# 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 2021

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 2021 (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

Boosted by the Acquisition (as defined below) of Nantong Zhuosheng (as defined below) in January 2021 and the growth in the trading business, the overall operational business performance of the Group improved significantly in the Period compared to the six months ended 30 June 2020 (the "**Comparative Period**").

The Group recorded a revenue of RMB135.4 million, compared to the revenue of RMB14.3 million for the Comparative Period. The Group generated a gross profit of RMB22.9 million (for the Comparative Period: RMB3.8 million) from the oil exploration business, as well as the newly acquired oil storage business.

Loss attributable to the equity holders of the Company was RMB82.8 million for the Period, while profit attributable to the equity holders of the Company was RMB465.0 million for the Comparative Period. The decrease of profit attributable to equity holders of the Company was mainly driven by the discharge of the Relevant Guarantees (as defined below). There was no Relevant Guarantees discharged during the Period, and the accrued interest for the financial guarantee contracts and net finance cost contributed RMB94.0 million to the loss attributable to the equity holders of the Company.

The Group's net deficit position was improved during the Period. Compared to 31 December 2020, the net deficit decreased by RMB123.3 million which was largely driven by the Acquisition of Nantong Zhuosheng (as defined below).

**Disposal and Relevant Guarantees**

On 9 October 2018, the Company entered into a conditional sale and purchase agreement (the "**Agreement**"), to dispose of the core assets and liabilities of shipbuilding, offshore engineering, engineering machinery and marine engine building segments (the "**Shipbuilding and Engineering Businesses**", together with the holding company of the Shipbuilding and Engineering Businesses referred to as the "**Disposal Group**") with an independent third party, Unique Orient Limited (the "**Purchaser**") (the "**Disposal**"). The Disposal constituted a very substantial disposal for the Company under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). An extraordinary general meeting of the Company was held on 13 December 2018 in which the Disposal was approved by the shareholders.

The Company signed the second supplemental agreement (the "**Second Supplemental Agreement**") on 3 March 2019 regarding the Disposal, pursuant to which (1) the transfer of sale share of Able Diligent Limited, the holding company of Disposal Group, to the Purchaser shall take place on or before 31 March 2020; (2) the Purchaser agreed to procure the release or discharge of the relevant guarantees provided by the Company in respect of borrowings owed by the Disposal Group (the "**Relevant Guarantees**"); and (3) the Purchaser agreed to execute a share charge over the sale share in favour of the Company.

The Disposal was completed on 10 March 2019 (the "**Disposal Day**") when the sale share of Able Diligent Limited (the "**Sale Share**") was transferred to the Purchaser. All the assets and liabilities associated to the Disposal were derecognized on the Disposal Day. The Company signed the third, fourth and fifth supplemental agreements on 29 August 2019, 30 October 2019 and 25 March 2021, respectively. According to the latest supplemental agreements, the Purchaser will procure the discharge or release the Relevant Guarantees and complete the relevant registration before 31 December 2021.

The Group and the Purchaser have been working closely to procure the release or discharge of all remaining Relevant Guarantees in full and it was agreed that all debts owing by the Disposal Group will be assigned to the Purchaser when the Relevant Guarantees have been released or discharged in full and the relevant registration have been completed.

Despite there is no Relevant Guarantees discharged during the Period, the Company has taken the following actions in respect of the discharge of the Relevant Guarantees during the last two and a half years:

(i) the Company has ongoing discussions with the Purchaser on a regular basis regarding the progress and status of the discharge of the Relevant Guarantees;

(ii) the Company, together with the Purchaser, has been actively negotiating with the relevant banks and lenders to release or discharge the Relevant Guarantees; and

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

The Company and/or the Purchaser (as appropriate) have prepared and submitted discharging proposals to the relevant banks and lenders since 2018, with an initial goal of discharging the Relevant Guarantees in batches by 2020. However, despite that the above actions had been taken by the Company and the Purchaser, the Relevant Guarantees could not be fully discharged in 2020 because of (1) the distraction and suspension of business caused by the novel coronavirus pneumonia (the "**COVID-19**") in the most of 2020; and (2) the fact that the discharging process of banks was time-consuming and procedurally and administratively complicated, particularly given that each bank or lender would have its own internal review procedures as well as approval hierarchy. As the discharging progressed further, additional time was required for the relevant banks and lenders to conduct their internal risk assessment in respect of the discharging proposals. As the Company is only in the capacity as the guarantor of the Relevant Guarantees, the Company may not always be in the position to negotiate with the relevant banks and lenders concerning certain financial conditions or obligations which would be imposed on the Purchaser. Such discussions could only be initiated by the Purchaser, and the Company would not have control over the relevant progress and timing.

Nonetheless, both the Company and the Purchaser are committed to procuring the full discharge of the Relevant Guarantees by 2021.

As at the date of this announcement, the latest status of the Relevant Guarantees (classified by the Company as Relevant Guarantees A to D for ease of reference) and the expected time for discharging are summarized as follows:

| **Relevant Guarantees** | **31 December 2020 Status** | **Current Status** | **Expected Time of Discharge** |
|---|---|---|---|
| Relevant Guarantees A | Relevant Guarantees A discharged in full on 30 September 2020. | — | — |
| Relevant Guarantees B | The discharging proposal was approved by the relevant division by the end of 2020.<br><br>The relevant bank has completed the disposal provision process, and it is currently under finalization. | The discharging proposal was approved by the relevant division by the end of 2020.<br><br>The relevant bank has completed the disposal provision process, and it is currently under finalization. | By the end of fourth quarter of 2021 |
| Relevant Guarantees C | Relevant Guarantees C discharged in full on 30 June 2020. | — | — |
| Relevant Guarantees D | The outstanding bank loan was not settled prior to 31 December 2020, hence the relevant bank has proposed a revising proposal in Q4 2020, and it is subject to finalization by the head office. | The revised proposal is still subject to internal review procedures by the relevant bank's head office. The relevant bank was going through the procedures in granting the final approval of the revised proposal. | By the end of fourth quarter of 2021 |

As at the date of this announcement, the Relevant Guarantees provided by the Company to the Disposal Group in the process of being discharged or released amounted to RMB5,938.6 million, inclusive of principals and interests. In consideration of such financial guarantees, the Group recognized financial guarantee contracts of RMB4,626.6 million (31 December 2020: RMB4,545.1 million) which will be released upon the releasing or discharging of these Relevant Guarantees.

