CHINA HUARONG ENERGY COMPANY LIMITED

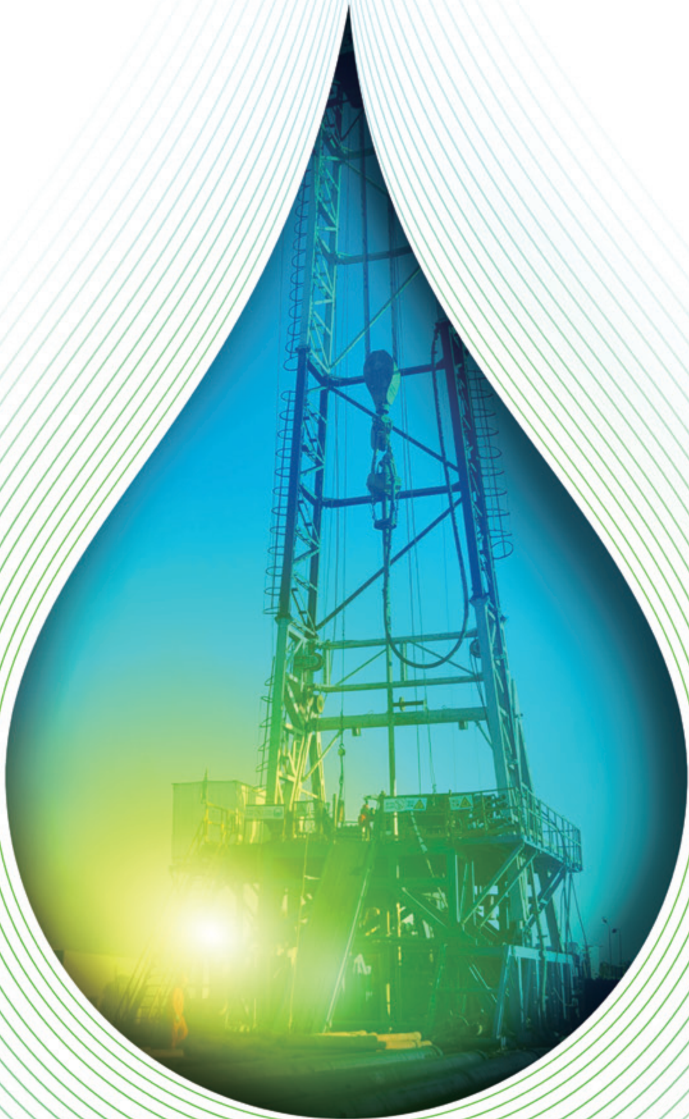
中國華榮能源股份有限公司

(Formerly known as China Rongsheng Heavy Industries Group Holdings Limited)

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 01101

INTERIM REPORT 2015



ABOUT HUARONG ENERGY

China Huarong Energy Company Limited (formerly known as China Rongsheng Heavy Industries Group Holdings Limited) and its subsidiaries are principally engaged in the businesses of shipbuilding, energy exploration and production, marine engine building, offshore engineering and engineering machinery, focusing on oil and gas related customers and markets. The Group operates the largest shipyard in the PRC, with manufacturing bases in Nantong (Jiangsu Province) and Hefei (Anhui Province). The Group also holds 60% interests in the Kyrgyzstan Project involving five oilfield zones located in the Fergana Valley of Central Asia. Through the upstream oil exploration and production activities in Central Asia, we aim to grow as a regional energy company with a focus on the oil and gas market.

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For the six months ended 30 June 2015 (the "**Period**"), China Huarong Energy Company Limited (the "**Company**") and its subsidiaries (together, the "**Group**") recorded revenue of RMB379.1 million, which is mainly attributable to the revenue from sales of vessels, compared to the negative revenue of RMB591.7 million for the six months ended 30 June 2014 (the "**Comparative Period**"). Loss attributable to the equity holders of the Company was RMB2,035.8 million for the Period, while loss attributable to the equity holders of the Company was RMB3,061.2 million in the Comparative Period.

Shipbuilding and Offshore Engineering

Our shipbuilding segment recorded revenue of RMB374.7 million for the Period. For the Period, we delivered 4 vessels with a total volume of 1,031,000 DWT. It included 1 very large ore carrier, 2 Suezmax crude oil tankers and 1 very large crude oil carrier.

As at 30 June 2015, our total orders on hand consisted of 31 vessels, representing a total volume of approximately 3,172,700 DWT with a total contract value of approximately USD1,325.3 million. They included 18 Panamax bulk carriers, 1 Panamax crude oil tanker, 10 Suezmax crude oil tankers and 2 7,000-TEU containerships.

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

Energy Exploration and Production

In September 2014, we completed the acquisition of 60% interests in the project (the "**Kyrgyzstan Project**") involving four oilfields located in the Fergana Valley of the Republic of Kyrgyzstan. Under the agreements entered into with the national oil company of Kyrgyzstan, КыргызжерНефтегаз ("Kyrgyzjer Neftegaz" Limited Liability Company*), a subsidiary which is 60% owned by the Company, was granted rights to cooperate with the national oil company of Kyrgyzstan in the operation of the five oilfield zones. During the Period, we had made satisfactory progress in the Kyrgyzstan Project. As at 30 June 2015, we had successfully completed construction of 42 wells out of which 6 wells were production wells. For the Period, the Kyrgyzstan Project recorded 30,563.2 barrels (bbl) of light crude oil. Revenue from the energy exploration and production segment was RMB4.1 million for the Period (for the Comparative Period: nil).

Marine Engine Building and Engineering Machinery

For the Period, there was no revenue from external customers of our marine engine building segment (for the Comparative Period: RMB21.1 million). Inter-segment sales revenue was RMB0.9 million for the Period. As at 30 June 2015, our marine engine building segment had orders on hand for a total of 26 engines with a total capacity of 546,174 horsepower.

For the Period, revenue from the engineering machinery segment was RMB0.2 million, a decrease of 97.6% from RMB8.2 million for the Comparative Period, primarily due to the slowdown of China's economic growth and the tightening control of infrastructure investments.

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Financial Review

Revenue

For the Period, we recorded revenue of RMB379.1 million (for the Comparative Period: a negative revenue of RMB591.7 million). It was primarily attributable to the revenue from sales of vessels. Revenue from sales of vessels was RMB361.4 million (for the Comparative Period: nil). Revenue from shipbuilding and other contracts was RMB13.6 million as compared to RMB340.6 million for the Comparative Period, representing a year-on-year decrease of approximately 96.0%. Revenue from sales of crude oil was RMB4.1 million (for the Comparative Period: nil). There was no revenue reversed from the cancellation of the shipbuilding contracts for the Period (for the Comparative Period: RMB932.3 million).

Cost of sales

For the Period, cost of sales increased by approximately 621.0% to RMB847.9 million (for the Comparative Period: RMB117.6 million), which was primarily attributable to the cost of vessels sold and the cost of shipbuilding and other contracts. There was no cost of sales reversed from the cancellation of the shipbuilding contracts for the Period (for the Comparative Period: RMB830.8 million).

Selling and marketing expenses

For the Period, selling and marketing expenses decreased by approximately 65.6% to RMB3.2 million (for the Comparative Period: RMB9.3 million), which was primarily in alignment 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 decreased by approximately 43.8% to RMB372.6 million (for the Comparative Period: RMB662.6 million). This is mainly attributable to the reduction of shipbuilding production activities and the implementation of cost control measures.

Provisions for impairments and delayed penalties

For the Period, provision for impairments and delayed penalties increased by 293.4% to RMB166.4 million (for the Comparative Period: RMB42.3 million). It is mainly due to the provision for impairment of trade receivables of RMB245.4 million, reversal of provision for impairment of other receivables and prepayments of RMB59.0 million, reversal of provision for impairment of amounts due from customers for contract works of RMB29.6 million and the provision for delayed penalties of RMB9.6 million respectively. The provision for impairment of trade receivables is mainly due to the increase in risk of default in payment by certain customers under the current market downturn.

Research and development expenses

For the Period, research and development expenses decreased by approximately 63.1% to RMB18.4 million (for the Comparative Period: RMB49.9 million), mainly due to the reduction of research and development expenditures on the shipbuilding products.

Other losses – net

For the Period, other losses – net decreased by approximately 99.8% to RMB2.0 million (for the Comparative Period: losses RMB802.6 million) primarily due to a fair value gain of RMB4.8 million on embedded derivatives in convertible bonds was recorded for the Period, compared to a loss of RMB807.5 million for the Comparative Period.

Finance income/costs – net

Finance income for the Period, which mainly came from imputed interest income on non-current interest-free loans, increased by approximately 21.7% to RMB14.0 million (for the Comparative Period: RMB11.5 million). Finance costs for the Period increased by approximately 20.1% to RMB1,089.2 million (for the Comparative Period: RMB906.7 million). The increase was due to amortisation of convertible bonds and reduction in interest capitalisation as a result of reduced production activities.

Gross loss

During the Period, we recorded a gross loss of RMB468.8 million (for the Comparative Period: RMB709.2 million). As a result of depressed market conditions, the profitability of conventional shipbuilding business has diminished. In addition, in order to align with the strategic transformation of the Group, a gross loss was incurred as a result of a reduction of our production activities while having to maintain a considerable fixed production cost.

Total comprehensive loss for the Period

During the Period, we recorded total comprehensive loss of RMB2,085.8 million (for the Comparative Period: RMB3,146.6 million), of which comprehensive loss attributable to equity holders of the Company was RMB2,036.3 million (for the Comparative Period: RMB3,063.1 million). Comprehensive loss attributable to the equity holders of the Company is the result of gross loss and the considerable fixed administrative expenses.

