other expenses	48,932	106,055
Total cost of sales, distribution costs, research and development expenses and administrative expenses	5,701,110	5,717,850

Note: The amount does not include staff costs of the research and development department of approximately RMB81,096,000 (2023: RMB60,739,000) and relevant amortisation and depreciation of approximately RMB39,982,000 (2023: RMB28,931,000).

6. OTHER GAINS OR LOSSES, NET

	Year ended 31 December	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
Net foreign exchange gains	31,836	13,322
Gains on disposals of property, plant and equipment	515	775
Losses on disposal of subsidiaries (Note 15)	(16,801)	–
Others	8,566	4,769
	<u>24,116</u>	<u>18,866</u>

7. FINANCE EXPENSES, NET

	Year ended 31 December	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
Finance expenses		
Interest on borrowings wholly repayable within five years	153,709	215,276
Interest expense from lease liabilities	1,775	626
Net foreign exchange loss	–	(1,877)
Less: interest expense capitalised into assets under construction	(374)	(148)
	<u>155,100</u>	<u>213,877</u>
Finance income		
Interest income on bank deposits	(21,626)	(21,438)
Interest income from non-current receivables	(3,144)	(16,839)
	<u>(24,770)</u>	<u>(38,277)</u>
Finance expenses, net	<u>130,340</u>	<u>175,600</u>

8. INCOME TAX EXPENSE

Taxation in the consolidated statement of profit or loss represents:

	Year ended 31 December	
	2024	2023
	RMB'000	RMB'000
Current income tax – Hong Kong Profits Tax		
Provision for the year	<u>4,509</u>	<u>135</u>
Current income tax – the PRC		
Provision for the year	592	5,249
Under(over) provision in respect of prior years	<u>1,956</u>	<u>(14,070)</u>
	<u>2,548</u>	<u>(8,821)</u>
Current income tax – Other jurisdictions		
Provision for the year	<u>23,638</u>	<u>23,009</u>
Total current income tax	<u>30,695</u>	<u>14,323</u>
Deferred income tax		
– Current year	4,392	(6,064)
Income tax expense	<u>35,087</u>	<u>8,259</u>

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

	Year ended 31 December	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
Profit/(loss) before income tax	<u>39,823</u>	<u>(411,006)</u>
Tax calculated at statutory tax rates applicable to each group entities	22,412	(51,805)
Tax effect of non-deductible expenses	1,359	3,315
Tax effect of income not taxable	(632)	(1,706)
Tax effect of changing tax rate	–	–
Additional deduction of research and development expense	(9,275)	(8,279)
Tax effect of losses not recognised	43,788	37,222
Utilisation of tax losses not recognised in previous years	(2,927)	(337)
Tax effect of deductible temporary differences not recognised	–	7,492
Utilisation of deductible temporary differences previously not recognised	(21,594)	(1,097)
Reversal of previously recognised deferred income tax assets	–	37,524
Under(over) provision in respect of prior years	<u>1,956</u>	<u>(14,070)</u>
Income tax expense	<u>35,087</u>	<u>8,259</u>

Amounts recognised directly in other comprehensive income

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

	Year ended 31 December	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
Deferred tax: Changes in the fair value of equity investments at FVTOCI	(1,295)	(679)
Deferred tax: Fair value loss on hedging instruments designated in cash flow hedges	<u>1,568</u>	<u>–</u>
	<u>273</u>	<u>(679)</u>

9. EARNINGS/(LOSS) PER SHARE

Basic and diluted earnings/(loss) per share

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

	Year ended 31 December	
	2024	2023
Profit/(loss) attributable to owners of the Company (<i>RMB'000</i>)	<u>7,576</u>	<u>(386,597)</u>
Weighted average number of ordinary shares in issue (<i>in thousands</i>)	9,040,489	7,041,777
Effect of the share award scheme (<i>in thousands</i>)	<u>(61,089)</u>	<u>(61,089)</u>
Adjusted weighted average number of ordinary shares in issue (<i>in thousands</i>)	<u>8,979,400</u>	<u>6,980,688</u>
Basic and diluted earnings/(loss) per share (<i>RMB cents per share</i>)	<u>0.08</u>	<u>(5.54)</u>

The computation of diluted loss per share in 2024 and 2023 does not assume the exercise of all share options because the adjusted exercise price of those options was higher than the average market price for shares for both years.

10. TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2024	2023
	RMB'000	RMB'000
Trade receivables (<i>Notes (a & b)</i>)	2,683,320	3,099,587
Bills receivables	215,246	324,960
Less: provision for impairment of trade receivables and bills receivables	(399,297)	(543,808)
	<u>2,499,269</u>	<u>2,880,739</u>
Amounts due from related parties		
– Trade	256,145	322,721
– Non-trade	219,249	123,722
– Less: provision for impairment of trade receivables for amounts due from related parties	(153,394)	(8,849)
	<u>322,000</u>	<u>437,594</u>
Finance lease receivables	219,651	307,218
Less: provision for impairment of finance lease receivables	(56,096)	(62,554)
Value-added tax recoverable	283,628	191,142
Prepayments to related parties	215,435	271,588
Prepayments to non-related parties	455,121	762,607
Less: provision for impairment of prepayments	(16,836)	(23,969)
Other receivables	351,050	340,347
Less: provision for impairment of other receivables	(162,759)	(141,400)
	<u>4,110,463</u>	<u>4,963,312</u>
Representing by:		
– Current portion (<i>Note (c)</i>)	3,638,072	4,243,826
– Non-current portion (<i>Note (d)</i>)	472,391	719,486
	<u>4,110,463</u>	<u>4,963,312</u>

Notes:

- (a) As at 31 December 2024 and 2023, the aging analysis of the net amount of trade receivables and bills receivables (including amounts due from related parties of trading in nature), based on the invoice date (trade receivables) or receipt date (bills receivables) is as follows:

	As at 31 December	
	2024	2023
	RMB'000	RMB'000
Within 1 year	2,374,741	2,621,342
Over 1 year	365,514	573,269
	<u>2,740,255</u>	<u>3,194,611</u>

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

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

- (b) Included in trade receivables represented balance due from a customer domicile in Ukraine amounting to approximately USD34,671,000 (equivalent to approximately RMB249,232,000) (2023: RMB468,201,000), net of cumulative impairment loss of approximately RMB149,520,000 (2023: RMB254,278,000). During the previous years, the Group made instalment sales of drilling rigs to such Ukrainian customer and the balance was receivable between 2022 and 2024. Balance that is expected to be received over one year after the end of the reporting period was discounted at the rate which discounts with the nominal amount of the promised consideration to the price that customer would pay in cash for the goods or services when or as the Group transfers to the customer.

Due to the current Russia-Ukraine War, the National Bank of Ukraine has imposed certain restrictions over the payments of foreign currencies to foreign entities starting from 24 February 2022. Therefore, the Ukrainian customer was unable to repay part of the instalments which was originally due before 2024. The management has been taking active measures to closely monitor the credit risk exposures of such balance by holding periodic meetings with such customer to understand the latest development of the conflict and to collect the latest information regarding the physical status of the drilling rigs sold, and also the latest status on the national restrictions, etc. On 30 March 2023, the Ukrainian customer repaid overdue instalments of USD26,740,000 (equivalent to RMB184,607,000). On 5 July 2024, the Group received the reimbursement from the insurance company of USD46,143,000 (equivalent to approximately RMB328,951,000). In view of the potential credit-impaired characteristics, the management has individually assessed the recoverability of the balance. During the year ended 31 December 2024, the Group reversed previously recognised ECL of approximately RMB104,758,000 (2023: the Group provided further ECL of approximately RMB10,623,000).

