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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2017

The board of directors (the "**Board**") of China Huarong Energy Company Limited (the "**Company**") hereby announces the unaudited condensed consolidated interim financial information of the Company and its subsidiaries (together, the "**Group**") for the six months ended 30 June 2017 (the "**Period**") together with comparative figures. This condensed consolidated interim financial information has not been audited, but has been reviewed by the audit committee of the Company (the "**Audit Committee**").

MANAGEMENT DISCUSSION AND ANALYSIS

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

For the Period, the Group recorded a revenue of RMB42.7 million, which was primarily attributable to the revenue from sales of vessels and sales of crude oil, compared to a negative revenue of RMB3,478.0 million for the six months ended 30 June 2016 (the "**Comparative Period**"). Loss attributable to the equity holders of the Company was RMB825.7 million for the Period, while loss attributable to the equity holders of the Company was RMB1,963.1 million for the Comparative Period.

Shipbuilding and Offshore Engineering

Our shipbuilding segment recorded a revenue of RMB14.5 million for the Period. During the Period, we resold 1 vessel with revenue of approximately RMB14.5 million. As at 30 June 2017, our total orders on hand consisted of 6 vessels, representing a total volume of approximately 455,000 DWT with a total contract value of approximately USD204.5 million (equivalent to approximately RMB1,385.4 million). They included 5 Panamax bulk carriers and 1 Panamax crude oil tanker.

Facing the production slowdown in the shipbuilding business, the Group utilised its existing production facilities and human resources to develop diversified businesses, seeking opportunities in the construction of hull, block commission processing, facilities leasing and other non-core businesses.

For the Period, there was no revenue contribution from the offshore engineering segment.

Energy Exploration and Production

For the Period, the Kyrgyzstan Project (being the acquisition of 60% interests in the project involving four oilfields located in the Republic of Kyrgyzstan) recorded 79,841 barrels (bbl) of light crude oil. Revenue from the energy exploration and production segment was RMB19.7 million for the Period with an increase of approximately 32.2% from RMB14.9 million for the Comparative Period.

Marine Engine Building and Engineering Machinery

For the Period, suffered from the continuously sluggish shipbuilding market and marine engine market, the Group utilised its production facilities, equipment, human resources and techniques to diversify its business. As at 30 June 2017, our orders on hand for marine engine building segment decreased to 6 engines (for the Comparative Period: 27 orders on hand), which resulted from cancellation of orders.

For the Period, revenue from the engineering machinery segment was RMB8.5 million (for the Comparative Period: RMB1.9 million). Revenue mainly came from sales of in-stock excavators.

FINANCIAL REVIEW

Revenue

For the Period, the Group recorded a revenue of RMB42.7 million (for the Comparative Period: a negative revenue of RMB3,478.0 million). It was primarily attributable to the revenue from sales of vessels and sales of crude oil. Revenue from sales of vessels was RMB14.5 million as compared to RMB60.0 million for the Comparative Period, representing a decrease of approximately 75.8%. Revenue from shipbuilding and other contracts was RMB8.5 million as compared to RMB89.8 million for the Comparative Period, representing a decrease of approximately 90.5%. Revenue from sales of crude oil was RMB19.7 million (for the Comparative Period: RMB14.9 million), representing an increase of approximately 32.2%. During the Period, no revenue reversed from the cancellation of the shipbuilding contracts (for the Comparative Period: RMB3,642.7 million).

Cost of Sales

For the Period, cost of sales decreased by approximately 70.8% to RMB161.2 million (for the Comparative Period: RMB551.8 million), which was primarily attributable to the cost of vessels sold and the cost of shipbuilding and other sales. There were no reversal of cost of sales and provisions for inventories related to the cancellation of the construction contracts for the Period (for the Comparative Period: RMB3,037.1 million and RMB2,604.8 million respectively).

Selling and Marketing Expenses

For the Period, selling and marketing expenses decreased by approximately 36.4% to RMB2.1 million (for the Comparative Period: RMB3.3 million), which was primarily in line with the Group's strategic transformation by reducing selling and marketing expenses of the shipbuilding segment and attributable to the implementation of cost control measures.

General and Administrative Expenses

For the Period, general and administrative expenses increased by approximately 3.8% to RMB316.5 million (for the Comparative Period: RMB305.0 million). This was mainly attributable to the depreciation of property, plant and equipment and employees benefit expenses.

Other (Losses)/Gains – Net

For the Period, other losses – net was RMB94.0 million (for the Comparative Period: other gains of RMB168.5 million), primarily due to loss on disposal of land use rights and property, plant and equipment, net recorded for the Period.

Finance Costs – Net

Finance income for the Period increased by approximately 4,000.0% to RMB8.2 million (for the Comparative Period: RMB0.2 million). The increase was mainly attributable to the imputed interest income for interest-free loan. Finance costs for the Period decreased by approximately 53.0% to RMB556.3 million (for the Comparative Period: RMB1,182.4 million). The decrease was primarily due to the decrease in interests of convertible bonds for the Period.

Gross Loss

During the Period, the Group recorded a gross loss of RMB118.5 million (for the Comparative Period: RMB4,029.8 million). As a result of depressed market conditions and the lower prices of shipbuilding, the profitability of conventional shipbuilding business has diminished. In addition, in order to align with the strategic transformation of the Group, the decrease in gross loss as compared with the Comparative Period was primarily attributable from a reduction of production activities of the Group, particularly the shipbuilding segment.

Total Comprehensive Loss for the Period

During the Period, the Group recorded total comprehensive loss of RMB888.6 million (for the Comparative Period: RMB1,993.2 million), of which loss attributable to equity holders of the Company was RMB862.8 million (for the Comparative Period: RMB1,928.3 million). Loss attributable to the equity holders of the Company is the result of the considerable decrease in gross loss, the considerable finance costs and relatively fixed administrative expenses.

Liquidity and Going Concern

During the Period, the Group incurred a loss of RMB851.9 million and had a net operating cash outflow of approximately RMB25.3 million. As at 30 June 2017, the Group had a total deficit of RMB10,141.5 million and the current liabilities exceeded its current assets by RMB31,736.4 million. As at 30 June 2017, the Group's total current borrowings and financial lease liabilities amounted to RMB23,648.6 million, of which RMB21,737.3 million were either overdue or would be due for repayment within 12 months in accordance with the repayment dates of the respective agreements or under existing arrangements. The Group's current borrowings also included the 7.0% convertible bonds issued by the Company with outstanding principals totaling HKD848.6 million (equivalent to approximately RMB736.5 million) as at 30 June 2017, which were matured on the date falling 24 months after their issuance dates and immediately redeemable by the bondholders subject to the terms and conditions of the convertible bonds.

