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 2018

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 2018 (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 RMB37.3 million, which was primarily attributable to the revenue from sales of crude oil and excavators, compared to revenue of RMB42.7 million for the six months ended 30 June 2017 (the "**Comparative Period**"). Loss attributable to the equity holders of the Company was RMB1,137.6 million for the Period, while loss attributable to the equity holders of the Company was RMB825.7 million for the Comparative Period.

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 Fergana Valley of the Republic of Kyrgyzstan) (the "**Kyrgyzstan Project**") recorded production of 88,816 barrels (bbl) of light crude oil (for the Comparative Period: 79,841 bbl). Revenue from the energy exploration and production segment was RMB21.8 million for the Period with an increase of approximately 10.7% from RMB19.7 million for the Comparative Period.

Shipbuilding and Offshore Engineering

During the Period, there was no revenue contribution from the shipbuilding and offshore engineering segment.

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

Marine Engine Building and Engineering Machinery

For the Period, there was no revenue contribution from the marine engine building segment. Suffered from the continuously sluggish shipbuilding market and marine engine market, the Group utilised its existing production facilities, amenities and human resources to develop diversified businesses.

For the Period, revenue from the engineering machinery segment was RMB15.5 million (for the Comparative Period: RMB8.5 million). Revenue mainly came from sales of in-stock excavators.

FINANCIAL REVIEW

Revenue

For the Period, the Group recorded a revenue of RMB37.3 million (for the Comparative Period: RMB42.7 million). It was primarily attributable to the revenue from sales of crude oil and excavators. Revenue from sales of crude oil was RMB21.8 million (for the Comparative Period: RMB19.7 million), representing an increase of approximately 10.7%. Revenue from sales of excavators was RMB15.5 million as compared to RMB8.5 million for the Comparative Period, representing an increase of approximately 82.4%.

Cost of Sales

For the Period, cost of sales decreased by approximately 88.2% to RMB19.0 million (for the Comparative Period: RMB161.2 million), which was primarily attributable to the decrease in the provision for inventories.

Gross Profit/(Loss)

During the Period, the Group recorded a gross profit of RMB18.3 million (for the Comparative Period: gross loss of RMB118.5 million). As a result of the strategic transformation of the Group, the turnaround from gross loss to gross profit as compared with the Comparative Period was primarily attributable from the decrease in provision for inventories.

Selling and Marketing Expenses

For the Period, selling and marketing expenses decreased by approximately 4.8% to RMB2.0 million (for the Comparative Period: RMB2.1 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 1.1% to RMB321.4 million (for the Comparative Period: RMB318.0 million). This was mainly attributable to the increase of provision for litigations and legal and consultancy fees.

Other Gains/(Losses) – Net

For the Period, other gains – net was RMB217.5 million (for the Comparative Period: other losses-net of RMB94.0 million), primarily attributable to fair value gain on derivative instruments and gain on disposal from auction of certain land use rights and property, plant and equipment during the Period.

Finance Costs – Net

Finance income for the Period decreased by approximately 97.6% to RMB0.2 million (for the Comparative Period: RMB8.2 million). The decrease was mainly attributable to the decrease of imputed interest income for the interest-free loans. Finance costs for the Period increased by approximately 92.8% to RMB1,072.5 million (for the Comparative Period: RMB556.3 million). The increase was primarily due to the increase in interests of convertible bonds and overdue interests of certain borrowings for the Period.

Total Comprehensive Loss for the Period

During the Period, the Group recorded total comprehensive loss of RMB1,164.4 million (for the Comparative Period: RMB888.6 million), of which loss attributable to equity holders of the Company was RMB1,120.5 million (for the Comparative Period: RMB862.8 million). Loss attributable to the equity holders of the Company is the result of the considerable increase in finance costs offset with the decrease in provision for inventories.

Liquidity and Going Concern

During the Period, the Group incurred a loss of RMB1,181.1 million and had a net operating cash outflow of approximately RMB170.6 million. As at 30 June 2018, the Group had a total deficit of RMB12,067.3 million and the current liabilities exceeded its current assets by RMB32,747.4 million. As at 30 June 2018, the Group's total current borrowings and finance lease liabilities amounted to RMB23,160.1 million, of which RMB17,853.7 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 HKD1,433.2 million (equivalent to approximately RMB1,208.4 million) as at 30 June 2018, 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.

The Group has undertaken series of plans and measurement to mitigate the liquidity pressure, including improvement to the financial position of the Group; refinance its operations and restructure its debts which are subject to, amongst others, the completion of the Group's restructuring plan through potential transaction for business restoration, disposing liabilities and refinancing of operation of the Group. For details, please refer to the announcements dated 19 November 2015, 7 March 2016 and 14 September 2016 and circular of the Company dated 9 March 2016.

The Group will continue to negotiate with the relevant banks and bondholders for the renewal or extentsion for repayments beyond the six months ended 30 June 2018 for these loans that (i) are scheduled for repayment in next twelve-month period; (ii) were overdue at 30 June 2018; and (iii) became or might become overdue in next twelve-month period.

During the Period, the convertible bonds with an aggregate principal amount of approximately HK$414.1 million have been converted into shares. The Group will continue to negotiate with the convertible bond holders for the conversion of remaining principal in the second half of 2018.

On 29 June 2018, a loan agreement of USD200.0 million (equivalent to approximately RMB1,323.3 million) was entered between the Group and a related party of the Group. The loan is interest-free, unsecured by the assets of the Group and repayable in two years.