Details of the Disposal were disclosed in note 18 of the 2019 annual report, and the announcements of the Company dated 9 October 2018, 15 November 2018, 25 December 2018, 4 March 2019, 11 March 2019, and the circular of the Company dated 23 November 2018.

**Debt Restructuring**

Together with the Disposal, the Group has also conducted and executed a series of debt restructuring arrangements with an aim to ease the financial burden of the Group. The lenders have been supportive in general to the Group and the overall situation has been consistently improving.

***(a) Repayment of a secured bank loan***

The secured bank loan was secured by certain assets of the Disposal Group, and the Group has bundled the settlement of the bank loan in together with Relevant Guarantees D.

It is the intention of the Company to repay such secured bank loan by utilizing the US dollar facility entered with a shareholder of the Company (the "**Shareholder**") in 2018 (the "**Facility**"). The Facility has a total amount of USD250 million. It is an interest-free and unsecured facility with a maturity date of 30 June 2023. The Company expects to utilise the Facility to repay the outstanding secured bank loan by batches and all such repayments shall be made by the fourth quarter of 2021. Based on the best knowledge and information available to the Company after having discussed with the Shareholder, the Shareholder is committed to providing the Facility required by the Company to settle the outstanding secured bank loan in full in 2021.

### *(b) Extension of maturity date of promissory notes*

As at 30 June 2021, the Company had outstanding promissory notes of RMB2.3 billion (31 December 2020: RMB1.9 billion).

The Company has been in continuous discussions and negotiations with the promissory noteholders with the objective of obtaining their agreements to extend the overdue liabilities during the Period. The management of the Company has taken a proactive approach and had numerous discussions with all the promissory noteholders regarding the extension of maturity dates of the promissory notes. By 30 June 2021, the maturity date of promissory notes with aggregated principal amount of RMB988.6 million were successfully extended to May 2022.

Despite the remaining noteholders have not yet granted the final consents to the Company for extending the overdue liabilities, they have indicated their willingness to extend the maturity dates of the promissory notes. These negotiations were not finalized as at 30 June 2021 as certain commercial terms are remaining in discussion and finalization.

The Company is currently working out a plan to settle the outstanding promissory notes, which would depend on the Company's financial performance and upcoming discussions with potential financial institution(s) on refinancing. As at the date of this announcement, no definite settlement terms have been reached by the Company with any relevant parties in this regard. The management of the Company has been actively following up on the status and progress of the above matters and has been continuously monitoring the relevant progress and development through regular meetings.

These aforesaid debt-restructuring actions are devised to align with the Disposal to improve the overall financial position of the Group. The Group expects that the completion of the Disposal and the successful release or discharge of Relevant Guarantees shall have a positive impact on the extension of maturity date, and settlement of promissory notes.

## Obtaining Financial Resources

To further improve the Group's financing position for its future development, the Group has continued to utilise certain financing arrangements during the Period, mainly being the Facility entered with a shareholder in 2018. The Facility has a total amount of USD250.0 million. It is an interest-free and unsecured facility with a maturity of two years. Up to the date of this announcement, the Company had utilised approximately USD124.5 million, mainly for the oilfield development, repayment of remaining debts and general working capital.

The Company also expects to continue utilising the Facility for its capital expenditure on the Company's Energy Business and for general working capital purpose. As a result of the outbreak of COVID-19, the Group's operations in Kyrgyzstan have been temporarily restricted. Coupled with the current low oil price and stagnant global demand on oil, it is expected that expenditures in the Energy Business would only start to be resumed by the Group by 2024, the earliest. Subsequent to the recognition of significant impairment provision in 2020, the management of the Group is taking a prudent approach to manage the capital expenditure of the Energy Business and will continue to monitor the development of the oil market in making any capital expenditure decisions.

The Company and the Shareholder are engaged in ongoing discussions as to the provision of further financial assistance by the Shareholder to the Company, which is still preliminary and subject to further discussion. If any such plan is materialised, the Company will make announcement accordingly.

**Energy Exploration and Production**

The Group acquired 60% interest in the project involving five oilfields zones located in the Fergana Valley of the Republic of Kyrgyzstan (the "**Kyrgyzstan Project**"), which marked a breakthrough of the Group into the energy exploration and production industry in 2014.

Under the agreements entered into with the national oil company of Kyrgyzstan, КыргызжерНефтегаз ("**Kyrgyzjer Neftegaz**" Limited Liability Company), a subsidiary of the Company was granted rights to cooperate with the national oil company of Kyrgyzstan in the operation of the five oilfields zones, namely, Maili-Su IV, Eastern Izbaskent, Izbaskent, Changyrtash and Chigirchik. The first three oilfields zones are located at the northeastern part of the Fergana Valley while the latter two are located at the Southeastern part of Fergana Valley. The total area covered by these five fields is approximately 545 square kilometers.

On the exploration front, the Group has drilled a total of 73 wells across the five oilfields zones, including 57 in exploration, and 16 currently being construction-in-progress. The Group has also held a number of appraisal wells for exploration and development.

For the Period, the Kyrgyzstan Project recorded sales of 64,769 barrels (bbl) (for the Comparative Period: 73,293 bbl) of light crude oil. Revenue from the Energy Business was approximately RMB13.8 million for the Period with a slight decreased by approximately 3.5% from RMB14.3 million for the Comparative Period.

The decline of revenue in the Period was primarily driven by the decrease in sales volume. Despite the local oil price has improved marginally in the past few months, the management of the Group is foreseeing that the oil exploration performance will continue to be restrained by COVID-19, and with the excess supply in the region and lower demand, it is reasonably expected that the oil price is unlikely to recover substantially in the near future. In general, both the selling price and sales volume will not return to the pre-COVID-19 level within the next 12 to 18 months.

In response to the temporary collapse in selling prices and demand for refined products, the management of the Group decided to postpone the capital expenditures plan, temporarily reduce production, and implement company-wide cost-saving measures, with an aim to maintain its financial positions while protecting value in an extended low commodity price environment. The Group has been implementing a new oil well development method which had been proved to improve and achieve a better production efficiency in the oil well-drilling operation. The Group remains positive with the business model in long term.

The management of the Group is committed to maintaining its liquidity and will manage its business through this unprecedented market cycle.

