CHINA HUARONG ENERGY COMPANY LIMITED
中國華榮能源股份有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 01101)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

The board of directors (the "**Board**") of China Huarong Energy Company Limited (the "**Company**") hereby announces the consolidated financial results of the Company and its subsidiaries (together, the "**Group**") for the year ended 31 December 2018 (the "**Period**") together with comparative figures.

The following discussion and analysis should be read in conjunction with the financial information of the Group, including the related notes, as set forth in this announcement.

BUSINESS REVIEW

2018 was a landmark year for the Group. The Group has significantly improved its financial position by taking a number of significant steps, including the disposal of (the "**Disposal**") its shipbuilding, offshore engineering, engineering machinery and marine engine building segments in the PRC (the "**shipbuilding and engineering business**" and "**Discontinued Operation**") and a series of debt restructuring arrangements.

For the period, the Company and its subsidiaries (excluding the Disposal entities) engaged in the energy exploration and production segment ("**Energy Business**") (the "**Continuing Group**") recorded a revenue of approximately RMB49.0 million, compared to a revenue of approximately RMB45.2 million for the year ended 31 December 2017 (the "**Comparative Period**"). Profit attributable to the equity holders of the Company from the continuing operations was approximately RMB2,213.3 million for the Period (Comparative period: Loss RMB920.6 million).

For the period, the Disposal entities recorded a revenue of RMB65.3 million, compared to a revenue of RMB87.6 million (excluding revenue related to the cancellation of construction contracts) for the Comparative Period. Loss attributable to the equity holders of the Company from the discontinued operations was RMB2,351.7 million for the period (Comparative Period: RMB964.2 million).

The Group loss attributable to the equity holders of the Company was approximately RMB138.4 million for the Period, while loss attributable to the equity holders of the Company was approximately RMB1,884.8 million for the Comparative Period.

Disposal

Whilst the Group's shipbuilding and engineering businesses are continuously facing rapidly declining revenues, both businesses have limited growth prospects in together with overcapacity among the shipbuilding industry and heavily debt-burdened since 2013. A strategic decision was taken and executed to dispose of both businesses. In October 2018, the Board agreed to dispose of the Discontinued Operation together with vast majority of the debts owing to the Group. The transaction was subsequently approved by shareholders on 13 December 2018, and all the conditions precedent of the transaction were fulfilled on 10 March 2019. For details, please refer to the Company's announcement dated 11 March 2019.

In accordance with International Financial Reporting Standard 5, the shipbuilding and engineering business have been classified as Discontinued Operations and its underlying assets and liabilities have been classified as 'Assets classified as held for sale' and 'Liabilities directly associated with assets classified as held for sale' as at 31 December 2018.

The Board believes the completion of the Disposal shall generate greater managerial focus and release internal resources that of the Group to prioritise the promising energy business and allocate resources flexibly to seize any possible investment opportunities, in addition to the significant improvement to the Group's financial situation. The combination of growing oil-related trading activities and increased capital expenditures within the energy sector shall generate a steady revenue stream and sustainable cashflow for the Group.

The Board believes that the Group business will continue to expand and generate greater value to our investors.

Debt Restructuring

Together with the Disposal, the Group has also conducted and executed a series of debt restructuring arrangements with an aim to ease the financial burden of the Group during the period.

(a) Disposal of liabilities

On 22 November 2018, the Company entered into a tripartite deed and subscription agreement, pursuant to which the Company settled a bank debt of RMB3,100.0 million by the issuance of certain convertible preference shares ("**Convertible Preference Shares**") (the "**Disposal of Liabilities**"). Further details of the Disposal of Liabilities were set out in the Company's announcement dated 22 November 2018 and circular dated 23 November 2018. Subsequent to the issuance of Convertible Preference Shares, the Group has recognised a gain on the extinguishment of financial liabilities amount of approximately RMB2,067.3 million.

With the completion of the debt restructuring arrangements, it will significantly strengthen the liquidity and capital structure of the Group and place the Group in a better position to pursue investment opportunities for future development that would further enhance shareholder value.

(b) Conversion of certain convertible bonds

With the continuous negotiations with the convertible bondholders, during the Period, the convertible bonds with an aggregate principal amount of approximately HK$933.9 million (equivalent to approximately RMB790.2 million) have been converted into ordinary shares, representing approximately 50.6% of the total principal amount of all convertible bonds of approximately HK$1,847.3 million (equivalent to approximately RMB1,544.2 million) as at 31 December 2017. As at the date of this announcement, the aggregate principal amount of the outstanding convertible bonds is approximately HK$703.4 million (equivalent to approximately RMB617.8 million). The Company is currently negotiating with the remaining convertible bondholders and expects that more conversion of convertible bonds may take place from time to time.

(c) Repayment of bank loan

In addition, the Group has proceeded with repayment of a secured bank loan principal and interest payable approximately RMB159.2 million during the Period and proceeded further payment of approximately RMB13.8 million as of the date of this announcement. The outstanding principal and interest payable balance was reduced to approximately RMB594.1 million. The Group intended to settle the remaining outstanding balance within the year of 2019.

(d) Extension of maturity date of promissory notes

The Group is also in the process of finalizing the extension terms with certain promissory note holders with an aggregate principal amount of approximately HK$1,782.7 million. These aforesaid debt-restructuring actions are devised to align with the Disposal and Disposal of Liabilities to improve the overall financial position of the Group. The Group expects that the completion of the Disposal and the Disposal of Liabilities shall have a positive impact on the extension of maturity date of promissory notes.

Obtaining Financial Resources

To further improve the Group financing situation and future development, the Group has entered certain financing arrangements during the Period, including but not limited to (1) the US Dollar facility entered with a substantial shareholder in the amount of US$250.0 million. It is an interest-free and unsecured facility with a maturity of two years. Up to the date of this announcement, the Company had utilized approximately US$50.4 million, mainly for the oilfield development, repayment of remaining debts and general working capital; and (2) a framework cooperation agreement entered with a third party vendor for the provision of purchasing US$500.0 million equivalent oil-production-related equipment and materials on credit. Up to the date of this announcement, equipment and materials worth of approximately RMB12.0 million have been ordered through the cooperation agreement. Followed by the Disposal, the Group will further utilize and leverage financing options provided by the substantial shareholder and the third party vendor.

The loan agreement previously entered in November 2017 of US$600.0 million remained undrawn as of 31 December 2018. The Group considered the US$250.0 million shareholder loan and the US$500.0 million cooperation agreement entered during the Period as alternative financing options to replace the US$600.0 million loan agreement. The Group is in the process of negotiating with the associated party to terminate the US$600.0 million loan agreement.

Energy Exploration and Production

For the Period, the project involving four oilfields located in the Fergana Valley of the Republic of Kyrgyzstan (the "**Kyrgyzstan Project**") (of which 60% interests were held by the Group) recorded sales of 163,728 barrels (bbl) (for the Comparative Period: 204,676 bbl) of light crude oil. Revenue from the energy exploration and production segment was approximately RMB49.0 million for the Period with an increase of approximately 8.4% from RMB45.2 million for the Comparative Period.

The growth of revenue in 2018 were driven by the rise in crude oil price, whilst the sales volume dropped compared to Comparative Period primarily due to decrease in demand and the delay in orders from customers in the second half of 2018 which were driven by relatively high inventory level in customer's refinery and storage facilities.

Despite the revenue from the oil production and sales increased during the Period, the overall revenue growth has been restrained largely due to temporary shortage on certain specific exploration materials, and the delay in the completion of the Disposal which has slowed down the drawdown process of the loan facilities and the exploration development plan.

The proved oil reserve remained consistent compared to the forecast in the oil competent evaluation report as at 30 June 2018. We estimated the proved reserve as at 31 December 2018 was approximately 23,628,000 tonnes, and it was reduced by approximately 22,000 tonnes during the second half of 2018.

The Group has been making continuous endeavours to implement its plan to accelerate the development of upstream and downstream energy exploration and production business and increase the production volume through various means to cope with the recovery of oil price, including well-drilling operations and the construction of oil-production-related amenities to improve its operation efficiency and enhanced its production capacity.

Discontinued Operations

The shipbuilding and engineering business has been classified as Discontinued Operations and its underlying asset and liabilities have been classified as 'Assets classified as held for sale' and 'Liabilities directly associated with assets classified as held for sale' in accordance with International Financial Reporting Standard 5, as at 31 December 2018. Please refer to the announcement dated 11 March 2019 and the circular of the Company dated 23 November 2018 for further details. A gain on disposal is expected to realize in the 2019 financial year, resulting from a significant portion of the Group's net deficit being disposed of in the Disposal.

FINANCIAL REVIEW

The Group's operating results from the Continuing Group for the Period were primarily contributed by the Company and its subsidiaries engaging in the energy exploration and production. As a result of adopting International Financial Reporting Standard 5, the results of the shipbuilding and engineering business for the Period were included under the Discontinued Operations, and its underlying assets and liabilities were classified as 'Assets classified as held for sale' and 'Liabilities directly associated with assets classified as held for sale'. The consolidated statement of comprehensive income for Comparative Period have also been restated for comparison purpose.

Revenue

For the Period, the Continuing Group recorded a revenue of approximately RMB49.0 million (for the Comparative Period: approximately RMB45.2 million), representing a year-on-year increase of approximately 8.4%. The revenues are derived from the sales of crude oil produced from the Kyrgyzstan Project. The average oil price received per tonne of crude oil was approximately US$317 in the Period compared to approximately US$230 in the Comparative Period, representing an increase of approximately 37.8%.

Cost of Sales

For the Period, the Continuing Group's cost of sales remained steady at approximately RMB34.0 million (for the Comparative Period: RMB34.5 million), which was mainly driven by improve in production efficiency during the period.

Gross profit

Gross profit from the Continuing Group for the Period was approximately RMB14.9 million compared to gross profit of approximately RMB10.7 million for the Comparative Period, which was mainly due to increase in oil price and cost saving from production efficiency.

Distribution cost

For the Period, the Continuing Group's distribution cost decreased by approximately 20.0% to RMB2.8 million (for the Comparative Period: RMB3.5 million), which was in line with the decrease in sales volume during the Period.

General and Administrative Expenses

For the Period, the Continuing Group's general and administrative expenses remained steady at approximately RMB54.7 million (for the Comparative Period: RMB56.0 million). This was mainly due the implementation of cost control.