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

- (d) Non-current trade and other receivables as at 31 December 2024 included (1) finance lease receivables of approximately RMB61,577,000 (2023: RMB93,750,000); (2) receivables of approximately RMB305,866,000 (2023: RMB503,330,000) arising from installment sale; (3) prepayments for land use rights of approximately RMB104,948,000 (2023: RMB104,948,000); (4) nil prepayments for plant and machinery of approximately (2023: RMB17,458,000).

As at 31 December 2024 and 2023, the Group's maximum exposure to credit risk was the carrying value of each class of receivables mentioned above.

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

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

As at 31 December 2024, nil bills receivables (2023: RMB10,050,000) and nil trade receivables (2023: RMB524,928,000) was secured for borrowings.

Finance lease receivables

The Group entered into finance leases to lease its machineries to third parties and earn finance income from leasing activities. As at 31 December 2024 and 2023, the Group had receivables under finance lease as follows:

	As at 31 December	
	2024	2023
	RMB'000	RMB'000
Non-current receivables		
Finance leases – gross receivables	65,416	97,171
Unearned finance income	(2,572)	(3,421)
	62,844	93,750
Current receivables		
Finance leases – gross receivables	158,371	223,816
Unearned finance income	(1,564)	(10,348)
	156,807	213,468
Gross receivables from finance leases:		
– No later than 1 year	158,371	223,816
– Later than 1 year and no later than 5 years	65,416	97,171
	223,787	320,987
Unearned future finance income on finance leases	(4,136)	(13,769)
Net investment in finance leases	219,651	307,218

The net investment in finance leases is analysed as follows:

	As at 31 December	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
No later than 1 year	156,807	213,468
Later than 1 year and no later than 5 years	62,844	93,750
	<hr/>	<hr/>
Total	219,651	307,218
	<hr/> <hr/>	<hr/> <hr/>

Impairment and risk exposure

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

11. INVENTORIES

	As at 31 December	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	293,943	452,341
Work in progress	532,784	789,921
Finished goods	475,768	537,081
Revolving materials and others	1,104	680
	<hr/>	<hr/>
	1,303,599	1,780,023
	<hr/> <hr/>	<hr/> <hr/>

For the year ended 31 December 2024, the cost of inventories recognised as the Group's expense and included in 'cost of sales' amounted to approximately RMB3,085,181,000 (2023: RMB2,912,934,000).

Movement on the provision for inventories is as follows:

	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January	245,540	221,730
Addition	101,174	56,617
Write off	(94,159)	(32,807)
	<hr/>	<hr/>
At 31 December	252,555	245,540
	<hr/> <hr/>	<hr/> <hr/>

12. TRADE AND OTHER PAYABLES

	As at 31 December	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	2,182,072	2,048,025
Amounts due to related companies		
– Trade	430,397	303,080
– Non-trade	4,298	101,194
Bills payable	520,065	787,828
Other payables	270,669	557,548
	<u>3,407,501</u>	<u>3,797,675</u>
Representing by:		
– Current portion	<u>3,407,501</u>	<u>3,797,675</u>

At 31 December 2024 and 2023, the aging analysis of the trade payables and bills payable (including amounts due to related parties of trading in nature) based on invoice date or bills issuance date is as follows:

	As at 31 December	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	2,771,633	2,889,394
Over 1 year	360,901	249,539
	<u>3,132,534</u>	<u>3,138,933</u>

As at 31 December 2024 and 2023, all the trade payables, bills payable and other payables of the Group were non-interest bearing and their fair value approximated their carrying amounts due to their short maturities.

As at 31 December 2024 and 2023, all the current trade and other payables are expected to be settled within one year or are repayable on demand.

13. BORROWINGS

	As at 31 December	
	2024	2023
	RMB'000	RMB'000
Bank loans		
Secured (i)		
– Current portion	47,000	14,050
– Non-current portion	–	230,810
	<u>47,000</u>	<u>244,860</u>
Unsecured		
– Current portion	1,769,102	1,748,506
– Non-current portion	1,126,254	1,376,697
	<u>2,895,356</u>	<u>3,125,203</u>
Unsecured loan from related party (ii, iii & iv)		
– Current portion	270,000	533,000
– Non-current portion	838,860	445,000
	<u>1,108,860</u>	<u>978,000</u>
Other borrowing (v)		
– Current portion	24,600	28,496
– Non-current portion	73,938	93,510
	<u>98,538</u>	<u>122,006</u>
Total borrowings	<u><u>4,149,754</u></u>	<u><u>4,470,069</u></u>
Analysed as:		
– Current portion	<u><u>2,110,702</u></u>	<u><u>2,324,052</u></u>
– Non-current portion	<u><u>2,039,052</u></u>	<u><u>2,146,017</u></u>

Note:

- (i) As at 31 December 2024, nil bank loan was secured by trade receivables (2023: RMB524,928,000) and bills receivable (2023: RMB10,050,000) as collateral. In addition, the bank loans were also secured by 20% equity interest of Sichuan Honghua, a subsidiary of the Group, for both years.

- (ii) On 3 March 2023, Honghua China, a subsidiary of the Company, obtained a syndicated bank facility from 東方電氣集團財務有限公司 (“**Dongfang Electric Finance**”), 四川銀行股份有限公司 (“**Sichuan Bank**”) and Industrial Bank Co., Ltd. (“**Industrial Bank**”), of which each party agreed to provide RMB490,000,000 credit facility to Honghua China, totaling to RMB1,470,000,000. The facility was guaranteed by the Company and Honghua Holdings, a subsidiary of the Company. The loan carries interest at a 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. At the end of 31 December 2024, Honghua China had drawdown RMB445,000,000 from Dongfang Electric Finance, RMB445,000,000 from Sichuan Bank, and RMB445,000,000 from Industrial Bank, which are repayable on 13 March 2026.

On 21 May 2024, Honghua China entered into a supplementary agreement with Dongfang Electric Finance, Sichuan Bank and Industrial Bank, to amend the interest rate of such syndicated bank facility to LPR minus a fixed interest of 0.65%. Also, Sichuan Bank had transferred part of its loan, amounting to RMB395,000,000, to Dongfang Electric Finance.

On 22 July 2024, Honghua China early repaid the outstanding loan balance amounting to RMB301,710,000, of which RMB189,840,000 was repaid to Dongfang Electric Finance, RMB11,300,000 was repaid to Sichuan Bank, and RMB100,570,000 was repaid to Industrial Bank.

On 30 October 2024, Honghua China had entered into another supplementary agreement with Dongfang Electric Finance, Sichuan Bank and Industrial Bank, of which Sichuan Bank transferred the remaining portion of its loan amounted to RMB38,700,000 to Dongfang Electric Finance.

As a result of the aforementioned supplementary agreements entered, Honghua China has outstanding amounts of RMB688,860,000 due to Dongfang Electric Finance and outstanding amounts of RMB344,430,000 due to Industrial Bank, which are repayable on 13 March 2026, and no outstanding amounts due to Sichuan Bank at the end of the current reporting period.

- (iii) As at 5 February 2024, Sichuan Honghua, a subsidiary of the Group, had entered into a loan agreement with Dongfang Electric Finance and Sichuan Honghua 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 of 31 December 2024, Sichuan Honghua has repaid a cumulative amount of RMB82,000,000.