**Oil Storage**

As disclosed in the 2020 annual report, the Group entered into the Acquisition Agreement (the "**Acquisition**") on 23 October 2020, pursuant to which the Group conditionally agreed to acquire approximately 50.46% of the equity interest of Nantong Zhuosheng Petrochemical Co., Ltd. ("**Nantong Zhuosheng**"). The Acquisition was completed on 22 January 2021.

Nantong Zhuosheng is principally engaged in provision of tank storage, and associated services for fuel oil and its related products in the PRC. It has (i) 37 storage tanks with total volume of 242,000 cubic meters; (ii) land and buildings with land area of 412,120 square meters and gross floor area of 6,156.27 square meters, respectively; (iii) certain shoreline rights; and (iv) a bare land with total area of 33,334.19 square meters.

Nantong Zhuosheng possesses the facility, capacity and expertise in the provision of oil storage services. The Board believes that the Group can accumulate sufficient experience in the operation and management in this area, and further expand its business presence within the oil sector after acquiring Nantong Zhuosheng. This acquisition also reflected the Group's strategy of investing in oil-and-gas-related storage and logistic projects, which would enable the Group to expand its energy business vertically.

Since the completion of the Acquisition, Nantong Zhuosheng has generated revenue of RMB26.2 million, and the Group expects the revenue shall growth consistently throughout 2021.

## FINANCIAL REVIEW

### Revenue and Gross Profit

For the Period, the Group recorded a revenue and gross profit of RMB135.4 million and RMB22.9 million respectively (for the Comparative Period: RMB14.3 million and RMB3.8 million respectively). The increase in both revenue and gross profit were primarily attributable from (1) the trading business generated additional RMB95.3 million revenue together with a gross profit of RMB0.6 million; and (2) the newly acquired business, Nantong Zhuosheng, brought in storage revenue of RMB26.2 million and gross profit of RMB17.5 million since the date of the Acquisition. Whilst the existing sales of crude oil business has been largely consistent compared to the Comparative Period, it generated revenue of RMB13.9 million and gross profit of RMB4.8 million.

### General and Administrative Expenses

For the Period, general and administrative expenses decreased by approximately 17.4% to RMB19.0 million (for the Comparative Period: RMB23.0 million). This was mainly attributable to the reduction of employees benefit expenses, legal and professional fees, as well as the implementation of cost control measures in the existing businesses.

### Other Gains/Losses — Net

For the Period, other net gain amounted to RMB12.0 million (for the Comparative Period: net losses RMB6.2 million), was primarily due to currency exchange fluctuation.

### Finance Costs — Net

For the Period, the net finance cost decreased by approximately 92.9% to RMB12.6 million (for the Comparative Period: RMB176.5 million). The decrease was mainly attributable by currency exchange fluctuation and imputed interest income.

### Total Comprehensive Income/Loss for the Period

During the Period, the Group recorded total comprehensive loss of RMB87.0 million (for the Comparative Period: total comprehensive income of RMB478.6 million), of which total comprehensive loss attributable to equity holders of the Company was RMB89.9 million (for the Comparative Period: profit RMB489.3 million). The decline of total comprehensive income for the Period was mainly driven by the discharge of the Relevant Guarantees. There was no Relevant Guarantees discharged during the Period, and the accrued interest for the financial guarantee contracts and net finance cost contributed RMB94.0 million to the loss for the Period.

**Liquidity and Going Concern**

During the Period, the Group recorded a loss of RMB80.3 million and had a net operating cash outflow of approximately RMB9.2 million. As at 30 June 2021, the Group had a total deficit of RMB7,775.7 million and the current liabilities exceeded its current assets by RMB7,821.5 million. As at 30 June 2021, the Group's total current borrowings amounting to RMB2,418.1 million were either overdue or would be due for repayment within 12 months in accordance with the repayment dates of the respective agreements.

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, to restructure its debts and proactively liaise with relevant financial institutions to discharge the Relevant Guarantees.

**Foreign Exchange Risks**

The Group incurred net foreign exchange income of approximately RMB27.2 million (for the Comparative Period: loss of RMB6.2 million) due to the fluctuation of RMB against USD and HKD during the Period.

**Material Acquisitions and Disposals of Subsidiaries**

On 23 October 2020, the Group entered into the Acquisition Agreement, pursuant to which the Group conditionally agreed to acquire 50.46% of the equity interest of Nantong Zhuosheng. For details of the Acquisition, please refer to the announcements dated 23 October 2020, 16 November 2020, 4 December 2020, 14 December 2020 and circular dated 24 December 2020 respectively. The Acquisition was completed on 22 January 2021.

Save for the above, the Group had no other material acquisitions or disposals of subsidiaries during the Period under review.

**Gearing Ratio**

Our gearing ratio (measured by total borrowings divided by the sum of total borrowings and total deficit) increased from approximately 75.3% as at 31 December 2020 to approximately 89.8% as at 30 June 2021. Affected by the accumulated losses of RMB21,548.7 million as at 30 June 2021 (as at 31 December 2020: RMB21,465.9 million), the total deficit was RMB7,775.7 million as at 30 June 2021 (as at 31 December 2020: RMB7,899.1 million).

### Contingent Liabilities

As at 30 June 2021, the Group had contingent liabilities of RMB909.8 million (as at 31 December 2020: RMB895.0 million), which resulted from financial guarantees provided by the Company to Disposal Group.

### 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 2021, the Group had cash and cash equivalents of RMB10.6 million (as at 31 December 2020: RMB16.1 million), of which RMB5.2 million (approximately 49.0%) was denominated in RMB and the remaining RMB5.4 million (approximately 51.0%) was denominated in USD, HKD and other currencies. The Group does not use any financial instruments for hedging purposes.

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

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

### Human Resources

As at 30 June 2021, the Group had 160 employees (as at 31 December 2020: 95 employees). The increase in the number of employees was mainly in relation to the Acquisition of Nantong Zhuosheng. The principal elements of remuneration package of the Group include basic salary and other benefits, contribution to pension schemes, discretionary bonus and/or share options granted under an approved share option scheme. Such remuneration should reflect work complexity, time commitment, responsibility and performance with a view of attracting, motivating and retaining high performing individuals.

## PROSPECTS

The Group has achieved a number of milestones throughout the first half of 2021, including a substantial amount of debt extension, and completed the Acquisition of Nantong Zhuosheng. Those actions have set the tone for the Group's future development, as well as demonstrating that the Group has moved on from the legacy impact gradually.