Other Gains/(Losses) – Net

For the Period, the Continuing Group's other gains- net was approximately RMB621.8 million (for the Comparative Period: other losses of RMB822.0 million), which was mainly due to fair value gain on derivative instruments and net foreign exchange gains for the Period.

Finance Costs – Net

The Continuing Group's Finance income for the Period increased significantly to approximately RMB47.0 million (for the Comparative Period: RMB6.9 million), which was mainly due to the increase in imputed interest income on interest-free loans. Finance costs for the Period increased to approximately RMB486.4 million (for the Comparative Period: RMB64.6 million), which was mainly due to the increase in interests of convertible bonds and net foreign exchange losses from financing activities for the Period.

Total Comprehensive Loss for the Period

During the Period, the Group recorded total comprehensive loss of approximately RMB195.7 million (for the Comparative Period: RMB2,028.2 million), of which total comprehensive loss attributable to the equity holders of the Company was approximately RMB74.5 million (for the Comparative Period: RMB1,977.7 million). Loss attributable to the equity holders of the Company was the result of the considerable finance costs and relatively fixed administrative expenses.

Discontinued Operations – Shipbuilding and Engineering

The turnover for the Discontinued Operations decreased by 25.5% to approximately RMB65.3 million in the Period (for the Comparative Period: revenue of RMB87.6 million excluding the revenue related to cancellation of contracts) the gross loss was reduced to approximately RMB111.1 million (for the Comparative Period: loss of RMB645.3 million). Majority of the losses are attributed from administrative expenses approximately of RMB633.7 million (for the Comparative Period: RMB630.8 million), finance costs – Net approximately of RMB1,643.1 million (for the Comparative Period: RMB1,066.1 million).

Liquidity and Going Concern

The Group incurred a net loss of RMB259.5 million (2017: RMB1,936.2 million) and had an operating cash outflow of RMB201.0 million (2017: inflow of RMB20.1 million) during the year ended 31 December 2018. As at 31 December 2018, the Group had a deficit of RMB9,630.1 million (2017: RMB11,246.4 million) and the Group's current liabilities exceeded its current assets by RMB11,326.2 million (2017: RMB32,416.8 million). The Group maintained cash and cash equivalents of RMB9.3 million (2017: RMB69.9 million) as at 31 December 2018.

As at 31 December 2018, borrowings of Disposal group which are included in "Liabilities directly associated with assets classified as held for sale" amounted to RMB15,735.8 million, out of which RMB15,501.0 million were overdue. As at 31 December 2018, overdue interest payables of the Disposal group amounted to RMB3,905.1 million. Subsequent to 31 December 2018, additional loan principal in the Disposal group totaling RMB234.9 million were not renewed nor repaid upon the scheduled repayment dates and thus became overdue. The Disposal group had cash and cash equivalents of RMB14.0 million as at 31 December 2018.

As at 31 December 2018, borrowings of the Group, excluding Borrowings of Disposal Group (the "Borrowings of Continuing Group"), amounted to RMB3,640.4 million, out of which RMB2,165.3 million were overdue. As at 31 December 2018, overdue interest payables of the Continuing Group amounted to RMB165.0 million. Certain borrowings of the Group contain cross-default terms, causing Borrowings of Continuing Group of RMB775.8 million at 31 December 2018 to become immediately repayable.

A series of plans and measures have been taken to mitigate liquidity pressure and to improve the financial position of the Group. In order to enhance the liquidity and financial position of the Group, the Group has reduced its borrowings by issuing shares of the Company to satisfy certain of the Group's outstanding debts during the Period. Upon the completion of the disposal of the shipbuilding and engineering business, it will enable the Group to ease its debt burden immediately and to enhance the flexibility of fund utilization.

Details regarding uncertainties on the going concern of the Group and the respective plans and measures are set out in the section headed "Going Concern Basis" in Note 2.1(a) to the consolidated financial statements.

Borrowings and Finance Lease Liabilities

Our Continuing Group's short-term borrowings and finance lease liabilities decreased by RMB20,436.9 million from RMB23,322.7 million as at 31 December 2017 to RMB2,885.8 million as at 31 December 2018. Our Continuing Group's long-term borrowings increased by RMB546.2 million from RMB208.4 million as at 31 December 2017 to RMB754.6 million as at 31 December 2018. Short-term borrowings with amount RMB15,735.8 million was reclassified to liabilities directly associated with assets classified as held for sale as at 31 December 2018.

As at 31 December 2018, our total borrowings and finance lease liabilities were RMB3,640.4 million (as at 31 December 2017: RMB23,531.2 million), of which RMB28.1 million (approximately 0.7%) was denominated in RMB(as at 31 December 2017: RMB19,533.7 million (approximately 83.0%)) and the remaining RMB3,612.2 million (approximately 99.3%) was denominated in other currencies such as USD and HKD (as at 31 December 2017: RMB3,997.5 million (approximately 17.0%)). Certain borrowings were secured by Disposal group's land use rights, buildings, construction contracts, pledged deposits, guarantee from certain related parties and guarantee from a subsidiary of the Group. Approximately 83.5% of the borrowings bear interests at fixed rate (as at 31 December 2017: approximately 57.0%).

Significant Investments

Save as disclosed in this announcement, the Group did not have any significant investments during the Period.

Material Acquisition and Disposal of Subsidiaries

On 9 October 2018, the Group announced the disposal of shipbuilding and engineering business, at a consideration of HK$1. For details of the Disposal, please refer to the announcements and dated 9 October 2018, 15 November 2018, 13 December 2018, 25 December 2018, 4 March 2019 and 11 March 2019 and circular dated 23 November 2018 respectively. Save for the above, the Group had no other material acquisitions or disposals of investments during the Period under review.

Foreign Exchange Risks

The Continuing Group incurred net foreign exchange gain of approximately RMB407.1 million (for the Comparative Period: loss of RMB618.0 million) due to the depreciation of RMB against USD and HKD during the Period, which resulted in exchange gain on certain USD-denominated and HKD-denominated liabilities, such as trade and other payables and borrowings of the Group.

Capital Expenditure

For the Period, our capital expenditure was approximately RMB128.3 million (for the Comparative Period: RMB70.0 million), which was mainly used in the energy exploration and production segment.

Gearing Ratio

Our gearing ratio (measured by total borrowings and finance lease liabilities divided by the sum of total borrowings and finance lease liabilities and total deficit) increased from approximately 191.5% as at 31 December 2017 to approximately 198.8% as at 31 December 2018 after taking the borrowing and finance lease liabilities included in 'Liabilities directly associated with assets classified as held for sale' into consideration. Affected by the losses of approximately RMB259.5 million for the year ended 31 December 2018, the total deficit was approximately RMB9,630.1 million as at 31 December 2018 (as at 31 December 2017: RMB11,246.4 million).

Contingent Liabilities

As at 31 December 2018, we had no contingent liabilities (as at 31 December 2017: RMB26.7 million which is resulted from financial guarantees provided to our customers).

Credit Assessment and Risk Management

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, pledged deposits, outstanding trade, bills and other receivables and prepayments. As at 31 December 2018, the Continuing Group had cash and cash equivalents of approximately RMB9.3 million (as at 31 December 2017: RMB90.6 million including pledged deposits), of which approximately RMB0.2 million (approximately 2.0%) was denominated in RMB and the remaining RMB9.1 million (approximately 98.0%) was denominated in USD, HKD and other currencies. The Group does not use any financial instruments for hedging purposes.

All of the Group's cash and bank balances, short-term and long-term bank deposits and pledged deposits were placed with reputable banks which the management believes are of high creditworthiness and without significant credit risk.

The Group carries out customer credit checks prior to entering into sales contract with customers. The Group offers credit lines after evaluating the customer's credit profiles, financial conditions, past experiences and other factors.

As at 31 December 2017, RMB202.5 million and RMB375.4 million related to certain customers of the shipbuilding segment and the engineering machinery segment were impaired and provided for respectively, as a result of the management's assessment on the recoverability of the balances. Such amounts were transferred to 'Assets classified as held for sale' for the year ended 31 December 2018.

Human Resources

As at 31 December 2018, we had approximately 470 employees (as at 31 December 2017: approximately 602 employees). The decrease in the number of employees was mainly in relation to the downsizing of the shipbuilding business of the Group. Total staff costs (including directors' emoluments) for the Continuing Group were approximately RMB19.4 million for the Period (for the Comparative Period: approximately RMB24.9 million). The principal elements of remuneration package of the Group include basic salary and other benefits, contribution to pension schemes, discretionary bonus and/or share options granted under an approved share option scheme. Such remuneration should reflect work complexity, time commitment, responsibility and performance with a view of attracting, motivating and retaining high performing individuals.

PROSPECTS

Through the Disposal of Liabilities and the Disposal, the Continuing Group will primarily focus on and engage in the production and sales of crude oil.

Looking ahead to 2019, the energy segment is expected to continue to perform satisfactorily. Despite the Group will continue to face global economic challenges such as volatility of crude oil price and rising operating costs, given the upward trend and the worldwide increasing demand for oil, the directors are of the optimistic view that crude oil prices will stabilise at a relatively higher range compared to the previous years. To cope with the recovery of oil price, the Group have deployed additional resources for the oilfield development to increase the exploration scale, production capacity and improve operating efficiency. The oil trading revenues are expected to improve in the coming years.

Since the Group has an ultimate goal to refinance the business operations and restructure its debts, the Group is continuing to negotiate with creditors and seek the most efficient measurements to settle debts. The Group has obtained positive feedback from the creditors and they are willing to participate in the debt-restructuring arrangements proposed by the Group. We believe the Group has the capability to achieve an improving result in the coming years, along with the positive progression of the Group's investments in the energy sector. To overcome all challenges faced during the transformation, we will continue to strive for improvement and success with our commitment for the stable and sustainable development of the Group, and to create greater value for all of our shareholders.

Furthermore, the Group is actively pursuing energy trading, storage and logistic projects in the Asia Pacific region, and foreseeing that it will bring competitive advantages by leveraging the existing industry knowledge and network of the Group. Such development shall improve the operational synergy, generate sustainable profitability and create greater bandwidth to expand the Group's energy trading and service supply chain operation. The Group is also seeking opportunities to further expand its business operations to establish and achieve a sustainable development objective, including seeking potential subsidies and supports from local authorities subsequent to the restructuring and the completion of the Disposal.