Liquidity and going concern

During the Period, the Group incurred a loss of approximately RMB2,085.3 million and had a net operating cash outflow of approximately RMB248.9 million. As at 30 June 2015, the Group had a total deficit of RMB902.8 million and the Group's current liabilities exceeded its current assets by RMB23,096.6 million. Our cash and cash equivalents were RMB77.7 million as at 30 June 2015 (as at 31 December 2014: RMB143.1 million) of which RMB63.3 million (81.5%) was denominated in RMB and the remaining RMB14.4 million (18.5%) was denominated in other currencies such as US dollars ("**USD**") and HK dollars ("**HKD**"). As at the same date, the Group's total borrowings and finance lease liabilities amounted to RMB22,444.3 million, out of which RMB17,930.3 million were either overdue or would be due for repayment within 12 months in accordance with the repayment dates of the respective agreements or under existing arrangements. The Group's current borrowings also include convertible bonds with outstanding principal totaling HKD3,250.0 million (equivalent to approximately RMB2,563.0 million) as of 30 June 2015 which are immediately redeemable after reaching the one-year non-redemption period. However, a series of plans and measures to mitigate liquidity pressure have been taken to improve the financial positions of the Group. The Group has also been actively re-negotiating the terms and conditions of its existing borrowings with the respective lenders regarding the current and non-current borrowings (other than convertible bonds) not covered in 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》) and "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》) to extend the repayment and renewal terms of these existing current bank loans that had original maturity in 2015 to new maturity dates ranging from January 2016 to June 2016. Up to the date of approval of this condensed consolidated interim financial information, none of the lenders or holders of convertible bonds has demanded immediate repayment of loans or indebtedness by the Group. Details regarding uncertainties on the going concerns of the Group are set out in the section 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 increased by RMB1,342.8 million from RMB20,773.7 million as at 31 December 2014 to RMB22,116.5 million as at 30 June 2015. Our long-term borrowings and finance lease liabilities decreased by RMB1,513.4 million to RMB327.8 million as at 30 June 2015 from RMB1,841.2 million as at 31 December 2014.

As at 30 June 2015, our total borrowings and finance lease liabilities were RMB22,444.3 million (as at 31 December 2014: RMB22,614.9 million), of which RMB19,938.9 million (88.8%) was denominated in RMB and the remaining RMB2,505.4 million (11.2%) was denominated in other currencies such as USD and HKD.

Certain borrowings were secured by our raw materials, land use rights, buildings, plant and machinery, construction contracts, pledged deposits, available-for-sale financial asset, guarantee of the Group, guarantee from a director of the Company, certain shareholders of the Company and the related parties, and land use rights, buildings, plant and equipment and share capital of certain related parties. The majority of the borrowings were at floating interest rates.

Inventories

As at 30 June 2015, our inventories decreased by RMB628.0 million to RMB1,764.9 million (as at 31 December 2014: RMB 2,392.9 million). The inventory turnover days increased from 355 days as at 31 December 2014 to 842 days as at 30 June 2015.

Amounts due from customers for contract works

As at 30 June 2015, the amounts due from customers for contract works decreased by RMB274.4 million to RMB891.0 million (as at 31 December 2014: RMB1,165.4 million). The decrease in amounts due from customers for contract works was the result of the control in production scale.

Foreign exchange risks

Our shipbuilding business recorded revenue from contract prices mainly denominated in USD while about 30% of the production costs were denominated in USD. The cash flows of unmatched currencies are subject to foreign exchange risks. Management continuously assesses the foreign exchange risks, with an aim to minimise the impact of foreign exchange fluctuations on our business operations. The Group incurred net foreign exchange losses of RMB4.5 million due to the appreciation of RMB against USD during the Period which caused exchange losses on certain USD denominated assets, such as accounts receivable of the Group.

Capital expenditure

For the Period, our capital expenditure was approximately RMB60.9 million (for the Comparative Period: RMB69.8 million), which was mainly used as expenses of facilities.

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)/equity increased from 98.6% as at 31 December 2014 to 104.2% as at 30 June 2015. Affected by the accumulated losses of RMB15,834.6 million as at 30 June 2015, the total deficit was RMB902.8 million as at 30 June 2015 (total equity as at 31 December 2014: RMB313.7 million).

Contingent liabilities

As at 30 June 2015, we had contingent liabilities of RMB449.3 million (as at 31 December 2014: RMB2,419.1 million), which resulted mainly from the agreements entered between our Group and several banks in China and also litigations in relation to one shipbuilding customer and some suppliers.

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 and amounts due from customers for contract works. As at 30 June 2015, all of the Group's cash and bank balances, short-term and long-term bank deposits and pledged deposits were placed with reputable banks which management believes are of high creditworthiness and without significant credit risk.

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

As at 30 June 2015, trade receivables of RMB2,709.9 million (as at 31 December 2014: RMB2,486.2 million) and RMB341.8 million (as at 31 December 2014: RMB322.1 million) related to certain customers of the shipbuilding segment and the engineering machinery segment were impaired and provided for respectively, as a result of the management's assessment on the recoverability of the balances.

Human resources

As at 30 June 2015, we had approximately 2,976 employees (as at 31 December 2014: approximately 3,100 employees). The decrease in the number of employees was mainly in relation to the market downturn and the downsizing of the shipbuilding business of the Group. The primary goal of our policy for remuneration package is to ensure employees are fairly rewarded and they receive appropriate incentives to maintain high standards of performance.

Market Analysis and Prospects

Due to the profound impact of the slowdown in global economic growth and overcapacity in the shipping industry, shipbuilders were still confronted with numerous challenges in production and operations in the first half of 2015. The shipping market is unlikely to be recovered from overcapacity in the near future. It is expected that China's shipbuilding industry will accelerate its transformation and will generally enter into an industrial structure adjustment stage.

In September 2014, we completed the acquisition of 60% interests in the Kyrgyzstan Project. Central Asia is a region subject mainly to the influence of Russia, whose export oil prices have not plunged in tandem with international oil prices. Local domestic oil prices of Kyrgyzstan have not changed significantly despite the dramatic decline in international oil prices. We aim to further optimise the sales channel of the Kyrgyzstan Project and mitigate the effect of international oil price fluctuation by establishing sales agreements with large refineries. In view of the low costs and stable local oil prices in Kyrgyzstan, we are of the view that under the current adverse market conditions of the shipbuilding industry, exposure to the energy sector will enable us to diversify our operations and broaden our source of revenue, as well as drive our active transformation from a manufacturer to a supplier in the energy service sector, thereby enhancing contributions to the overall interests of our shareholders.

On 20 July 2015, APEX Reservoir Service, Inc., an independent competent evaluator (the "**Independent Evaluator**"), has issued a petroleum reserve report (the "**Reserve Report**") for the three oilfield zones (namely Maili-Su IV, Eastern Izbaskent and Izbaskent) (the "**Evaluated Zones**") in the Kyrgyzstan Project with a base date of evaluation of 31 May 2015. The proved (1P) recoverable reserves of the Evaluated Zones in the Kyrgyzstan Project were approximately 24.39 million tons, whereas the proved plus probable (2P) recoverable reserves were approximately 50.54 million tons. The post-tax net present value of the petroleum reserves of the Evaluated Zones (calculated with an annual discount rate of 10%) shared by КыргызжерНефтегаз ("Kyrgyzjer Neftegaz" Limited Liability Company*) was approximately USD1.925 billion.

The Reserve Report supports the view of the Group that the Evaluated Zones have favourable development potential and value. The Group will accelerate the pace of new well development and enlarge the scope of well fracturing in order to realise the development potential of the Kyrgyzstan Project. In light of China's "Belt and Road Initiative", we will establish a closer strategic cooperation relationship with well-established energy companies and strive for its growth in the energy industry.

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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.1.3 of the Code stipulates that at least 14 days' notice should be given for a regular board of directors (the "**Board**") meeting to give all directors of the Company (the "**Directors**") an opportunity to attend. During the Period, less than 14 days' notice was given for six Board meetings (other than regular meetings) to suit the tight and busy schedules of the participants.

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. 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.

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.

Audit Committee

The audit committee of the Company (the "**Audit Committee**") comprises three independent non-executive Directors, namely, Ms. Zhou Zhan (chairman of the Audit Committee), Mr. Xia Da Wei and Mr. Wang Jin Lian. 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.

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.

Interim Dividend

The Board has resolved not to declare the payment of an interim dividend for the year 2015 (2014: nil).

Change in Director's Biographical Details

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes of directors' biographical details since the date of the 2014 annual report of the Company are set out as follows:

Mr. Wu Zhen Guo resigned as an executive Director and the vice chairman of the Company and ceased to be a member of the remuneration committee of the Company (the "**Remuneration Committee**") with effect from 1 July 2015.

Mr. Hu Wei Ping resigned as an independent non-executive Director and ceased to be a member of each of the Audit Committee, the corporate governance committee and the nomination committee of the Company and the chairman of the Remuneration Committee with effect from 1 July 2015.

Ms. Zhou Zhan was appointed as the chairman of the Remuneration Committee with effect from 1 July 2015.