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 RMB162.6 million from RMB23,322.7 million as at 31 December 2017 to RMB23,160.1 million as at 30 June 2018. Our long-term borrowings increased by RMB133.6 million from RMB208.4 million as at 31 December 2017 to RMB342.0 million as at 30 June 2018.

As at 30 June 2018, our total borrowings and finance lease liabilities were RMB23,502.1 million (as at 31 December 2017: RMB23,531.2 million), of which RMB19,524.2 million (83.1%) was denominated in RMB and the remaining RMB3,977.9 million (16.9%) 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 57.2% of the borrowings bear interests at fixed rate.

Inventories

Our inventories increased by RMB0.2 million to RMB546.2 million as at 30 June 2018 (as at 31 December 2017: RMB546.0 million). The increase in inventories was the result of the reversal of provision for inventories during the Period.

Foreign Exchange Risks

The Group incurred net foreign exchange loss of RMB12.2 million due to the depreciation of RMB against USD and HKD during the Period, which resulted in exchange loss on certain USD-denominated liabilities and HKD denominated liabilities, such as trade and other payables of the Group. The Group currently does not have any foreign currency hedging policy but the management closely monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Material Acquisitions and Disposals of Investments

The Group did not undertake any material acquisition or disposal of investments during the Period.

Capital Expenditure

For the Period, our capital expenditure was approximately RMB21.0 million (for the Comparative Period: RMB0.3 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 205.5% as at 30 June 2018. Affected by the accumulated losses of RMB26,928.9 million as at 30 June 2018 (as at 31 December 2017: RMB25,791.2 million), the total deficit was RMB12,067.3 million as at 30 June 2018 (as at 31 December 2017: RMB11,246.4 million).

Contingent Liabilities

As at 30 June 2018, we had contingent liabilities of RMB26.0 million (as at 31 December 2017: RMB26.7 million), 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 2018, the Group had cash and cash equivalents of RMB39.6 million (as at 31 December 2017: RMB69.9 million), of which RMB36.7 million (approximately 92.7%) was denominated in RMB and the remaining RMB2.9 million (approximately 7.3%) was denominated in USD, HKD and other currencies. 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 of the Group believes are of high creditworthiness and without significant credit risk.

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 2018, trade receivables of RMB202.6 million (as at 31 December 2017: RMB202.6 million) and RMB374.9 million (as at 31 December 2017: 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.

The Company maintained close communication with the financial institution regarding the potential transaction, arrangement of debt and other related matter and was supported by the major bank, given that certain banks/financial institution are performing relevant procedures as required for the bad debt of banks in Mainland China such as litigation and arbitration.

Human Resources

As at 30 June 2018, we had 576 employees (as at 31 December 2017: 602 employees). The decrease in the number of employees was driven by the market downturn and the downsizing of the shipbuilding business of the Group. The principal elements of remuneration package of the Group inclusive of 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 2018, the overall international shipping market has recovered, the market demand improved, and there was recovery in the demand for new ships in the global shipbuilding market. Yet, global shipbuilding factory still faces the acute condition of insufficient works, the problem of earning profit for the shipbuilding factory is still lingering. Meanwhile, the overall global crude oil market maintained a good ascending momentum in the first half of 2018, the international oil price has rebounded, the global oil and gas industry continued to recover.

To cope with the shipbuilding market condition, the Group had deployed its existing production facilities, amenities and human resources to develop diversified businesses. Meanwhile, the Group continued promoting the resale of vessels under construction to maintain the fundamental operation of our manufacturing bases and broaden our source of revenue. Also, with the satisfactory development results, the Group carried out oilfields development and adopted various measures to maintain production capabilities, reinforced cost control measures and improved working performance, and obtained additional sources of financing for the energy exploration and production segment, actively responded to the financial constraints and volatile industry conditions.

Looking forward to the second half of 2018, the international shipping market will continue to rise. A series of uncertainties such as trade protectionism however, still exist, and the problem of excess capacity is still subject to pressure and risks. The Group will continue to promote its progress in strategic restructuring. The Group will continue to promote business transformation with the aid of the advantages brought by corporate resources. At the same time, the Group will continue to facilitate the disposal of liabilities with creditors, in order to ease the debt burden of the Group, improve the operation of the shipbuilding business and mitigate the adverse effects of the high gearing of the Group on its development in the energy business.

The management of the Group has, from time to time, considered various means of financing and obtaining additional sources of financing for the Kyrgyzstan Project. On 29 June 2018, the Group entered into a co-operative framework agreement with a third party seller, who is independent from the Group, pursuant to which, the seller will offer equipment relating to oil production and materials for exploring new oil wells on credit, with value not more than USD500 million. The management of the Group believes that the agreement will help accelerate the development of the energy business and increase the production volume, so as to improve its source of revenue and financial performance. To align with the development of the Kyrgyzstan Project, we intend to proactively extend the overall crude oil sales network, which includes, but without limitation to, the overall strategy in relation to trading, storage and logistic in the oil and gas industry, and also from time to time pay attention to and identify appropriate potential business opportunities in the oil and gas industry, in order to complement the overall development strategic transformation and upgrade within the energy service industry.

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 of the Board (the "**Chairman**") and the chief executive officer should be separate and should not be performed by the same individual. During the Period, 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 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

Other than disclosed elsewhere in the announcement, the Group also has the following significant event after the end of reporting period:

Up to the date of this announcement, convertible bonds with an aggregate principal amount of HK$119,820,000 (equivalent to approximately RMB101,029,000) have been converted into ordinary shares by the bondholders.