However, a series of plans and measures have been taken by the Group to mitigate liquidity pressure, to improve the financial position of the Group, to refinance its operations and to restructure its debts which is subject to, amongst others, fulfillment of certain plans including the successful completion of the Group's restructuring plan on the Disposal of Liabilities, the Potential Transaction and the restoration and refinancing of operation of the Group.

Details regarding uncertainties on the going concerns of the Group and the respective plans and measures are set out in the paragraph headed "Going Concern Basis" in Note 2.1 to the condensed consolidated interim financial information.

Borrowings and Finance Lease Liabilities

Our short-term borrowings and finance lease liabilities decreased by RMB249.3 million from RMB23,897.9 million as at 31 December 2016 to RMB23,648.6 million as at 30 June 2017. Our long-term borrowings and finance lease liabilities increased by RMB32.4 million from RMB30.0 million as at 31 December 2016 to RMB62.4 million as at 30 June 2017.

As at 30 June 2017, our total borrowings and finance lease liabilities were RMB23,711.0 million (as at 31 December 2016: RMB23,927.9 million), of which RMB19,507.3 million (82.3%) was denominated in RMB and the remaining RMB4,203.7 million (17.7%) was denominated in other currencies such as USD and HKD. Certain borrowings were secured by our land use rights, buildings, construction contracts, pledged deposits, guarantee from certain related parties and guarantee from a subsidiary of the Group. About 53.6% of the borrowings bear interests at fixed rate.

Inventories

Our inventories decreased by RMB169.9 million to RMB473.6 million as at 30 June 2017 (as at 31 December 2016: RMB643.5 million). The decrease in inventories was the result of the Group actively releasing the asset through sales and the provision made for inventories during the period.

Foreign Exchange Risks

Our shipbuilding business recorded revenue from contract prices mainly denominated in USD, while about 30% of the production costs were denominated in USD. The cash flow of unmatched currencies is subject to foreign exchange risks. Management continuously assesses the foreign exchange risks, with an aim to minimize the impact of foreign exchange fluctuations on our business operations. The Group incurred net foreign exchange gain of RMB15.4 million due to the appreciation of RMB against USD during the Period, which resulted in exchange gain on certain USD-denominated liabilities, such as accounts payable of the Group.

Capital Expenditure

For the Period, our capital expenditure was approximately RMB0.3 million (for the Comparative Period: RMB3.1 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 163.2% as at 31 December 2016 to approximately 174.7% as at 30 June 2017. Affected by the accumulated losses of RMB24,732.1 million as at 30 June 2017, the total deficit was RMB10,141.4 million as at 30 June 2017 (as at 31 December 2016: RMB9,263.8 million).

Contingent Liabilities

As at 30 June 2017, we had contingent liabilities of RMB130.4 million (as at 31 December 2016: same), which resulted from refund guarantees issued, litigation and 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, as well as credit exposures to outstanding trade, bills and other receivables. As at 30 June 2017, the Group had cash and cash equivalents of RMB90.3 million (as at 31 December 2016: RMB168.5 million), of which RMB78.7 million (approximately 87.2%) was denominated in RMB and the remaining RMB11.6 million (approximately 12.8%) was denominated in USD and HKD. 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 management believes are of high creditworthiness and without significant credit risk.

The Group carries out customer credit checks prior to entering into shipbuilding contracts and requests for progress payments from customers in accordance with the milestones of the shipbuilding contracts. Further, certain customers have issued irrevocable letters of guarantee from banks and related companies to provide guarantee on the collectability of the receivables from these customers. For customers of engineering machinery, we gave credit lines after evaluating the customer's credit profiles, financial conditions, past experiences and other factors.

As at 30 June 2017, trade receivables of RMB1,796.0 million (as at 31 December 2016: RMB2,578.1 million) and RMB374.6 million (as at 31 December 2016: RMB374.8 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.

Human Resources

As at 30 June 2017, we had approximately 702 employees (as at 31 December 2016: approximately 785 employees). The decrease in the number of employees was mainly in relation to the market downturn and the downsizing of the shipbuilding business of the Group. 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.

MARKET ANALYSIS AND PROSPECTS

In the first half of 2017, with the increasing volatility of the global shipping market, the recovery of the shipbuilding market in China remained slow. In light of the global economy and trade development, along with the lack of the improvement for the overcapacity in the shipping market, global shipbuilding market was still in the doldrums. Meanwhile, as the supply and demand for global crude oil market is gradually reaching a balance, the international benchmark pricing of crude oil experienced a slight improvement as compared to the corresponding period of the previous year while the global oil and gas exploration and development industry conditions were slowly recovering.

To confront the constantly sluggish shipbuilding market, the Company had deployed its existing production facilities and amenities and human resources to develop and diversify into various types of operating business. We also proactively promoted the resale of vessels under construction in the first half of this year to enable us to maintain the fundamental operation of our manufacturing base and broaden our source of revenue. Also, with the satisfactory development results, we carried out oilfields development and adopted various measures to maintain production capabilities, reinforced cost control measures and optimised allocation, and actively responded to the financial constraints and volatile industry conditions.

Looking forward to the second half of 2017, overcapacity and sluggish demand will still entangle the prospect of shipping market while the shipping industry and the related shipbuilding enterprises will continue to encounter a tougher operating environment in the following one to two years. The Company will continue to facilitate the progress of the strategic restructuring and to work on the foundation of our existing shipbuilding and energy businesses in order to continue to promote our business transformation by leveraging on our strengths in corporate resources. At the same time, the Company will continue to facilitate the proposal of disposal of liabilities with creditors, in order to ease the debt burden of the Company, improve the operation of shipbuilding business and mitigate the adverse effect of the high gearing of the Group on its development of the energy business.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Corporate Governance Code

During the Period, 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 and the chief executive officer should be separate and should not be performed by the same individual. Mr. Chen Qiang has performed both the roles of chairman of the Board (the "**Chairman**") and chief executive officer of the Company, which has deviated 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.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors. The Company has confirmed, following specific enquiries made by the Company that they complied with the required standards set out in the Model Code during the Period.

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 Period.

Subsequent Event

On 21 August 2017, the Company as issuer, Mr. Zhang Zhi Rong, a substantial shareholder of the Company, as guarantor entered into four subscription agreements with Partners Kingwin Fund (I), King Success Corporate Consulting Limited, King Wealth Enterprises Limited and Kingwin Victory Investment Limited, as the respective subscribers, pursuant to which the Company has conditionally agreed to issue, and the subscribers have conditionally agreed to subscribe for, or procure their nominees to subscribe for, the 7.0% convertible bonds due 2019 in an aggregate principal amount of up to HKD1,037,240,000 (equivalent to approximately RMB900,241,000) (the "**2019 Convertible Bonds**") (the "**Proposed Issue of the 2019 Convertible Bonds**"). The 2019 Convertible Bonds will be issued in exchange for the existing indebtedness of the Company (owing to the holders of the promissory notes due in November 2017 issued by the Company), subject to and in accordance with the terms and conditions of the respective subscription agreements.