EVENT AFTER THE REPORTING PERIOD

On 3 March 2019, the Company entered a supplemental agreement (“Supplemental Agreement”) with Unique Orient Limited (the “**Purchaser**”), which supplemented the original share purchase agreement entered on 9 October 2018 and the first supplemental agreement entered on 25 December 2018. The Purchaser agreed to procure the release or discharge of the Relevant Guarantees in full and completion of the relevant registration within 180 days from the date of completion of the transfer of the sale shares of Able Diligent Limited (“**Sale Shares**”), and it was agreed that all debts owing by the Disposal Group to the Remaining Group will be assigned to the Purchaser upon the Relevant Guarantees being released or discharged in full and the relevant registration being completed. For the purpose of securing the due performance of the obligations of the Purchaser under the Supplemental Agreement, the Purchaser agreed to execute a share charge over the Sale Shares in favour of the Company. On 10 March 2019, the Company entered into a share charge with the Purchaser and the Sale Shares was transferred to the Purchaser. For further details, please refer to the announcement of the Company dated 11 March 2019.

On 7 March 2019, convertible bonds with face value of HKD$135.1 million was converted to the Company’s ordinary shares at HKD $0.50 per share. Subsequent to the conversion, the Company’s outstanding Convertible Bonds liabilities is reduced to approximately HKD703.4 million.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Corporate Governance Code

During the year ended 31 December 2018, the Company complied with the applicable code provisions of the Corporate Governance Code (the “**Code**”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”), apart from the deviations set out below.

Code provision A.2.1 of the Code stipulates that the roles of the chairman of the Board (the “**Chairman**”) and the chief executive officer should be separate and should not be performed by the same individual. During the year ended 31 December 2018, Mr. Chen Qiang has performed both the roles of Chairman and chief executive officer of the Company in deviation from code provision A.2.1 of the Code. The Company believes that it is more efficient and effective for the Company to develop its long term strategies and in execution of its business plans if Mr. Chen Qiang serves as both the Chairman and the chief executive officer of the Company.

Compliance with the Model Code for Directors' Securities Transactions

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less than the required standards of the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "**Model Code**"). Having made specific enquiry of the directors of the Company, all directors confirmed that they complied with the required standards set out in the Model Code and the Company's code of conduct regarding directors' securities transactions for the year ended 31 December 2018.

Audit Committee

The consolidated financial statements of the Group for the year ended 31 December 2018 have been reviewed and approved by the Audit Committee, and the Audit Committee is of the opinion that such financial statements comply with the applicable accounting standards, the Listing Rules and all other applicable legal requirements. The Audit Committee therefore recommended the Board's approval of the Group's consolidated financial statements for the year ended 31 December 2018.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2018.

PUBLIC FLOAT

As far as the Company is aware, as at the date of this announcement, the Company has maintained a sufficient public float with more than 25% of the issued shares of the Company being held by the public.

FINAL DIVIDEND

The Board has resolved not to declare the payment of a final dividend for the year ended 31 December 2018 (2017: nil).

ANNUAL GENERAL MEETING

The 2019 annual general meeting of the Company (the "**2019 AGM**") will be held on Monday, 10 June 2019 and the notice will be published and issued to shareholders of the Company in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 4 June 2019 to Monday, 10 June 2019, both days inclusive, during which no transfers will be registered, for the purpose of ascertaining shareholders' entitlement to attend and vote at the 2019 AGM. In order to be eligible to attend and vote at the 2019 AGM, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Monday, 3 June 2019.

ANNUAL REPORT

The 2018 Annual Report containing the applicable information required by the Listing Rules will be published on the respective websites of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (www.huarongenergy.com.hk) in due course. Printed copies will be despatched to shareholders in due course.

GRATITUDE

We would like to take this opportunity to express our sincere gratitude to the Directors and our employees for their dedicated and concerted efforts, and to all our shareholders and creditors and relevant institutions for their ardent and continued support to the Group.

BOARD OF DIRECTORS

As at the date of this announcement, the executive directors of the Company are Mr. CHEN Qiang (Chairman), Mr. HONG Liang, Mr. WANG Tao, Ms. ZHU Wen Hua and Mr. ZHANG Ming; and the independent non-executive directors of the Company are Mr. WANG Jin Lian, Ms. ZHOU Zhan and Mr. LAM Cheung Mau.

On Behalf of the Board
China Huarong Energy Company Limited
CHEN Qiang
Chairman

Hong Kong, 29 March 2019

EXTRACT OF INDEPENDENT AUDITOR'S REPORT

The below sections set out an extract of the report by PricewaterhouseCoopers, the auditor of the Company, regarding the consolidated financial statements of the Group for the year ended 31 December 2018:

Disclaimer of Opinion

We do not express an opinion on the consolidated financial statements of the Group because we have not been able to obtain sufficient appropriate audit evidence and due to the potential interaction of the multiple uncertainties and their possible cumulative effect on the consolidated financial statements as described in the Basis for Disclaimer of Opinion section of our report. In all other respects, in our opinion the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Disclaimer of Opinion

Multiple Uncertainties Relating to Going Concern

As set out in Note 2.1(a) to the consolidated financial statements, the Group incurred a net loss of RMB259,479,000 and had an operating cash outflow of RMB200,998,000 during the year ended 31 December 2018. As at 31 December 2018, the Group had a deficit of RMB9,630,126,000 and the Group's current liabilities exceeded its current assets by RMB11,326,204,000. The Group maintained cash and cash equivalents of RMB9,274,000 as at 31 December 2018.

On 9 October 2018, the Group entered into a conditional sale and purchase agreement to dispose of the core assets and liabilities of shipbuilding, offshore engineering, engineering machinery and marine engine building segments (the "**Shipbuilding Business**", together with the holding company of the Shipbuilding Business referred to as the "**Disposal Group**") with an independent third party (the "**Transaction**"). Pursuant to certain supplemental agreements signed with Unique Orient Limited (the "**Purchaser**"), an independent third party, the sale shares of Able Diligent Limited, the holding company of the Disposal Group, was transferred to the Purchaser on 10 March 2019. As at 31 December 2018, borrowings of Shipbuilding Business which are included in "Liabilities directly associated with assets classified as held for sale" (the "**Borrowings of Disposal Group**") amounted to RMB15,735,828,000, out of which RMB15,500,976,000 were overdue. As at 31 December 2018, overdue interest payables of the Disposal Group amounted to RMB3,905,073,000. As at the date of this report, guarantees provided by the Company to the Disposal Group in respect of bank and other borrowings, inclusive of principals and interest, amounted to RMB7,479,948,000. The Disposal Group had cash and cash equivalents of RMB13,962,000 as at 31 December 2018.

During the year, the Group's operation was focused primarily on the energy exploration and production segment (the "**Energy Business**", together with the corporate headquarters referred to as the "**Remaining Group**"), the development of which has however been limited due to shortage of funds for investments in exploration and drilling of wells. As at 31 December 2018, borrowings of the Group, excluding Borrowings of Disposal Group (the "**Borrowings of Remaining Group**"), amounted to RMB3,640,431,000, out of which RMB2,165,294,000 were overdue. As at 31 December 2018, overdue interest payables of the Remaining Group amounted to RMB165,011,000. Certain borrowings of the Remaining Group contain cross-default terms, causing Borrowings of Remaining Group of RMB775,832,000 as at 31 December 2018 to become immediately repayable. The Remaining Group had cash and cash equivalents of RMB9,274,000 as at 31 December 2018.

These conditions, together with others described in Note 2.1(a) to the consolidated financial statements, indicate the existence of material uncertainties which may cast significant doubt over the Group's ability to continue as a going concern.

The directors of the Company have been undertaking a number of measures to improve the Group's liquidity and financial position, to refinance its operations and to restructure its debts which are set out in Note 2.1(a) to the consolidated financial statements. The consolidated financial statements have been prepared on a going concern basis, the validity of which depends on the outcome of these measures, which are subject to multiple uncertainties, including (i) whether the Group is able to obtain the agreement from the banks and lenders to release or discharge the Company's guarantees for the borrowings owed by the Disposal Group; (ii) whether the Group is able to convince the banks and lenders not to demand for repayment of the outstanding loans of the Disposal Group before the completion of the release of the Relevant Guarantees; (iii) whether the Group is able to negotiate with the promissory note holders to make further arrangement including extension of the maturity dates; (iv) whether the Group is able to convince the convertible bondholders to convert the outstanding convertible bond into equity before maturity and/or extend the maturity dates beyond 31 December 2019; (v) whether the Group is able to negotiate with the relevant bank for the renewal or extension for repayments beyond the year ending 31 December 2019; (vi) whether the Group is able to obtain waivers from the relevant lenders for the due payment in relation to those loans that have cross-default terms; (vii) whether the Group can successfully implement a business plan for its Energy Business to generate cash flows; and (viii) whether the Group can secure additional sources of financing, including those to finance its the Energy Business and draw down from the various facilities made available to the Group by entities controlled by Mr Zhang Zhi Rong and a third party during the year as and when needed.

Should the Group fail to achieve the above-mentioned plans and measures, it might not be able to continue to operate as a going concern, and adjustments would have to be made to write down the carrying value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities. The effect of these adjustments has not been reflected in the consolidated financial statements.

Impairment of property, plant and equipment and intangible assets and impairment of the Company's investments in subsidiaries and amounts due from subsidiaries

As at 31 December 2018, the Group's property, plant and equipment and intangible assets amounted to RMB748,012,000 and RMB1,668,765,000, respectively. Such assets pertain to the Energy Business. In determining the recoverable amounts of these non-current assets, the directors of the Company used value-in-use calculations, taking into consideration the proven oil reserve and new sources of financing for oil exploration. As the value-in-use amounts for the Energy Business exceeded the carrying values of the corresponding non-current assets, the directors of the Company are of the opinion that there was no impairment of these non-current assets as at 31 December 2018. The recoverable amounts of these non-current assets are estimated based on the assumption that the Group will obtain adequate financing for oil exploration in the future.

We were unable to obtain sufficient appropriate audit evidence we consider necessary to assess the recoverable amounts of the non-current assets amounting to RMB2,416,777,000 of the Remaining Group, as the recoverable amount of the non-current assets of the Remaining Group is dependent on the availability of financing for oil exploration. There were no alternative audit procedures that we could perform to satisfy ourselves as to the recoverable amounts of these property, plant and equipment and intangible assets and whether any impairment charge should be made. Any impairment provision for these assets found to be necessary would affect the Group's net assets as at 31 December 2018, the Group's net loss for the year then ended and the related note disclosures to the consolidated financial statements.