Audit Committee

The Audit Committee comprises three independent non-executive 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 2018 (six months ended 30 June 2017: nil).

Publication of Interim Report

The 2018 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.

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 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, 30 August 2018

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2018

	Note	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 Audited
ASSETS			
Non-current assets			
Land use rights	7	**3,463,807**	3,663,429
Property, plant and equipment	5	**15,898,343**	16,073,235
Intangible assets	6	**1,606,292**	1,587,572
Prepayments for non-current assets		**22,242**	10,298
Financial asset at fair value through other comprehensive income		**31,458**	–
Available-for-sale financial asset		**–**	44,342
		21,022,142	21,378,876
Current assets			
Inventories		**546,156**	545,999
Trade receivables	8	**12,419**	9,846
Other receivables, prepayments and deposits		**730,928**	480,939
Pledged deposits		**3,212**	20,720
Cash and cash equivalents		**39,551**	69,858
		1,332,266	1,127,362
Total assets		**22,354,408**	22,506,238
DEFICIT			
Capital and reserves attributable to the Company's equity holders			
Share capital		**1,280,722**	937,772
Share premium		**10,433,213**	10,432,701
Other reserves		**3,679,879**	3,662,824
Accumulated losses		**(26,928,851)**	(25,791,247)
		(11,535,037)	(10,757,950)
Non-controlling interests		**(532,218)**	(488,405)
Total deficit		**(12,067,255)**	(11,246,355)

	Note	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 Audited
LIABILITIES			
Non-current liabilities			
Borrowings		**342,016**	208,445
		342,016	208,445
Current liabilities			
Trade and other payables	*9*	**10,348,022**	9,499,408
Advances from related parties		**368,959**	368,959
Borrowings		**23,135,434**	23,298,366
Derivative financial instruments		**153,686**	320,001
Finance lease liabilities		**24,646**	24,381
Contract liabilities		**48,900**	33,033
		34,079,647	33,544,148
Total liabilities		**34,421,663**	33,752,593
Total deficit and liabilities		**22,354,408**	22,506,238

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2018

		Unaudited for the six months ended 30 June	
		2018	2017
	Note	***RMB'000***	*RMB'000*
Revenue			
– Revenue from sales of crude oil	*4*	**21,807**	19,744
– Revenue from sales of vessels	*4*	**–**	14,530
– Revenue from sales of excavators	*4*	**15,511**	8,455
		37,318	42,729
Cost of sales			
– Cost of crude oil sold	*10*	**(13,192)**	(15,374)
– Cost of vessels sold	*10*	**–**	(58,195)
– Cost of excavators sold	*10*	**(5,805)**	(87,625)
		(18,997)	(161,194)
Gross profit/(loss)		**18,321**	(118,465)
Selling and marketing expenses	*10*	**(1,955)**	(2,067)
General and administrative expenses	*10*	**(321,352)**	(318,045)
(Provision for)/reversal of impairments	*10*	**(51,478)**	199,830
Other income	*11*	**30,222**	28,827
Other gains/(losses) – net	*12*	**217,451**	(93,964)
Operating loss		**(108,791)**	(303,884)
Finance income		**173**	8,213
Finance costs		**(1,072,480)**	(556,250)
Finance costs – net		**(1,072,307)**	(548,037)
Loss before income tax		**(1,181,098)**	(851,921)
Income tax expense	*13*	**–**	–

	Note	Unaudited for the six months ended 30 June 2018 RMB'000	2017 RMB'000
Loss for the period		**(1,181,098)**	(851,921)
Attributable to:			
Equity holders of the Company		**(1,137,604)**	(825,718)
Non-controlling interests		**(43,494)**	(26,203)
		(1,181,098)	(851,921)
Other comprehensive income/(loss) for the period:			
Items that may be reclassified to profit or loss			
– Fair value gain on an available-for-sale financial asset		**–**	2,864
– Fair value loss on financial assets at fair value through other comprehensive income		**(2,692)**	–
– Exchange difference on translation of foreign operations		**19,428**	(39,559)
Other comprehensive income/(loss) for the period, net of tax		**16,736**	(36,695)
Total comprehensive loss for the period		**(1,164,362)**	(888,616)
Attributable to:			
Equity holders of the Company		**(1,120,549)**	(862,763)
Non-controlling interests		**(43,813)**	(25,853)
		(1,164,362)	(888,616)
Loss per share attributable to the equity holders of the Company during the period (expressed in RMB per share)			
– Basic and diluted	*14*	**(0.48)**	(0.38)

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 has not been audited.

2 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2018 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 2017, which was prepared in accordance with International Financial Reporting Standards ("**IFRS**").

2.1 Basis of preparation

(a) Going concern basis

During the six months ended 30 June 2018, the operation of the Group continued to be minimal. The Group has implemented a series of active measures to mitigate its liquidity pressure and improve the financial position by realisation of existing inventories; implementing tighten cost control to reduce staff cost, other administrative expenses and capital expenditures; and obtaining new sources of financing for the energy exploration and production segment. However, the Group is still experiencing high level of finance costs for its existing borrowings, which are accounted on an accrual basis according to the latest debt arrangement.

The development of the energy exploration and production segment has been limited by funding to further conduct additional investments for drilling wells and exploration. During the six months ended 30 June 2018, the Group had incurred a net loss of approximately RMB1,181,098,000 and had a net operating cash outflow of RMB170,552,000.