The initial conversion price of the 2019 Convertible Bonds is HKD0.50 per share of the Company (the "**Shares**") (subject to adjustments in accordance with the terms and conditions of the 2019 Convertible Bonds). Assuming full conversion of the 2019 Convertible Bonds at the initial conversion price of HKD0.50 per share, the 2019 Convertible Bonds will be convertible into up to 2,074,480,000 Shares. The new Shares to be issued upon conversion of the 2019 Convertible Bonds (the "**Conversion Shares**") shall be allotted and issued by the Company pursuant to the specific mandate to be sought and granted to the Directors by the shareholders at an extraordinary general meeting of the Company. The issue of the 2019 Convertible Bonds and the Conversion Shares by the Company are subject to the approval of the shareholders of the Company.

Details of the Proposed Issue of the 2019 Convertible Bonds are set out in the announcement dated 21 August 2017 of the Company.

Audit Committee

The Audit Committee comprises three independent nonexecutive Directors, namely, Ms. Zhou Zhan (chairman of the Audit Committee), Mr. Wang Jin Lian and Mr. Lam Cheung Mau. The Audit Committee has reviewed the accounting principles and practices adopted by the Company, and discussed internal control and financial reporting matters including review of the unaudited interim results of the Group for the Period.

Interim Dividend

The Board has resolved not to declare the payment of an interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: nil).

Publication of Interim Report

The 2017 Interim Report of the Company will be despatched to the shareholders of the Company and published on the respective websites of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and the Company at www.huarongenergy.com.hk in due course.

Acknowledgment

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 are Mr. WANG Jin Lian, Ms. ZHOU Zhan and Mr. LAM Cheung Mau.

On Behalf of the Board
CHEN Qiang
Chairman

Hong Kong, 30 August 2017

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2017

	Note	As at 30 June 2017 RMB'000 (Unaudited)	As at 31 December 2016 RMB'000 Audited
ASSETS			
Non-current assets			
Land use rights	*7*	**3,704,321**	3,745,196
Property, plant and equipment	*5*	**16,259,923**	16,582,181
Intangible assets	*6*	**1,647,828**	1,688,437
Prepayments for non-current assets		**2,252**	4,110
Available-for-sale financial asset		**43,063**	40,199
		21,657,387	22,060,123
CURRENT ASSETS			
Inventories		**473,608**	643,453
Trade receivables	*8*	**11,201**	9,387
Other receivables, prepayments and deposits		**339,065**	454,360
Pledged deposits		**25,574**	37,538
Cash and cash equivalents		**90,261**	107,263
		939,709	1,252,001
Total assets		**22,597,096**	23,312,124
DEFICIT			
Capital and reserves attributable to the Company's equity holders			
Share capital		**905,191**	905,191
Share premium		**10,430,533**	10,430,533
Other reserves		**3,718,611**	3,744,776
Accumulated losses		**(24,732,139)**	(23,906,421)
		(9,677,804)	(8,825,921)
Non-controlling interests		**(463,690)**	(437,837)
Total deficit		**(10,141,494)**	(9,263,758)

	Note	As at 30 June 2017 RMB'000 (Unaudited)	As at 31 December 2016 RMB'000 Audited
LIABILITIES			
Non-current liabilities			
Borrowings		**62,444**	30,003
		62,444	30,003
Current liabilities			
Trade and other payables	*9*	**8,525,179**	8,293,615
Advances from related parties		**366,119**	334,303
Borrowings		**23,067,545**	23,321,770
Derivative financial instruments		**133,203**	17,045
Provision for warranty		**3,049**	3,049
Finance lease liabilities		**581,051**	576,097
		32,676,146	32,545,879
Total liabilities		**32,738,590**	32,575,882
Total deficit and liabilities		**22,597,096**	23,312,124

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2017

	Note	Unaudited for the six months ended 30 June **2017** *RMB'000*	2016 *RMB'000*
Revenue			
– Revenue from sales of vessels	*4*	**14,530**	60,000
– Revenue from shipbuilding and other contracts	*4*	**8,455**	89,830
– Revenue from sales of crude oil	*4*	**19,744**	14,946
– Revenue related to the cancellation of the construction contracts	*4*	**–**	(3,642,744)
		42,729	(3,477,968)
Cost of sales			
– Cost of vessels sold	*10*	**(58,195)**	(554,356)
– Cost of shipbuilding and other sales	*10*	**(87,625)**	(416,462)
– Cost of crude oil sold	*10*	**(15,374)**	(13,290)
– Cost of sales related to the cancellation of the construction contracts	*10*	**–**	3,037,086
– Provision for inventories related to the cancellation of the construction contracts	*4, 10*	**–**	(2,604,794)
		(161,194)	(551,816)
Gross loss		**(118,465)**	(4,029,784)
Selling and marketing expenses	*10*	**(2,067)**	(3,334)
General and administrative expenses	*10*	**(316,470)**	(304,974)
Research and development expenses	*10*	**(1,575)**	(12,621)
Reversal of impairments	*10*	**199,830**	221,505
Reversal of impairments related to the cancellation of the construction contracts	*4,10*	**–**	3,096,830
Other income	*11*	**28,827**	18,178
Other (losses)/gains – net	*12*	**(93,964)**	168,476
Operating loss		**(303,884)**	(845,724)
Finance income		**8,213**	224
Finance costs		**(556,250)**	(1,182,442)
Finance costs – net		**(548,037)**	(1,182,218)
Loss before income tax		**(851,921)**	(2,027,942)
Income tax expense	*13*	**–**	–
Loss for the period		**(851,921)**	(2,027,942)

	Note	Unaudited for the six months ended 30 June 2017 RMB'000	2016 RMB'000
Attributable to:			
Equity holders of the Company		**(825,718)**	(1,963,131)
Non-controlling interests		**(26,203)**	(64,811)
		(851,921)	(2,027,942)
Other comprehensive (loss)/income for the period:			
Items that may be reclassified to profit or loss			
– Fair value gain on an available-for-sale financial asset		**2,864**	839
– Exchange difference on translation of foreign operations		**(39,559)**	33,885
Other comprehensive (loss)/income for the period, net of tax		**(36,695)**	34,724
Total comprehensive loss for the period		**(888,616)**	(1,993,218)
Attributable to:			
Equity holders of the Company		**(862,763)**	(1,928,338)
Non-controlling interests		**(25,853)**	(64,880)
		(888,616)	(1,993,218)
Loss per share attributable to the equity holders of the Company during the period (expressed in RMB per share)			
– Basic and diluted	*14*	**(0.38)**	(0.90)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

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, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (together, the "Group") are principally engaged in the construction and sales of vessels, manufacturing of excavators and crawler cranes, building of marine engines and energy exploration and production.