Change of Company Name

With effect from 18 March 2015, the name of the Company was changed from "China Rongsheng Heavy Industries Group Holdings Limited" to "China Huarong Energy Company Limited" and "中國華榮能源股份有限公司" was adopted as the Chinese name of the Company to replace the Chinese name of the Company "中國熔盛重工集團控股有限公司". No amendment was made to the Company's amended and restated articles of association during the Period. Details of the change of name of the Company were disclosed in the announcements of the Company dated 29 October 2014 and 21 April 2015 and the circular of the Company dated 17 February 2015.

DISCLOSURE OF INTERESTS

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 30 June 2015, the Directors and chief executive of the Company and their respective associates (as defined in the Listing Rules) had the following interests in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "**SFO**")) which (a) were recorded in the register required to be kept by the Company under section 352 of the SFO; or (b) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") pursuant to the Model Code:

(a) Long Positions in shares and underlying shares of the Company

	Number of shares interested				
Name of Director	Personal interest	Corporate interest	Equity derivatives (share options)[2]	Total	Percentage of issued share capital[3]
Mr. Chen Qiang	–	1,046,000,000[1]	70,000,000	1,116,000,000	10.49%
Mr. Wu Zhen Guo[4]	–	–	12,000,000	12,000,000	0.11%
Mr. Hong Liang	–	–	18,375,000	18,375,000	0.17%
Mr. Sean S J Wang	–	–	9,500,000	9,500,000	0.09%
Mr. Wang Tao	–	–	10,755,000	10,755,000	0.10%
Mr. Wei A Ning	–	–	7,130,000	7,130,000	0.07%
Ms. Zhu Wen Hua	–	–	4,875,000	4,875,000	0.05%

Notes:

1 Among 1,046,000,000 shares (before taking into account of the 70,000,000 shares that may be granted to Mr. Chen Qiang pursuant to share options), 136,000,000 shares, 420,000,000 shares and 490,000,000 shares are directly held by Boom Will Limited, Leader World Investments Limited and Outspace Limited respectively. Boom Will Limited, Leader World Investments Limited and Outspace Limited are 100%, 38.33% and 100% directly beneficially owned by Mr. Chen Qiang, respectively.

2 These interests represented the interests in underlying shares in respect of share options granted by the Company to these directors as beneficial owners, the details of which are set out in the section headed "Share Option Schemes" below.

3 These percentages have been compiled based on the total number of issued shares of the Company of 10,635,735,313 as at 30 June 2015 and rounded to two decimal places.

4 Mr. Wu Zhen Guo resigned as an executive director of the Company on 1 July 2015.

(b) Long Positions in associated corporations

Name of Director	Name of associated corporation	Nature of interest/ capacity	Number of shares	Percentage of shareholding
Mr. Chen Qiang	Rongsheng Heavy Industries Holdings Limited	Interest in a controlled corporation	15,000[1]	1.50%

Note:

1 As at 30 June 2015, 15,000 shares in Rongsheng Heavy Industries Holdings Limited were held by Boom Will Limited, a company 100% beneficially owned by Mr. Chen Qiang.

Save as disclosed above, as at 30 June 2015, none of the Directors or the chief executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' Right to Acquire Shares or Debentures

As at 30 June 2015, the number of outstanding options granted by the Company to the Directors and chief executive to subscribe for shares of the Company, as recorded in the register required to be kept under section 352 of the SFO or which were otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, is set out in the section headed "Share Option Schemes" of this interim report.

Save as disclosed above, at no time during the Period was the Company, its holding company or any subsidiary of the Company or its holding company, a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Substantial Shareholders' Interests and Short Positions in the Share Capital of the Company

As at 30 June 2015, the interests of substantial shareholders (other than the Directors or chief executive of the Company) in the shares or underlying shares of the Company which were required to be recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Name of substantial shareholder	Number of shares interested	Percentage of Issued share capital[8]
Fine Profit Enterprises Limited [1]	2,052,281,157	19.30%
Mr. Zhang Zhi Rong [1]	2,052,281,157	19.30%
Kingwin Victory Investment Limited [2]	1,298,446,185	12.21%
Mr. Wang Ping [2]	1,298,446,185	12.21%
Action Phoenix Limited [3]	1,011,111,113	9.51%
VMS Investment Group Ltd [3]	1,011,111,113	9.51%
VMS Holdings Limited [3]	1,011,111,113	9.51%
Ms. Mak Siu Hang Viola [3]	1,011,111,113	9.51%
Bank of China Limited [4]	861,913,279	8.10%
Central Huijin Investment Ltd [4]	861,913,279	8.10%
Bank of China Group Investment Limited [4]	861,452,843	8.10%
Goldway Financial Corp. [4]	861,452,843	8.10%
Star Team Enterprises Inc. [4]	861,452,843	8.10%
Vogel Holding Group Limited [5]	860,367,937	8.09%
Ms. Shi Jing [5]	860,367,937	8.09%
Mr. Shi Yuzhu [5]	860,367,937	8.09%
Partners Kingwin Fund (I) [6]	855,147,217	8.04%
Partners and Kingwin Asset Management Limited [6]	855,147,217	8.04%
Bullion Riches Limited [6]	855,147,217	8.04%
Partners Financial Holdings Limited [6]	855,147,217	8.04%
Winnex International Investments Limited [6]	855,147,217	8.04%
Mr. Cheng Kin Ming [6]	855,147,217	8.04%
Gallop Sun Limited [7]	800,000,000	7.52%
Mr. Zhang De Huang [7]	800,000,000	7.52%

Notes:

1 Among 2,052,281,157 shares, 1,943,557,157 shares are directly held by Fine Profit Enterprises Limited and 108,724,000 shares are directly held by Wealth Consult Limited, which is a wholly-owned subsidiary of Fine Profit Enterprises Limited. Both Fine Profit Enterprises Limited and Wealth Consult Limited are 100% directly or indirectly beneficially owned by Mr. Zhang Zhi Rong.

2 Among these interests include derivative interests directly held by Partners Kingwin Fund (I) (see note 6 below) in the 855,147,217 underlying shares of the Company in relation to the convertible bonds issued by the Company. Kingwin Victory Investment Limited is a company 100% directly beneficially owned by Mr. Wang Ping.

3 Among these interests include derivative interests directly held by Action Phoenix Limited in the 900,000,002 underlying shares of the Company in relation to the convertible bonds issued by the Company. Action Phoenix Limited is a wholly owned subsidiary of VMS Investment Group Ltd, which is 100% directly beneficially owned by VMS Holdings Limited. VMS Holdings Limited is 100% directly beneficially owned by Ms. Mak Siu Hang Viola.

4 Among these interests include derivative interests directly held by Star Team Enterprises Inc. in the 812,500,000 underlying shares of the Company in relation to the convertible bonds issued by the Company. Star Team Enterprises Inc. is 100% directly owned by Goldway Financial Corp. which is in turn 100% directly owned by Bank of China Group Investment Limited. Bank of China Group Investment Limited is 100% directly beneficially owned by Bank of China Limited, a company 67.72% owned by Central Huijin Investment Ltd.

5 Among these interests include derivative interests directly held by Vogel Holding Group Limited in the 654,205,607 underlying shares of the Company in relation to the convertible bonds issued by the Company. Vogel Holding Group Limited is 100% directly beneficially owned by Ms. Shi Jing and controlled by its director, Mr. Shi Yuzhu.

6 Among these interests include derivative interests directly held by Partners Kingwin Fund (I) in the 855,147,217 underlying shares of the Company in relation to the convertible bonds issued by the Company. Partners Kingwin Fund (I) is 100% directly beneficially owned by Partners and Kingwin Asset Management Limited, which is 50% directly beneficially owned by each of Bullion Riches Limited and Kingwin Victory Investment Limited (see note 2 above) respectively. Bullion Riches Limited is a wholly-owned subsidiary of Partners Financial Holdings Limited (formerly known as Sunshine Partners Financial Holdings Limited), which is 100% directly beneficially owned by Winnex International Investments Limited, a company 100% directly beneficially owned by Mr. Cheng Kin Ming.

7 Gallop Sun Limited is 100% directly beneficially owned by Mr. Zhang De Huang, the father of Mr. Zhang Zhi Rong.

8 These percentages have been compiled based on the total number of issued shares of the Company of 10,635,735,313 as at 30 June 2015 and rounded to two decimal places.

Save as disclosed above, as at 30 June 2015, the Company had not been notified of any persons (other than the Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which were recorded in the register required to be kept by the Company under section 336 of the SFO.

Share Option Schemes

Pre-IPO Share Option Scheme

On 24 October 2010, the Company conditionally approved and adopted the pre-IPO share option scheme (the "**Pre-IPO Share Option Scheme**"). As at 30 June 2015, the total number of shares in respect of the outstanding options granted under the Pre-IPO Share Option Scheme was 35,000,000 shares, which is equivalent to approximately 0.33% of the total issued share capital of the Company as at 30 June 2015. No further options will be offered or granted by the Company pursuant to the Pre-IPO Share Option Scheme.