On 14 June 2024, Sichuan Honghua had entered into an entrusted loan agreement with DEC and Dongfang Electric Finance, in which DEC provided RMB150,000,000 credit facility to Sichuan Honghua through Dongfang Electric Finance as trustee. At the end of 31 December 2024, Sichuan Honghua has drawdown RMB150,000,000 from Dongfang Electric Finance, which carries fixed interest of 1.0% and is repayable after three years since the date of drawdown.

On 13 December 2024, Sichuan Honghua had entered into a loan agreement with Dongfang Electric Finance and Sichuan Honghua obtained a working capital loan amounting to RMB160,000,000 from Dongfang Electric Finance. At the end of 31 December 2024, Sichuan Honghua has drawdown RMB160,000,000 from Dongfang Electric Finance, which carries fixed interest of 2.4% and is repayable on 13 December 2025.

On 31 December 2024, Sichuan Honghua had entered into a loan agreement with Dongfang Electric Finance and Sichuan Honghua obtained a working capital loan amounting to RMB100,000,000 from Dongfang Electric Finance. At the end of 31 December 2024, Sichuan Honghua has drawdown RMB30,000,000 from Dongfang Electric Finance, which carries fixed interest of 2.4% and is repayable on 31 December 2025.

On 26 December 2023, Sichuan Honghua, had entered into a loan agreement with Dongfang Electric Finance and Sichuan Honghua obtained a working capital loan amounting to RMB553,000,000 from Dongfang Electric Finance, which carries fixed interest rate of 2.8% and Sichuan Honghua has fully repaid as of 31 December 2024.

- (iv) On 22 July 2024, Honghua (Jiangsu), a subsidiary of the Group, had entered into a loan agreement with Dongfang Electric Finance and Honghua (Jiangsu) obtained a working capital loan amounting to RMB30,000,000 from Dongfang Electric Finance, which carries fixed interest rate of 2.7% and is repayable on 22 July 2025.
- (v) The amount of RMB98,538,000 as at 31 December 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.

The borrowings at 31 December 2024 bore annual interest ranging from 1.0% to 4.65% annually (2023: 1.2% to 6.30% annually).

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

	Bank loans		Other borrowings	
	As at 31 December		As at 31 December	
	2024	2023	2024	2023
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	1,816,102	1,762,556	294,600	561,496
Between 1 and 2 years	837,573	536,165	714,645	29,627
Between 2 and 5 years	288,681	1,071,342	198,153	508,883
	2,942,356	3,370,063	1,207,398	1,100,006

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

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

	As at 31 December	
	2024	2023
	RMB'000	RMB'000
RMB	4,149,754	4,470,069

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

	As at 31 December	
	2024	2023
	RMB'000	RMB'000
Expiring within 1 year	7,163,000	8,842,340

These facilities have been arranged for financing daily operations.

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

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

	Year ended 31 December	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
(Impairment loss)/reversal of on:		
– trade receivables and contract assets	108,440	(32,499)
– finance lease receivables	7,829	17,551
– other financial assets at amortised cost	8,078	(4,035)
	<u>124,347</u>	<u>(18,983)</u>

15. 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 Dongfang Investment to transfer entire equity interest and obligation it held in Honghua Financial Leasing (Shanghai) Co., Ltd. (“**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 Dongfang 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

	<i>RMB'000</i>
Consideration received	<u>195,677</u>

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	5,581
Amounts due from related parties (<i>Note</i>)	161,605
Intangible assets	13
Property, plant and equipment	5
Deferred tax liabilities	(2,903)
Income tax payable	(1,427)
Trade and other payables	(32,580)
Dividends Payable	(11,482)
	<hr/>
Net assets disposed of	183,610
	<hr/> <hr/>

Note: The amounts represent consideration receivable of RMB13,855,000 for the disposal of partial interest in HongHua (Shenzhen) to the other Group's subsidiaries before the disposal and loans of RMB147,750,000 to other Group's subsidiaries.

Loss on disposal of Shanghai Leasing:*RMB'000*

Net consideration	195,677
Net assets disposed of	(183,610)
Reclassification of cumulative translation reserve upon disposal of Shanghai Leasing	(28,868)
	<hr/>
Loss on disposal	(16,801)
	<hr/> <hr/>

Net cash inflow arising on disposal:*RMB'000*

Cash consideration	195,677
Less: cash and cash equivalents disposed of	(34,492)
	<hr/>
	161,185
	<hr/>
Less: receipt of deposits from Dongfang Investment	(100,000)
	<hr/>
	61,185
	<hr/> <hr/>

16. EVENTS AFTER REPORTING PERIOD

On 20 January 2025, the Ukrainian customer repaid overdue instalments of USD11,885,000 (equivalent to RMB85,433,000).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Honghua Group Limited (together with its subsidiaries, referred to as the “Group” or “Honghua Group”) is a leading global oil and gas exploration and development equipment manufacturing and drilling engineering services company. Over more than two decades of development, the Group’s business has spanned the major oil and gas production regions worldwide, forming a comprehensive product portfolio including land drilling rigs, electric fracturing equipment and services, core parts and components of drilling and completion equipment, drilling engineering services, digital products for drilling and completion, offshore wind power jackets, specialized ships, and special power equipment, providing customers with a full range of products and technologies for energy development.

I. CONTINUOUS IMPROVEMENT IN OPERATING PERFORMANCE

In 2024, facing a complex and severe development environment, the Group continuously promoted the implementation of its “Leading Strategies”, further enhancing its core competitiveness and achieving high-quality growth in operating performance. During the reporting period, the Group recorded a revenue of RMB5,633.4 million, representing an increase of RMB160.2 million or 2.9% as compared to the previous year. Gross profit amounted to RMB676.5 million, representing an increase of 24.9% as compared to the previous year. Net profit attributable to shareholders of the parent amounted to RMB7.6 million, turning a loss into a profit with an increase of RMB394.2 million as compared to the previous year. The Group continued to improve its operation quality, further enhancing its profit during the reporting period. The Group recorded a gross profit margin of 12% (representing an increase of 2.1 percentage points as compared to the previous year). The management fee rate was reduced by 0.96 percentage points to 6.8%. The net cash flow from operating activities recorded a significant increase of 993.5%, with net cash inflow from operating activities amounting to RMB678 million.

As at 31 December 2024, the Group achieved revenue of RMB2,618.1 million from the PRC market, representing an increase of 18.5% as compared to the previous year, accounting for 46.5% of total revenue. Revenue from overseas markets amounted to RMB3,015.3 million, representing a decrease of 7.6% as compared to the previous year, accounting for 53.5% of total revenue. In the overseas market, revenue from the Middle East market amounted to RMB1,881.8 million, representing a decrease of 16.6% as compared to the previous year, accounting for 33.4% of the Group’s total revenue. Revenue from other overseas markets amounted to RMB1,133.6 million, representing an increase of 12.5% as compared to the previous year, accounting for 20.1% of the Group’s total revenue.

The table below sets forth the breakdown of total revenue for the year by market:

Regions	As at 31 December 2024		As at 31 December 2023		Changes of Revenue	Changes of Percentage
	Revenue (RMB'million)	Percentage	Revenue (RMB'million)	Percentage		
The PRC market	2,618.1	46.5%	2,210.1	40.4%	18.5%	6.1%
Overseas market	3,015.3	53.5%	3,263.1	59.6%	-7.6%	-6.1%
Middle East	1,881.8	33.4%	2,255.8	41.2%	-16.6%	-7.8%
Others ⁽¹⁾	1,133.6	20.1%	1,007.4	18.4%	12.5%	1.7%
Total	5,633.4	100.0%	5,473.2	100.0%	2.9%	-

Note: (1) Other regions include Africa, Europe, Americas, South Asia and Southeast Asia.