This condensed consolidated interim financial information is presented in thousands of units of Renminbi ("RMB'000"), unless otherwise stated. This condensed consolidated interim financial information was approved for issue by the board of directors of the Company on 30 August 2017.

This condensed consolidated interim financial information has not been audited.

2 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2017 has been prepared in accordance with International Accounting Standards ("IAS") 34 "Interim Financial Reporting". The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2016, which was prepared in accordance with International Financial Reporting Standards ("IFRS").

2.1 Going concern basis

During the six months ended 30 June 2017, the operation of the Group's shipbuilding business continued to be minimal, except for the continuous effort in collecting outstanding receivables and realising existing inventories, whether they have been fully completed or still in progress of construction, through sale. Separately, the development of the Energy Exploration and Production segment has been limited by the lack of means to fund additional investments for drilling wells and exploration. Although management has already implemented measures to significantly reduce costs, the Group was still experiencing high level of finance costs for its existing borrowings, which would need to be accrued for even though they have not been paid. As a result, the Group had incurred a net loss of approximately RMB851,921,000 and had a net operating cash outflow of approximately RMB25,275,000 for the six months ended 30 June 2017.

As at 30 June 2017, the Group had a total deficit of RMB10,141,494,000 and the Group's current liabilities exceeded its current assets by RMB31,736,437,000. As at the same date, the Group's total current borrowings and finance lease liabilities amounted to RMB23,648,596,000, out of which RMB21,737,308,000 current borrowings were either overdue or would be due for repayment within 12 months in accordance with the repayment dates of the respective agreements or under existing arrangements. The Group's current borrowings also included convertible bonds with outstanding principal amounts totaling HKD848,560,000 (equivalent to approximately RMB736,482,000) as at 30 June 2017, which were immediately redeemable by the bondholders subject to the terms and conditions of the convertible bonds, while the Group only maintained cash and cash equivalents of RMB90,261,000.

As at 30 June 2017, loan principal repayments and interest payments totaling RMB5,794,307,000 were overdue. The non-payment of loan principals and interests in accordance with the scheduled repayment dates caused the relevant bank loans to become immediately repayable pursuant to the respective loan agreements. In this connection, certain non-current borrowings totaling RMB6,271,000 have been classified as current liabilities. Subsequent to 30 June 2017, additional loan principals and interest payments totaling RMB10,081,000 were not renewed or repaid upon the scheduled repayment dates and thus became overdue. In addition, bank and other borrowings of RMB21,588,062,000 and convertible bonds with an aggregate principal amount of HKD848,560,000 (equivalent to approximately RMB736,482,000), totaling RMB22,324,544,000 contain cross default terms in their respective financing agreements. As a result of the above-mentioned overdue of principal and interest repayments, current borrowings totaling RMB18,575,843,000 as at 30 June 2017 became immediately repayable pursuant to the cross-default terms under the relevant loan agreements or the terms and conditions of the convertible bonds; and in this connection, certain non-current borrowings totaling RMB1,283,099,000 have been classified as current liabilities. As at the date of the approval of this condensed consolidated interim financial information, the Group has not obtained waivers to comply with these cross-default terms from the relevant banks and bondholders; nor have these banks and bondholders taken any action against the Group to demand immediate repayment.

The Group has certain promissory notes with principal amounts of HKD3,367,193,000 (equivalent to approximately RMB2,922,454,000) matured during the six months ended 30 June 2017. During the six months ended 30 June 2017, the Group issued a new convertible bond with a principal amount of HKD745,060,000 (equivalent to approximately RMB646,652,000) maturing in May 2019 and this convertible bond serves to extend the maturity of certain of its existing indebtedness and interest accrued thereon. As at 30 June 2017, all outstanding promissory notes amounting to HKD2,679,223,000 (equivalent to approximately RMB2,325,351,000) were not renewed nor repaid upon the schedule repayment dates and thus became overdue. Subsequent to 30 June 2017, promissory notes with an aggregate principal amount of HKD947,462,000 (equivalent to approximately RMB822,321,000) were extended to November 2017; the Group proposed to issue convertible bonds amounting up to HKD1,037,240,000 (equivalent to approximately RMB900,241,000) due in 2019 in exchange for these promissory notes and interest accrued thereon. For the remaining promissory notes amounting to HKD1,731,761,000 (equivalent to approximately RMB1,503,030,000), the Company is in the process of negotiating with these promissory note holders to extend the due dates of these promissory notes ranging from August 2017 to September 2017. As at 30 June 2017, the Group had two outstanding convertible bonds with an aggregate principal amount totaling HKD848,560,000 (equivalent to approximately RMB736,482,000). Since the bondholders have an early redemption option to require the Company to redeem the bonds at any time before the maturity date, all the convertible bonds are classified as current liabilities.

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

In view of such circumstances, the directors of the Company have during the period and up to the date of the approval of this condensed consolidated interim financial information 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) In order to accelerate and facilitate the progress of the Group's restructuring plan and to enhance the liquidity and financial position of the Group, the Group plans to reduce its borrowings by issuing shares of the Company to satisfy certain of the Group's outstanding debts.

On 7 March 2016, the Company proposed to effect the disposal of liabilities, pursuant to which the Company and the institutional creditors agreed that the entire or partial amount of borrowings of the institutional creditors owed by the Company and the Company's shipbuilding segment subsidiaries will be settled through issuance of shares of the Company to the relevant institutional creditors or their designated entities, (the "**Disposal of Liabilities**") by (1) entering into bank creditor subscription agreements with certain bank creditors or their designated entities pursuant to which these bank creditors or their designated entities will agree to subscribe for up to 14,108,000,000 shares of the Company at HKD1.20 per subscription share, to satisfy the relevant borrowings in an aggregate amount up to RMB14,108,000,000 due by the Group to these bank creditors; and (2) entering into supplier creditor subscription agreements with certain supplier creditors pursuant to which these supplier creditors or their designated entities will agree to subscribe for up to 3,000,000,000 shares of the Company at HKD1.20 per subscription share in order to settle the payables in an aggregate amount up to RMB3,000,000,000 due by the Group to these supplier creditors.

As at the date of announcement of the proposal for the Disposal of Liabilities, 12 out of 22 bank creditors had entered into non-binding letters of intent with the Company to express their support towards the proposal for subscription of shares of the Company for the satisfaction of debt, covering approximately RMB12,598,000,000 or 89.3% of the maximum subscription amount of RMB14,108,000,000. The maximum subscription amount for supplier creditors of RMB3,000,000,000 is associated with more than 1,000 supplier creditors, and approximately RMB323,200,000 were attributable to supplier creditors which have entered into non-binding letters of intent with the Company to express their support towards the proposal for subscription of shares of the Company for the satisfaction of debt.