In addition, as these assets were held by a material subsidiary, any impairment provision for these assets found to be necessary would also affect the carrying amounts of the Company's investments in subsidiaries and amounts due from subsidiaries as well as the Company's accumulated losses, which amounted to RMB1,514,410,000, RMB149,723,000 and RMB15,858,364,000, respectively, as at 31 December 2018 and the related disclosures in the consolidated financial statements.

CHINA HUARONG ENERGY COMPANY LIMITED
(Incorporated in the Cayman Islands with limited liability)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December **2018** *RMB'000*	2017 *RMB'000*
ASSETS			
Non-current assets			
Land use rights		**–**	3,663,429
Property, plant and equipment	*4*	**748,012**	16,073,235
Intangible assets	*5*	**1,668,765**	1,587,572
Prepayments for non-current assets		**33,939**	10,298
Available-for-sale financial asset		**–**	44,342
		2,450,716	21,378,876
Current assets			
Inventories		**3,022**	545,999
Trade receivables	*6*	**3,497**	9,846
Other receivables, prepayments and deposits		**5,265**	480,939
Pledged deposits		**–**	20,720
Cash and cash equivalents		**9,274**	69,858
		21,058	1,127,362
Assets classified as held for sale	*8*	**22,428,968**	–
		22,450,026	1,127,362
Total assets		**24,900,742**	22,506,238
DEFICIT			
Capital and reserves attributable to the Company's equity holders			
Ordinary shares		**1,737,050**	937,772
Convertible preference shaers		**3,100,000**	**–**
Share premium		**8,345,372**	10,432,701
Other reserves		**3,704,672**	3,662,824
Accumulated losses		**(25,907,616)**	(25,791,247)
		(9,020,522)	(10,757,950)
Non-controlling interests		**(609,604)**	(488,405)
Total deficit		**(9,630,126)**	(11,246,355)

	Notes	As at 31 December 2018 RMB'000	2017 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings		**754,638**	208,445
Current liabilities			
Trade and other payables	*7*	**952,033**	9,532,441
Advances from related parties		**–**	368,959
Borrowings		**2,885,793**	23,298,366
Derivative financial instruments		**7,194**	320,001
Finance lease liabilities		**–**	24,381
		3,845,020	33,544,148
Liabilities directly associated with assets classified as held for sale	*8*	**29,931,210**	–
		33,776,230	33,544,148
Total liabilities		**34,530,868**	33,752,593
Total deficit and liabilities		**24,900,742**	22,506,238

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	**Year ended 31 December 2018** *RMB'000*	2017 *RMB'000* (Restated)
Continuing operations			
Revenue	*3*	**48,956**	45,207
Cost of sales	*9*	**(34,027)**	(34,478)
Gross profit	*3*	**14,929**	10,729
Selling and marketing expenses	*9*	**(2,845)**	(3,514)
General and administrative expenses	*9*	**(54,678)**	(56,022)
Other income – net	*10*	**–**	293
Other gains/(losses) – net	*11*	**621,816**	(821,950)
Operating profit/(loss)		**579,222**	(870,464)
Gain on extinguishment of financial liabilities upon issuance of convertible preference shares		**2,067,284**	–
		2,646,506	(870,464)
Finance income		**46,951**	6,935
Finance costs		**(486,409)**	(64,559)
Finance costs – net		**(439,458)**	(57,624)
Profit/(loss) before income tax		**2,207,048**	(928,088)
Income tax expense	*12*	**–**	–
Profit/(loss) for the year from continuing operations		**2,207,048**	(928,088)
Discontinued operations			
Loss for the year from discontinued operations		**(2,466,527)**	(1,008,091)
Loss for the year		**(259,479)**	(1,936,179)
Loss attributable to:			
Equity holders of the Company		**(138,361)**	(1,884,826)
Non-controlling interests		**(121,118)**	(51,353)
		(259,479)	(1,936,179)
Profit/(loss) attributable to the equity holders of the Company arise from:			
– Continuing operations		**2,213,293**	(920,608)
– Discontinued operations		**(2,351,654)**	(964,218)
		(138,361)	(1,884,826)

	Notes	Year ended 31 December 2018 RMB'000	2017 RMB'000 (Restated)
Other comprehensive income for the year:			
Items that cannot be reclassified to profit or loss			
– Fair value loss on a financial asset at fair value through other comprehensive income		**(16,635)**	–
Items that may be reclassified to profit or loss			
– Fair value gain on an available-for-sale financial asset		**–**	4,143
Other comprehensive (loss)/income arising from discontinued operations		**(16,635)**	4,143
Items that may be reclassified to profit or loss			
– Exchange difference on translation of foreign operations		**80,394**	(96,190)
Other comprehensive income/(loss) for the year, net of tax		**63,759**	(92,047)
Total comprehensive loss for the year		**(195,720)**	(2,028,226)
Attributable to:			
Equity holders of the Company		**(74,521)**	(1,977,658)
Non-controlling interests		**(121,199)**	(50,568)
		(195,720)	(2,028,226)
Total comprehensive income/(loss) for the year attributable to the equity holder of the Company arise from:			
Continuing operations		**2,293,166**	(1,017,433)
Discontinued operations		**(2,367,687)**	(960,225)
		(74,521)	(1,977,658)
Earnings/(loss) per share for loss from continuing operations attributable to the equity holders of the Company (expressed in RMB per share)			
– Basic		**0.75**	(0.42)
– Diluted		**0.48**	(0.42)
Loss per share for loss attributable to the equity holders of the Company (expressed in RMB per share)			
– Basic and diluted	*13*	**(0.05)**	(0.86)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

China Huarong Energy Company Limited (the "**Company**") was incorporated in the Cayman Islands on 3 February 2010 as an exempted company with limited liability under the Companies Law of the Cayman Islands. Its registered address is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The consolidated financial statements are presented in thousands of Renminbi (RMB'000), unless otherwise stated.

2 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

(a) Going concern basis

The Group incurred a net loss of RMB259,479,000 (2017: RMB1,936,179,000) and had an operating cash outflow of RMB200,998,000 (2017: inflow of RMB20,102,000) during the year ended 31 December 2018. As at 31 December 2018, the Group had a deficit of RMB9,630,126,000 (2017: RMB11,246,355,000) and the Group's current liabilities exceeded its current assets by RMB11,326,204,000 (2017: RMB32,416,786,000). The Group maintained cash and cash equivalents of RMB9,274,000 (2017: RMB69,858,000) as at 31 December 2018.

During the year ended 31 December 2018, the operation of the Group's shipbuilding, offshore engineering, engineering machinery and marine engine building segments (together, the "**Shipbuilding Business**") was minimal as the Group intended to dispose of these segments. The Group's operation was focused primarily on the energy exploration and production segment (the "**Energy Business**", together with the corporate headquarters referred to as the "**Remaining Group**"), the development of which has however been limited due to shortage of funds for investments in exploration and drilling of wells.

On 9 October 2018, the Company entered into a conditional sale and purchase agreement with Unique Orient Limited (the "**Purchaser**"), an independent third party, to dispose of the core assets and liabilities of the Shipbuilding Business (the "**Disposal Group**") at a consideration of HKD1 (the "**Transaction**"). There are certain conditions precedent pursuant to the Transaction, which included, but not limited to, the successful issuance of certain Convertible Preference Shares ("**CPS**") to certain bank creditors of the subsidiaries of the Disposal Group, and the release or discharge of the relevant guarantees provided by the Company in respect of the debts of the Shipbuilding Business (the "**Relevant Guarantees**"). The conditional sale and purchase agreement and the issuance of CPS were approved by the shareholders of the Company and CPS were issued in December 2018.

Subsequent to 31 December 2018, supplemental agreements were signed with the Purchaser, such that (1) the transfer of sale shares of Able Diligent Limited, the holding company of the Disposal Group, to the Purchaser shall take place on or before 31 March 2019; (2) the Purchaser agreed to procure the release or discharge of the Relevant Guarantees; and (3) the Purchaser agreed to execute a share charge over the sale shares in favour of the Company. On 10 March 2019, the Group transferred the sale shares of Able Diligent Limited to the Purchaser. As of the date of this report, financial guarantees provided by the Company to the banks and lenders of the Shipbuilding Business, inclusive of principals and interest, amounted to RMB7,479,948,000.

As at 31 December 2018, assets and liabilities of the Shipbuilding Business were classified as "Assets classified as held for sale" and "Liabilities directly associated with assets classified held for sale" respectively in the consolidated statement of financial position.

As at 31 December 2018, borrowings of Shipbuilding Business which are included in "Liabilities directly associated with assets classified as held for sale" (the "**Borrowings of Disposal Group**") amounted to RMB15,735,828,000, out of which RMB15,500,976,000 were overdue. As at 31 December 2018, overdue interest payables of the Disposal Group amounted to RMB3,905,073,000. Subsequent to 31 December 2018, additional loan principal in the Disposal Group totaling RMB234,852,000 were not renewed nor repaid upon the scheduled repayment dates and thus became overdue. The Disposal Group had cash and cash equivalents of RMB13,962,000 as at 31 December 2018. As at 31 December 2018 and up to the date of this report, the Group has not obtained waivers from the relevant banks and lenders for such defaults; nor have these banks and lenders taken any action against the Group to demand immediate repayment.

As at 31 December 2018, borrowings of the Group, excluding Borrowings of Disposal Group ("**Borrowings of Remaining Group**"), amounted to RMB3,640,431,000, out of which RMB2,165,294,000 were overdue. As at 31 December 2018, overdue interest payables of the Remaining Group amounted to RMB165,011,000. Certain borrowings of the Group contain cross-default terms, causing Borrowings of Remaining Group of RMB775,832,000 at 31 December 2018 to become immediately repayable. These borrowings are further explained below:

(i) The Remaining Group had promissory notes with an aggregate principal amount of RMB1,605,163,000 outstanding as at 31 December 2018, out of which approximately RMB796,035,000 had been overdue since 2017 and RMB769,672,000 had been overdue since 2018. The remaining outstanding promissory notes amounting to RMB39,456,000 became immediately repayable pursuant to the cross-default terms under the relevant loan agreements.