II. Upward and Innovative Industrial Development

As at 31 December 2024, the Group's revenue from land drilling rigs amounted to RMB1,951 million, representing a decrease of 17.1% as compared to the previous year, accounting for 34.6% of the total revenue. Revenue from parts and components and others amounted to RMB1,662 million, representing a decrease of 6.1% as compared to the previous year, accounting for 29.5% of the total revenue. Revenue from drilling engineering services amounted to RMB337 million, representing a decrease of 15.0% as compared to the previous year, accounting for 6.0% of the total revenue. Revenue from the offshore segment amounted to RMB860 million, representing an increase of 100.6% as compared to the previous year, accounting for 15.3% of the total revenue. Revenue from fracturing business amounted to RMB823 million, representing an increase of 56.8% as compared to the previous year, accounting for 14.6% of the total revenue.

The table below sets forth the breakdown of total revenue for the year by businesses:

Types of Business	As at 31 December 2024		As at 31 December 2023		Changes of Revenue	Changes of Percentage
	Revenue (RMB'million)	Percentage	Revenue (RMB'million)	Percentage		
Land drilling rigs	1,951.3	34.6%	2,354.3	43.0%	-17.1%	-8.4%
Parts and components and others	1,662.2	29.5%	1,769.2	32.3%	-6.1%	-2.8%
Drilling engineering services	337.0	6.0%	396.3	7.2%	-15.0%	-1.3%
Offshore segment	859.8	15.3%	428.6	7.8%	100.6%	7.4%
Fracturing business	823.1	14.6%	524.8	9.6%	56.8%	5.0%
Total	5,633.4	100.0%	5,473.2	100.0%	2.9%	-

In 2024, the Group's new order increased by approximately 21% year-on-year, reaching the highest level for the past eight years. Breakthroughs were achieved in the equipment industry. A sales agreement for high-end intelligent drilling rigs exceeding RMB1.5 billion was signed with a Middle East client, providing several sets of globally advanced artificial island drilling rigs equipped with AI intelligent drilling software, further consolidating the Company's leading position in the global high-end intelligent drilling rig market. For the first time, the Group won bids for CNOOC's domestic substitution project for underwater equipment transport systems and Shanghai Petrochemical's emergency firefighting vessel project, marking a new milestone in the offshore engineering equipment industry. New achievements were made in the fracturing service industry. The newly won orders for fracturing services increased by 118.05% year-on-year, successfully entering the coalbed methane in Shanxi and shale oil markets in Northeast. Numerous fracturing service projects were signed, leading to a significant increase of 56.8% in fracturing business revenue as compared to the previous year, and a substantial improvement of 43.1 percentage points in gross profit margin. Progress was made in the new energy-related industries. The Group achieved the application of the "wind power + energy storage" model and mobile photovoltaic energy storage equipment in the new energy segment for oil and gas fields for the first time.

III. Emergence of Innovative Achievements

During the reporting period, the Group obtained 138 authorized patents, declared to host and participated in the formulation of 20 standards, reaching the most in the past four years, with scientific and technological achievements continued to emerge. "MENG XIANG", the first self-designed and built ocean drilling ship in China, in which the Group deeply involved in the research and construction, was officially commissioned and received congratulatory letter from General Secretary Xi Jinping. China's first self-produced 12,000 meters deep intelligent drilling rig was successfully delivered, which is another national strategic asset for ultra-deep oil and gas development in our country. During the year, the Group was recognized as a single champion in manufacturing industry by the Ministry of Industry and Information Technology. It was successfully selected as one of the first leading enterprises in the iconic industrial chain of Sichuan Province, and awarded as an advanced enterprise in standardization by the National Petroleum Drilling and Production Standard Committee for the first time.

BUSINESS MODELS OF THE GROUP

I. Land Drilling Rigs

According to the analysis of the "Domestic and Foreign Oil and Gas Industry Development Report 2024" by the Institute of Economics and Technology of China National Petroleum Corporation, a national high-end think tanks, the global oil and gas exploration and development maintained a stable development trend in 2024. Oil and gas reserves continue to increase, with oil and natural gas reserves up by 0.27% and 0.18%, respectively. Influenced by numerous factors such as energy security, low-carbon transition, and market demand, global investment in oil and gas exploration and development declined by 2.5%. The market size of oilfield technical services grew by 3.0%, but the number of active drilling rigs increased by only 0.1%. Both domestic and foreign oil and gas exploration and development technologies are continuously advancing, with a notable trend towards intelligence, driving innovation in engineering technologies and equipment in areas such as geophysical exploration, well logging, drilling, and completing wells.

Maintaining Industry Leadership through Global Marketing Network Layout

As the core business segment of the Group, with advanced technology, mature global sales network and excellent track record, the land drilling rigs business has cumulatively sold a total of approximately 1,000 land drilling rigs of various types since 2000 (with a total of 13 sets of complete land drilling rigs sold in 2024), exporting to major oil and gas production regions worldwide, such as the Middle East, the Americas, Central Asia and Africa.

During the reporting period, revenue from the land drilling rigs business of the Group amounted to RMB1,951.3 million, accounting for 34.6% of total revenue, representing a decrease of 17.1% compared to RMB2,354.3 million in 2023, primarily due to the long delivery cycle of major orders secured by the Group in the Middle East during the reporting period, with only a portion of the revenue being recognized within the year. As at 31 December 2024, 94.0% of the revenue from the Group's land drilling rigs business was derived from overseas, of which 69.7% was contributed by the Middle East region. The Group secured several major orders in the Middle East, successfully signed sales agreements for intelligent drilling rigs exceeding RMB1,500 million and provided several sets of artificial island drilling rigs equipped with AI intelligent drilling software globally, further consolidating the Company's leading position in the global high-end intelligent drilling rig market. In addition, the Group signed a drilling rig agreement of RMB400 million to provide multiple sets of high-end land drilling rigs to customers in Kuwait, further enhancing the Company's market share in the oil and gas equipment segment. In the domestic market, the Group signed contracts with a domestic private enterprise for a 12,000 meter intelligent drilling rig and a sales agreement with a domestic geological survey bureau for a 50DB drilling rig, further expanding its domestic sales channels.

The table below sets forth the breakdown of total revenue from the land drilling rigs for the year by regions:

Regions	As at 31 December 2024		As at 31 December 2023		Changes of Revenue
	Revenue <i>(RMB'million)</i>	Percentage	Revenue <i>(RMB'million)</i>	Percentage	
The PRC	116.5	6.0%	193.6	8.2%	-39.8%
Overseas	1,834.8	94.0%	2,160.6	91.8%	-15.1%
Middle East	1,360.3	69.7%	1,685.8	71.6%	-19.3%
Africa	297.9	15.3%	364.5	15.5%	-18.3%
Other regions ⁽¹⁾	176.6	9.0%	110.39	4.7%	60%
Total	1,951.3	100.0%	2,354.3	100.0%	-17.1%

Note: (1) Other regions include Europe, Americas, South Asia and Southeast Asia.