The completion of the Disposal of Liabilities is conditional upon i) the approval from the Company's shareholders to grant to the directors the specific mandate to allot and issue the subscription shares, with the corresponding approval of the share consolidation and the increase in authorised share capital; ii) the execution of the relevant subscription agreements with the bank and supplier creditors after obtaining the shareholders' approval; and iii) the listing committee of The Stock Exchange of Hong Kong Limited ("**Stock Exchange**") granting the listing of, and permission to deal in, the subscription shares under the relevant subscription agreements. The Group had obtained the shareholders' approval for the share consolidation as well as increase in authorised share capital of the Company on 24 March 2016.

The Disposal of Liabilities, which are subject to the shareholders' approval, finalisation and agreement of the detailed terms and conditions on the subscription arrangements as well as obtaining the necessary and relevant regulatory approvals. The directors of the Company expect that the Disposal of Liabilities will be completed in year 2017. For the bank loans which will remain outstanding subsequent to the Disposal of Liabilities, the Group will continue to negotiate with the respective banks to further extend or renew those loans as and when they fall due (see Note (iv) to (vi) below);

Up to the date of this announcement, the Company has not yet entered into any definitive agreement in respect of the Disposal of Liabilities with banks and other creditors (or their designated entities).

ii) Subsequent to the Disposal of Liabilities, the Group expects to dispose of its core assets and liabilities of the Shipbuilding, Offshore Engineering and Marine Engine Building segments to potential buyers (the "**Potential Transaction**"). The Group is still in discussion with potential buyers in this regard;

iii) During the six months ended 30 June 2017, promissory notes with principal amounts of HKD3,367,193,000 (equivalent to approximately RMB2,922,454,000) matured. The Group issued a new convertible bond with a principal amount of HKD745,060,000 (equivalent to approximately RMB646,652,000) maturing in May 2019 which serves to extend the maturity of certain of its existing indebtedness and interest accrued thereon. As at 3o June 2017, all outstanding promissory notes amounting to HKD2,679,223,000 (equivalent to approximately RMB2,325,351,000) were not renewed nor repaid upon the schedule repayment dates and thus became overdue. Subsequent to 30 June 2017, promissory notes with an aggregate principal amount of HKD947,462,000 (equivalent to approximately RMB822,321,000) were replaced and extended to November 2017; the Company will continue to negotiate with the remaining promissory note holders with a total principal amount of HKD1,731,761,000 (equivalent to approximately RMB1,503,030,000) for further arrangement so as to enable the Company to meet its financial obligations of the outstanding promissory notes when they fall due.

As at 30 June 2017, the Group had two outstanding convertible bonds with an aggregate principal amount totaling HKD848,560,000 (equivalent to approximately RMB736,482,000) will be matured in October 2018 and May 2019 respectively, provided that the relevant bondholders do not exercise the early redemption options. The Company will convince the bondholders not to exercise the early redemption options.

On 21 August 2017, the Company has proposed to issue convertible bonds with an aggregate principal amount of up to HKD1,037,240,000 (equivalent to approximately RMB900,241,000) in exchange for the existing indebtedness of the Company (owing to the holders of the promissory notes due in November 2017) and the expected despatch date of the circular for shareholders' approval will be falling on or before 30 November 2017.

iv) Pursuant to the Jiangsu Rongsheng Heavy Industries Co., Ltd. Debt Optimisation Framework Agreement (《江蘇熔盛重工有限公司債務優化銀團框架協議》) (the "**Jiangsu Framework Agreement**") entered into with a group of banks in the Jiangsu Province of the People's Republic of China ("**PRC**"), the Group has continuously been able to extend the repayment of and renewal terms of the existing bank loans that had original maturity in 2017 to new maturity dates ranging from September 2017 to March 2018. During the six months ended 30 June 2017, pursuant to this framework agreement, the Group has successfully extended the repayment dates and renewed certain loans, totaling RMB810,349,000 (inclusive of principal amount of RMB765,009,000 and interest amount of RMB45,340,000), which will be due during the period from September 2017 to March 2018. As at 30 June 2017, the Group's total outstanding current borrowings with respect to the Jiangsu Framework Agreement amounted to RMB12,678,658,000, of which RMB980,270,000 have been overdue since 2016, and of which RMB12,468,388,000 were attributable to bank creditors that have already entered into the letters of intent to participate in the Disposal of Liabilities as described in (i) above. The Group will continue to convince these banks not to demand for repayment of the outstanding bank loans before the completion of the Disposal of Liabilities, and will further negotiate with these banks, after the completion of the Disposal of Liabilities, for renewal and extension of the remaining outstanding bank loans which are not settled as and when they fall due during the year 2017. Subsequent to 30 June 2017, loans of RMB997,250,000 were successfully extended and will be repayable ranging from September 2017 to January 2018;

v) Pursuant to the Debt Optimisation Framework Agreement for China Rongsheng's Entities in Hefei (《中國熔盛系合肥企業債務優化銀團框架協議》) (the "**Hefei Framework Agreement**") entered into with a group of banks in Hefei, Anhui Province of the PRC, the Group were still negotiating with the banks to extend the repayment and renewal terms of the overdue bank loans to new maturity dates to September 2017. As at 30 June 2017, the Group's total outstanding current borrowings with respect to this Hefei Framework Agreement amounted to RMB3,778,054,000, of which RMB218,287,000 have been overdue since 2014 and RMB46,000,000 have been overdue since 2015, and RMB847,766,000 have been overdue since 2016, and RMB484,000,000 were overdue during the six months period, and, of which RMB3,347,062,000 were attributable to bank creditors that have already entered into the letters of intent to participate in the Disposal of Liabilities as described in (i) above. The Group will continue to convince these banks not to demand for repayment of the outstanding bank loans before the completion of the Disposal of Liabilities; and will further negotiate with these banks, after the completion of Disposal of Liabilities, for renewal and extension of the remaining outstanding bank loans which are not settled as and when they fall due during the coming twelve months;

vi) The Group has also been actively negotiating with the lenders regarding the borrowings (other than convertible bond and promissory notes) of RMB4,307,060,000 not covered in the above Jiangsu Framework Agreement and Hefei Framework Agreement (together with "**Framework Agreements**") to extend the repayment and amend the terms of these existing loans. During the six months ended 30 June 2017, the Group has successfully renewed and extended the repayment dates of certain loans amounted to RMB3,645,279,000 (inclusive of principal amount of RMB3,558,568,000 and interest amount of RMB86,711,000), so that these loans are now repayable after June 2017. As at 30 June 2017, total current loans from these lenders amounted to RMB4,244,616,000 of which RMB403,162,000 have been overdue, and of which RMB2,940,161,000 were attributable to bank creditors that have already entered into the letters of intent to participate in the Disposal of Liabilities as described in (i) above. The Group will continue to convince these lenders not to demand for repayment of the outstanding loans before the completion of the Disposal of Liabilities; and will further negotiate with these lenders, after the completion of Disposal of Liabilities, for renewal and extension of the remaining outstanding loans which are not settled as and when they fall due during the coming twelve months;

vii) During the six months ended 30 June 2017, the Group has newly obtained security-free and interest-free loans from entities controlled by Mr. Zhang Zhi Rong ("**Mr. Zhang**") or a close family member of Mr. Zhang amounted to RMB894,000 which will be repayable October 2018.