Looking ahead to the second half of 2021, the fluctuations of the COVID-19 pandemic continue to create a series of uncertainties. The overall recovery is largely dependent on the efficiency of the rapid and large-scale vaccination programs and sustainable recovery policies implemented by the respective governments. The Group will continue to closely monitor the development of the pandemic and market changes and respond flexibly to make appropriate decisions.

Amid the difficult general economic environment, the Group has implemented various cost control measurements, and maintained strong and resilient financial positions through prudent management of debt levels and liquidity across the board, including negotiation with lenders in relation to the extension of existing financial obligations of the Group. The Group remains positive on the progress and is exploring other initiatives to increase the liquidity of the Group including different financing options.

Since the outbreak of COVID-19 pandemic, the oil exploration sector was operating under pressure, and encountered challenges on low oil price and the unpredictable market demand. In addition to the company-wide cost saving measures, the Group has also postponed the capital expenditures plan and temporarily reduced production, to protect the value in an extended low commodity price environment. The Group remains positive with the business model in long term, and the Group is of the view that the new oil well development method shall improve and achieve a better production efficiency on the oil well-drilling operation. It is expected the new oil well development method which has been proved, shall improve, and achieve a better production efficiency in the oil well-drilling operation.

The Group has also continued to diversify its revenue stream to ease the sole reliance on the oil exploration operation throughout 2021. With the completion of the Acquisition of 50.46% of the equity interest in Nantong Zhuosheng in January 2021, it has brought in significant positive impact instantly. The demand of oil storage has remained strong in PRC, and it is expected the oil storage business will continue to bring in consistent income and profit throughout the remaining 2021. The Group is currently conducting relevant feasibility studies, to analyze the possible economic benefit from a potential capacity expansion.

As part of the diversification strategy, the Group has broader varieties of services, and builds up a robust customer portfolio to solidify the underlying turnover and profit. The Group trading division continued to expand in PRC through the synergies brought in by Nantong Zhuosheng. Whilst the transaction volume has significantly increased since the beginning of the Period, it has improved both the Group revenue and profit margin. The Group will continue to seek the relevant business development to further improve the positive impacts that the business brought in.

## 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 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 does not have any significant event after the end of reporting period.

### 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 2021 (six months ended 30 June 2020: Nil).

## Publication of Interim Report

The 2021 Interim Report of the Company will be dispatched 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, Ms. ZHU Wen Hua and Mr. NIU Jianmin; 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, 27 August 2021

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*AS AT 30 JUNE 2021*

| | *Note* | **As at 30 June 2021** ***RMB'000*** **(Unaudited)** | As at 31 December 2020 *RMB'000* (Audited) |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | *5* | **365,966** | 258,913 |
| Intangible assets | *6* | **807,326** | 714,757 |
| Land use rights | | **114,309** | — |
| Goodwill | | **46,034** | — |
| Prepayment | | **12,990** | — |
| | | **1,346,625** | 973,670 |
| **Current assets** | | | |
| Inventories | | **2,110** | 818 |
| Trade receivables | *7* | **5,154** | 1,005 |
| Other receivables, prepayments and deposits | | **85,083** | 14,376 |
| Cash and cash equivalents | | **10,571** | 16,064 |
| | | **102,918** | 32,263 |
| **Total assets** | | **1,449,543** | 1,005,933 |
| **DEFICIT** | | | |
| **Capital and reserves attributable to the Company's equity holders** | | | |
| Ordinary shares | | **2,021,534** | 2,021,534 |
| Convertible preference shares | | **3,100,000** | 3,100,000 |
| Share premium | | **8,374,605** | 8,374,605 |
| Other reserves | | **96,126** | 103,199 |
| Accumulated losses | | **(21,548,655)** | (21,465,874) |
| | | **(7,956,390)** | (7,866,536) |
| Non-controlling interests | | **180,646** | (32,530) |
| **Total deficit** | | **(7,775,744)** | (7,899,066) |

| | Note | As at 30 June 2021 RMB'000 (Unaudited) | As at 31 December 2020 RMB'000 (Audited) |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Borrowings | | **1,260,865** | 1,449,322 |
| Deferred tax liabilities | | **40,000** | — |
| | | **1,300,865** | 1,449,322 |
| **Current liabilities** | | | |
| Trade and other payables | *8* | **879,796** | 966,976 |
| Borrowings | | **2,418,067** | 1,943,569 |
| Financial guarantee contracts | *10* | **4,626,559** | 4,545,132 |
| | | **7,924,422** | 7,455,677 |
| **Total liabilities** | | **9,225,287** | 8,904,999 |
| **Total deficit and liabilities** | | **1,449,543** | 1,005,933 |

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*FOR THE SIX MONTHS ENDED 30 JUNE 2021*

| | | Unaudited for the six months ended 30 June | |
|---|---|---|---|
| | *Note* | **2021** | 2020 |
| | | ***RMB'000*** | *RMB'000* |
| Revenue | | **135,350** | 14,258 |
| Cost of sales | *9* | **(112,454)** | (10,438) |
| Gross profit | | **22,896** | 3,820 |
| Other income | *11* | **2,072** | 108 |
| General and administrative expenses | *9* | **(19,026)** | (22,977) |
| Provision for impairment of property, plant & equipment | | **—** | (13,782) |
| Provision for impairment of intangible assets | | **—** | (670,000) |
| Other gains/(losses) — net | *12* | **12,037** | (6,167) |
| Operating profit/(loss) | | **17,979** | (708,998) |
| Finance income | | **64,878** | — |
| Finance costs | | **(77,474)** | (176,461) |
| Finance costs — net | | **(12,596)** | (176,461) |
| Profit/(Loss) before income tax | | **5,383** | (885,459) |
| Income tax expense | *13* | **(4,212)** | (4,650) |
| Profit/(Loss) for the Period | | **1,171** | (890,109) |
| Change in provision for financial guarantee contracts | *10* | **(81,427)** | 1,344,646 |
| (Loss)/profit for the Period | | **(80,256)** | 454,537 |