The following table discloses details of the Company's outstanding share options held by the Directors and certain employees of the Company under the Pre-IPO Share Option Scheme and its movement during the Period:

		Number of share options						
Name of grantee	Date of grant	As at 1 January 2015	Exercised	Cancelled	Lapsed	As at 30 June 2015	Exercise price (HK$)	Exercisable period
Mr. Wu Zhen Guo[2]	24 October 2010	5,000,000	–	–	–	5,000,000	4.00	Note[1]
Mr. Hong Liang	24 October 2010	4,375,000	–	–	–	4,375,000	4.00	Note[1]
Mr. Sean S J Wang	24 October 2010	2,500,000	–	–	–	2,500,000	4.00	Note[1]
Mr. Wang Tao	24 October 2010	4,375,000	–	–	–	4,375,000	4.00	Note[1]
Mr. Wei A Ning	24 October 2010	750,000	–	–	–	750,000	4.00	Note[1]
Ms. Zhu Wen Hua	24 October 2010	375,000	–	–	–	375,000	4.00	Note[1]
Senior management and other employees (in aggregate)	24 October 2010	19,375,000	–	–	1,750,000	17,625,000	4.00	Note[1]
Total		36,750,000	–	–	1,750,000	35,000,000		

Notes:

1 Each of the grantees to whom the options have been granted under the Pre-IPO Share Option Scheme is entitled to exercise:

(i) up to 20% of the shares that are subject to the options granted to the relevant grantee (rounded down to the nearest whole number of shares) at any time during the period commencing on 19 November 2010 (the "**Listing Date**") and ending on the first anniversary of the Listing Date;

(ii) up to 40% of the shares that are subject to the options granted to the relevant grantee less the number of shares in respect of which the options have been exercised by the grantee (rounded down to the nearest whole number of shares) at any time during the period commencing on the expiry of the first anniversary of the Listing Date and ending on the second anniversary of the Listing Date;

(iii) up to 60% of the shares that are subject to the options granted to the relevant grantee less the number of shares in respect of which the options have been exercised by the grantee (rounded down to the nearest whole number of shares) at any time during the period commencing on the expiry of the second anniversary of the Listing Date and ending on the third anniversary of the Listing Date;

(iv) up to 80% of the shares that are subject to the options granted to the relevant grantee less the number of shares in respect of which the options have been exercised by the grantee (rounded down to the nearest whole number of shares) at any time during the period commencing on the expiry of the third anniversary of the Listing Date and ending on the fourth anniversary of the Listing Date; and

(v) such number of shares subject to the options granted to the relevant grantee less the number of shares in respect of which the options have been exercised by the grantee (rounded down to the nearest whole number of shares) at any time during the period commencing on the expiry of the fourth anniversary of the Listing Date and ending on 26 October 2020.

2 Mr. Wu Zhen Guo resigned as an executive director of the Company on 1 July 2015.

Share Option Scheme

On 24 October 2010, the Company also conditionally approved and adopted the Share Option Scheme for the purpose of enabling the Group to grant options to selected participants as incentives or rewards for their contribution to the Group. As at 30 June 2015, the total number of shares in respect of the outstanding options granted under the Share Option Scheme was 225,265,000 shares, which is equivalent to approximately 2.12% of the total existing issued share capital of the Company. During the Period, no share options had been granted under the Share Option Scheme.

The following table discloses details of the Company's outstanding share options held by the Directors and certain employees of the Company under the Share Option Scheme and their movement during the Period:

		Number of share options						
Name of grantee	**Date of grant**	**As at 1 January 2015**	**Exercised**	**Cancelled**	**Lapsed**	**As at 30 June 2015**	**Exercise price (HK$)**	**Exercisable period**
Mr. Chen Qiang	30 April 2012	70,000,000	–	–	–	70,000,000	1.94	Note[1]
Mr. Wu Zhen Guo[2]	30 April 2012	7,000,000	–	–	–	7,000,000	1.94	Note[1]
Mr. Hong Liang	30 April 2012	14,000,000	–	–	–	14,000,000	1.94	Note[1]
Mr. Sean S J Wang	30 April 2012	7,000,000	–	–	–	7,000,000	1.94	Note[1]
Mr. Wang Tao	30 April 2012	6,380,000	–	–	–	6,380,000	1.94	Note[1]
Mr. Wei A Ning	30 April 2012	6,380,000	–	–	–	6,380,000	1.94	Note[1]
Ms. Zhu Wen Hua	30 April 2012	4,500,000	–	–	–	4,500,000	1.94	Note[1]
Senior management and other employees (in aggregate)	30 April 2012	122,440,000	–	–	12,435,000	110,005,000	1.94	Note[1]
Total		237,700,000	–	–	12,435,000	225,265,000		

Notes:

1 No share options are exercisable prior to the first anniversary of 30 April 2012 ("**Date of Grant**"). On each of the first, second, third, fourth and fifth anniversaries of the Date of Grant, a further 20% of the share options granted to each grantee may be exercised, provided that no share options shall be exercised after 30 April 2022.

2 Mr. Wu Zhen Guo resigned as an executive director of the Company on 1 July 2015.

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2015

	Note	Unaudited As at 30 June 2015 RMB'000	Audited As at 31 December 2014 RMB'000
ASSETS			
Non-current assets			
Land use rights	9	**3,867,971**	3,955,560
Property, plant and equipment	7	**17,102,180**	17,192,897
Intangible assets	8	**1,491,695**	1,493,345
Long-term deposits	11(b)	**–**	136,000
Prepayments for non-current assets	11(b)	**23,867**	63,979
Available-for-sale financial asset		**35,879**	36,374
		22,521,592	22,878,155
Current assets			
Inventories		**1,764,866**	2,392,920
Amounts due from customers for contract works	10	**891,015**	1,165,371
Trade and bills receivables	11(a)	**704,127**	1,036,356
Other receivables, prepayments and deposits	11(b)	**2,280,472**	2,270,533
Pledged deposits		**85,236**	119,820
Cash and cash equivalents		**77,651**	143,101
		5,803,367	7,128,101
Total assets		**28,324,959**	30,006,256
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	12	**887,662**	797,296
Share premium	12	**10,280,452**	9,512,510
Other reserves		**3,533,283**	3,522,724
Accumulated losses		**(15,834,644)**	(13,798,797)
		(1,133,247)	33,733
Non-controlling interests		**230,462**	279,963
Total (deficit)/equity		**(902,785)**	313,696

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2015

	Note	Unaudited As at 30 June 2015 RMB'000	Audited As at 31 December 2014 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	15	327,791	1,436,656
Finance lease liabilities – non-current	15	–	404,548
		327,791	1,841,204
Current liabilities			
Trade and other payables	14	6,080,081	6,125,115
Advances from related parties	27(ii)	323,699	381,629
Borrowings	15	21,429,352	20,488,142
Derivative financial instruments	16	343,209	532,805
Provision for warranty	17	36,436	38,112
Finance lease liabilities – current	15	687,176	285,553
		28,899,953	27,851,356
Total liabilities		29,227,744	29,692,560
Total deficit/equity and liabilities		28,324,959	30,006,256
Net current liabilities		(23,096,586)	(20,723,255)
Total assets less current liabilities		(574,994)	2,154,900

The notes on pages 19 to 59 are an integral part of this condensed consolidated interim financial information.

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2015

		Unaudited Six months ended 30 June	
		2015	2014
	Note	**RMB'000**	RMB'000
Revenue			
– Revenue from sales of vessels	6	**361,350**	–
– Revenue from shipbuilding and other contracts	6	**13,581**	340,593
– Revenue from sales of crude oil	6	**4,126**	–
– Revenue related to the cancellation of the construction contracts	6	**–**	(932,265)
		379,057	(591,672)
Cost of sales			
– Cost of vessels sold	18	**(519,432)**	–
– Cost of shipbuilding and other contracts	18	**(325,251)**	(948,410)
– Cost of crude oil sold	18	**(3,197)**	–
– Cost of sales related to the cancellation of the construction contracts	18	**–**	830,843
		(847,880)	(117,567)
Gross loss		**(468,823)**	(709,239)
Selling and marketing expenses	18	**(3,227)**	(9,340)
General and administrative expenses	18	**(372,562)**	(662,630)
Research and development expenses	18	**(18,443)**	(49,943)
Provisions of impairments and delayed penalties	18	**(166,352)**	(42,295)
Other income	19	**21,268**	26,628
Other losses – net	20	**(2,011)**	(802,615)
Operating loss		**(1,010,150)**	(2,249,434)
Finance income	21	**14,040**	11,483
Finance costs	21	**(1,089,209)**	(906,696)
Finance costs – net	21	**(1,075,169)**	(895,213)
Loss before income tax		**(2,085,319)**	(3,144,647)
Income tax expense	22	**–**	–
Loss for the period		**(2,085,319)**	(3,144,647)

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2015

		Unaudited	
		Six months ended 30 June	
		2015	2014
	Note	**RMB'000**	RMB'000
Loss attributable to:			
Equity holders of the Company		**(2,035,847)**	(3,061,227)
Non-controlling interests		**(49,472)**	(83,420)
		(2,085,319)	(3,144,647)
Loss per share attributable to the equity holders of the Company during the period (expressed in RMB per share)			
– Basic and diluted	23	**(0.21)**	(0.44)
Other comprehensive loss for the period:			
Item that may be reclassified to profit or loss			
– Loss on available-for-sale financial asset		**(495)**	(1,976)
Other comprehensive loss for the period, net of tax		**(495)**	(1,976)
Total comprehensive loss for the period		**(2,085,814)**	(3,146,623)
Attributable to:			
Equity holders of the Company		**(2,036,324)**	(3,063,131)
Non-controlling interests		**(49,490)**	(83,492)
		(2,085,814)	(3,146,623)
Dividend			
Dividend (expressed in RMB per share)	24	**–**	–

The notes on pages 19 to 59 are an integral part of this condensed consolidated interim financial information.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2015