As at 30 June 2018, the Group's total deficit amounted to RMB12,067,255,000 and the Group's current liabilities exceeded its current assets by RMB32,747,381,000. As at the same date, the Group's total current borrowings and finance lease liabilities amounted to RMB23,160,080,000, out of which RMB17,853,703,000 current borrowings were either overdue or would be due for repayment within 12 months in accordance with the repayment dates of the respective agreements. The Group's current borrowings also included convertible bonds with outstanding principal of HKD1,433,230,000 (equivalent to approximately RMB1,208,356,000) as at 30 June 2018, which were immediately redeemable by the bondholders according to the terms and conditions of the convertible bonds, while the Group only maintained cash and cash equivalents of RMB39,551,000.

As at 30 June 2018, loan principal repayments and interest payments totaling RMB12,278,740,000 were overdue. The non-payment of loan principals and interests in accordance with the scheduled repayment dates caused the relevant loans to become immediately repayable pursuant to the respective loan agreements. In this connection, certain non-current borrowings totaling RMB1,806,271,000 have been classified as current liabilities. Subsequent to 30 June 2018, additional loan principal and interest payments totaling RMB70,681,000 were not renewed or repaid upon the scheduled repayment dates and thus became overdue. In addition, bank and other borrowings of RMB18,963,245,000 and convertible bonds with aggregate principal amount of HKD1,433,230,000 (equivalent to approximately RMB1,208,356,000), totaling RMB20,171,601,000, 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 RMB7,006,500,000 as at 30 June 2018 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, non-current borrowings totaling RMB2,411,346,000 have been classified as current liabilities. During the six months ended 30 June 2018, certain non-current assets consisting of land use right and property, plant and equipment amounting to RMB158,054,000 under the engineering machinery segment were auctioned, the proceeds of which will be used to pay off certain of these borrowings under the direction of the court (Note 7). As at the date of the approval of this condensed consolidated financial information, the Group has not obtained waivers to comply with these cross-default terms from the relevant banks and bondholders and except for the auction mentioned above, none of these banks and bondholders taken any action against the Group to demand immediate repayment.

As at 30 June 2018, the Group has outstanding promissory notes amounting to HKD1,731,761,000 (equivalent to approximately RMB1,460,047,000), out of which promissory notes amounting to HKD906,336,000 (equivalent to approximately RMB764,132,000) were not renewed nor repaid upon the schedule repayment dates and thus became overdue since 2017. The Company is in the process of negotiating with the promissory note holder to extend the maturity date to December 2019.

As at 30 June 2018, the Group had six outstanding convertible bonds (31 December 2017: six) with an aggregate principal amount totaling HKD1,433,230,000 (equivalent to approximately RMB1,208,356,000) (31 December 2017: HKD1,847,300,000 (equivalent to approximately RMB1,544,177,000)). During the six months ended 30 June 2018, convertible bonds with principal amount totaling HKD414,070,000 have been converted into ordinary shares by the bondholders (for the year ended 31 December 2017: HKD38,500,000). 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.

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 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, during the period and up to the date of the approval of this condensed consolidated financial information:

i) On 24 March 2016, shareholders gave a specific mandate to the Company 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 its designated related companies, (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. Although this specific mandate has been expired, the Company is actively negotiating with its creditors on the terms and conditions on the execution plan for the implementation of the Disposal of Liabilities, which includes but is not limited to potential adjustments to the original structure and terms and conditions of the Disposal of Liabilities.

   As at the date of the approval of this condensed consolidated financial information, 12 out of 22 bank creditors and certain supplier creditors had entered into non-binding letters of intent with the Company to express their support towards the proposal of the Disposal of Liabilities.

   In addition, the Group expects to dispose of its core assets and liabilities of the shipbuilding, offshore engineering, engineering machinery and marine engine building segments to potential buyers (the "**Potential Transaction**"). The Group is still in discussion with potential buyers in this regard.

   The Disposal of Liabilities are subject to the shareholders' approval and obtaining the necessary and relevant regulatory approvals. The Company strives to implement and complete the Disposal of Liabilities in year 2018. As of the date of the approval of this condensed consolidated financial information, the Company did not have any expected date of implementation or completion for the Potential Transaction.

   For the borrowings which will remain outstanding subsequent to the Disposal of Liabilities and the Potential Transaction, the Group will continue to negotiate with the respective creditors to further extend or renew those borrowings as and when they fall due (see Note (ii) to (iii) below);

ii) In the meantime and prior to the successful implementation of the Disposal of Liabilities and the Potential Transaction, the Group has continuously been able to extend the repayment and renewal terms of its existing bank loans pursuant to the following:

(a) 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**"), during the period, the Group has successfully extended the repayment dates and renewed certain loans, totaling RMB3,789,322,000 (inclusive of principal amount of RMB3,687,489,000 and accrued interest amount of RMB101,833,000), the maturity dates of which were extended to December 2018. As at 30 June 2018 the Group's total outstanding current borrowings covered under the Jiangsu Framework Agreement amounted to RMB8,418,901,000, of which RMB3,834,162,000 have been overdue, and of which RMB8,201,826,000 were attributable to bank creditors that have already entered into the letters of intent to express their support towards the Disposal of Liabilities as described in (i) above.