| | Note | Unaudited for the six months ended 30 June | |
|---|---|---|---|
| | | **2021** | 2020 |
| | | ***RMB'000*** | *RMB'000* |
| Attributable to: | | | |
| Equity holders of the Company | | **(82,781)** | 464,958 |
| Non-controlling interests | | **2,525** | (10,421) |
| | | **(80,256)** | 454,537 |
| (Loss)/profit attributable to the equity holders of the Company | | **(82,781)** | 464,958 |
| Other comprehensive income for the Period: | | | |
| Items that may be reclassified to profit or loss | | | |
| — Exchange difference on translation of foreign operations | | **(6,719)** | 24,018 |
| Other comprehensive (loss)/income for the Period, net of tax | | **(6,719)** | 24,018 |
| Total comprehensive (loss)/income for the Period | | **(86,975)** | 478,555 |
| Attributable to: | | | |
| Equity holders of the Company | | **(89,866)** | 489,283 |
| Non-controlling interests | | **2,891** | (10,728) |
| | | **(86,975)** | 478,555 |
| Total comprehensive (loss)/income for the Period attributable to the equity holders of the Company | | **(89,866)** | 489,283 |
| | | **(89,866)** | 489,283 |

| | *Note* | **Unaudited for the six months ended 30 June** **2021** | 2020 |
|---|---|---|---|
| Earnings/(loss) per share for attributable to the equity holders of the Company during the Period (expressed in RMB per share) | | | |
| Basic | *15* | **(0.01)** | 0.04 |
| Diluted | *15* | **(0.01)** | 0.04 |

# 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 energy exploration and production, and oil storage.

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 27 August 2021.

This condensed consolidated interim financial information has not been audited.

## 2. PRINCIPAL ACCOUNTING POLICIES

This condensed consolidated interim financial information for the six months ended 30 June 2021 (the "**Period**") 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 2020, which was prepared in accordance with International Financial Reporting Standards ("**IFRS**").

### 2.1 Basis of preparation

The Group recorded a net loss of RMB80,256,000 (2020: net profit of RMB454,537,000) and had an operating cash outflow of RMB9,243,000 (2020: outflow of RMB9,658,000) during the period ended 30 June 2021. As at 30 June 2021, the Group had a deficit of RMB7,775,744,000 (31 December 2020: RMB7,899,066,000) and the Group's current liabilities exceeded its current assets by RMB7,821,504,000 (31 December 2020: RMB7,423,414,000). The Group maintained cash and cash equivalents of RMB10,571,000 as at 30 June 2021 (31 December 2020: RMB16,064,000).

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

On 3 March 2019, supplemental agreements were signed with the Purchaser, such that (1) the transfer of sale shares of Able Diligent Limited, the holding company of the Disposal Group, to the Purchaser shall take place on or before 31 August 2019; (2) the Purchaser agreed to procure the release or discharge of the Relevant Guarantees; and (3) the Purchaser agreed to execute a share charge over the sale share in favour of the Company. On 10 March 2019, the Group transferred the sale shares of Able Diligent Limited to the Purchaser.

On 30 October 2019, a supplemental agreement was signed with the Purchaser, such that the share charge over the sale shares in favour of the Company executed by the Purchaser was replaced by a deed of indemnity provided by the Purchaser.

As at 30 June 2021, financial guarantees provided by the Company to the banks and lenders of the Disposal Group, inclusive of principals and interest, amounted to RMB4,626,559,000. The Group has considered and recognised the corresponding impact of such financial guarantee contracts as at 30 June 2021.

As at 30 June 2021, borrowings of the Group amounted to RMB3,678,932,000, out of which RMB593,967,000 were overdue, while borrowings of the Group amounting to RMB8,618,000 contained cross-default terms as at 30 June 2021 and became immediately repayable. Total overdue interest payables of the Group amounted to RMB341,071,000. These borrowings are further explained below:

(i) The Group had promissory notes with an aggregate principal amount of RMB2,277,658,000 outstanding as at 30 June 2021, out of which approximately RMB239,241,000 had been overdue since 2019. The remaining outstanding promissory notes amounting to RMB8,618,000 became immediately repayable pursuant to the cross-default terms under relevant loan agreements;

(ii) The Group had other borrowing with an aggregate principal amount of RMB51,820,000 outstanding as at 30 June 2021, out of which approximately RMB43,259,000 had been overdue since 2020; and

(iii) The Group had bank borrowing of RMB311,467,000, which was overdue as at 30 June 2021.

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

In view of such circumstances, the directors of the Company have, during the Period and up to the date of the approval of these condensed consolidated 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) The Group has been actively negotiating with the relevant banks and lenders of the Disposal Group to release or discharge the Relevant Guarantees.

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

iii) The Group has also been actively negotiating with the banks and lenders regarding the borrowing of RMB2,499,584,000 to take the following actions:

a) During the period ended 30 June 2021, the maturity date of promissory notes with aggregate principal amount of RMB988,603,000 were successfully extended to May 2022. As at 30 June 2021, the outstanding promissory notes amounting to RMB239,241,000 were not extended nor repaid upon the schedule repayment dates and thus became overdue, and RMB8,618,000 became immediately repayable pursuant to the cross-default terms under the relevant loan agreements. The Company is in the process of negotiating with these promissory noteholders for further arrangements, including the extension of maturity dates and obtaining waiver from the lender for the due payment pursuant to the relevant cross-default terms.

b) As at 30 June 2021, the Group had other borrowing of RMB43,259,000 which was overdue. The Group is in the process of negotiating with the relevant lender for extension of repayment and renewal of such borrowing.

c) As at 30 June 2021, the Group had bank borrowing of RMB311,467,000 which was overdue. The Group is in the process of negotiating with the relevant bank for extension of repayment and renewal of such borrowing.

iv) As at 30 June 2021, the Group has drawn down USD124,489,000 (equivalent to approximately RMB803,775,000) in total from the loan agreement, provided by entity controlled by Mr. Zhang Zhi Rong, who agreed to provide a loan facility up to USD250,000,000 (equivalent to approximately RMB1,614,150,000) to the Group for the funding of the oilfield operations of the energy exploration and production segment. The carrying amount is RMB669,020,000 and it is payable by June 2023.

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

As at 30 June 2021, the Group has drawn down RMB9,100,000 in total from the loan agreement, provided by entity controlled by Mr. Zhang Zhi Rong, who agreed to provide a loan facility up to RMB40,000,000 to the Group for the funding in respect of the energy exploration and production segment.