(ii) As at 31 December 2018, the Remaining Group had five outstanding convertible bonds (2017: six) with an aggregate principal amount of RMB736,376,000 (2017: RMB1,544,177,000) with maturity dates ranging from May 2019 to November 2019. During the year ended 31 December 2018, convertible bonds with amounts of RMB820,236,000 were converted into equity. Since the bondholders have early redemption options to require the Company to redeem these convertible bonds at any time before the maturity dates, these convertible bonds are classified as current liabilities. In addition, all the convertible bonds became immediately repayable pursuant to the cross-default terms under the relevant agreements.

(iii) The Remaining Group had bank and other borrowings of RMB600,275,000, out of which bank borrowings of RMB599,587,000 were overdue and the remaining other borrowings of RMB688,000 would be due for repayment within the next twelve months in accordance with the repayment dates of the respective agreements as at 31 December 2018.

The above conditions indicate the existence of material uncertainties, which may cast significant doubt upon the Group's ability to continue as a going concern.

In view of such circumstances, the directors of the Company have, during the year and up to the date of the approval of these consolidated financial statements, taken the following measures to mitigate the liquidity pressure and to improve the financial position of the Group, to refinance its operation and to restructure its debts:

i) The Group has been actively negotiating with the relevant banks and lenders of the Disposal Group to release or discharge the Relevant Guarantees.

ii) The Group is also maintaining its relationship with the banks and the lenders of the Disposal Group such that no action will be taken by them to demand immediate repayment of its outstanding borrowings under the Relevant Guarantees.

iii) The Group has also been actively negotiating with the banks and lenders regarding the Borrowings of Remaining Group of RMB2,941,814,000 to take the following actions:

(a) As at 31 December 2018, the outstanding promissory notes amounting to RMB1,565,707,000 were not extended nor repaid upon the schedule repayment dates and thus became overdue and RMB39,456,000 became immediately repayable pursuant to the cross-default terms under the relevant loan agreements. The Company is in the process of negotiating with these promissory note holders for further arrangements, including the extension of maturity dates and obtaining waiver from the lender for the due payment pursuant to the relevant cross-default terms.

(b) As at 31 December 2018, the Remaining Group had five outstanding convertible bonds with an aggregate principal amount totaling RMB736,376,000 with maturity dates ranging from May 2019 to November 2019, provided that the bondholders do not exercise the early redemption options.

Subsequent to 31 December 2018, convertible bonds with total principal amounts of RMB118,623,000 were converted into equity. Three convertible bondholders with total principal amounts of RMB422,770,000 have agreed not to demand for repayment in 2019. The Company will continue to convince the remaining bondholders to convert the bonds into equity before their maturities or extend the maturity dates beyond 31 December 2019.

(c) As at 31 December 2018, the Remaining Group had bank and other borrowings of RMB600,275,000 which were overdue or would be due for repayment within the next twelve months in accordance with the repayment date of respective agreements. Subsequent to 31 December 2018, the Group repaid bank borrowing of RMB5,660,000 and other borrowing of RMB688,000. The Group is in the process of negotiating with the relevant bank for extension of repayment and renewal of such borrowings.

iv) During the year ended 31 December 2018, the Group obtained security-free and interest-free loans from an entity controlled by a close family member of Mr. Zhang Zhi Rong amounting to RMB506,356,000, which will be repayable in April 2020.

v) During the year ended 31 December 2018, the Group also entered into a loan agreement with an entity controlled by Mr. Zhang Zhi Rong, who agreed to provide a loan facility up to USD250,000,000 (equivalent to approximately RMB1,719,625,000) to the Group for the funding of the oilfield operations of the Energy Business. The Group has drawn down USD45,601,000 (equivalent to approximately RMB313,665,000) up to 31 December 2018. Subsequent to 31 December 2018, the Group has further drawn down USD4,771,000 (equivalent to approximately RMB32,819,000).

vi) The Group has focused on its operations in development of the energy exploration and production segment. During the year, a number of wells were developed in the Republic of Kyrgyzstan ("Kyrgyzstan") and management expects to realise an increase of oil output through further development and expansion of this segment, thereby generate steady operating cash flows.

During the year ended 31 December 2018, the Group entered into a loan agreement with an entity controlled by Mr. Zhang Zhi Rong, who agreed to provide a loan facility up to RMB40,000,000 to the Group for the funding in respect of the energy exploration and production segment. As at 31 December 2018, the Group has drawn down RMB9,100,000 for exploration and drilling of wells. The Group expects to draw down the remaining balance of the facility in 2019.

In addition, the Group also entered into an Co-operative Framework Agreement during the year ended 31 December 2018 with an independent third party who agreed to provide materials for the exploration and production of crude oil with an aggregate amount up to USD500,000,000, in exchange for an option to purchase up to 70% of the total crude oil produced by the Group at 92% to 95% of the market price as a form of repayment until all the liabilities are repaid.

The directors have reviewed the Group's cash flow projections prepared by management that covered a period of not less than twelve months from 31 December 2018. They are of the opinion that, taking into account the above-mentioned plans and measures, the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within the next twelve months from the date of the statement of financial position. Accordingly, the directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

Notwithstanding the above, significant uncertainties exist as to whether management of the Company will be able to achieve its plans and measures as described above. Whether the Group will be able to continue as a going concern would depend upon the Group's ability to generate adequate financing and operating cash flows through the successful fulfillment of the following plans:

i) obtaining the agreement from the banks and lenders to release or discharge the Company's guarantees for the borrowings owed by the Disposal Group;

ii) convincing the banks and lenders not to demand for repayment of the outstanding loans of the Disposal Group before the completion of the release of the Relevant Guarantees;

iii) negotiating with all existing promissory note holders of outstanding principals of RMB1,565,707,000, together with accrued interests thereon for further arrangement including the extension of the maturity dates;

iv) convincing the convertible bondholders of outstanding principal of RMB617,753,000 to convert the bond into equity before their maturity and/or extend the maturity dates beyond 31 December 2019;

v) negotiating with the relevant bank for the renewal or extension for repayments beyond the year ending 31 December 2019 for the bank borrowing of RMB599,587,000 that was overdue as at 31 December 2018;

vi) obtaining waivers from the relevant lenders for the due payment in relation to those loans that have cross-default terms in the respective loan agreements for the Remaining Group;

vii) implementing a business plan for its energy and exploration and production segment to generate cash flows; and

viii) obtaining additional sources of financing other than those mentioned above, including those to finance the Energy Business, and the successful drawdown of the various facilities made available to the Group by entitles controlled by Mr Zhang Zhi Rong and a third party, as described in management's plan above, as and when needed.

Should the Group fail to achieve the above-mentioned plans and measures, it might not be able to continue to operate as a going concern, and adjustments would have to be made to write down the carrying value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities. The effect of these adjustments has not been reflected in these consolidated financial statements.

(b) Statement of compliance

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**"). The consolidated financial statements have been prepared under the historical cost convention, except as modified by the accounting policies stated below.

The preparation of the consolidated financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

(c) New and amended standards, improvements and interpretation adopted by the Group:

During the year ended 31 December 2018, the Group has adopted the following new and amended standards, improvements and interpretation which are mandatory for accounting periods beginning on 1 January 2018:

IAS 28 (Amendments)	Investment in Associates and Joint Ventures
IAS 40 (Amendments)	Transfers of Investment Property
IFRS 1 (Amendments)	First Time Adoption of IFRS
IFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions
IFRS 4 (Amendments)	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
IFRS 15 (Amendments)	Clarifications to IFRS 15
Annual Improvements Project	Annual Improvements 2014-2016 Cycle
IFRIC Int 22	Foreign Currency Transactions and Advance Consideration

Saved as disclosed in Note 2.1(e), the adoption of these new and amended standards, improvements and interpretation did not have any impact on the amounts recognised in prior periods and will also not affect the current or future periods.

(d) New standards, amendments to standards and interpretations have been issued, but are not effective for the financial period beginning 1 January 2018 and have not been early adopted by the Group:

		Effective for annual periods beginning on or after
Annual Improvements Project (Amendments)	Annual Improvements 2015-2017 Cycle	1 January 2019
IAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement	1 January 2019
IAS 28 (Amendments)	Long-term Interests in Associates and Joint Ventures	1 January 2019
IFRS 9 (Amendments)	Prepayment Features with Negative Compensation	1 January 2019
IFRS 16	Leases	1 January 2019
IFRS 10 and IAS 28 (Amendments)	Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture	A date to be determined by the IASB
IFRS 17	Insurance Contracts	1 January 2021
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting	1 January 2020
IFRIC 23	Uncertainty Over Income Tax Treatments	1 January 2019

IFRS 16, "Leases"

Nature of change

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the consolidated statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

Impact

The standard will affect primarily the accounting for the Group's operating leases. As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB1,033,000.

However, the Group has not yet assessed what other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable leases payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognized on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward.

Date of adoption by the Group

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

Apart from the aforementioned IFRS 16, the directors have yet to assess the full impact of adopting these new standards, amendments to standards and interpretation but anticipate that the adoption of these standards will not result in a significant impact on the results and financial position of the Group.

(e) Changes in accounting policies

This note explains the impact of the adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers on the group's financial statements.

IFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in the restated consolidated statement of financial position as at 31 December 2017, but are recognised in the opening consolidated statement of financial position on 1 January 2018.

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail by standard below.

	31 December 2017 As originally presented	IFRS 9	IFRS 15	1 January 2018 Restated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Consolidated statement of financial position (extract)				
Non-current assets				
Financial asset at fair value through other comprehensive income	–	44,342	–	44,342
Available-for-sale financial asset	44,342	(44,342)	–	–
	44,342	–	–	44,342
Current liabilities				
Trade and other payables				
– Trade payables	1,474,940	–	–	1,474,940
– Other payables	8,057,501	–	(33,033)	8,024,468
– Contract liabilities	–	–	33,033	33,033
	9,532,441	–	–	9,532,441
Equity				
Reserves				
– Available-for-sale financial asset reserve	7,277	(7,277)	–	–
– Financial asset at fair value through other comprehensive income reserve	–	7,277	–	7,277
– Other reserves	3,655,547	–	–	3,655,547
	3,662,824	–	–	3,662,824

(i) IFRS 9 "Financial Instruments"

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 "Financial Instruments" from 1 January 2019 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements.

There is no material impact on the Group's accumulated loss as at 1 January 2018 and no restatement is made.