viii) In relation to those bank loans that have been overdue (including those mentioned in (iv) to (vi) above) because the Group failed to repay on or before the scheduled repayment dates or those bank loans that became immediately repayable because of the cross-default terms, the Group is in the process of negotiating with the relevant banks to extend the repayment and renewal of the loans; and to obtain waivers from the lenders for the due payment pursuant to the relevant cross-default terms;

ix) The Group has actively diversified its operation through continuous development of the Energy Exploration and Production segment. During the six-month period, 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 and thereby generate steady operating cash flows; and

x) The Group continues to implement measures to improve the operating cash flows, including (1) re-sale of certain completed shipbuilding orders to new customers should the original customers do not accept delivery; (2) utilising the capacity of the production plants; and (3) taking active measures to expedite collections of outstanding receivables, reduce headcount, control administrative costs and contain capital expenditures.

The directors have reviewed the Group's cash flow projections prepared by management that covered a period of not less than twelve months from 30 June 2017. 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) timely executing the subscription agreements with the banks and supplier creditors for the subscription of the Company's shares for the satisfaction of debts due by the Group to these bank and supplier creditors. The successful completion of the Disposal of Liabilities would include the finalisation and agreement of the detailed terms and conditions with the bank and supplier creditors on the subscription arrangement as well as obtaining the necessary and relevant regulatory approvals, including among other things, the listing committee of the Stock Exchange granting the listing of, and permission to deal in, the subscription shares under the relevant subscription agreements;

ii) convincing the banks not to demand for repayment of the outstanding bank loans before the completion of the Disposal of Liabilities; and further negotiating with these banks after the completion of the Disposal of Liabilities for renewal and extension of the remaining outstanding bank loans as and when they fall due in the coming 12 months;

iii) segregating the assets and liabilities to be excluded from the Potential Transaction from the ones included, and successfully implementing a business plan for the Engineering Machinery and Energy Exploration and Production segments;

iv) timely executing a formal transaction agreement with the potential buyers and completing the Potential Transaction for selling the core assets and liabilities of the Shipbuilding, Offshore Engineering and Marine Engine Building segments of the Group in the PRC. This would include entering into a definitive agreement for agreeing the details and completion conditions of the Potential Transaction, including the scope, the assets and liabilities to be included and the consideration of the transaction, obtaining the necessary approvals from the regulatory authorities and shareholders in order to complete the Potential Transaction, and raising the additional funding required, if any, for the completion of the Potential Transaction and for the settlement of any borrowings or liabilities not included in the Potential Transaction;

v) negotiating with all existing promissory note holders of outstanding principal of HKD2,679,223,000 (equivalent to RMB2,325,351,000), together with accrued interests thereon for further arrangement, so as to enable the Company to meet its financial obligations when they fall due, and convincing the convertible bondholders of the outstanding principal of HKD848,560,000 (equivalent to approximately RMB736,482,000) not to exercise the early redemption option; and successful issuance of proposed convertible bonds with an aggregate principal amount of up to HKD1,037,240,000 (equivalent to approximately RMB900,241,000) due in 2019 in exchange for certain existing indebtedness;

vi) negotiating with the relevant banks for the renewal or extension for repayments beyond the six-month period ended 30 June 2017 for those loans that (i) are scheduled for repayment (either based on the original agreement or the existing arrangements) in next twelve-month period; (ii) were overdue at 30 June 2017 because the Group failed to repay on or before the scheduled repayment dates; and (iii) became or might become overdue in next twelve-month period;

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

viii) obtaining additional sources of financing other than those above-mentioned, including those to finance the Group's Energy Exploration and Production segment and to generate adequate cash flows.

Should the Group fail to achieve the above-mentioned plans and ensure, 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.

3 ACCOUNTING POLICIES

Except as described below, the accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2016, as described in those annual financial statements.

(a) New and amended standards adopted by the Group

In the current year, the Group has adopted, for the first time, the following new and revised standards and amendments and interpretations to existing standards ("new and revised IFRSs") which are mandatory for the accounting periods beginning on or after 1 January 2017:

- Amendments to IAS 7 – Disclosure Initiative
- Amendment to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses
- Annual Improvement Project – Annual improvement 2014 – 2016 Cycle

The adoption of the above new and revised IFRSs does not have any significant impacts on the financial statements of the Group for the current or prior accounting periods.

(b) Impact of standards issued but not yet applied by the Group

(i) IFRS 9 Financial instruments

IFRS 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Management is currently assessing the effects of applying the new standard and it is not expected to have a significant effect on the Group's consolidated financial statements.

IFRS 9 is mandatory for financial years commencing on or after 1 January 2018. At this stage, the Group does not intend to adopt the standard before its effective date.

(ii) IFRS 15 Revenue from contracts with customers

IFRS 15 will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Management is currently assessing the effects of applying the new standard on the Group's financial statements and base on the preliminary assessment, management does not expect the impact of the new rules on the Group's financial statements to be material.

IFRS 15 is mandatory for financial years commencing on or after 1 January 2018. At this stage, the Group does not intend to adopt the standard before its effective date.

(c) Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

4 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 this condensed consolidated interim financial information.