In addition, the Group also entered into a Co-operative Framework Agreement during the year ended 31 December 2018 with an independent third party who agreed to provide materials for the exploration and production of crude oil with an aggregate amount up to USD500,000,000, in exchange for an option to purchase up to 70% of the total crude oil produced by the Group at 92% to 95% of the market price as a form of repayment until all the liabilities are repaid. Such facility has not been utilised up to 30 June 2021.

vi) The Group has further expanded its business presence within the oil sector through the acquisition of Nantong Zhuosheng which completed on January 2021. Nantong Zhuosheng possesses the facility, capacity and expertise in the provision of oil storage services. The management expects by acquiring Nantong Zhuosheng shall reflect the Group's strategy of investing in oil-and-gas-related storage and logistic projects, which shall enable the Group to expand its energy business vertically.

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 2021. 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 interim financial information on a going concern basis.

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

i) obtaining the agreement from the banks and lenders to release or discharge the Relevant Guarantees for the borrowings owed by the Disposal Group;

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

iii) negotiating with all existing promissory note holders of outstanding principals of RMB2,144,858,000, together with accrued interests thereon for further arrangement including the extension of the maturity dates;

iv) negotiating with the relevant lender for the renewal or extension for repayments for the other borrowing of RMB43,259,000 that was overdue as at 30 June 2021;

v) negotiating with the relevant bank for the renewal or extension for repayments for the bank borrowing of RMB311,467,000 that was overdue as at 30 June 2021;

vi) obtaining waivers from the relevant promissory note holders for the due payment in relation to those notes that have cross-default terms and extend the repayment dates when they fall due;

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

viii) obtaining additional sources of financing other than those mentioned above, including those to finance the energy exploration and production segment, and the successful drawdown of the various facilities made available to the Group by entitles controlled by Mr. Zhang Zhi Rong and a close family member of Mr. Zhang Zhi Rong, as described in management's plan above, as and when needed.

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

## 3. NEW ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

## 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 these condensed consolidated interim financial information.

The chief operating decision-maker is identified as the Executive Directors of the Company. The Executive Directors examines the group's performance both from a product and geographic perspective and has identified two reportable segments of its business:

1) Energy exploration and production: this segment derive its revenue from a) sales of crude oil in Kyrgyzstan and b) trading the relevant commodities in China. Executive Directors monitors the performance in those two regions separately.

2) Oil storage: this is a new segment in 2021 and it is established through the acquisition of Nantong Zhuosheng (note 14). The business derives income through renting its capacity in the provision of oil storage services.

The Executive Directors assess the performance of the reportable segments based on a measure of revenue and gross profit. The segment information provided to the Executive Directors for the reportable segments for the six months ended 30 June 2021 and 2020 was as follows:

| | For the six months ended 30 June | | | | | |
|---|---|---|---|---|---|---|
| | **Oil Storage** | | **Energy exploration and production** | | **Total** | |
| | **2021** | 2020 | **2021** | 2020 | **2021** | 2020 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Revenue | | | | | | |
| — Revenue from sales of crude oil | **–** | – | **13,852** | 14,258 | **13,852** | 14,258 |
| — Revenue from trading | **–** | – | **95,251** | – | **95,251** | – |
| — Revenue from oil storage | **26,247** | – | **–** | – | **26,247** | – |
| Segment revenue | **26,247** | – | **109,103** | 14,258 | **135,350** | 14,258 |
| Segment results | **17,528** | – | **5,368** | 3,820 | **22,896** | 3,820 |
| Selling and marketing expenses | **–** | – | **–** | – | **–** | (2) |
| General and administrative expenses | **–** | – | **–** | – | **(19,026)** | (22,975) |
| Provision for impairments of property, plant and equipment | **–** | – | **–** | – | **–** | (13,782) |
| Provision for impairments of intangible assets | **–** | – | **–** | – | **–** | (670,000) |
| Other income | **–** | – | **–** | – | **2,072** | 108 |
| Other gains/(losses) | **–** | – | **–** | – | **12,037** | (6,167) |
| Net gain on disposal | **–** | – | **–** | – | **–** | – |
| Finance costs — net | **–** | – | **–** | – | **(12,596)** | (176,461) |
| Change in provision for financial guarantee contracts | **–** | – | **–** | – | **(81,427)** | 1,344,646 |
| **(Loss)/profit before income tax** | | | | | **(76,044)** | 459,187 |

**Geographical information**

***(a) Revenue from external customers***

| | Six months ended 30 June | |
|---|---|---|
| | **2021** | 2020 |
| | ***RMB'000*** | *RMB'000* |
| Kyrgyzstan | **13,852** | 14,258 |
| China | **121,498** | — |
| | **135,350** | 14,258 |

The revenue information above is based on the locations of the customers.

Geographically, management considers the operations of the energy exploration and production segment is located in Kyrgyzstan (sale of crude oil) and PRC (trading), and the oil storage segment is in PRC, with revenue derived from different geographical locations, which is determined by the country in which the customer is located.

***(b) Information about major customers***

There are two individual customers (2020: 4 individual customers) contributed more than 10% revenue of the Group's, for the period ended 30 June 2021. The revenue of these customers during the period are RMB40.1 million and RMB25.5 million (2020: RMB4.1 million, RMB3.4 million, RMB3.1 million, and RMB2.2 million respectively) respectively.

***(c) Non-current assets***

| | **30 June** | 31 December |
|---|---|---|
| | **2021** | 2020 |
| | ***RMB'000*** | *RMB'000* |
| Kyrgyzstan | **254,227** | 258,315 |
| Hong Kong | **68** | 68 |
| China | **111,671** | 530 |
| | **365,966** | 258,913 |

The non-current asset information above is based on the geographical locations of the assets and excludes intangible assets and goodwill.

Geographically, total assets and capital expenditures are allocated based on where the assets are located. Assets under the energy exploration and production segment are mainly located in Kyrgyzstan.