	Note	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Accumulated losses RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity/(deficit) RMB'000
		Unaudited						
		Attributable to equity holders of the Company						
Balance at 1 January 2015		797,296	9,512,510	3,522,724	(13,798,797)	33,733	279,963	313,696
Loss for the period ended 30 June 2015		-	-	-	(2,035,847)	(2,035,847)	(49,472)	(2,085,319)
Other comprehensive loss								
Fair value loss on available-for-sale financial asset		-	-	(477)	-	(477)	(18)	(495)
Total comprehensive loss for the six months ended 30 June 2015		-	-	(477)	(2,035,847)	(2,036,324)	(49,490)	(2,085,814)
Transactions with equity holders in their capacity as owners								
Exchange difference on translation of foreign operations		-	-	(711)	-	(711)	(11)	(722)
Share-based payment	13	-	-	11,747	-	11,747	-	11,747
Issuance of shares upon conversion of convertible bonds	12	90,366	767,942	-	-	858,308	-	858,308
Transactions with equity holders		90,366	767,942	11,036	-	869,344	(11)	869,333
Balance at 30 June 2015		887,662	10,280,452	3,533,283	(15,834,644)	(1,133,247)	230,462	(902,785)

	Note	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Accumulated losses RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity/(deficit) RMB'000
		Unaudited						
		Attributable to equity holders of the Company						
Balance at 1 January 2014		599,526	7,490,812	3,514,818	(6,043,869)	5,561,287	607,765	6,169,052
Loss for the period ended 30 June 2014		-	-	-	(3,061,227)	(3,061,227)	(83,420)	(3,144,647)
Other comprehensive loss								
Fair value loss on available-for-sale financial asset		-	-	(1,904)	-	(1,904)	(72)	(1,976)
Total comprehensive loss for the six months ended 30 June 2014		-	-	(1,904)	(3,061,227)	(3,063,131)	(83,492)	(3,146,623)
Transactions with equity holders in their capacity as owners								
Share-based payment	13	-	-	14,223	-	14,223	-	14,223
Issuance of shares upon conversion of convertible bonds		7,418	72,685	-	-	80,103	-	80,103
Transactions with equity holders		7,418	72,685	14,223	-	94,326	-	94,326
Balance at 30 June 2014		606,944	7,563,497	3,527,137	(9,105,096)	2,592,482	524,273	3,116,755

The notes on pages 19 to 59 are an integral part of this condensed consolidated interim financial information.

INTERIM CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2015

	Unaudited Six months ended 30 June **2015** **RMB'000**	 2014 RMB'000
Net cash used in operating activities	**(248,891)**	(2,181,156)
Net cash (used in)/generated from investing activities	**(25,287)**	325,338
Net cash generated from financing activities	**208,714**	2,129,576
Net (decrease)/increase in cash and cash equivalents	**(65,464)**	273,758
Exchange gain on cash and cash equivalents	**14**	2,750
Cash and cash equivalents at beginning of the period	**143,101**	117,020
Cash and cash equivalents at end of the period	**77,651**	393,528

The notes on pages 19 to 59 are an integral part of this condensed consolidated interim financial information.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1 General information

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

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

This condensed consolidated interim financial information is presented in thousands of units of Renminbi ("RMB'000"), unless otherwise stated. This condensed consolidated interim financial information was approved for issue by the board of directors of the Company on 28 August 2015.

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 2015 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 2014, which was prepared in accordance with International Financial Reporting Standards ("IFRS"). Comparative figures in revenue, costs of sales and general and administrative expenses in the interim consolidated statement of comprehensive income have been reclassified to current period's presentation.

2.1 Going concern basis

During the six months ended 30 June 2015, the Group had been actively negotiating with an independent third party (the "Potential Purchaser") to sell the related core assets and liabilities of the onshore shipbuilding and offshore engineering business of the Group in the PRC (the "Potential Transaction") pursuant to the memorandum of understanding (the "MOU") entered into with the Potential Purchaser in March 2015; operation of the Group's shipbuilding business had been minimal, except for the continuous effort in collecting outstanding receivables and realising existing inventories through sale. Although management has already implemented measures to significantly reduce costs, the Group was still experiencing high level of finance costs for its existing borrowings. As a result, the Group had incurred a loss of approximately RMB2,085,319,000 and had a net operating cash outflow of approximately RMB248,891,000 for the six months ended 30 June 2015.

As at 30 June 2015, the Group had a total deficit of RMB902,785,000 and the Group's current liabilities exceeded its current assets by RMB23,096,586,000. As at the same date, the Group's total borrowings and finance lease liabilities amounted to RMB22,444,319,000, out of which RMB17,930,323,000 were either overdue or would be due for repayment within 12 months in accordance with the repayment dates of the respective agreements or under existing arrangements. The Group's current borrowings also included convertible bonds with outstanding principal totaling HKD3,250,000,000 (equivalent to approximately RMB2,562,950,000) as at 30 June 2015, which were immediately redeemable after reaching the one-year non-redemption period.

2 Basis of preparation (Continued)

2.1 Going concern basis (Continued)

Although the Group has been actively re-negotiating the terms and conditions of its existing borrowings with the respective banks and has successfully deferred part of the principal and interests, certain loan principal repayments and interest payments totaling RMB1,349,105,000 were still overdue as at 30 June 2015. The non-payment of loan principal and interests in accordance with the scheduled repayment dates caused the relevant bank loans to become immediately repayable pursuant to the respective loan agreements. In this connection, certain non-current borrowings totaling RMB1,915,281,000 have been classified as current liabilities. Subsequent to the period end, additional loan principal and interest payments totaling RMB155,818,000 were not renewed or repaid upon the scheduled repayment dates and thus became overdue. Based on the financial position of the Group as at 30 June 2015, the Group was not in compliance with certain restrictive financial covenants of a current bank borrowing amounting to RMB611,360,000 as at 30 June 2015. The Group has obtained a wavier for compliance with such financial covenants subsequent to period end. In addition, bank loans of RMB19,132,090,000 and convertible bonds with principal amount of HKD3,250,000,000 (equivalent to approximately RMB2,562,950,000), totaling RMB21,695,040,000 contain cross-default terms in their respective financing agreements. As a result of the above-mentioned overdue of principal and interest repayments and non-compliance with loan covenants, current borrowings totaling RMB18,638,397,000 as at 30 June 2015 became immediately repayable pursuant to the cross-default terms under the relevant loans and convertible bond agreements; and in this connection, a non-current borrowing totaling RMB844,525,000 has been classified as current liabilities. As at the date of the approval of this condensed consolidated interim financial information, the Group has not obtained waivers from the relevant banks and bondholders on these cross-default clauses; nor have these banks and bondholders taken any action against the Group to demand immediate repayment.

The Group had six convertible bonds outstanding with principal amounts totaling HKD3,250,000,000 (equivalent to approximately RMB2,562,950,000) as at 30 June 2015. According to the bond agreements, the bondholders have early redemption options to request the Company to redeem the outstanding convertible bonds should the market price of the Company's shares fall below a certain level or when the respective convertible bonds reached the one-year non-redemption period. All six convertible bonds already reached their one-year non-redemption period and became immediately repayable.

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

In view of such circumstances, the directors of the Company have during the period ended and up to the date of the approval of this condensed consolidated interim financial information taken the following measures to mitigate the liquidity pressure and to improve financial position of the Group, and to restructure its businesses:

i) The Group has actively diversified its operation through continuous development of the Energy Exploration and Production segment. During the six months ended 30 June 2015, the energy and exploration assets acquired in the Republic of Kyrgyzstan ("Kyrgyzstan") was found with proved commercial oil reserve; a number of wells were developed and entered into production stage. Management expects to realise an increase of oil output through further development and expansion of the segment and thereby to generate steady operating cash flows;

2 Basis of preparation (Continued)

2.1 Going concern basis (Continued)

ii) Although the Group was not able to enter into any definitive agreement with the Potential Purchaser prior to the expiry of the MOU entered into in March 2015, the Group's subsidiary, Jiangsu Rongsheng Heavy Industries Co., Ltd., has obtained conditional letters of consent from all of its creditor banks relating to the disposal of (including but not limited to) its assets and liabilities. The Group is now assisting the Potential Purchaser to establish an efficient and competitive professional core management team to enable Jiangsu Rongsheng Heavy Industries Co., Ltd. to enter full production and obtain new orders immediately after completion of the Potential Transaction;

iii) During the six months ended 30 June 2015, convertible bonds with a total principal amount of HKD1,054,000,000 (equivalent to approximately RMB831,447,000) were converted into 1,145,540,714 shares of the Company. As at 30 June 2015, convertible bonds with the aggregate principal amount of HKD3,250,000,000 (equivalent to approximately RMB2,562,950,000) remained outstanding and were immediately redeemable after reaching the one-year non-redemption period. The Group is in discussion with the bondholders and has requested them not to exercise their redemption options until 30 June 2016;

iv) In March 2014, the Group entered into a "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") with a group of banks in the Jiangsu Province of the People's Republic of China ("PRC") to extend the repayment of and renewal terms of the existing bank loans that had original maturity in 2015 to new maturity ranging from December 2015 to May 2016. During the six months ended 30 June 2015, pursuant to this framework agreement, the Group has successfully extended the repayment dates and renewed certain loans, totaling RMB4,026,178,000 (inclusive of principal amount of RMB3,854,333,000 and interest amount of RMB171,845,000), which will be due after November 2015. As at 30 June 2015, the Group's total outstanding current borrowings with respect to the Jiangsu Framework Agreement amounted to RMB12,848,965,000. The Group is planning to further negotiate with the bank for renewal and extension of these outstanding bank loans as and when they fall due during the year 2015. Subsequent to the period end, loans of RMB1,192,250,000 were successfully extended and will be repayable in year 2016;

v) In October 2014, the Group entered into a "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") with a group of banks in Hefei, Anhui Province of the PRC to extend the repayment and renewal terms of the existing bank loans that had original maturity in 2015 to June 2016. During the six months ended 30 June 2015, the Group successfully renewed a loan amounting to RMB50,000,000, which would be due in June 2016. As at 30 June 2015, the Group had total outstanding current borrowings amounting to RMB3,828,302,000 with respect to this Hefei Framework Agreement, of which RMB578,287,000 have been overdue since 2014 and RMB16,000,000 have been overdue since April 2015. The Group is planning to further negotiate with these banks for renewal and extension of these outstanding bank loans;