Anchoring Technology Leadership, Spearheading Intelligent Drilling Rigs

The Group continues to increase investments in scientific research and efforts in tackling key technological challenges, actively exploring the integration of big data, cloud computing, and artificial intelligence with drilling equipment, and steadily advancing intelligent innovation. China's first 12,000 meter drilling rig self-developed by the Company was successfully delivered during the year and will be operated in the Xinjiang region. All core components and control systems of the rig were self-developed by the Group, truly achieving the "full chain self-developed" of the drilling rig, fully demonstrating the Group's outstanding capabilities in the field of high-end equipment manufacturing and providing another major national strategic asset for ultra-deep oil and gas development in China.

The transformation of drilling equipment towards automation and intelligence is one of the main trends in industry development. 3 additional sets of OPERA¹, an intelligent drilling system self-developed by the Group, has been sold to and operating well in multiple overseas projects, with high customer satisfaction. The iFrac Ops², a centralized fracturing control system, have been applied on domestic platforms, and completed industrial trials on 3 platforms and obtained 3 application certifications. In terms of industrial software for drilling and completing wells control systems, Unison³ system has become a standard configuration of Honghua drilling rigs.

II. Parts and Components and Others

To mitigate the impact of oil price fluctuations on the Group's operating results and achieve localization of core parts and components for drilling and completing wells equipment, the Company seized opportunities and faced challenges head-on by formulating a "Strengthening Components" development strategy. accelerating the construction of core parts and component product lines for drilling and completing wells equipment, establishing three product lines: mud pumps, automated machinery, and top drives. After years of development, the Group has become one of the renowned enterprises for core parts and components of drilling and completing wells equipment. During the reporting period, the Group's revenue from parts and components and others business amounted to RMB1,662.2 million, accounting for 29.5% of total revenue.

¹ OPERA system is capable of standardizing repetitive drilling activities such as drilling, tripping in and out into a standardized process and applies AI technology for automatic optimization, which significantly enhancing the standardization and efficiency of operations.

² iFrac Ops system is a highly integrated centralized control system for fracturing operations, which integrates intelligent control algorithms through the linkage of fluid mixing, fluid supply, and sand conveying and other processes to achieve full-process automation and intelligent adjustment of key parameters.

³ Unison system is an integrated driller control system self-developed by the Group. With the support of backend software systems, it enables the control and operation of all rig equipment, including the top drive, drawworks, mud pump, rotary table, and iron roughneck, through an integrated seat, solving the issue of integrated control and unified management of the main equipment on a drilling rig.

According to data from RYSTAD ENERGY, a leading consulting firm in the oil and gas industry, the Group's mud pump products ranked third in terms of market share globally, among which the high-end market has a high acceptance of the Group's mud pump products, with 9 out of the top 10 land drilling companies (ranked by revenue) having purchased the Group's mud pumps, and 5 of them using the Group's mud pumps as their main configuration. During the reporting period, the Group's new high-pressure mud pump secured 37 bulk orders from both domestic and international customers. In terms of automated machinery, the Group achieved historic results by securing 13 2nd place and 7 3rd place positions in CNPC's automated machinery framework tender projects. During the reporting period, the Group also secured its first localization order for automated machinery from Abu Dhabi National Oil Drilling Company and multiple orders for sets of automated catwalks from Kuwait National Petroleum Company. In terms of top drives, the Group ranked first in Sinopec's 500T top drive leasing framework.

III. Drilling Engineering Services

As at 31 December 2024, the Group had 7 drilling teams, providing drilling engineering services to renowned domestic and international clients. It recorded revenue of RMB337.0 million, accounting for 6.0% of the total revenue, representing a decrease of 15.0% compared to RMB396.3 million in 2023. The decrease was due to strategic adjustments in the Group's domestic drilling business. The Company secured new orders of RMB506 million, ensuring stable and continuous workload for its drilling engineering services.

In terms of international projects, the Group, as a professional service provider in the oil and gas engineering services industry, has been deeply rooted in the Middle East market for over a decade. With excellent operational performance and meticulous production management, the Group has gained widespread recognition from clients in the highly competitive oil and gas engineering services market. The Group has deployed 6 self-owned drilling rigs in Iraq, with full production tasks and efficient utilization of assets and equipment. Since 2019, the Company's drilling engineering service teams have continuously provided services to internationally renowned companies such as Halliburton, BP, and COSL, completing a total of 33 wells and achieving a total drilling depth of over 120,000 meters, setting numerous drilling construction records and maintaining a safety record of zero accidents for four consecutive years.

In terms of domestical projects, the Group signed a drilling project contract with Sinopec Chongqing Shale Gas Company for a platform in Nanchuan. The drilling rig, equipped with the Group's self-developed automated machinery, has successfully obtained the Sinopec qualification. The project commenced drilling in March 2024, completing 3 wells within the year with an annual drilling depth of 17,202 meters, setting numerous records in the work area.

The table below sets forth the breakdown of revenue from the drilling engineering service for the year by regions:

Regions	As at 31 December 2024		As at 31 December 2023		Changes of Revenue
	Revenue (RMB'million)	Percentage	Revenue (RMB'million)	Percentage	
The PRC	35.7	10.6%	101.7	25.7%	-64.9%
Iraq	301.3	89.4%	294.5	74.3%	2.3%
Total	337.0	100.0%	396.3	100.0%	-15.0%

IV. Offshore Segment

As at 31 December 2024, revenue from the offshore segment of the Group amounted to RMB859.8 million, representing an increase of 100.6% as compared to the previous year, accounting for 15.3% of the total revenue. The Group's offshore segment primarily includes offshore wind power jacket, offshore oil and gas equipment, specialized ships, and modules. The offshore equipment production base is located in the Qidong Marine Shipbuilding Industrial Park in Jiangsu Province. The first phase of the outfitting wharf, spanning 633 meters, has been completed. The facility boasts a 110,000 square meter steel structure assembly workshop, equipped with the capability to manufacture offshore oil and gas equipment, offshore modules, large-scale offshore wind power pile foundation structural parts chiefly, and specialized ships.

The table below sets forth the breakdown of revenue from the offshore wind power and offshore engineering equipment manufacturing business for the year by business type:

Business	As at 31 December 2024		As at 31 December 2023		Changes of Revenue
	Revenue (RMB'million)	Percentage	Revenue (RMB'million)	Percentage	
Offshore wind power jacket	811.5	94.4%	340.5	79.5%	138.3%
Offshore oil and gas equipment and specialized ships	48.3	5.6%	88.1	20.5%	-45.1%
Total	859.8	100.0%	428.6	100.0%	100.6%

Offshore Wind Power

In recent years, as geopolitical conflicts have exacerbated the traditional energy crises and global “carbon neutrality” initiatives have been successively put forward, the global offshore wind power industry has experienced rapid development. According to data from the Global Wind Energy Council (GWEC), the cumulative newly installed capacity of offshore wind power from 2024 to 2033 will exceed 410GW, with a compound annual growth rate (CAGR) of 20.5% for offshore wind power installations from 2024 to 2033. From 2023 to 2028, the cumulative installed capacity of offshore wind power in China is expected to grow at a CAGR of 24.0%, reaching 109GW by 2028. Against the backdrop of energy transition and policy support, China’s offshore wind power segment has seen rapid growth. In 2024, the annual newly grid-connected installed capacity of offshore wind power is expected to reach 8GW, with the cumulative grid-connected capacity expected to reach 45GW, representing a year-on-year increase of 21.5%, accounting for over 50% globally.