## 5. PROPERTY, PLANT AND EQUIPMENT

| | Construction in progress *RMB'000* | Oil Property *RMB'000* | Building and structure *RMB'000* | Machinery *RMB'000* | Company equipment *RMB'000* | Office equipment *RMB'000* | Motor Vehicles *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|---|---|---|---|
| **At 31 December 2020** | | | | | | | | |
| Cost | 158,184 | 508,003 | — | — | 309 | 1,233 | 1,220 | 668,949 |
| Accumulated amortisation and impairment losses | (86,035) | (322,124) | — | — | (92) | (1,007) | (778) | (410,036) |
| Net book amount | 72,149 | 185,879 | — | — | 217 | 226 | 442 | 258,913 |
| Opening net book amount | 72,149 | 185,879 | — | — | 217 | 226 | 442 | 258,913 |
| Acquisition of subsidiary *(Note 14)* | 4,904 | — | 54,887 | 49,802 | — | 826 | 637 | 111,056 |
| Additions | 4,832 | — | — | — | — | 16 | — | 4,848 |
| Disposals | — | — | — | — | — | — | (129) | (129) |
| Transfer | (14,578) | 14,578 | — | — | — | — | — | — |
| Depreciation *(Note 9)* | — | (2,826) | (1,916) | (1,022) | (4) | (30) | (127) | (5,925) |
| Exchange differences | (669) | (2,124) | — | — | — | (2) | (2) | (2,797) |
| **Closing net book amount** | 66,638 | 195,507 | 52,971 | 48,780 | 213 | 1,036 | 821 | 365,966 |
| **At 30 June 2021** | | | | | | | | |
| Cost | 151,749 | 516,997 | 54,887 | 49,802 | 309 | 2,073 | 1,726 | 777,543 |
| Accumulated depreciation and impairment losses | (85,111) | (321,490) | (1,916) | (1,022) | (96) | (1,037) | (905) | (411,577) |
| **Net book amount** | 66,638 | 195,507 | 52,971 | 48,780 | 213 | 1,036 | 821 | 365,966 |

## 6. INTANGIBLE ASSETS

| | Oil exploration right* *RMB'000* | Shoreline right *RMB'000* | Total *RMB'000* |
|---|---|---|---|
| At 31 December 2020 | | | |
| Cost | 1,592,845 | — | 1,592,845 |
| Accumulated amortisation and impairment losses | (878,088) | — | (878,088) |
| Net book amount | 714,757 | — | 714,757 |
| **For the six months ended 30 June 2021** | | | |
| Opening net book amount | 714,757 | — | 714,757 |
| Acquisition of subsidiary *(Note 14)* | — | 102,100 | 102,100 |
| Amortisation *(Note 9)* | (526) | (1,331) | (1,857) |
| Exchange differences | (7,674) | — | (7,674) |
| **Closing net book amount** | 706,557 | 100,769 | 807,326 |
| **At 30 June 2021** | | | |
| Cost | 1,575,737 | 102,100 | 1,677,837 |
| Accumulated depreciation and impairment losses | (869,180) | (1,331) | (870,511) |
| **Net book amount** | 706,557 | 100,769 | 807,326 |

* The intangible assets represent rights to cooperate with the national oil company of Kyrgyzstan in the operation of the four oilfields ("**Co-operation Rights**"). The Co-operation Rights are stated at cost less accumulated amortisation and any impairment losses. As a result, amortisation of RMB526,000 has been charged to the profit or loss during the six months ended 30 June 2021 (for the six months ended 30 June 2020: RMB1,096,000) based on the units-of-production method.

The management of the Group have considered and assessed reasonably possible changes for other key assumptions and have not identified any other instances that could cause the carrying amount to exceed its recoverable amount. As there were no indicators for impairment, the Group has not updated any of the other impairment calculations.

## 7. TRADE RECEIVABLES

| | **As at 30 June 2021** *RMB'000* | As at 31 December 2020 *RMB'000* |
|---|---|---|
| Trade receivables | **5,997** | 3,832 |
| Less: loss allowance | **(843)** | (2,827) |
| Total | **5,154** | 1,005 |

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

| | **As at 30 June 2021** *RMB'000* | As at 31 December 2020 *RMB'000* |
|---|---|---|
| 0–30 days | **1,175** | 2,210 |
| 31–60 days | **508** | 171 |
| 61–90 days | **141** | — |
| Over 90 days | **4,173** | 1,451 |
| Total | **5,997** | 3,832 |

The Group does not hold any collateral as security.

The carrying amounts of trade receivables approximate their fair values, and are denominated in US Dollar and RMB.

## 8. TRADE AND OTHER PAYABLE

| | **As at 30 June 2021** *RMB'000* | As at 31 December 2020 *RMB'000* |
|---|---|---|
| Trade payables | **266,938** | 262,493 |
| Other payables | | |
| — Third parties | **79,749** | 91,877 |
| — Related parties | **40,159** | 42,706 |
| Receipt in advances | **72,962** | — |
| Accrued Expenses | | |
| — Payroll and welfare | **23,537** | 23,807 |
| — Interest | **341,071** | 492,486 |
| — Custodian fee | **26,521** | 26,521 |
| — Others | **14,787** | 15,915 |
| Other tax-related payables | **14,072** | 11,171 |
| Total trade and other payables | **879,796** | 966,976 |

The ageing analysis of the trade payables based on invoice date were as follows:

| | **As at 30 June 2021** *RMB'000* | As at 31 December 2020 *RMB'000* |
|---|---|---|
| 0–30 days | **6,494** | 2,081 |
| 31–60 days | **—** | — |
| 61–90 days | **—** | — |
| Over 90 days | **260,444** | 260,412 |
| | **266,938** | 262,493 |

## 9. EXPENSES BY NATURE

| | For the six months ended 30 June | |
|---|---|---|
| | **2021** | 2020 |
| | ***RMB'000*** | *RMB'000* |
| Amortisation of intangible assets *(Note 6)* | **1,857** | 1,096 |
| Amortisation of land use rights | **1,509** | — |
| Auditors' remuneration | **672** | 908 |
| Bank charges (including refund guarantee charges) | **16** | 77 |
| Depreciation of property, plant and equipment *(Note 5)* | **5,925** | 5,114 |
| Provision for doubtful debts *(Note 7)* | **–** | 2,480 |
| Employee benefit expenses | **5,356** | 8,341 |
| Legal and consultancy fees | **4,426** | 5,113 |
| Other expenses | **8,862** | 6,769 |
| Cost directly associated with inventory | **102,857** | 3,517 |
| Total cost of sales, selling and marketing expenses, general and administrative expenses | **131,480** | 33,415 |

## 10. FINANCIAL GUARANTEE CONTRACTS

| | **As at 30 June 2021** | As at 31 December 2020 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Financial guarantee contracts *(note)* | **4,626,559** | 4,545,132 |
| | **4,626,559** | 4,545,132 |

The Group has provided guarantees to certain financial institutions in the PRC in respect of borrowings of the Disposal Group. Under the financial guarantee contracts, the Company is required to make payments to the financial institutions should the Disposal Group default on the borrowing. As at 30 June 2021, the total value of the guaranteed borrowings outstanding was RMB4,626,559,000 (31 December 2020: RMB4,545,132,000). Despite the risk of such guarantee to be exercised by the financial institution considered to be low, the Group has recognised financial guarantee contracts of RMB4,626,559,000 considered the maximum exposure according to the contractual obligation. Both the guarantee and provision shall release upon the completion of the transfer and discharging of the relevant guarantees.