(b) 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. As at 30 June 2018, the Group's total outstanding current borrowings covered under this Hefei Framework Agreement amounted to RMB3,700,056,000, of which RMB94,990,000 have been overdue since 2014; RMB30,000,000 have been overdue since 2015; RMB429,420,000 have been overdue since 2016; RMB234,300,000 have been overdue since 2017, and RMB50,000,000 became overdue during the six months ended 30 June 2018, and, of which RMB3,349,066,000 were attributable to bank creditors that have already entered into the letters of intent to express their support towards 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 coming twelve months.

iii) The Group has also been actively negotiating with the lenders regarding the borrowings of RMB11,502,735,000, including the principal of convertible bonds and promissory notes, not covered by 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, which consisted of the following:

(a) During the six months ended 30 June 2018, promissory notes with aggregate principal amount of HKD1,731,761,000 (equivalent to approximately RMB1,460,047,000) matured. The maturity dates of promissory notes with aggregate principal amount of HKD825,425,000 (equivalent to approximately RMB695,915,000) were successfully extended to September 2018. As at 30 June 2018, the remaining outstanding promissory notes amounting to HKD906,336,000 (equivalent to approximately RMB764,132,000) were not extended nor repaid upon the schedule repayment dates and thus became overdue since 2017. The Company is in the process of negotiating with the promissory note holder to extend the maturity date to December 2019.

As at 30 June 2018, the Group had six outstanding convertible bonds with an aggregate principal amount totaling HKD1,433,230,000 (equivalent to approximately RMB1,208,356,000) which will be matured ranging from October 2018 to November 2019, provided that the bondholders do not exercise the early redemption options. During the six months ended 30 June 2018, convertible bonds with total principal amounts of HKD414,070,000 (equivalent to approximately RMB349,043,000) were converted into equity during the six months ended 30 June 2018. The Company will continue to convince the bondholders not to exercise the early redemption options.

(b) For the loans not covered by the above Jiangsu Framework Agreement and Hefei Framework Agreement, during the six months ended 30 June 2018, the Group has successfully renewed and extended the repayment dates of certain loans amounting to RMB195,452,000 (inclusive of principal amount of RMB195,001,000 and interest amount of RMB451,000), so that these loans are now repayable ranging from December 2018 to June 2020. As at 30 June 2018, current portion of these loans amounted to RMB8,412,050,000, of which RMB6,376,303,000 were overdue, while RMB2,950,289,000 were attributable to bank creditors that have already entered into the letters of intent to express their support towards the Disposal of Liabilities as described in (i) above.

The Group will continue to convince promissory note holders, convertible bondholders and other 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 the Disposal of Liabilities, for renewal and extension of the remaining outstanding loans which are not settled as and when they fall due in the coming 12 months;

iv) During the six months ended 30 June 2018, the Group 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 amounting to RMB54,497,000 which will be repayable ranging from January 2019 to June 2020. Subsequent to 30 June 2018, certain loans amounting to RMB124,254,000 from independent third parties were transferred to a related party controlled by Mr. Zhang or a close family member of Mr. Zhang;

v) During the six months ended 30 June 2018, the Group also entered into a loan agreement with a related party who agreed to provide a loan facility up to USD200,000,000 (equivalent to approximately RMB1,323,320,000) to the Group for the funding of its operation. The Group has not drawn down the loan as at 30 June 2018. Subsequent to 30 June 2018, the Group has drawn down USD30,000,000 (equivalent to approximately RMB198,498,000).

vi) In relation to those bank loans that have been overdue (including those mentioned in (ii) and (iii) above) because the Group failed to repay on or before the scheduled repayment dates or those bank loans that became immediately repayable because of cross-default terms, the Group is in the process of negotiating with the relevant banks to extend the repayment and renewal of the loans.

vii) The Group has actively diversified its operation through continuous development of the energy exploration and production segment. During the six months ended 30 June 2018, 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.

    In June 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 30 June 2018, the Group has drawn down RMB4,000,000 for drilling wells and exploration. The Group expects to draw down the rest by 2018.

    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 from the Group at 92% to 95% of the market price as a form of repayment until all the liabilities are repaid.

viii) The Group continues to implement measures to improve the operating cash flows, including (1) realising the existing inventories; (2) implementing tighten cost control to reduce staff cost, other administrative expenses and capital expenditure; and (3) obtaining new sources of financing.

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 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 condensed 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 plan for the implementation of the Disposal of Liabilities. The successful completion of the Disposal of Liabilities would include the finalisation and agreement of the detailed terms and conditions with the 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 next twelve-month period;

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 energy exploration and production segment;

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, engineering machinery 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 HKD1,731,761,000 (equivalent to RMB1,460,047,000), together with accrued interests thereon for further arrangement including the extension of the maturity dates, so as to enable the Company to meet its financial obligations and to convince the convertible bondholders of the outstanding principal of HKD1,433,230,000 (equivalent to approximately RMB1,208,356,000) not to exercise the early redemption option;

vi) negotiating with the relevant banks for the renewal or extension for repayments beyond the six months ended 30 June 2018 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 2018 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 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 this condensed consolidated financial information.

3 ACCOUNTING POLICIES

Except as described below, the accounting policies adopted are consistent with all the years presented unless otherwise stated.

3.1 New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies as a result of adopting the following standards:

- IFRS 9 Financial Instruments

- IFRS 15 Revenue from Contracts with Customers

The impact of adoption of the above new and revised IFRSs is disclosed in Note 3.2 below.

The following amendments to existing standards are effective to the Group for accounting periods beginning on or after 1 January 2018 but did not result in any significant impact on the results and financial position of the Group. No retrospective adjustments are required.