2 Basis of preparation (Continued)

2.1 Going concern basis (Continued)

vi) The Group has also been actively negotiating with the lenders regarding the current and non-current borrowings (other than convertible bonds) of RMB4,012,862,000 and RMB327,791,000 respectively not covered in the above Jiangsu Framework Agreement and Hefei Framework Agreement (together with "Framework Agreements") to extend the repayment and renewal terms of these existing current loans that had original maturity in 2015 to new maturity dates ranging from January 2016 to June 2016. The Group has during the period successfully extended the repayment dates of and renewed certain loans amounting to RMB2,231,073,000 (inclusive of principal amount of RMB2,098,276,000 and interest amount of RMB132,797,000), so that these loans are now repayable after December 2015. Out of the renewed amounts during the period, an amount of RMB118,311,000 represented a bank loan that were overdue since 2014. As at 30 June 2015, total current loans from these lenders amounted to RMB4,012,862,000, of which RMB510,810,000 have been overdue. The Group is now actively negotiating with the remaining lenders on the terms and conditions of the extension and renewal of borrowings which are either overdue or will fall due in 2015;

vii) During the six months ended 30 June 2015, the Group obtained security-free and interest-free loans from a non-controlling interest shareholder of the Company and a non-controlling interest shareholder of a subsidiary amounted to RMB97,786,000 and RMB42,240,000 respectively which will be repayable in year 2016. These loans have been used to repay interests of bonds and bank borrowings and also for the development of Energy Exploration and Production segment;

viii) Subsequent to the period end, the Group obtained a new bank loan of RMB6,000,000 in July 2015, which will be repayable in July 2016. This bank loan will be used to finance the shipbuilding activities. In addition, a non-controlling interest shareholder of the Company provided security-free and interest-free facilities up to HKD28,000,000 (equivalent to approximately RMB22,081,000) for working capital and bond interests repayment purposes during the months of July and August 2015. HKD26,000,000 (equivalent to approximately RMB20,504,000) was drawn down up to the date of the approval of this condensed consolidated interim financial information and will be repayable in 2017;

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

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

2 Basis of preparation (Continued)

2.1 Going concern basis (Continued)

The directors have reviewed the Group's cash flow projections prepared by management. 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 interim consolidated 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) executing a formal transaction agreement with the Potential Purchaser and completing the Potential Transaction for selling the core assets and liabilities of the onshore shipbuilding and offshore engineering business 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 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;

ii) segregating the assets and liabilities to be excluded from the Potential Transaction from the ones included, and successfully implementing a business plan for those businesses;

iii) convincing the convertible bondholders not to exercise their redemption options to request the Company to redeem the outstanding convertible bonds until 30 June 2016;

iv) negotiating with the relevant banks for the renewal or extension for repayments beyond the period ending 30 June 2016 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 2015 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;

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

vi) obtaining additional sources of financing other than those above-mentioned, including those to finance the Group's new energy exploration and production business.

2 Basis of preparation (Continued)

2.1 Going concern basis (Continued)

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 future liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effect of these adjustments has not been reflected in this condensed consolidated interim financial information.

3 Accounting policies

Except as described below, the accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2014, as described in those annual financial statements.

(a) New and amended standards adopted by the Group

In the current year, the Group has adopted, for the first time, the following new and revised standards and amendments and interpretations to existing standards ("new and revised IFRSs") which are mandatory for the accounting periods beginning on or after 1 January 2015:

- IAS 19 (Amendment) – Defined Benefits Plan: Employee Contributions
- Annual Improvements 2010-2012 Cycle
- Annual Improvements 2011-2013 Cycle

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

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

4 Estimates

The preparation of condensed consolidated interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial information, except as described below, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2014.

4 Estimates (Continued)

Estimation of oil reserves

Estimation of oil reserves is a key element in the Group's investment decision-making process in Energy Exploration and Development segment. It is also an important element in testing for impairment. Changes in proved oil reserves, particularly proved developed reserves, will affect unit-of-production depreciation, depletion and amortisation recorded in the Group's consolidated financial statements for property, plant and equipment and intangible assets related to oil production activities. A reduction in proved developed reserves will increase depreciation, depletion and amortisation charges. Proved reserve estimates are subject to revision, either upward or downward, based on new information, such as from development drilling and production activities or from changes in economic factors, including product prices, contract terms or development plans.

5 Financial risk management

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange rate risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

The condensed consolidated interim financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2014.

There have been no changes in the risk management department since year end or in any risk management policies since the year end.

5 Financial risk management (Continued)

5.2 Liquidity risk

During the six months ended 30 June 2015, the Group has been actively negotiating with an independent third party (the "Potential Purchaser") to sell the related core assets and liabilities of the onshore shipbuilding and offshore engineering business of the Group in the PRC pursuant to the memorandum of understanding (the "MOU") entered into with the Potential Purchaser in March 2015; operation of the Group's shipbuilding business has been minimal, except for the continuous effort in collecting outstanding receivables and realising existing inventories through sale. Although management has already implemented measures to significantly reduce costs, the Group was still experiencing high level of finance costs for its existing borrowings. As a result, the Group has incurred a loss of approximately RMB2,085,319,000 and had a net operating cash outflow of approximately RMB248,891,000 for the six months ended 30 June 2015. As at 30 June 2015, the Group had a total deficit of RMB902,785,000 and the Group's current liabilities exceeded its current assets by RMB23,096,586,000. As at the same date, the Group's total borrowings and finance lease liabilities amounted to RMB22,444,319,000, out of which RMB17,930,323,000 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 include convertible bonds with outstanding principal totaling HKD3,250,000,000 (equivalent to approximately RMB2,562,950,000) as of 30 June 2015 which are immediately redeemable after reaching the one-year non-redemption period. Although the Group has been actively re-negotiating the terms and conditions of its existing borrowings with the respective banks and has successfully deferred part of the principal and interests, certain loan principal repayments and interest payments totaling RMB1,349,105,000 were still overdue as at 30 June 2015. The non-payment of loan principal and interests in accordance with the scheduled repayment dates caused the relevant bank loans to become immediately repayable pursuant to the respective loan agreements. In this connection, certain non-current borrowings totaling RMB1,915,281,000 have been classified as current liabilities. Subsequent to the period end, additional loan principal and interest payments totaling RMB155,818,000 were not renewed or repaid upon the scheduled repayment dates and thus became overdue. Based on the financial position of the Group as at 30 June 2015, the Group was not in compliance with certain restrictive financial covenants of a current bank borrowing amounting to RMB611,360,000 as at 30 June 2015. The Group has obtained a waiver for compliance with such financial covenants subsequent to period end. In addition, bank loans of RMB19,132,090,000 and convertible bonds with principal amount of HKD3,250,000,000 (equivalent to approximately RMB2,562,950,000), totaling RMB21,695,040,000 contain cross-default terms in their respective financing agreements. As a result of the above-mentioned overdue of principal and interest repayments and non-compliance with loan covenants, current borrowings totaling RMB18,638,397,000 as at 30 June 2015 became immediately repayable pursuant to the cross-default terms under the relevant loans and convertible bond agreements; and in this connection, a non-current borrowing totaling RMB844,525,000 has been classified as current liabilities. As at the date of the approval of this condensed consolidated financial information, the Group has not obtained waivers from the relevant banks and bondholders on these cross-default clauses; nor have these banks and bondholders taken any action against the Group to demand immediate repayment.

5 Financial risk management (Continued)

5.2 Liquidity risk (Continued)

In view of these adverse factors, a series of remedial measures to mitigate the liquidity pressure have been taken to improve its financial and liquidity position of the Group as a whole.

Management continued to negotiate with principal banks for the renewal and extension of loans and banking facilities with extended repayment terms and reduced interest rates. In particular, the Group had extended the repayment of and renewal terms of the existing bank loans original maturity in 2015 to year 2015 and 2016 with a group of banks under Jiangsu Framework Agreement and Hefei Framework Agreement. The Group has also been actively negotiating with the banks not covered in the Framework Agreements to extend the repayment and renewal terms of the existing bank loans that had original maturity in year 2015 to 2016.

During the period, the Group successfully extended the repayment dates of and renewed certain loans amounting to RMB6,002,609,000 to the year 2015 and year 2016.

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

During the six months ended 30 June 2015, the Group obtained security-free and interest-free loans from a shareholder of the Company and a non-controlling interest shareholder of a subsidiary amounted to RMB97,786,000 and RMB42,240,000 respectively which will be repayable in year 2016. These loans have been used to repay interests of bonds and bank borrowings and also for the development of Energy Exploration and Production segment.