The chief operating decision-maker is identified as the Executive Directors of the Company. The Executive Directors consider the business from both geographic and product perspectives. The Shipbuilding segment derives its revenue primarily from the construction and sales 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 derive its revenue from sales of crude oil. 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 and including loss on cancellation of the construction contracts. The segment information provided to the Executive Directors for the reportable segments for the six months ended 30 June 2017 and 2016 was as follows:

	Shipbuilding For the six months ended 30 June		Offshore engineering For the six months ended 30 June		Engineering machinery For the six months ended 30 June		Marine Engine buildings For the six months ended 30 June		Energy Exploration and production For the six months ended 30 June		Total For the six months ended 30 June	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
	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												
– Revenue from sales of vessels	**14,530**	60,000	**–**	–	**–**	–	**–**	–	**–**	–	**14,530**	60,000
– Revenue from shipbuilding and other contracts	**–**	87,962	**–**	–	**8,455**	1,868	**–**	660	**–**	–	**8,455**	90,490
– Revenue from sales of crude oil	**–**	–	**–**	–	**–**	–	**–**	–	**19,744**	14,946	**19,744**	14,946
– Reversal of revenue related to the cancellation of the shipbuilding contracts	**–**	(3,642,744)	**–**	–	**–**	–	**–**	–	**–**	–	**–**	(3,642,744)
Segment revenue	**14,530**	(3,494,782)	**–**	–	**8,455**	1,868	**–**	660	**19,744**	14,946	**42,729**	(3,477,308)
Inter-segment revenue	**–**	–	**–**	–	**–**	–	**–**	(660)	**–**	–	**–**	(660)
Revenue from external customers	**14,530**	(3,494,782)	**–**	–	**8,455**	1,868	**–**	–	**19,744**	14,946	**42,729**	(3,477,968)
Segment results	**(137,811)**	(4,033,469)	**–**	–	**14,036**	11,846	**938**	(9,816)	**4,372**	1,655	**(118,465)**	(4,029,784)
Selling and marketing expenses											**(2,067)**	(3,334)
General and administrative expenses											**(316,470)**	(304,974)
Research and development expenses											**(1,575)**	(12,621)
Reversal of impairments											**199,830**	221,505
Reversal of impairments related to the cancellation of construction contracts											**–**	3,096,830
Other income											**28,827**	18,178
Other (losses)/gains – net											**(93,964)**	168,476
Finance costs – net											**(548,037)**	(1,182,218)
Loss before income tax											**(851,921)**	(2,027,942)

During the six months ended 30 June 2017, revenue from the top customer of the Shipbuilding segment, excluding cancellation of construction contracts, amounted to RMB14,528,000 (for the six months ended 30 June 2016: RMB38,890,000), representing 34.0% of the total revenue (for the six months ended 30 June 2016: 23.6%).

No customers of the Engineering Machinery and Marine Engine Building segments individually accounted for ten percent or more of the Group's consolidated revenue for the six months ended 30 June 2017 (for the six months ended 30 June 2016: same).

The top three customers of the Group amounted to RMB25,901,000 (for the six months ended 30 June 2016: RMB98,890,000), representing 60.6% of the total revenue, excluding cancellation of construction contracts for the six months ended 30 June 2017 (for the six months ended 30 June 2016: 60.0%).

During the six months ended 30 June 2017, no shipbuilding contracts of the Group were cancelled.

During the six months ended 30 June 2016, the Group terminated 19 shipbuilding contracts. Accordingly, the Group reversed revenue and cost of sales of RMB3,642,744,000 and RMB3,037,086,000 respectively. In relation to such cancellations, the Group reversed impairments of trade receivables and amount due from customers for contract works amounted to RMB3,096,830,000 and correspondingly provided for inventories amounting to RMB2,604,794,000 respectively during the six months ended 30 June 2016.

Geographically, management considers the operations of the 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 is analysed as follows:

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
China	**22,985**	136,404
Kyrgyzstan	**19,744**	14,946
Others	**–**	13,426
	42,729	164,776

Geographically, total assets and capital expenditures are allocated based on where the assets are located. Assets are mainly located in the PRC, except for assets under the Energy Exploration and Production segment which are mainly located in Kyrgyzstan.

5 PROPERTY, PLANT AND EQUIPMENT

	RMB'000
For the six months ended 30 June 2017	
Revalued amounts	
Opening amounts as at 1 January 2017	**16,582,181**
Additions	**3,084**
Disposals	**(122,640)**
Depreciation *(Note 10)*	**(188,437)**
Exchange difference	**(14,265)**
Closing amounts as at 30 June 2017	**16,259,923**
For the six months ended 30 June 2016	
Revalued amounts	
Opening amounts as at 1 January 2016	16,996,889
Additions	27,661
Disposals	(90,510)
Depreciation *(Note 10)*	(190,622)
Exchange difference	12,311
Closing amounts as at 30 June 2016	16,755,729

Had the Group's buildings, including buildings under construction, been carried at historical cost less accumulated depreciation and impairment losses, their net book amounts would have been the same as to their revalued amounts.

In determining the recoverable amounts of the non-current assets, including land use rights and property, plant and equipment under Shipbuilding, Offshore Engineering and Marine Engine Building segments amounting to RMB19,192,061,000 as at 30 June 2017, which were based on the fair value less costs to sell of these assets, the directors made reference to the estimated consideration of these assets under the Potential Transaction. The estimated consideration of these assets under the Potential Transaction is dependent on the scope of assets and liabilities to be included in the Potential Transaction, and the directors expect that consideration would be no less than the aggregate carrying amount of the net assets to be disposed of under the Potential Transaction. Therefore, the directors are of the view that the estimated consideration to be allocated to each individual asset would exceed the carrying value of such asset and hence, no impairment charge with respect to the non-current assets of Shipbuilding, Offshore Engineering and Marine Engine Building segments is necessary.

The property, plant and equipment of the Engineering Machinery segment amounted RMB119,468,000 consisted of certain construction in progress of a plant, a building and other plant and machinery, whereby management has been unable to implement a viable business plan to utilise these amounts, a full provision of RMB119,468,000 has been made in the year 2015.

In determining the recoverable amount of the land use rights under the Engineering Machinery segment amounting to RMB179,829,000 as at 30 June 2017, which was based on the fair value less costs to sell, the directors made reference to the current market price of the land use rights in Hefei, Anhui Province. Since the fair value of the land use rights exceeds the carrying value of the land use rights and hence, no impairment charge is necessary.

Please refer to Note 6 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 Co-operation Rights as defined below.

6 INTANGIBLE ASSETS

	RMB'000
For the six months ended 30 June 2017	
Opening amounts as at 1 January 2017	**1,688,437**
Amortisation *(Note 10)*	**(1,045)**
Exchange difference	**(39,564)**
Closing amounts as at 30 June 2017	**1,647,828**
For the six months ended 30 June 2016	
Opening amounts as at 1 January 2016	1,583,048
Amortisation *(Note 10)*	(1,145)
Exchange difference	33,527
Closing amounts as at 30 June 2016	1,615,430

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 a result, amortisation of RMB1,045,000 has been charged to the profit or loss during the six months ended 30 June 2017 (for the six months ended 30 June 2016: RMB1,145,000) based on the units-of-production method.

During the six months ended 30 June 2017, the development of the Energy Exploration and Production segment has been limited by the lack of means to fund additional investments for drilling wells and exploration.

In determining the recoverable amounts of the Co-operation Rights and property, plant and equipment under the Energy Exploration and Production segment amounting to RMB1,647,828,000 and RMB592,353,000, respectively, the directors have evaluated the recoverable amounts based on value-in-use calculations using pre-tax cash flow projections. Key assumptions are crude oil price of USD40 – 60 per barrel (31 December 2016: USD40-60 per barrel) and a discount rate of 18% (31 December 2016:18%).