IFRS 2 (Amendment)	Classification and Measurement of Share-based Payment Transactions
IFRS 4 (Amendment)	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
IAS 28 (Amendments)	Investment in Associates and Joint Ventures
IAS 40 (Amendments)	Transfers of Investment Property
Annual improvement project	Annual Improvements 2014-2016 Cycle
IFRIC -Int 22	Foreign Currency Transactions and Advance Consideration

The following new standards, amendments to standards and interpretations are mandatory for accounting periods beginning on or after 1 January 2019.

		Effective for accounting periods beginning on or after
IFRS 9 (Amendments)	Prepayment Features with Negative Compensation	1 January 2019
IFRIC-Int 23	Uncertainty over Income Tax Treatments	1 January 2019
IFRS 16	Leases	1 January 2019
IFRS 17	Insurance Contracts	1 January 2021
IFRS 10 and IAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate and Joint Venture	To be determined

The Group elected to adopt IFRS 9 and IFRS 15 without restating comparatives. The reclassifications and the adjustments are therefore not reflected in the consolidated balance sheet as at 31 December 2017, but are recognised in the opening balance sheet 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, sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more details by standard below.

	As at 31 December 2017 originally presented *RMB'000*	Effects of the adoption of IFRS 9 *RMB'000*	Effects of the adoption of IFRS 15 *RMB'000*	**As at 1 January 2018 Restated** ***RMB'000***
Consolidated statement of financial position (extract)				
Available-for-sale financial asset	44,342	(44,342)	–	**–**
Financial assets at fair value through other comprehensive income	–	44,342	–	**44,342**
Advance receipts from customers	33,033	–	(33,033)	–
Contract liabilities	–	–	33,033	**33,033**

3.2 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 condensed consolidated interim financial statements and also discloses the new accounting policies that have been applied from 1 January 2018, where they are different to those applied in prior periods.

(a) IFRS 9 – Impact on the financial statements

As a result of the changes in the entity's accounting policies, prior year financial statements had to be restated. As explained in note below, IFRS 9 was generally adopted without restating comparative information with the exception of certain aspects of hedge accounting. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in the restated balance sheet as at 31 December 2017, but are recognised in the opening balance sheet on 1 January 2018.

(i) Classification and measurement

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. All classes of financial assets and financial liabilities had the same carrying amounts in accordance with IAS 39 and IFRS 9 on 1 January 2018.

The effects of the adoption of IFRS 9 are related to presentation of Available-for-sale financial asset. Reclassifications were made as at 1 January 2018 to be consistent with the terminology used under IFRS 9:

Equity Investment at Fair Value Through Other Comprehensive Income were previously presented as Available-for-sale financial asset.

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

	IAS 39 carrying amount as at 31 December 2017	Reclassification	**IFRS 9 carrying amount as at 1 January 2018**
	RMB'000	*RMB'000*	***RMB'000***
Consolidated statement of financial position (extract)			
Available-for-sale financial asset	44,342	(44,342)	**–**
Financial assets at fair value through other comprehensive income	–	44,342	**44,342**

Related fair value gains of RMB7,277,000 were transferred from available-for-sale financial assets reserve to financial assets at fair value through other comprehensive income reserve on 1 January 2018.

(ii) Impairment of financial assets

The Group's significant financial assets which are subject to the new expected credit loss model include trade receivables and other receivables. The Group was required to revise its impairment methodology under IFRS 9 for these classes of financial assets.

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

For other receivables, management considers that its credit risk has not increased significantly since initial recognition with reference to the counterparty historical default rate and current financial position. The impairment provision is determined based on the 12-month expected credit losses which is close to zero.

For trade receivables, the Group applies the simplified approach to provide for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected losses for all trade receivables. To measure the expected credit losses, trade receivables have been Grouped based on shared credit risk characteristics and the days past due. The adoption of the simplified expected loss approach under IFRS 9 has not resulted in any additional impairment loss for trade receivables as at 1 January 2018.

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group. The adoption of the written off policy under IFRS9 has not resulted in any additional written off for trade receivable as at 1 January 2018.

(b) IFRS 9 – Financial Instruments – Accounting policies applied from 1 January 2018

(i) Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

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

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

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

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

(ii) Measurement

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

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

(a) Financial assets

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. Currently the Group only classifies its debt instruments at amortised cost, since they are assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) - net, together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the profit or loss.

(b) Equity instruments

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

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) – net in the condensed consolidated statements of comprehensive income as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

(iii) Impairment

The impairment of financial assets has changed from the incurred loss model under IAS 39 to the expected credit loss model under IFRS 9. Under the new expected loss approach, it is no longer necessary for a loss event to occur before an impairment loss is recognised. Impairment is made on the expected credit losses, which are the present value of the cash shortfalls over the expected life of the financial assets. The Group assesses on a forward looking basis the expected credit losses associated with its financial assets carried at amortised cost and FVOCI.

The impairment methodology applied depends on whether there has been a significant increase in credit risk.

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

(c) ***IFRS 15 Revenue from Contracts with Customers – Accounting policies applied from 1 January 2018***

The Group has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies. In accordance with the transitional provisions in IFRS 15, comparative figures have not been restated.

Management assessed that the adoption of IFRS 15 did not result in any significant impact on the results and financial position of the Group except for the reclassification as disclosed below.

The effects of the adoption of IFRS 15 are related to presentation of contract liabilities. Reclassifications were made as at 1 January 2018 to be consistent with the terminology used under IFRS 15:

- Contract liabilities for receipt in advance from customers were previously presented as accruals and other payables.