(1) Classification and measurement

Equity investments previously classified as available for sale

On 1 January 2018 (the date of initial application of IFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate IFRS 9 categories. The main effects resulting from this reclassification are as follows:

Financial assets – 1 January 2018	**Fair value through other comprehensive income**	**Available-for-sale**
	RMB'000	*RMB'000*
Closing balance 31 December 2017 – IAS 39	–	44,342
Reclassify non-trading equities from available-for-sale financial asset to financial asset at fair value through other comprehensive income	44,342	(44,342)
Opening balance 1 January 2018 – IFRS 9	44,342	–

The impact of these changes on the Group's equity is as follows:

Reserves – 1 January 2018	**Financial assets at fair value through other comprehensive income reserve**	**Available-for-sale reserve**
	RMB'000	*RMB'000*
Opening balance – IAS 39	–	7,277
Reclassify non-trading equities from available-for-sale financial asset to financial asset at fair value through other comprehensive income	7,277	(7,277)
Opening balance – IFRS 9	7,277	–

The Group elected to present the changes in the fair value of its equity investment previously classified as available-for-sale financial asset in other comprehensive income, because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. As a result, assets with a fair value of RMB44,342,000 were reclassified from available-for-sale financial asset to financial asset at fair value through other comprehensive income and cumulative fair value gain of RMB7,277,000 were reclassified from the available-for-sale financial asset reserve to the financial asset at fair value through other comprehensive income reserve on 1 January 2018.

(2) Reclassifications of financial instruments on adoption of IFRS 9

On the date of initial application, 1 January 2018, the financial instruments of the Group were as follows, with any reclassifications noted:

	Measurement category		**Carrying amount**	
	Original (IAS 39)	**New (IFRS 9)**	**Original**	**New**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current financial assets				
Financial asset at fair value through other comprehensive income	Available-for-sale	Fair value through other comprehensive income	44,342	44,342
Current financial assets				
Trade receivables	Amortised cost	Amortised cost	9,846	9,846
Other receivables	Amortised cost	Amortised cost	273,062	273,062
Pledged deposits	Amortised cost	Amortised cost	20,720	20,720
Cash and cash equivalents	Amortised cost	Amortised cost	69,858	69,858
Current financial liabilities				
Trade and other payables	Amortised cost	Amortised cost	9,449,410	9,449,410
Bank borrowings	Amortised cost	Amortised cost	23,531,192	23,531,192

(3) Impairment of financial assets

The Group has two types of financial assets that are subject to IFRS 9's new expected credit loss model:

- trade receivables
- deposits and other receivables

The Group was required to revise its impairment methodology under IFRS 9 for each of these classes of assets. The impact of the change in impairment methodology on the Group's retained earnings and equity was immaterial.

While cash and cash equivalents and pledged bank deposits are also subject to the impairment requirements of IFRS 9, the identified impairment loss was also immaterial.

Trade receivables

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. The resulted increase of loss allowance for trade receivables on 1 January 2018 was immaterial.

Deposits and other receivables

Deposits and other receivables at amortised cost are considered to be low risk, and therefore the impairment provision is determined as 12 months expected credit losses. The resulted increase of loss allowance for contract assets and deposits and other receivables on 1 January 2018 was immaterial. The loss allowance for deposits and other receivables have not further increased during the current reporting period.

(ii) IFRS 15 "Revenue from Contracts with Customers"

The Group has adopted IFRS 15 "Revenue from Contracts with Customers" from 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements. In accordance with the transition provisions in IFRS 15, comparative figures have not been restated. The adoption of IFRS 15 did not result in significant changes to the Group recognition policies.

In summary, the following adjustments were made to the amounts recognised in the consolidated statement of financial position at the date of initial application (1 January 2018):

	IAS 18 carrying amount 31 December 2017	**Reclassification**	**IFRS 15 carrying amount 1 January 2018**
	RMB'000	*RMB'000*	*RMB'000*
Receipt in advance	33,033	(33,033)	–
Contract liabilities	–	33,033	33,033

The Group has voluntarily changed the presentation of certain amounts in the consolidated statement of financial position to reflect the terminology of IFRS 15. As such, receipt in advance from customers which was previously included in trade and other payables, amounting to RMB33,033,000 as at 1 January 2018, are now recognised as contract liabilities (as included in trade and other payables) to reflect the terminology of IFRS 15.

Restatements due to discontinued operations

The presentation of comparative information in respect of the consolidated statement of comprehensive income for the year ended 31 December 2017 has been restated in order to disclose the discontinued operations separately from continuing operations. As the restatements do not affect the consolidated statement of financial position, it is not necessary to disclose comparative information as at 1 January 2017.

3 SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the chief operating decision-maker that are used to make strategic decisions. These reports are prepared on the same basis as these consolidated financial statements.

The chief operating decision-maker is identified as the Executive Directors of the Company. The Executive Directors consider the business from both a geographic and product perspective. The shipbuilding segment derives its revenue primarily from the construction of vessels, and the offshore engineering segment derives its revenue from the construction of vessels for marine projects. The engineering machinery segment derives its revenue from manufacturing of excavators and crawler cranes while the marine engine building segment derives its revenue from building marine engines. The energy exploration and production segment derives its revenue from sales of crude oil since this segment has commenced commercial production during the year ended 31 December 2015. The Executive Directors assess the performance of the reportable segments based on a measure of revenue and gross profit. Segment results are calculated by offsetting segment revenue from external customers with segment cost of sales. The shipbuilding, offshore engineering, engineering machinery and marine engine building segments (the "**Disposal Group**") were discontinued and were classified as held for sale as at balance sheet date. Information about this discontinued segment is provided in note 8. The comparative figures in the consolidated statement of comprehensive income have been restated to re-represent the results of Disposal Group as discontinued operations. The segment information provided to the Executive Directors for the reportable segments for the years ended 31 December 2017 and 2018 is as follows:

	Discontinued operations										Continuing operations					
	Shipbuilding Year ended 31 December		Offshore Engineering Year ended 31 December		Engineering Machinery Year ended 31 December		Marine Engine Building Year ended 31 December		Sub-total Year ended 31 December		Energy Exploration and Production Year ended 31 December		Sub-total Year ended 31 December		Total Year ended 31 December	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Revenue from sales of crude oil	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**48,956**	45,207	**48,956**	45,207	**48,956**	45,207
Revenue from sales of vessels	**45,350**	65,384	**–**	–	**–**	–	**–**	–	**45,350**	65,384	**–**	–	**–**	–	**45,350**	65,384
Revenue from shipbuilding and other contracts	**–**	–	**–**	–	**19,914**	22,258	**–**	–	**19,914**	22,258	**–**	–	**–**	–	**19,914**	22,258
Reversal related to the cancellation of the construction contracts	**–**	(645,211)	**–**	–	**–**	–	**–**	–	**–**	(645,211)	**–**	–	**–**	–	**–**	(645,211)
Segment revenue	**45,350**	(579,827)	**–**	–	**19,914**	22,258	**–**	–	**65,264**	(557,569)	**48,956**	45,207	**48,956**	45,207	**114,220**	(512,362)
Segment results	**(126,953)**	(669,688)	**–**	–	**15,837**	16,939	**–**	7,472	**(111,116)**	(645,277)	**14,929**	10,729	**14,929**	10,729	**(96,187)**	(634,548)
Selling and marketing expenses									**(2,077)**	(2,107)			**(2,845)**	(3,514)	**(4,922)**	(5,621)
General and administrative expenses									**(633,701)**	(630,812)			**(54,678)**	(56,022)	**(688,379)**	(686,834)
(Provision for)/ reversal of impairments and delayed penalties									**(64,174)**	472,043			**–**	–	**(64,174)**	472,043
Reversal of impairments related to the cancellation of construction contracts									**–**	224,896			**–**	–	**–**	224,896
Compensation to shipowners for cancellation of contracts									**–**	(211,672)			**–**	–	**–**	(211,672)
Other income									**59,212**	52,148			**–**	293	**59,212**	52,441
Other (losses)/gains – net									**(71,547)**	798,750			**621,816**	(821,950)	**550,269**	(23,200)
Gain on extinguishment of financial liabilities upon issuance of convertible preference shares									–	–			**2,067,284**	–	**2,067,284**	–
Finance costs – net									**(1,643,124)**	(1,066,060)			**(439,458)**	(57,624)	**(2,082,582)**	(1,123,684)
Loss before income tax									**(2,466,527)**	(1,008,091)			**2,207,048**	(928,088)	**(259,479)**	(1,936,179)

	Discontinued operations										Continuing operations					
	Shipbuilding Year ended 31 December		Offshore Engineering Year ended 31 December		Engineering Machinery Year ended 31 December		Marine Engine Building Year ended 31 December		Sub-total Year ended 31 December		Energy Exploration and Production Year ended 31 December		Sub-total Year ended 31 December		Total Year ended 31 December	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*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 assets	**4,495**	5,595	**1,034,807**	1,036,306	**166,679**	217,369	**2,479,957**	2,689,965	**3,685,938**	3,949,235	**2,459,032**	2,238,051	**2,459,032**	2,238,051	**6,144,970**	6,187,286
Unallocated									**18,743,030**	16,317,611			**12,742**	1,341	**18,755,772**	16,318,952
Total assets									**22,428,968**	20,266,846			**2,471,774**	2,239,392	**24,900,742**	22,506,238
Segment liabilities	**-**	-	**193,887**	139,910	**520,973**	509,555	**5,808,151**	5,054,831	**6,523,011**	5,704,296	**755,275**	608,878	**755,275**	608,878	**7,278,286**	6,313,174
Unallocated									**23,408,199**	23,276,982			**3,844,383**	4,162,437	**27,252,582**	27,439,419
Total liabilities									**29,931,210**	28,981,278			**4,599,658**	4,771,315	**34,530,868**	33,752,593
Other segment disclosures:																
Depreciation	**309,638**	318,422	**-**	-	**-**	-	**54,119**	54,454	**363,757**	372,876	**27,027**	20,965	**27,027**	20,965	**390,784**	393,841
Amortisation	**75,265**	75,267	**-**	-	**1,613**	3,713	**2,741**	2,740	**79,619**	81,720	**2,372**	2,914	**2,372**	2,914	**81,991**	84,634
Additions to non-current assets	**-**	1,167	**-**	-	**-**	-	**-**	275	**-**	1,442	**106,857**	70,391	**106,857**	70,391	**106,857**	71,833

The unallocated items mainly included prepayments and deposits and cash and cash equivalents. Unallocated assets also included inventories and property, plant and equipment jointly used by the shipbuilding and offshore engineering segments.