As a result of the above assessment, the recoverable amounts of the intangible assets and property, plant and equipment under the 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 30 June 2017.

7 LAND USE RIGHTS

	RMB'000
For the six months ended 30 June 2017	
Opening amounts as at 1 January 2017	**3,745,196**
Amortisation *(Note 10)*	**(40,875)**
Closing amounts as at 30 June 2017	**3,704,321**
For the six months ended 30 June 2016	
Opening amounts as at 1 January 2016	3,827,234
Amortisation *(Note 10)*	(40,830)
Closing amounts as at 30 June 2016	3,786,404

8 TRADE RECEIVABLES

	As at 30 June 2017	As at 31 December 2016
	RMB'000	*RMB'000*
Trade receivables	**2,181,749**	2,962,281
Less: Provision for doubtful debts	**(2,170,548)**	(2,952,894)
Total	**11,201**	9,387

Ageing analysis of trade receivables by invoice date is as follows:

	As at 30 June 2017	As at 31 December 2016
	RMB'000	*RMB'000*
Not yet due	**4,004**	2,061
Past due		
1-180 days	**2,567**	1,044
181-360 days	**–**	–
Over 360 days	**4,630**	6,282
Total	**11,201**	9,387

As at 30 June 2017, trade receivables of RMB7,197,000 (31 December 2016: RMB7,326,000) were past due but not impaired. The ageing analysis of these trade receivables by invoice date is listed above.

As at 30 June 2017, trade receivables of RMB1,795,968,000 (31 December 2016: RMB2,578,126,000) and RMB374,580,000 (31 December 2016: RMB374,768,000) related to certain customers of the Shipbuilding and Engineering Machinery segments were impaired and provided for respectively. These trade receivables are aged over 360 days.

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

The carrying amounts of trade receivables approximate their fair values.

9 TRADE AND OTHER PAYABLES

	As at 30 June 2017 *RMB'000*	As at 31 December 2016 *RMB'000*
Trade payables	**1,535,370**	1,632,352
Other payables for purchase of property, plant and equipment		
– Third parties	**368,087**	429,266
– Related parties	**454,834**	477,761
Other payables		
– Third parties	**1,760,779**	1,856,269
– Related parties	**52,824**	39,239
Receipt in advance	**39,560**	72,829
Accrued expenses		
– Payroll and welfare	**101,921**	122,556
– Interests	**3,188,431**	2,647,269
– Exploration costs	**24,202**	30,836
– Others	**133,355**	129,969
Provision for litigation cases	**833,732**	821,978
Provision for delayed penalties	**27,624**	27,624
VAT payable	**109**	109
Other tax-related payables	**4,351**	5,558
Current trade and other payables	**8,525,179**	8,293,615

Ageing analysis of trade payables by invoice date is as follows:

	As at 30 June 2017 *RMB'000*	As at 31 December 2016 *RMB'000*
0 – 30 days	**14,769**	44,570
31 – 60 days	**3,852**	13,190
61 – 90 days	**705**	15,463
Over 90 days	**1,516,044**	1,559,129
	1,535,370	1,632,352

10 EXPENSES BY NATURE

	For the six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Agency fees	**309**	32
Amortisation of land use rights *(Note 7)*	**40,875**	40,830
Amortisation of intangible assets *(Note 6)*	**1,045**	1,145
Auditors' remunerations	**960**	861
Bank charges (include refund guarantee charges)	**53**	62
Reversal of cost of sales related to the cancellation of the construction contracts *(Note 4)*	**–**	(3,037,086)
Cost of vessels and inventories	**58,195**	554,356
Depreciation of property, plant and equipment *(Note 5)*	**188,437**	190,622
Employee benefit expenses	**51,097**	110,091
Legal and consultancy fees	**8,725**	16,930
Miscellaneous expenses	**21,606**	15,015
Operating lease payments	**1,481**	4,415
Outsourcing and processing costs	**7,447**	21,207
Over provision for other tax-related expenses and customs duties	**–**	(40,606)
Provision for inventories	**76,659**	2,972,333
Raw materials and consumables used	**11,925**	5,222
Provision for warranty		
– reversal upon expiring of the warranty period	**–**	(19,484)
(Reversal of)/provision for impairment		
– trade receivables	**(189)**	(1,043,932)
– amounts due from customers for contract works	**–**	(2,239,594)
– other receivables and prepayments	**(202,058)**	1,704
Provision for litigations	**14,909**	287
Total cost of sales, selling and marketing expenses, general and administrative expenses, research and development expenses and reversal of impairments and reversal of impairments related to the cancellation of the construction contract	**281,476**	(2,445,590)

11 OTHER INCOME

	For the six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Government grants *(Note a)*	**–**	100
Rental income *(Note b)*	**21,875**	3,169
Others	**6,952**	14,909
Total	**28,827**	18,178

Notes:

(a) Government grants represented cash received from Jiangsu Government authority during the six months ended 30 June 2016.

(b) Rental income represented the income from the leasing of property, plant and equipment to third parties lessees during the six months ended 30 June 2017 and 2016.

12 OTHER (LOSSES)/GAINS – NET

	For the six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Fair value gain on derivative instruments – embedded derivatives in convertible bonds	**1,129**	213,913
Loss on disposal of land use rights and property, plant and equipment, net	**(65,269)**	(27,548)
Loss on sales of raw materials	**(45,194)**	–
Net foreign exchange gains/(losses)	**15,370**	(17,889)
Total	**(93,964)**	168,476

13 INCOME TAX EXPENSE

No Hong Kong, PRC and Kyrgyzstan profits tax have been provided for during the six months ended 30 June 2017 (for the six months ended 30 June 2016: nil) as the Group had no assessable profit in Hong Kong, PRC and Kyrgyzstan.

Income tax expense is recognised based on management's estimation of the weighted average annual income tax rate expected for the full financial year. Management expected that there is no income tax expense for the six months ended 30 June 2017 since it is not expected to have any tax assessable profit (for the six months ended 30 June 2016: same).

14 LOSS PER SHARE

(a) Basic

Basic 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 period.

	For the six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Loss attributable to equity holders of the Company (RMB'000)	**(825,718)**	(1,963,131)
Weighted average number of ordinary shares in issue	**2,171,591,507**	2,171,591,507
Loss per share (RMB per share)	**(0.38)**	(0.90)

(b) Diluted

Diluted loss per share is the same as basic loss per share as there were no potential dilutive ordinary shares outstanding during the six months ended 30 June 2017 and 2016.

15 DIVIDEND

The Board has resolved not to declare the payment of an interim dividend for the six months ended 30 June 2017 (for the six months ended 30 June 2016: nil).