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

	IAS 18 carrying amount as at 31 December 2017	Reclassification	**IFRS 15 carrying amount as at 1 January 2018**
	RMB'000	*RMB'000*	***RMB'000***
Consolidated statement of financial position (extract)			
Advance receipts from customers	33,033	(33,033)	**–**
Contract liabilities	–	33,033	**33,033**

The Group produces and sells a range of products, including mainly crude oil and excavators, in the wholesale market. Sales are recognised when control of the products has transferred, being when the products are delivered to the customers, the customers have full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been delivered to the specific location, the risks of obsolescence and loss have been transferred to the customers, and either the customers have accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

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

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 sales of excavators 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 2018 and 2017 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 building 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**	
	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*
Revenue												
– Revenue from sales of crude oil	**–**	–	**–**	–	**–**	–	**–**	–	**21,807**	19,744	**21,807**	19,744
– Revenue from sales of vessels	**–**	14,530	**–**	–	**–**	–	**–**	–	**–**	–	**–**	14,530
– Revenue from sales of excavators	**–**	–	**–**	–	**15,511**	8,455	**–**	–	**–**	–	**15,511**	8,455
Segment revenue	**–**	14,530	**–**	–	**15,511**	8,455	**–**	–	**21,807**	19,744	**37,318**	42,729
Segment results	**–**	(137,811)	**–**	–	**9,706**	14,036	**–**	938	**8,615**	4,372	**18,321**	(118,465)
Selling and marketing expenses											**(1,955)**	(2,067)
General and administrative expenses											**(321,352)**	(318,045)
(Provision for)/Reversal of impairments											**(51,478)**	199,830
Other income											**30,222**	28,827
Other gains/(losses) – net											**217,451**	(93,964)
Finance costs – net											**(1,072,307)**	(548,037)
Loss before income tax											**(1,181,908)**	(851,921)

No customers of the Shipbuilding segment individually accounted for ten percent or more of the Group's consolidated revenue for the six months ended 30 June 2018. (for the six months ended 30 June 2017: one customer amounted to RMB14,528,000, representing 34.0% of total revenue).

During the six months ended 30 June 2018, revenue from the top customer of the engineering machinery segment amounted to RMB4,914,000 which contributed more than 10% revenue of the Group's revenue (for the six months ended 30 June 2017: None).

No customers of the marine engine building segments individually accounted for ten percent or more of the Group's consolidated revenue for the six months ended 30 June 2018 (for the six months ended 30 June 2017: same).

During the six months ended 30 June 2018, revenue from the top two customer of the energy exploration and production segment amounted to RMB15,254,000 which individually contributed more than 10% revenue of the Group's revenue (for the six months ended 30 June 2017: top two customer amounted to RMB11,373,000), representing 40.8% of the total revenue (for the six months ended 30 June 2017: 46.7%)..

There are 3 individual customers contributed more than 10% revenue of the Group's revenue, (for the six months ended 30 June 2017: 3 individual customers). The revenue of these customers during the six months ended 30 June 2018 are RMB10,269,000, RMB4,985,000 and RMB4,914,000 respectively (for the six months ended 30 June 2017: RMB14,528,000, RMB6,800,000 and RMB4,573,000 respectively).

Revenue from the top three customers of the Group amounted to RMB20,168,000 (for the six months ended 30 June 2017: RMB25,901,000), representing 54.0% of the total revenue for the six months ended 30 June 2018 (for the six months ended 30 June 2017: 60.6%).

During the six months ended 30 June 2018, no shipbuilding contracts of the Group were cancelled.

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 by country is analysed as follows:

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
China	**15,511**	22,985
Kyrgyzstan	**21,807**	19,744
	37,318	42,729

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 2018	
Revalued amounts	
Opening amounts as at 1 January 2018	**16,073,235**
Additions	**9,745**
Disposals	**(11,025)**
Depreciation *(Note 10)*	**(181,479)**
Exchange difference	**7,867**
Closing amounts as at 30 June 2018	**15,898,343**
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

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 RMB18,712,246,000 as at 30 June 2018, 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.

In determining the recoverable amount of the land use rights under the engineering machinery segment amounting to RMB18,340,000 as at 30 June 2018, 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 2018	
Opening amounts as at 1 January 2018	**1,587,572**
Amortisation *(Note 10)*	**(1,255)**
Exchange difference	**19,975**
Closing amounts as at 30 June 2018	**1,606,292**
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

The intangible assets represent rights to cooperate with the national oil company of Kyrgyzstan in the operation of the four oil fields ("**Co-operation Rights**"). The Co-operation Rights are stated at cost less accumulated amortisation and any impairment losses. As a result, amortisation of RMB1,255,000 has been charged to the profit or loss during the six months ended 30 June 2018 (for the six months ended 30 June 2017: RMB1,045,000 based on the units-of-production method.)

During the six months ended 30 June 2018, 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.

During the six months ended 30 June 2018, the Group entered into a co-operative framework agreement with an independent third party who agreed to purchase oil wells construction material up to USD500,000,000 (equivalent to approximately RMB3,308,300,000) on the Group's behalf with a term of 10 years for the funding in respect of the energy exploration and production segment.

In determining the recoverable amounts of the Co-operation Rights and property, plant and equipment under the energy exploration and production segment amounting to RMB1,606,292,000 and RMB631,564,000, 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 USD58-91 per barrel (31 December 2017: USD50-72 per barrel) and a discount rate of 18% (31 December 2017: 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 2018.