Subsequent to the period end, the Group obtained a new bank loan of RMB6,000,000 in July 2015, which will be repayable in July 2016. This bank loan will be used to finance the shipbuilding activities. In addition, a non-controlling interest shareholder of the Company provided security-free and interest-free facilities up to HKD28,000,000 (equivalent to approximately RMB22,081,000) for working capital and bond interests repayment purposes during the months of July and August 2015. HKD26,000,000 (equivalent to approximately RMB20,504,000) was drawn down up to the date of the approval of this condensed consolidated financial information and will be repayable in 2017.

In relation to convertible bonds are immediately redeemable after reaching the one-year non-redemption period, the Group is in discussion with the bondholders and has requested them not to exercise their redemption options until 30 June 2016.

5 Financial risk management (Continued)

5.3 Credit risk

Credit risk arises from cash and cash equivalents, pledged deposits, as well as credit exposures to outstanding trade, bills and other receivables, prepayments and amounts due from customers for contract works. As at 30 June 2015, all the Group's cash and bank balances, short term bank deposits and pledged deposits are placed in reputable banks located in the PRC, Kyrgyzstan, Singapore and Hong Kong which management believes are of high credit quality and without significant credit risk.

The Group carries out customer credit checks prior to entering into shipbuilding contracts and requests progress payments from customers in accordance with the milestones of the shipbuilding contracts. Such milestone payments received from the customers prior to the delivery of vessels could reduce the Group's credit risk exposure. Further, certain customers have issued irrevocable letters of guarantee from banks and related companies to provide guarantee on the collectability of the receivables from these customers.

For customers of the Shipbuilding segment, the Group actively monitors the financial situations of its customers who are affected by the market downturn. The Group is exposed to concentration of credit risk as the three largest debtors of the Shipbuilding segment represented over 70% (2014: over 60%) of the total trade receivables (before impairment provisions) of the Group as at 30 June 2015. Accordingly, the Group's consolidated results would be heavily affected by the financial capability of these debtors to fulfill the obligations under the shipbuilding contracts with the Group. The Group regularly reviews the credit profiles, business prospects, background and financial capability of the customers. As a result, management has made a provision for doubtful receivable of RMB2,709,891,000 as at 30 June 2015 (2014: RMB2,486,179,000).

For customers of the Engineering Machinery segment and Energy Exploration and Production segment, the Group assesses the credit quality of the customers, taking into account their financial positions, past experience and other factors, before granting credit limits. The Group has a large number of customers on this segment and has no significant concentration of credit risk. As at 30 June 2015, trade receivables of RMB341,802,000 (2014: RMB322,118,000) relating to certain customers of the Engineering Machinery segment are impaired and provided for.

For credit exposures to other receivables and prepayments, management assesses the credit quality of the counterparties on a case-by-case basis, taking into account their financial positions, past experience, amounts and timing of expected receipts and other factors. As at 30 June 2015, other receivables and prepayments amounted to RMB933,315,000 were impaired and provided for (2014: RMB992,301,000).

5 Financial risk management (Continued)

5.4 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's financial asset and liability that are measured at fair value at 30 June 2015.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Asset				
Available-for-sale financial asset	–	–	35,879	35,879
Total asset	–	–	35,879	35,879
Liability				
Financial derivative component of borrowings	–	(343,209)	–	(343,209)
Total liability	–	(343,209)	–	(343,209)

5 Financial risk management (Continued)

5.4 Fair value estimation (Continued)

The following table presents the Group's asset and liability that are measured at fair value at 31 December 2014.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Asset				
Available-for-sale financial asset	–	–	36,374	36,374
Total asset	–	–	36,374	36,374
Liability				
Financial derivative component of borrowings	–	(532,805)	–	(532,805)
Total liability	–	(532,805)	–	(532,805)

There were no transfers between levels 1, 2 and 3 during the period.

There were no other changes in valuation techniques during the period.

Financial instruments in level 2 are those that are not traded in an active market (for example, over-the-counter derivatives), the fair value of which is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

5 Financial risk management (Continued)

5.4 Fair value estimation (Continued)

The following table presents the changes in level 3 instruments for the period ended 30 June 2015.

	Available-for-sale financial asset RMB'000
Balance at 1 January 2014	41,547
Reduction in capital	(3,226)
Fair value loss on revaluation recognised in other comprehensive income	(1,976)
Balance at 30 June 2014	36,345
Balance at 1 January 2015	36,374
Fair value loss on revaluation recognised in other comprehensive income	(495)
Balance at 30 June 2015	35,879

6 Segmental information

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

The chief operating decision-maker is identified as the Executive Directors of the Company. The Executive Directors consider the business from both geographic and product perspectives. The Shipbuilding segment derives its revenue primarily from the construction and sales of vessels, and the Offshore Engineering segment derives its revenue from the construction of vessels for marine projects. The Engineering Machinery segment derives its revenue from manufacturing of excavators and crawler cranes while the Marine Engine Building segment derives its revenue from building marine engines. The Energy Exploration and Production segment will 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. The segment information provided to the Executive Directors for the reportable segments for the six months ended 30 June 2015 and 2014 is as follows:

6 Segmental information (Continued)

	Shipbuilding Six months ended 30 June		Offshore Engineering Six months ended 30 June		Engineering Machinery Six months ended 30 June		Marine Engine Building Six months ended 30 June		Energy Exploration and Production Six months ended 30 June		Total Six months ended 30 June	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue												
– Revenue from sales of vessels	361,350	–	–	–	–	–	–	–	–	–	361,350	–
– Revenue from shipbuilding and other contracts	13,389	311,268	–	–	192	11,278	855	79,209	–	–	14,436	401,755
– Revenue from sales of crude oil	–	–	–	–	–	–	–	–	4,126	–	4,126	–
– Reversal of revenue related to the cancellation of the shipbuilding contracts	–	(932,265)	–	–	–	–	–	–	–	–	–	(932,265)
Segment revenue	374,739	(620,997)	–	–	192	11,278	855	79,209	4,126	–	379,912	(530,510)
Inter-segment revenue	–	–	–	–	–	(3,077)	(855)	(58,085)	–	–	(855)	(61,162)
Revenue from external customers	374,739	(620,997)	–	–	192	8,201	–	21,124	4,126	–	379,057	(591,672)
Segment results	(405,083)	(660,279)	–	–	(46,191)	(17,353)	(18,478)	(31,607)	929	–	(468,823)	(709,239)
Selling and marketing expenses											(3,227)	(9,340)
General and administrative expenses											(372,562)	(662,630)
Research and development expenses											(18,443)	(49,943)
Provisions of impairments and delayed penalties											(166,352)	(42,295)
Other income											21,268	26,628
Other losses – net											(2,011)	(802,615)
Finance costs – net											(1,075,169)	(895,213)
Loss before income tax											(2,085,319)	(3,144,647)

6 Segmental information (Continued)

During the six months ended 30 June 2014, the Group terminated eight shipbuilding contracts. Accordingly, the Group reversed revenue and cost of sales of RMB932,265,000 and RMB830,843,000 respectively.

Geographically, management considers the operations of Shipbuilding, Offshore Engineering, Engineering Machinery and Marine Engine Building segments are all located in the PRC while Energy Exploration and Production segment is located in Kyrgyzstan, with revenue derived from different geographical locations, which is determined by the country in which the customer is located.

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

	Six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
Norway	**325,516**	5,434
China	**49,415**	175,013
Kyrgyzstan	**4,126**	–
Brazil	**–**	132,848
India	**–**	115,749
Greece	**–**	34,272
Turkey	**–**	5,500
Germany (Note a)	**–**	(128,223)
	379,057	340,593

Note:

(a) The reduction in revenue from a customer during the period ended 30 June 2014 was mainly due to the change in contract price.

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 Energy Exploration and Production segment which are mainly located in Kyrgyzstan.

7 Property, plant and equipment

	RMB'000
Six months ended 30 June 2015	
Revalued amounts	
Opening amounts as at 1 January 2015	**17,192,897**
Additions	**235,616**
Disposals	**(75,790)**
Depreciation (Note 18)	**(249,891)**
Exchange difference	**(652)**
Closing amounts as at 30 June 2015	**17,102,180**
Six months ended 30 June 2014	
Revalued amounts	
Opening amounts as at 1 January 2014	17,471,432
Additions	65,359
Disposals	(9,660)
Depreciation (Note 18)	(288,970)
Closing amounts as at 30 June 2014	17,238,161

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.

On 10 March 2015, the Group and a Potential Purchaser entered into the MOU, pursuant to which the Group intends to sell to the Potential Purchaser, and the Potential Purchaser intends to purchase from the Group, the related core assets and liabilities of the Shipbuilding and Offshore Engineering business of the Group in the PRC. Although no definitive agreement with the Potential Purchaser was signed before the expiry of the MOU on 30 June 2015, the Group's subsidiary, Jiangsu Rongsheng Heavy Industries Co., Ltd., has obtained conditional letters of consent from all of its creditor banks relating to the disposal of (including but not limited to) its assets and liabilities. The Group is now assisting the Potential Purchaser to establish an efficient and competitive professional core management team to enable Jiangsu Rongsheng Heavy Industries Co., Ltd. to enter full production and obtain new orders immediately after completion of the Potential Transaction.

7 Property, plant and equipment (Continued)

In determining the recoverable amounts of the non-current assets, including land use rights and property, plant and equipment, under the Shipbuilding and the Offshore Engineering segments amounting to RMB17,487,137,000 as at 30 June 2015, which was 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 the estimated consideration would be higher than the aggregate carrying amount of the 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 the Shipbuilding and the Offshore Engineering segments is considered necessary as at 30 June 2015.