The growing demand for offshore wind power has driven the rapid growth of the Group’s offshore wind power jacket business. As at 31 December 2024, revenue from the offshore wind power jacket business of the Group amounted to RMB811.5 million, accounting for 14.4% of total revenue, representing an increase of 138.3% compared to RMB340.5 million in 2023. After 5 years of development, the Group has become one of the top-tier players in offshore wind power jacket production industry in China. During the reporting period, the Group’s new order value for offshore wind power jackets exceeded RMB1,238 million, with 55 sets of large offshore wind jacket orders signed, achieving breakthroughs in new regional markets such as Zhejiang and Fujian while consolidating the pile foundations for offshore wind turbines markets in Jiangsu and Guangdong, maintaining a leading position in the large jacket segment. Leveraging our strong production capabilities, operating performance, and customer resources, we have established deep cooperative relationships with clients such as CGN, Longyuan, and Xiangyu, and gained recognition from upstream enterprises including CCCC Third Harbor Engineering, Shanghai Institute, China Railway Major Bridge Engineering Group, Three Gorges New Energy, and Guangzhou Salvage Bureau. We also expanded our client base to include CCCC First Harbor Engineering, CRRC, Shenneng, and Datang. In addition, by leveraging the technical expertise of DEC Group in the wind power segment, we are gradually advancing the development of deep-sea and floating wind power products. Through technical collaborations with Dongfu Research Institute of DEC Group, 708 Research Institute of China Shipbuilding Industry, Juli Group, Shanghai Jiao Tong University, and Sun Yat-sen University, we have completed the development of floating wind power hoisting technology.

Offshore Engineering Equipment Manufacturing Business

The offshore oil and gas segment is experiencing a rapid recovery, and the stable growth in future market orders presents opportunities for the Group to further expand into the offshore engineering equipment manufacturing business. As one of the world’s largest manufacturers of land drilling rigs, the Group has extensive experience in oil and gas exploration and development equipment manufacturing. In terms of offshore engineering equipment manufacturing, the Group has designed various types of drilling platforms, developed complete machinery systems, and manufactured

various large-scale equipment, accumulating design and commissioning experience in offshore oil and gas extraction, marine hydrate development, and seabed mineral resource extraction. In terms of shipbuilding, the Company have previously delivered platform supply vessels, workover barges, oil barges, and LNG-powered transport vessels.

As at 31 December 2024, revenue from offshore oil and gas equipment and special ship business and modules of the Group amounted to RMB48.3 million, accounting for 0.9% of total revenue, representing a decrease of 45.2% compared to RMB88.1 million in 2023. During the reporting period, the Group successfully won a bid for an emergency firefighting vessel project, which has potential value and far-reaching significance for enhancing China's offshore emergency rescue and safety capabilities. We signed strategic cooperation agreements with COSL, CM Heavy Industry, and CSSC 708 Research Institute, and collaborated with CIMC Pacific and Shanghai Waigaoqiao to advance small and medium-sized LNG vessel and offshore module businesses. We also made breakthroughs in new technology applications. The Group successfully developed the first set of new technology of pipe handling system for fixed offshore platform in China. We were deeply involved in the development of the ship "MENG XIANG", serving as one of the three major supporting units. From the initial ship function positioning to project approval and the undertaking of national research projects and actual ship building, the Group has been fully committed to supporting "MENG XIANG".

V. Fracturing Business

2024 was a crucial year for achieving the goals of the "14th Five-Year Plan", marking the final year of the "Seven-Year Action Plan" for increasing efforts to increase oil and gas reserve and production. China has continued to increase oil and gas exploration and development efforts, delivering impressive results. The national oil and gas production equivalent exceeded 400 million tonnes for the first time, with crude oil production reaching 213 million tonnes, maintaining a rapid growth trend of over 10 million tonnes for eight consecutive years. Natural gas production reached 246.4 billion cubic meters, with an average annual increase of over 13 billion cubic meters in the past six years, effectively alleviating the tight supply of oil and gas and further consolidating the "stabilizing oil output and increasing gas output" development trend. Oil and gas development has focused on accelerating production in deep and ultra-deep layers, shale oil and gas, coalbed methane, and coal-measure gas, continuously enhancing the self-sufficiency of oil and gas. In terms of shale oil, high-yield breakthroughs had been achieved at the Sichuan Basin's Fuxing exploration area, further consolidating the production increase pattern in the "three demonstration zones" (Xinjiang Jimsar, Daqing Gulong, and Shengli Jiyang) and "one main production area" (Changqing Qingcheng), with production rapidly increasing to 6 million tonnes, representing a year-on-year increase of over 30%. Shale gas production maintained a scale of over 25 billion cubic meters, while deep coal-measure gas production rapidly increased to 2.5 billion cubic meters in just three years, becoming a new highlight in China's natural gas production growth.

The rapid development of unconventional oil and gas resources has brought growth opportunities for the Group's fracturing business. As at 31 December 2024, revenue from fracturing business of the Group amounted to RMB823.1 million, accounting for 14.6% of total revenue, representing an increase of 56.8% compared to RMB524.8 million in 2023. The revenue from this business was entirely derived from the domestic market. The Group has a total of 16 pumping teams, which completed over 3,000 stages of fracturing operations during the year, with a 50% increase in completion volume due to higher fluid injection per stage.

The table below sets forth the breakdown of revenue from the fracturing equipment and services business for the year by business:

Business	As at 31 December 2024		As at 31 December 2023		Changes of Revenue
	Revenue	Percentage	Revenue	Percentage	
	<i>(RMB'million)</i>		<i>(RMB'million)</i>		
Sales of fracturing equipment and fracturing services	527.9	64.1%	325.2	62.0%	62.4%
Special power	295.2	35.9%	199.6	38.0%	47.9%
Total	823.1	100.0%	524.8	100.0%	56.8%

As at 31 December 2024, the Group has successfully completed several key projects, including multiple platforms in the Daiji Deep Coalbed Methane National Demonstration Zone, the first fully electric-driven deep coal measure gas platform in China, a key demonstration platform for CNOOC's coalbed methane development, and the country's first deep coalbed "all-gas power generation + fully electric-driven fracturing" project. The completion of these projects has achieved a breakthrough in large-scale fully electric-driven fracturing for coalbed methane in China, marking a critical step forward for the domestic coalbed methane industry, which is of significant importance for the green and low-carbon development and construction of deep coalbed methane.

During the reporting period, the Group capitalized on the growing demand for unconventional oil and gas resource development in China, intensifying market expansion efforts and achieving a year-on-year increase of 118.05% in new orders, amounting to RMB574 million. The Group successfully won multiple projects, mainly including: the Daqing shale oil fracturing auxiliary construction service project, which has strengthened the Group's competitive edge in promoting its electric-driven concept; the Shanxi coalbed methane electric-driven fracturing equipment leasing service project, demonstrating the reliability and quality of its products and services, which have earned the trust of clients; and the land electric-driven fracturing operation support service project for unconventional oil and gas resources (shale oil and gas, and coalbed methane), laying a solid foundation for further expansion to new markets for the Group. Notably, the Group entered into its first direct fracturing service contract with a mineral rights owner, Sichuan Energy Investment Group Co., Ltd., for 11 wells in the shallow coal measure gas block in Gaoxian, Yibin. The fracturing plans for these 11 wells were optimized and designed by the Group based on the client's preliminary fracturing work, providing significant value for the client's early-stage evaluation and key exploitation and fracturing technology research.