As at 30 June 2021, the change in provision for financial guarantee contracts of RMB81,427,000 (31 December 2020: RMB2,000,011,000) mainly represents the accrual of interest expenses on the outstanding guaranteed borrowings since the date of disposal.

## 11. OTHER INCOME

| | For the six months ended 30 June | |
|---|---|---|
| | **2021** | 2020 |
| | ***RMB'000*** | *RMB'000* |
| Others | **2,072** | 108 |

## 12. OTHER GAINS/(LOSSES)

| | For the six months ended 30 June | |
|---|---|---|
| | **2021** | 2020 |
| | ***RMB'000*** | *RMB'000* |
| Net foreign exchange gains/(losses) | **12,037** | (6,167) |
| Total | **12,037** | (6,167) |

## 13. INCOME TAX EXPENSE

| | For the six months ended 30 June | |
|---|---|---|
| | **2021** | 2020 |
| | ***RMB'000*** | *RMB'000* |
| Current tax charge | | |
| Hong Kong | **–** | – |
| Outside Hong Kong | **4,212** | 4,650 |
| Total | **4,212** | 4,650 |

Hong Kong profits tax has been provided for at the rate of 16.5% (30 June 2020: 16.5%) on the estimated assessable profits less estimated available tax losses. Tax outside Hong Kong has been provided for at the applicable rate on the estimated assessable profits less estimated available tax losses.

## 14. BUSINESS COMBINATION

### (a) Summary of acquisition

On 22 January 2021, the Group acquired 50.46% of the equity in Nantong Zhuosheng. Nantong Zhuosheng is principally engaged in provision of tank storage and associated services for fuel oil and its related products in the PRC.

The Acquisition reflects the Company's strategy of investing in oil and-gas-related storage and logistic projects, which would enable the Group to expand its energy business vertically. With current secured contracts on hand, Nantong Zhuosheng is expected to bring a positive financial impact to the Group by contributing stable income and cash flows.

Details of the purchase consideration, the net assets acquired, and goodwill are as follows:

| | *RMB'000* |
|---|---|
| Purchase consideration | |
| Promissory Note | 132,800 |
| Contingent consideration receivables | (3,110) |
| Total purchase consideration | 129,690 |

The total considerations paid by the Group with respect to the acquisition will be satisfied by:

- Promissory Note in the principal amount of RMB132,800,000 issued by the Group to the Vendor for a term of two years from the date of the Acquisition; and

- subsequent to the date of Acquisition, the Purchaser will make capital contribution of RMB143,000,000 to Nantong Zhuosheng.

The assets and liabilities recognised as a result of the Acquisition are as follows:

| | **Fair Value**<br>*RMB'000* |
|---|---|
| Cash | 159 |
| Trade receivables | 4,879 |
| Other receivables | 34,075 |
| Inventory | 1,766 |
| Property, plant and equipment | 111,056 |
| Intangible assets | 217,918 |
| Trade payables | (30,095) |
| Other payables | (5,817) |
| Deferred tax liabilities | (40,000) |
| Net identifiable assets acquired | 293,941 |
| Less: non-controlling interests | (210,285) |
| Add: goodwill | 46,034 |
| Net assets acquired | 129,690 |

*(i) Significant estimate: contingent consideration receivables*

The contingent consideration receivables are complied with a profit guarantee and put option.

The profit guarantee is for the exchange of control for Nantong Zhuosheng and therefore considered as contingent consideration receivable and measured at fair value. The valuation of the contingent consideration receivable is valued by an independent valuer (the "**Valuer**"), in accordance with IFRS 13 and is based on probabilistic approach. The value of contingent receivable is derived from the cash flow compensation as a result of the possibility of failure to meet the Guaranteed Profit by the Target Company. As such, the Valuer adopted the probabilistic approach to consider the probability weighted distribution of the possible outcomes.

The fair value of the Put Option was estimated by the Valuer and was calculated by multiplying the value of the Put Option of approximately RMB2,190,000 and the probability of the Put Option being exercised of 10%.

*(ii) Acquired receivables*

The fair value of acquired trade receivables is RMB4,879,000. The gross contractual amount for trade receivables due is RMB4,879,000, no loss allowance recognised on the Acquisition.

*(iii) Accounting policy choice for non-controlling interests*

The Group recognises non-controlling interests in an acquired entity either at fair value or at the noncontrolling interest's proportionate share of the acquired entity's net identifiable assets. This decision is made on an acquisition-by-acquisition basis. For the non-controlling interests in Nantong Zhuosheng, the Group elected to recognise the non-controlling interests at its proportionate share of the acquired net identifiable assets.

## 15. EARNINGS/(LOSS) PER SHARE

### (a) Basic

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

| | For the six months ended 30 June | |
|---|---|---|
| | **2021** | 2020 |
| | ***RMB*** | *RMB* |
| Earnings/(loss) per share | **(0.01)** | 0.04 |

### (b) Dilutive earnings/(loss) per share

Diluted earnings/loss per share for the periods ended 30 June 2021 and 2020 are the same as basic earnings/loss per share as the potential dilutive ordinary shares were not included in the calculation of diluted earnings/loss per share as their inclusion would be anti-dilutive.

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

| | For the six months ended 30 June | |
|---|---|---|
| | **2021** | 2020 |
| | ***RMB'000*** | *RMB'000* |
| **Basic and diluted earnings/(loss) per share** | | |
| (Loss)/profit attributable to equity holders of the Company | **(82,781)** | 464,958 |
| | **(82,781)** | 464,958 |

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

| | For the six months ended 30 June | |
|---|---|---|
| | **2021** | 2020 |
| Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share | **4,770,491,507** | 4,770,491,507 |
| Adjustment for calculating diluted earnings per share: | | |
| — Convertible preference shares | **7,006,000,000** | 7,006,000,000 |
| Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share | **11,776,491,507** | 11,776,491,507 |

## 16. DIVIDEND

The Board has resolved not to declare the payment of an interim dividend for the six months ended 30 June 2021 (for the six months ended 30 June 2020: Nil).