Unallocated liabilities mainly included trade and other payables and borrowings, which are jointly shared by the shipbuilding and offshore engineering segments.

During the year ended 31 December 2018, revenue from continuing operations from the top customer of the energy exploration and production segment amounted to RMB20,320,000 (2017: RMB15,032,000), representing 41.5% of the total revenue excluding revenue related to the cancellation of the construction contracts (2017: 33.3%).

There are three individual customers contributed more than 10% revenue of the Group's revenue from continuing operations, for the year ended 31 December 2018 (2017: 3 individual customers). The revenue of these customers during the year are RMB20,320,000, RMB14,201,000 and RMB5,178,000 (2017: RMB15,031,000 and RMB10,146,000 and RMB7,082,000 respectively) respectively.

During the year ended 31 December 2018, revenue from the top customer of the shipbuilding segment, excluding cancellation of construction contracts, amounted to RMB45,350,000 (2017: RMB50,855,000), representing 69.5% of the total revenue from discontinued operations excluding revenue related to the cancellation of the construction contracts (2017: 38.3%).

There are two individual customers contributed more than 10% revenue of the Group's revenue from discontinued operations, excluding cancellation of construction contracts, for the year ended 31 December 2018 (2017: 3 individual customers). The revenue of these customers during the year are RMB45,350,000 and RMB9,333,000 (2017: RMB50,855,000, RMB15,032,000 and RMB14,529,000 respectively) respectively.

The top three customers of the Group for discontinued operations amounted to RMB56,733,000 (2017: RMB80,416,000), representing 87% of the total revenue, excluding cancellation of construction contracts (2017: 60.5%).

During the year ended 31 December 2017, the Group terminated 6 shipbuilding contracts. Accordingly, the Group reversed revenue and cost of sales of RMB645,211,000 and RMB459,308,000 respectively. In relation to such cancellations, the Group reversed impairments of trade receivables and amounts due from customers for contract work amounted to RMB224,896,000 and correspondingly provided for inventories amounting to RMB459,308,000. According to the agreements, the Group had to refund to these customers the instalments received and to pay interest on these instalments at the interest rate in accordance with the contracts. Accordingly, RMB211,672,000 interest were accrued for these instalments as at 31 December 2018.

Geographically, management considers the operations of shipbuilding, offshore engineering, engineering machinery and marine engine building segments are all located in the PRC while the energy exploration and production segment is located in Kyrgyzstan, with revenue derived from different geographical locations, which is determined by the country in which the customer is located.

The Group's revenue, excluding cancellation of construction contracts, by country from shipbuilding and other contracts is analysed as follows:

	2018	2017
	RMB'000	*RMB'000*
Continuing operations		
Kyrgyzstan	**48,956**	45,207
Discontinued operations		
China	**65,264**	87,642

Geographically, total assets and capital expenditures are allocated based on where the assets are located.

Non-current assets (excluding land use rights and intangible assets) are analysed as follows:

	2018	2017
	RMB'000	*RMB'000*
Remaining Group		
Kyrgyzstan	**780,846**	2,221,104
Hong Kong	**124**	71
China	**981**	–
	781,951	2,221,175

4 PROPERTY, PLANT AND EQUIPMENT

	Construction in progress	Oil properties	Buildings	Plant and machinery	Computer equipment	Office equipment	Motor vehicles	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2018								
Opening net book amount	**4,520,656**	**357,259**	**9,592,625**	**1,593,022**	**699**	**1,764**	**7,210**	**16,073,235**
Additions	**119,446**	**–**	**–**	**–**	**110**	**386**	**777**	**120,719**
Disposals	**(79,998)**	**–**	**(14,127)**	**(24,825)**	**–**	**–**	**(41)**	**(118,991)**
Transfer	**(68,999)**	**68,999**	**–**	**–**	**–**	**–**	**–**	**–**
Depreciation	**–**	**(26,691)**	**(188,599)**	**(172,838)**	**(32)**	**(344)**	**(2,280)**	**(390,784)**
Transfer to 'Assets classified as held for sale'	**(4,178,642)**	**–**	**(9,389,899)**	**(1,395,359)**	**(563)**	**(1,247)**	**(4,598)**	**(14,970,308)**
Exchange difference	**14,213**	**19,888**	**–**	**–**	**9**	**14**	**17**	**34,141**
Closing net book amount	**326,676**	**419,455**	**–**	**–**	**223**	**573**	**1,085**	**748,012**
At 31 December 2018								
Cost or valuation	**326,676**	**501,259**	**–**	**–**	**298**	**1,061**	**1,382**	**830,676**
Accumulated depreciation and impairment loss	**–**	**(81,804)**	**–**	**–**	**(75)**	**(488)**	**(297)**	**(82,664)**
Net book amount	**326,676**	**419,455**	**–**	**–**	**223**	**573**	**1,085**	**748,012**
Year ended 31 December 2017								
Opening net book amount	4,655,214	330,044	9,806,198	1,777,536	419	2,367	10,403	16,582,181
Additions	70,026	–	–	781	441	80	505	71,833
Disposals	(119,724)	–	(454)	(29,213)	(55)	(140)	(359)	(149,945)
Transfer	(68,558)	68,558	–	–	–	–	–	–
Depreciation	–	(20,701)	(213,119)	(156,082)	(106)	(521)	(3,312)	(393,841)
Exchange difference	(16,302)	(20,642)	–	–	–	(22)	(27)	(36,993)
Closing net book amount	4,520,656	357,259	9,592,625	1,593,022	699	1,764	7,210	16,073,235
At 31 December 2017								
Cost or valuation	4,520,656	408,671	10,057,848	3,453,505	45,878	59,199	39,313	18,585,070
Accumulated depreciation and impairment loss	–	(51,412)	(465,223)	(1,860,483)	(45,179)	(57,435)	(32,103)	(2,511,835)
Net book amount	4,520,656	357,259	9,592,625	1,593,022	699	1,764	7,210	16,073,235

As at 31 December 2017, the net book amount of the Group's buildings, including buildings under construction, is the same as to the revalued amounts.

Please refer to Note 5 for the impairment assessment associated with the property, plant and equipment of the energy exploration and production segment, together with the related intangible assets of the Cooperation Rights.

5 INTANGIBLE ASSETS

	2018						2017					
	Goodwill	**Co-operation Rights**	**Patents**	**Computer software**	**Development costs**	**Total**	Goodwill	Co-operation Rights	Patents	Computer software	Development costs	Total
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January costs	**55,139**	**1,594,675**	**21.644**	**77,517**	**514,191**	**2,263,166**	55,139	1,692,980	21,644	77,517	514,191	2,361,471
Accumulated impairment	**(55,139)**	**–**	**(3,535)**	**(35,122)**	**(409,780)**	**(503,576)**	(55,139)	–	(3,535)	(35,122)	(409,780)	(503,576)
Accumulated amortisation	**–**	**(7,103)**	**(18,109)**	**(42,395)**	**(104,411)**	**172,018**	–	(4,543)	(18,109)	(42,395)	(104,411)	(169,458)
Net book amount	**–**	**1,587,572**	**–**	**–**	**–**	**1,587,572**	–	1,688,437	–	–	–	1,688,437
Movement during the year												
Amortisation charge	**–**	**(2,372)**	**–**	**–**	**–**	**(2,372)**	–	(2,914)	–	–	–	(2,914)
Exchange difference	**–**	**83,565**	**–**	**–**	**–**	**83,565**	–	(97,951)	–	–	–	(97,951)
	–	**81,193**	**–**	**–**	**–**	**81,193**	–	(100,865)	–	–	–	(100,865)
At 31 December costs	**–**	**1,678,702**	**–**	**–**	**–**	**1,678,702**	55,139	1,594,675	21,644	77,517	514,191	2,263,166
Accumulated impairment	**–**	**–**	**–**	**–**	**–**	**–**	(55,139)	–	(3,535)	(35,122)	(409,780)	(503,576)
Accumulated amortisation	**–**	**(9,937)**	**–**	**–**	**–**	**(9,937)**	–	(7,103)	(18,109)	(42,395)	(104,411)	(172,018)
Closing net book amount	**–**	**1,668,765**	**–**	**–**	**–**	**1,668,765**	–	1,587,572	–	–	–	1,587,572

The intangible assets represent rights to cooperate with the national oil company of Kyrgyzstan in the operation of the five oil fields zones ("**Co-operation Rights**"). The Co-operation Rights are stated at cost less accumulated amortisation and any impairment losses. As at 31 December 2018, 51 wells (2017: 43 wells) were at production stage. As a result, amortisation of RMB2,372,000 has been charged to the profit or loss during year (2017: RMB2,914,000) based on the unit-of-production method.

During the year ended 31 December 2018, the Group entered into a loan agreement with a related party who agreed to provide a loan facility up to RMB40,000,000 to the Group for the funding in respect of the energy exploration and production segment. As at 31 December 2018, the Group has drawn down RMB8,600,000 for exploration and drilling wells. The Group expects to draw down the rest by 2019.

In addition, the Group also entered into an Co-operative Framework Agreement with an independent third party who agreed to provide materials for the exploration and production of crude oil with an aggregate amount up to USD500,000,000, in exchange for an option to purchase up to 70% of the total crude oil produced by the Group at 92% to 95% of the market price as a form of repayment until all the liabilities are repaid.

In determining the recoverable amounts of the Co-operation Rights and property, plant and equipment under energy exploration and production segment amounting to RMB1,668,765,000 (2017: RMB1,587,572,000) and RMB734,345,000 (2017: RMB623,387,000), respectively, the directors have evaluated the recoverable amounts based on value-in-use calculations using pre-tax cash flow projections. Key assumptions include crude oil price of USD 57-70 per barrel (2017: USD50-72 per barrel), a discount rate of 12% (2017: 18%) and that the Group can obtain adequate financing afterwards.

As a result of the above assessment, the recoverable amounts of the intangible assets and property, plant and equipment under energy exploration and production segment as estimated by the directors exceeded the carrying amounts of these assets and therefore, the directors are of the opinion that no impairment charge is considered necessary as at 31 December 2018.