7 LAND USE RIGHTS

	RMB'000
For the six months ended 30 June 2018	
Opening amounts as at 1 January 2018	**3,663,429**
Disposal	**(159,023)**
Amortisation *(Note 10)*	**(40,599)**
Closing amounts as at 30 June 2018	**3,463,807**
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

During the six months ended 30 June 2018, the land use right and certain property, plant and equipment under the engineering machinery segment amounting to RMB158,054,000 were put to auction by Hefei municipal intermediate court to pay off debts, taxes and other liabilities under the direction of the court. The auction was completed with a consideration of RMB464,743,000 and the related transaction cost and surcharges estimated to be approximately RMB184,870,000 resulting in a gain on disposal amounting to approximately RMB121,819,000. The estimated net proceeds of RMB279,873,000 is recorded as "Other receivables" in the condensed consolidated financial information, which will be used to pay off debts, taxes and other liabilities under the direction of the court.

8 TRADE RECEIVABLES

	As at 30 June 2018 *RMB'000*	As at 31 December 2017 *RMB'000*
Trade receivables	**589,870**	587,775
Less: Provision for doubtful debts	**(577,451)**	(577,929)
Total	**12,419**	9,846

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

	As at 30 June 2018 *RMB'000*	As at 31 December 2017 *RMB'000*
Not yet due	**12,419**	9,846
Past due		
1-180 days	**–**	–
181-360 days	**–**	–
Over 360 days	**–**	–
Total	**12,419**	9,846

As at 30 June 2018, no trade receivables was past due but not impaired. The ageing analysis of these trade receivables by invoice date is listed above.

As at 30 June 2018, trade receivables of RMB202,566,000 (31 December 2017: same) and RMB374,885,000 (31 December 2017: 375,363,000) 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 2018 *RMB'000*	As at 31 December 2017 *RMB'000*
Trade payables	**1,472,617**	1,474,940
Other payables for purchase of property, plant and equipment		
– Third parties	**364,842**	386,145
– Related parties	**455,753**	458,289
Other payables		
– Third parties	**2,704,107**	2,666,959
– Related parties	**62,263**	55,754
Accrued expenses		
– Payroll and welfare	**98,164**	100,501
– Interests	**4,507,552**	3,700,530
– Exploration costs	**81,242**	62,484
– Others	**129,720**	154,909
Provision for litigation cases	**469,082**	436,471
VAT payable	**60**	62
Other tax-related payables	**2,620**	2,364
Current trade and other payables	**10,348,022**	9,499,408

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

	As at 30 June 2018 *RMB'000*	As at 31 December 2017 *RMB'000*
0 – 30 days	**210**	1,645
31 – 60 days	**–**	–
61 – 90 days	**–**	27
Over 90 days	**1,472,407**	1,473,268
	1,472,617	1,474,940

10 EXPENSES BY NATURE

	For the six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Agency fees	**429**	309
Amortisation of land use rights *(Note 7)*	**40,599**	40,875
Amortisation of intangible assets *(Note 6)*	**1,255**	1,045
Auditors' remunerations	**855**	882
Bank charges (include refund guarantee charges)	**41**	53
Cost of vessels and inventories	**–**	58,195
Depreciation of property, plant and equipment *(Note 5)*	**181,479**	188,437
Employee benefit expenses	**37,968**	51,097
Legal and consultancy fees	**14,390**	8,725
Miscellaneous expenses	**23,403**	21,684
Operating lease payments	**549**	1,481
Outsourcing and processing costs	**3,552**	7,447
(Reversal of)/provision for inventories	**(11,768)**	76,659
Raw materials and consumables used	**17,753**	11,925
(Reversal of)/provision for impairment		
– trade receivables	**(478)**	(189)
– other receivables and prepayments	**51,144**	(202,058)
Provision for litigations	**32,611**	14,909
Total cost of sales, selling and marketing expenses, general and administrative expenses and provision for/(reversal of) impairments	**393,782**	281,476

11 OTHER INCOME

	For the six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Rental income	**9,423**	21,875
Others	**20,799**	6,952
Total	**30,222**	28,827

Rental income represented the income from the leasing of property, plant and equipment to third party lessees during the six months ended 30 June 2018 and 2017.

12 OTHER GAINS/(LOSSES) – NET

	For the six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Fair value gain on derivative instruments – embedded derivatives in convertible bonds	**105,993**	1,129
Gain/(loss) on disposal of land use rights and property, plant and equipment, net *(Note 7)*	**123,679**	(65,269)
Loss on sales of raw materials	**–**	(45,194)
Net foreign exchange (losses)/gains	**(12,221)**	15,370
Total	**217,451**	(93,964)

13 INCOME TAX EXPENSE

No Hong Kong, PRC and Kyrgyzstan profits tax have been provided for during the six months ended 30 June 2018 (for the six months ended 30 June 2017: 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 2018 since it is not expected to have any tax assessable profit (for the six months ended 30 June 2017: 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	
	2018	2017
	RMB'000	*RMB'000*
Loss attributable to equity holders of the Company *(RMB'000)*	**(1,137,604)**	(825,718)
Weighted average number of ordinary shares in issue	**2,347,615,816**	2,171,591,507
Loss per share *(RMB per share)*	**(0.48)**	(0.38)

(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 2018 and 2017.

15 DIVIDEND

The Board has resolved not to declare the payment of an interim dividend for the six months ended 30 June 2018 (for the six months ended 30 June 2017: nil).