FUTURE OUTLOOK

2025 marks the final year of the “14th Five-Year Plan” and the preparatory year for the “15th Five-Year Plan”. It is also a year of significant improvement for the Group’s return to its leading position, and our internal “Year of Management Enhancement”. The Company will adhere to the overarching strategy of expanding markets externally while strengthening management internally, driving innovation, improving economic efficiency, and promoting high-quality development.

I. Drawing the Blueprint with Clearer Ideas

We will firmly adhere to the strategic layout of “Equipment + Services + Related Diversification,” rapidly forming three large-scale and high-quality product clusters. We aim to stabilize the market order portfolio for the three major business segments, namely land drilling rigs, parts and components, and drilling engineering services. This will further consolidate the Group’s leading position in the global high-end intelligent drilling rig market. We will reshape the fracturing business sector, seizing the opportunities presented by the increased development of unconventional oil and gas resources domestically, while accelerating breakthroughs in overseas markets, cultivating it to become a new profit growing point for the Company. We will accelerate breakthroughs in new industries and fields, focusing on the iterative upgrade and series development of intelligent drilling rigs, continuously improving equipment performance and intelligence, advancing from fewer personnel operations to unmanned operations, and from localized intelligence to comprehensive intelligence, serving customers in deeper and more complex geological environments, and continuously building the “intelligence and green” pioneer label. For the offshore business, we will adopt a long-term layout strategy. Using the “MENG XIANG” vessel as an opportunity, we will vigorously promote deep-sea exploration and the domestic production of offshore drilling equipment, gradually capturing market share.

II. Tackling Key Technological Barriers with Stronger Efforts

The Group will continue to maintain our investment in research and development (R&D) at approximately 5%. We will focus on effective efforts in areas such as R&D investment, platform construction, and technological layout. This will strengthen the role of scientific and technological innovation in supporting industries towards high-end, intelligent, and green development. We will concentrate on the construction of a scientific and technological innovation system, promoting the efficient operation of the Joint Innovation Research Institute, deepen R&D cooperation with high-level national innovation institutions, and fully commit to tackle key technological barriers. We will vigorously develop new productive capacities in the energy equipment segment, and strengthen research in strategic emerging industries, future industries, and cutting-edge technologies.

III. Anchoring Offshore Business with Greater Determination

Currently, global oil and gas exploration and development are rapidly shifting towards deepwater and ultra-deepwater areas. It is expected that deepwater oil and gas will become the fastest-growing type of resource in the next decade. The path of integration of new-generation information technologies with advanced manufacturing technologies is accelerating, driving the intelligent upgrade of design, manufacturing, and operation and maintenance services for ship and offshore engineering equipment, fostering new demands for offshore engineering technology development. During the reporting period, the Group has broken away from the previous single-industry model in the offshore business. Moving forward, we will focus on the design and construction of offshore oil and gas drilling platforms as the core, building a synergistic “Three Oceans” business system that includes offshore wind power, offshore engineering modules (including specialized ships) and offshore drilling platforms, positioning the offshore segment as a key accelerator for the Company’s high-speed growth in the future.

IV. Enhancing Operating Efficiency with a Higher Capacity

We will promote the comprehensive coverage of lean management, rapidly extending from parts and component workshops to structural workshops, final assembly and debugging departments, and eventually to all production units, strive to transform the achievements of lean production into improved delivery rates. By focusing on building a lean supply chain, we will optimize supply chain management, increase multi-level and multi-dimensional centralized procurement, thoroughly review bottleneck resource suppliers, further reducing procurement costs. We will advance target cost control, further enhance financial management capabilities, reduce financing costs and management expenses, and continuously improve the gross profit margin of each industry segment. We will accelerate the construction of a quality-leading indicator system, improve the efficiency of quality issue resolution, and ensure that the annual quality loss rate below 0.1%. We will strengthen risk control, continuously enhance the effectiveness of risk management.

V. Unleashing Growth Vitality with a Stronger Team

Focusing on the goal of talent leadership, we will deeply promote the high-quality construction of a talent team, fostering high-quality development momentum. During the reporting period, the Group had a total of 2,934 employees, representing an increase of 4.5% as compared to the previous year, and conducted more than 400 training sessions throughout the year. We will specifically introduce professional talents in the fields of new energy, offshore, and information governance, strengthening job rotation and multi-position training, and build a versatile talent team. At the same time, we will cultivate lean belt-level talents, discovering, training, and applying lean talents in various lean projects.

FINANCIAL REVIEW

During the year, the Group's gross profit and profit attributable to shareholders of the Company amounted to approximately RMB677 million and RMB8 million, respectively, and gross margin and net profit margin amounted to 12.0% and 0.1%, respectively. In the previous year, the gross profit and loss attributable to shareholders of the Company amounted to approximately RMB542 million and RMB387 million, respectively, and gross margin and net loss margin amounted to 9.9% and 7.1%, respectively. Relying on its mature global market network and long-term stable customer relationships, the Group has consistently secured domestic and international market orders, with the total value of new active orders reached a record high, laying a solid foundation for the overall performance growth of the Company. The Group has constantly optimized cost management, improved operational management level, and further reduced financing costs, enabling the Group to turn losses into profits.

Turnover

During the year, the Group's revenue amounted to approximately RMB5,633 million, representing an increase of RMB160 million or 2.9% from RMB5,473 million for the previous year. The Group adjusted its business layout, resulting in a significant increase in revenue from the marine sector compared to the previous year.

Cost of Sales

During the year, the Group's cost of sales amounted to approximately RMB4,957 million, representing an increase of RMB26 million or approximately 0.5% from RMB4,931 million for the previous year. Mainly affected by the increase in sales revenue, the cost of sales of each sector increased accordingly. Meanwhile, the Group's business structure adjustment and the effective implementation of cost reduction and efficiency enhancement measures have improved its profitability.

Gross Profit and Gross Margin

During the year, the Group's gross profit amounted to approximately RMB677 million, representing an increase of RMB135million or 24.9% from RMB542 million for the previous year.

During the year, the Group's overall gross margin was 12.0%, representing an increase of 2.1 percentage point from 9.9% for the previous year. This was mainly due to the following reasons: First, the Group capitalized on the growing demand for unconventional oil and gas resource development in China, leading to a significant expansion of its fracturing service business and an increase in revenue scale. Second, the wind power jacket business experienced rapid growth, as the wind power jacket market continued to reach new highs.

Expenses in the Year

During the year, the Group's distribution expenses amounted to approximately RMB211 million, representing a decrease of RMB38 million or 15.3% from RMB249 million for the previous year. This was mainly due to the Group has achieved cost reduction and efficiency improvement, resulting in a year-on-year decrease of 34 million in travel expenses, business expenses and rental fees.

During the year, the Group's administrative expenses amounted to approximately RMB383 million, representing a decrease of RMB42 million or 9.9% from RMB425 million for the previous year. This was mainly due to the decrease in impairment of the Group's long-term assets during the year.

During the year, the Group's research and development expenses amounted to approximately RMB150 million, representing an increase of RMB38 million or 33.9% from RMB112 million for the previous year. In order to meet the demand for automation, digitisation and intelligent development of drilling equipment, the Company continued to strengthen its investment in research and development, with an investment in research and development of RMB257 million for the year, representing an increase of RMB30 million or 13.47% compared with that of the previous year.

During the year, the Group's net finance expenses amounted to approximately RMB130 million, representing a decrease of RMB46 million or 26.1% from approximately RMB176 million for the previous year. This was mainly due to the continuous improvement of the Group's financing structure and continuous optimisation of financing costs.