6 TRADE RECEIVABLES

	31 December	
	2018	2017
	RMB'000	*RMB'000*
Trade receivables	**3,497**	587,775
Less: Provision for doubtful receivables	**–**	(577,929)
	3,497	9,846

At 31 December 2018 and 2017, the ageing analysis of the trade receivables based on due date were as follows:

	31 December	
	2018	2017
	RMB'000	*RMB'000*
Undue	**3,497**	9,846

Movements on the provision for doubtful receivables are as follows:

	2018	2017
	RMB'000	*RMB'000*
At 1 January	**577,929**	2,952,894
Provision for the year	**6,205**	595
Written-off	**–**	(2,309,394)
Transfer to 'Assets classified as held for sale'	**(584,134)**	–
Exchange difference	**–**	(66,166)
At 31 December	**–**	577,929

The creation and release of provision for doubtful receivables have been included within provisions of impairments and delayed penalties in the profit or loss.

During the year ended 31 December 2018, trade receivables and provision for doubtful receivables of RMB584,134,000 had been transferred to Assets classified as held for sale.

The carrying amounts of trade receivables approximate their fair values. The maximum exposure to credit risk at the reporting date is the fair value of RMB3,497,000 (2017: RMB9,846,000).

The credit terms granted to customers of the Group are generally ranged from 30 days to 90 days, accordingly, balances are past due if not settled within the credit period.

The carrying amounts of trade receivables are denominated in the following currencies:

	31 December	
	2018	2017
	RMB'000	*RMB'000*
USD	**3,497**	4,251
RMB	**–**	5,595
	3,497	9,846

7 TRADE AND OTHER PAYABLES

	31 December	
	2018	2017
	RMB'000	*RMB'000*
Trade payables	**362,349**	1,474,940
Other payables for purchase of property, plant and equipment		
– Third parties	**–**	386,145
– Related parties	**–**	458,289
Other payables		
– Third parties	**229,654**	2,666,959
– Related parties	**33,808**	55,754
Receipt in advance	**–**	33,033
Contract liabilities	**120**	–
Accrued expenses		
– Payroll and welfare	**22,112**	100,501
– Interest	**165,011**	3,700,530
– Exploration costs	**132,554**	62,484
– Others	**4,071**	154,909
Provision for litigation cases	**–**	436,471
VAT payable	**–**	62
Other tax-related payables	**2,354**	2,364
Total trade and other payables	**952,033**	9,532,441

At 31 December 2018 and 2017, the ageing analysis of the trade payables based on invoice date were as follows:

	31 December	
	2018	2017
	RMB'000	*RMB'000*
0 – 30 days	**2,751**	1,645
31 – 60 days	**10,613**	–
61 – 90 days	**1,359**	27
Over 90 days	**347,626**	1,473,268
	362,349	1,474,940

8 ASSETS AND LIABILITIES OF DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

The Company has entered into a conditional sale and purchase agreement dated on 9 October 2018 with Purchaser to dispose of the assets and liabilities of Disposal Group (together, the "**Disposal Group**") at HKD1. There are certain conditions precedent pursuant to the Transaction which included, but not limited to, the successful issuance of Convertible Preference Shares.

On 13 December 2018, the terms of the conditional sale and purchase agreement were approved by the shareholders in an extraordinary general meeting of the Company.

On 25 December 2018, the first supplemental agreement of the Transaction was signed to extend the date for fulfilment of conditions of the above-mentioned agreement to 31 March 2019.

The Company signed the second supplemental agreement on 3 March 2019 regarding the Transaction, pursuant to which (1) the transfer of sale shares of Able Diligent Limited, the holding company of Disposal Group, to the Purchaser shall take place on or before 31 March 2019; (2) the Purchaser agreed to procure the release or discharge of the relevant guarantees provided by the Company in respect of borrowings owed by the Disposal Group (the "**Relevant Guarantees**"); and (3) the Purchaser agreed to execute a share charge over the sale shares in favour of the Company.

On 10 March 2019, the Group completed the transfer of the sale shares of Able Diligent Limited to the Purchaser.

Assets and liabilities of the Disposal Group were classified as 'Assets classified as held for sale' and 'Liabilities directly associated with assets classified as held for sale' respectively in accordance with IFRS 5 as at 31 December 2018.

The following assets and liabilities were reclassified as held for sale in relation to the discontinued operations as at 31 December 2018:

	2018
	RMB'000
Assets classified as held for sale	
Financial assets at fair value through other comprehensive income	**27,707**
Land use right	**3,425,755**
Property, plant and equipment	**14,970,308**
Prepayment for non-current assets	**153**
Inventories	**425,884**
Trade receivables	**4,459**
Other receivables, prepayments and deposits	**3,558,969**
Pledged deposits	**1,771**
Cash and cash equivalent	**13,962**
Total assets of the Disposal Group held for sale	**22,428,968**
Liabilities directly associated with assets classified as held for sale	
Trade and other payables	**13,783,523**
Advances from related parties	**368,959**
Contract liabilities	**42,900**
Borrowings	**15,735,828**
Total liabilities of the Disposal Group directly associated with assets classified as held for sale	**29,931,210**

Discontinued operations

Upon the classification of the assets and liabilities of the shipbuilding and engineering business as 'Assets classified as held for sale' and 'Liabilities directly associated with assets classified as held for sale' respectively, the Disposal Group is reported in the current period as a discontinued operations. Financial information relating to the discontinued operations for the year is set out below.

The financial performance and cash flow information presented are for the year ended 31 December 2018 and 2017.

	2018	2017
	RMB'000	*RMB'000*
Revenue	**65,264**	(557,569)
Other (losses)/gains – net	**(71,547)**	798,750
Other income	**59,212**	52,148
Expenses	**(2,519,456)**	(1,301,420)
Loss before income tax	**(2,466,527)**	(1,008,091)
Income tax expense	**–**	–
Loss from discontinued operations	**(2,466,527)**	(1,008,091)
Fair value loss on a financial asset at fair value through other comprehensive income	**(16,635)**	–
Fair value gain on an available-for-sale financial asset	**–**	4,143
Total comprehensive loss from discontinued operations	**(2,483,162)**	(1,003,948)
Net cash (outflow)/inflow from operating activities	**(71,048)**	25,048
Net cash inflow from investing activities	**20,667**	45,613
Net cash outflow from financing activities	**(1,715)**	(111,681)
Net decrease in cash and cash equivalents	**(52,096)**	(41,020)

9 EXPENSES BY NATURE

	2018 *RMB'000*	2017 *RMB'000* (Restated)
Amortisation of intangible assets	**2,372**	2,914
Auditors' remuneration		
– audit services	**4,654**	5,029
– non-audit services	**84**	82
Bank charges	**87**	35
Consultancy and professional fees	**12,348**	14,530
Depreciation of property, plant and equipment	**27,027**	20,970
Employee benefits expenses	**19,350**	24,910
Insurance premiums	**640**	558
Miscellaneous expenses	**22,034**	21,443
Operating lease payments	**1,172**	1,852
Outsourcing and processing costs	**1,782**	1,691
Total cost of sales, selling and marketing expenses, general and administrative expenses	**91,550**	94,014

10 OTHER INCOME

	2018 *RMB'000*	2017 *RMB'000* (Restated)
Others	**–**	293
	–	293

11 OTHER GAINS/(LOSSES) – NET

	2018	2017
	RMB'000	*RMB'000*
		(Restated)
Fair value change on derivative instruments – embedded derivative in convertible bonds	**255,138**	47,710
Net foreign exchange gains/(losses)	**517,097**	(869,585)
Gain/(loss) on disposal of property, plant and equipment	**26**	(75)
Loss on recognition of obligation from financial guarantee *(Note)*	**(150,445)**	–
	621,816	(821,950)

Note: The amount represents the financial obligation taken up by the Company for the extinguishment of financial liabilities upon issuance of convertible preference shares.

12 INCOME TAX

No Hong Kong profits tax has been provided for the years ended 31 December 2018 and 2017 as the Group had no assessable profit in Hong Kong. All PRC subsidiaries and Kyrgyzstan subsidiary are subject to EIT rates of 25% and 10%, respectively.

13 EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

Basic earnings/(loss) per share is calculated by dividing the results attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2018	2017
	RMB	*RMB*
Earnings/(loss) from continuing operations per share	**0.75**	(0.42)
Loss from discontinued operations per share	**(0.80)**	(0.44)
Loss per share	**(0.05)**	(0.86)

(b) Diluted loss per share

Diluted earnings/(loss) from continuing operations per share

Diluted earnings from continuing operations per share for the year ended 31 December 2018 is calculated by dividing the results from continuing operations attributable to equity holders of the Company by the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares (2017: the diluted loss from continuing operations per share is the same as basic loss from continuing operation per share as there were no potential dilutive ordinary shares outstanding).

	2018
Earnings from continuing operations per share in calculating diluted earnings per share *(RMB'000)*	**2,365,007**
Weighted average number of ordinary shares in issue	**4,882,216,165**
Diluted earnings per share *(RMB per share)*	**0.48**

Diluted loss from discontinued operations per share

Diluted loss from discontinued operations per share is the same as basic loss from discontinued operations per share as there were no potential dilutive ordinary shares outstanding during the year (2017: same).

(c) Reconciliations of earnings used in calculating loss per share

	2018 ***RMB'000***	2017 *RMB'000*
Basic and diluted loss per share		
Profit/(loss) attributable to equity holders of the Company		
– Continuing operations	**2,213,293**	(920,608)
– Discontinued operations	**(2,351,654)**	(964,218)
	(138,361)	(1,884,826)
Diluted earnings/(loss) per share		
Profit/(loss) from continuing operations attributable to the ordinary equity holders of the company:		
Used in calculating basic earnings per share	**2,213,293**	(920,608)
Add: interest savings on convertible bonds	**122,874**	–
Add: exchange effect on convertible bonds	**28,840**	–
	2,365,007	(920,608)

(d) Weighted average number of shares used as the denominator

	2018	2017
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**2,941,266,904**	2,191,236,343
Adjustment for calculating diluted earnings from continuing operations per share:		
– Convertible preference shares	**268,723,288**	–
– Convertible bonds	**1,672,225,973**	–
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share	**4,882,216,165**	2,191,236,343

On 17 December 2018, the Company issued 7,006,000,000 convertible preference shares of HKD0.50 each which can be converted into ordinary share.

14 DIVIDENDS

The Board has resolved not to declare for the payment of final dividend for the year ended 31 December 2018 (2017: nil).