Profit before Income Tax

During the year, the Group's profit before income tax amounted to approximately RMB40 million, representing an increase profit of RMB451 million compared to the loss of RMB411 million for the previous year.

Income Tax Expense

During the year, the Group's income tax expense amounted to approximately RMB35million, compared to the income tax expense of approximately RMB8 million for the previous year. The increase was primarily due to the improvement in the Group's performance, which led to a corresponding rise in income tax expense.

Profit for the Year

During the year, the Group's profit for the year amounted to approximately RMB5 million, compared to a loss of approximately RMB419 million for the previous year. Specifically, profit attributable to equity shareholders of the Company was approximately RMB8 million, while the loss attributable to non-controlling interests was approximately RMB3 million. During the year, the net profit margin was 0.1%, compared with a net loss margin of 7.1% for the previous year.

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

During the year, EBITDA amounted to approximately RMB492 million, compared to approximately RMB74million for the previous year. This was mainly attributable to the increase in the Group’s revenue and reduction in costs. The EBITDA margin was 8.7%, compared to 1.3% for the previous year.

Dividends

The Board does not recommend distribution of annual dividends for the year ended 31 December 2024.

Source of Capital and Borrowings

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

As at 31 December 2024, the Group’s borrowings amounted to approximately RMB4,150 million, representing a decrease of RMB320 million as compared to 31 December 2023. Specifically, borrowings repayable within one year amounted to approximately RMB2,111 million, representing a decrease of RMB213million or 9.2% compared to 31 December 2023.

Deposits and Cash Flow

As at 31 December 2024, the Group’s cash and cash equivalents amounted to approximately RMB791 million, representing an increase of approximately RMB13 million as compared to 31 December 2023.

During the Year, the Group’s net cash inflow from operating activities amounted to approximately RMB678 million; net cash outflow from investing activities amounted to approximately RMB84 million; and net cash outflow from financing activities amounted to approximately RMB636 million.

Assets Structure and Changes

As at 31 December 2024, the Group’s total assets amounted to approximately RMB11,928 million. Particularly, current assets amounted to approximately RMB7,634 million, accounting for 64.0% of total assets, representing a decrease of RMB432 million compared to 31 December 2023. This was mainly due to the decrease in accounts receivable, prepayments and inventories. Non-current assets amounted to approximately RMB4,295 million, accounting for 36.0% of total assets, representing a decrease of RMB158 million compared to 31 December 2023. This was mainly due to the decrease in long-term receivables.

Liabilities

As at 31 December 2024, the Group's total liabilities amounted to approximately RMB8,264 million. Specifically, current liabilities amounted to approximately RMB6,143 million, accounting for approximately 74.3% of total liabilities, representing a decrease of approximately RMB619 million compared to 31 December 2023. Non-current liabilities amounted to approximately RMB2,120 million, accounting for approximately 25.7% of total liabilities, representing a decrease of approximately RMB56 million compared to 31 December 2023. As at 31 December 2024, the Group's total liabilities/total assets ratio was 69.3%, representing a decrease of 2.1 percentage points compared to 31 December 2023.

Equity

As at 31 December 2024, the total equity amounted to approximately RMB3,665 million, representing an increase of RMB83 million as compared to 31 December 2023. The total equity attributable to equity shareholders of the Company amounted to approximately RMB3,470 million, representing an increase of RMB86 million compared to 31 December 2023. Non-controlling interests amounted to approximately RMB195 million, representing a decrease of RMB3 million as compared to 31 December 2023. During the year, the Company's basic profit per share was approximately RMB0.08 cent, and diluted profit per share was RMB0.08 cent.

Capital Expenditure, Major Investment and Capital Commitments

During the year, capital expenditure of the Group on infrastructure and technical improvements amounted to approximately RMB202 million, representing a decrease of approximately RMB7 million compared to the previous year.

As at 31 December 2024, the capital commitment of the Group amounted to approximately RMB16 million, which was used to optimize and adjust the Group's business and production capacity.

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

As at 31 December 2024 and during the Year, the Company did not hold any treasury shares (including any treasury shares held or deposited with the Central Clearing and Settlement System).

During the year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's Shares listed.

EVENTS AFTER THE REPORTING PERIOD

Saved as disclosed in this announcement, there was no significant event that might affect the Group subsequent since the end of the reporting period and up to the date of this announcement.

AUDIT COMMITTEE

The Company has established an Audit Committee in accordance with Listing Rules 3.21 and 3.22, with its written terms of reference set out accordingly. The main responsibilities of the Audit Committee are to review and oversee the adequacy and effectiveness of the Group's financial reporting system, internal controls, and risk management systems and related procedures, and to provide recommendations and advice to the Board. The Audit Committee is also responsible for reviewing corporate governance compliance, the corporate governance report, and corporate governance policies.

The Audit Committee consists of three members of the Board, including two independent non-executive Directors, Ms. Li Yuedong (Chairman of the Audit Committee) and Mr. Zhang Shiju, and one non-executive Director, Mr. Yang Yangzhuang. One of the independent non-executive Directors has appropriate professional qualifications or expertise in accounting or related financial management.

The Audit Committee held six meetings during the year and review opinions of internal auditors, matters in respects of internal control, risk management and financial reporting. The Audit Committee has reviewed the consolidated financial statements of the Group for the year ended 31 December 2024 and the accounting principles and practices adopted by the Group during the Year.

COMPLIANCE WITH THE CG CODE

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

Throughout the entire year from 1 January 2024 to 31 December 2024, the Company has complied with all provisions of the Corporate Governance Code, except for code provision F.2.2. Code provision F.2.2 stipulates that the Chairman of the Board should attend the annual general meeting. However, due to other commitments, the Chairman of the Board, Mr. Wang Xu, was unable to attend the Company's annual general meeting held on 26 June 2024. Mr. Wang Xu will make every effort to attend all future annual general meetings 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 3.10 A of the Listing Rules.

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

Specific enquiry has been made of all the Directors and all the Directors have confirmed that they have complied with the Code for Securities Trading and the Model Code throughout the year ended 31 December 2024.

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

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

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT FOR 2024

This annual results announcement is published on both the websites of the Company (www.hh-gltd.com) and of the Stock Exchange (www.hkexnews.hk). The annual report of the Company for the year ended 31 December 2024 will be dispatched to shareholders of the Company and published on the aforesaid websites in due course.

DEFINITION

"Audit Committee"	the audit committee of the Company
"Board"	the Board of Directors of the Company
"CG Code"	Corporate Governance Code set out in Appendix C1 to the Listing Rules
"Code for Securities Trading"	code for securities trading regarding Directors' dealings in the Company's securities adopted by the Company since 14 September 2024
"Company"	Honghua Group Limited
"Directors"	directors of the Company
"Year/Period"	for the year ended 31 December 2024

“Group”, “Honghua”, or “Honghua Group”	the Company and its subsidiaries
“HK\$” or “HK dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“previous year”	for the year ended 31 December 2023
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix C3 to the Listing Rules
“PRC” or “China”	the People’s Republic of China, unless the context requires otherwise, reference in this announcement of the PRC or China excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	ordinary shares issued by the Company, with a nominal value of HK\$0.10 each
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“US”	the United States of America, including its territories and possessions
“US\$”	United States dollars, the lawful currency of the US

On behalf of the Board
Honghua Group Limited
Wang Xu
Chairman

Hong Kong, 25 March 2025

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