In determining the recoverable amounts of the non-current assets, including land use rights and property, plant and equipment under the Engineering Machinery and the Marine Engine Building segments amounting to RMB3,128,847,000 as at 30 June 2015, the directors expect that the implementation of a robust business plan would generate positive operating cashflows in the future (including active marketing of the existing products, for example, the promotion of the Group's marine engines and excavators to shipbuilding manufacturers/distributors in Jiangsu and Anhui Provinces and the development of new products such as dynamic compactors and wetland excavators). In addition, after completion of the Potential Transaction, the directors expect that the Group will be able to focus its cashflow arrangements and optimise its funding structure for the Engineering Machinery and the Marine Engine Building segments to enhance the growth of these segments. Therefore, the recoverable amounts of these non-current assets under the Engineering Machinery and the Marine Engine Building segments were determined based on value-in-use calculations.

As a result of the above assessment, the recoverable amounts of the non-current assets, including land use rights and property, plant and equipment, of the Engineering Machinery and the Marine Engine Building segments 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 2015.

Please refer to Note 8 for the impairment assessment associated with the property, plant and equipment of the Energy Exploration and Production segment, together with the related intangible asset of the Co-operation Rights.

8 Intangible assets

	RMB'000
Six months ended 30 June 2015	
Opening amounts as at 1 January 2015	**1,493,345**
Amortisation (Note 18)	**(333)**
Exchange difference	**(1,317)**
Closing amounts as at 30 June 2015	**1,491,695**
Six months ended 30 June 2014	
Opening amounts as at 1 January 2014	–
Amortisation (Note 18)	–
Closing amounts as at 30 June 2014	–

The intangible assets represent rights to cooperate with the national oil company of Kyrgyzstan in the operation of the five oil fields zones ("Co-operation Rights"). The Co-operation Rights are stated at cost less accumulated amortisation and any impairment losses. During the six months ended 30 June 2015, certain wells have been developed and found with proved commercial oil reserve, and have entered into production stage. As a result, amortisation of RMB333,000 has been charged to the income statement during the six months ended 30 June 2015.

In determining the recoverable amounts of the Co-operation Rights under Energy Exploration and Production segment amounting to RMB1,491,695,000, the directors expect that the fair value of the Co-operation Rights, which is estimated with reference to the value of the proved oil reserve of 24.39 million tons and crude oil price in future with approximately USD50-60 per barrel, exceeded their carrying amounts as at 30 June 2015.

8 Intangible assets (Continued)

As a result of the above assessment, the recoverable amounts of the intangible assets 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 2015.

In addition, the recoverable amounts of the exploration and evaluation assets classified in property, plant and equipment amounting to RMB353,140,000 were determined based on value-in-use calculation using pre-tax cash flow projections.

As a result of the above assessment, the recoverable amounts of the non-current assets, including property, plant and equipment, of 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 2015.

9 Land use rights

	RMB'000
Six months ended 30 June 2015	
Opening amounts as at 1 January 2015	**3,955,560**
Disposal	**(46,767)**
Amortisation (Note 18)	**(40,822)**
Closing amounts as at 30 June 2015	**3,867,971**
Six months ended 30 June 2014	
Opening amounts as at 1 January 2014	4,045,028
Amortisation (Note 18)	(40,202)
Closing amounts as at 30 June 2014	4,004,826

10 Construction contracts

	As at 30 June 2015 RMB'000	As at 31 December 2014 RMB'000
Aggregate contract costs incurred and recognised profits (less recognised losses) to date	4,726,625	6,480,698
Less: Provision for amounts due from customers for contract works	(2,406,344)	(2,435,969)
Less: Progress billings	(1,429,266)	(2,879,358)
Net position for ongoing contracts	891,015	1,165,371
Presented as:		
Amounts due from customers for contract works	891,015	1,165,371
	891,015	1,165,371

Bank borrowings are secured by certain vessels under construction with aggregate contract costs incurred of RMB73,363,000 as at 30 June 2015 (2014: RMB3,819,464,000).

As at 30 June 2015, RMB2,406,344,000 (2014: RMB2,435,969,000) amounts due from customers for contract works of the Shipbuilding segment were impaired and provided after management assessed the recoverability of these construction contracts and consideration of the future construction plan.

11 Trade and bills receivables, other receivables, prepayments and deposits

(a) Trade and bills receivables

	As at 30 June 2015 RMB'000	As at 31 December 2014 RMB'000
Trade receivables	3,752,170	3,844,053
Less: Provision for doubtful debts	(3,051,693)	(2,808,297)
Bills receivables	3,650	600
Total	704,127	1,036,356

11 Trade and bills receivables, other receivables, prepayments and deposits (Continued)

(a) Trade and bills receivables (Continued)

Ageing analysis of trade and bills receivables by due date is as follows:

	As at 30 June 2015 RMB'000	As at 31 December 2014 RMB'000
Not yet due	**6,618**	4,657
Past due		
1 – 180 days	**18,460**	27,050
181 – 360 days	**17,606**	12,332
Over 360 days	**661,443**	992,317
Total	**704,127**	1,036,356

As at 30 June 2015, trade receivables of RMB697,509,000 (2014: RMB1,031,699,000) were past due but not impaired. The ageing analysis of these trade receivables by due date is listed above.

As at 30 June 2015, trade receivables of RMB2,709,891,000 (2014: RMB2,486,179,000) and RMB341,802,000 (2014: RMB322,118,000) related to certain customers of the Shipbuilding segment and the Engineering Machinery segment 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 days to 90 days, accordingly, balances are past due if not settled within the credit period.

The carrying amounts of trade and bills receivables approximate their fair values.

11 Trade and bills receivables, other receivables, prepayments and deposits (Continued)

(b) Other receivables, prepayments and deposits

	As at 30 June 2015 RMB'000	As at 31 December 2014 RMB'000
Receivables from agents (i)	**301,622**	301,576
Other receivables		
– Third parties	**419,847**	493,344
– Deposits for the Framework Agreements (ii)	**167,284**	167,284
VAT receivable	**909,114**	859,220
Deposits (iii)	**146,421**	154,074
Prepayments for property, plant and equipment and land use rights		
– Third parties	**277,137**	320,368
Prepayments for raw materials and production costs		
– Third parties (iv)	**983,387**	1,111,213
Prepayments - others		
– Third parties	**32,842**	55,734
Less: Allowance for impairment of other receivables and prepayments	**(933,315)**	(992,301)
	2,304,339	2,470,512
Less: Non-current deposits and prepayments	**(23,867)**	(199,979)
Current portion	**2,280,472**	2,270,533

(i) The Group entered into a number of agency contracts with several agency companies. These agency companies assisted the Group to secure the shipbuilding contracts and procure the relevant refund guarantees. Pursuant to the agency contracts, the customers agreed to pay the contract price to the agents for which the agents are responsible for payment to the raw materials suppliers according to the progress of the shipbuilding works. As such, the amounts received by the agents from the customers are classified as receivables from agents and the relevant payments made to suppliers by the agents are classified as payables to agents. As at 30 June 2015, receivables from agents amounted to RMB119,389,000 (2014: same) were impaired, as a result of the management assessment on the recoverability of these receivables.

(ii) As at 30 June 2015, according to the Framework Agreements, the Shipbuilding segment and the Marine Engine segment placed deposits of RMB50,000,000 and RMB117,284,000 (2014: same) into a bank account which were under the name of the Jiangsu and Anhui government respectively. These deposits are to be used for the payments of the Group's operating expenses and the renewal of the Group's bank borrowings.

(iii) Finance lease is secured by certain refundable deposits with an aggregate carrying value of RMB136,000,000 as at 30 June 2015 (2014: same).

(iv) According to the contracts entered into with certain suppliers, the Group placed deposits and prepayments to secure the supply of raw materials. As at 30 June 2015, the Group prepaid RMB774,082,000 to the five largest suppliers (2014: RMB777,240,000).

(v) Except as described above, the provision for impairments of other receivables and prepayments represented provision for certain prepayments for raw materials and property, plant and equipment and other receivables, on which management has performed assessment on their recoverability. Based on management's assessment, there may be risks that the counterparties may not have the financial ability to fulfil their contractual obligations. As a result, a total provision of RMB813,926,000 (2014: RMB872,912,000) was provided for these prepayments and other receivables.

11 Trade and bills receivables, other receivables, prepayments and deposits (Continued)

(b) Other receivables, prepayments and deposits (Continued)

The carrying amounts of receivables from agents, other receivables and deposits approximate their fair values.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable and deposit mentioned above.

12 Share capital and premium

	Number of ordinary shares	Nominal value of ordinary shares	Equivalent nominal value of ordinary shares	Share premium	Total
		HKD	RMB'000	RMB'000	RMB'000
Authorised:					
Ordinary shares of HKD0.1 each	38,000,000,000	3,800,000,000	–	–	–
Issued:					
Ordinary shares of HKD0.1 each at 1 January 2015	9,490,194,599	949,019,459	797,296	9,512,510	10,309,806
Issuance of shares upon conversion of convertible bonds (Note a)	1,145,540,714	114,554,072	90,366	767,942	858,308
Ordinary shares of HKD0.1 each at 30 June 2015	10,635,735,313	1,063,573,531	887,662	10,280,452	11,168,114

Note:

(a) During the six months ended 30 June 2015, convertible bonds with total principal amount of HKD1,054,000,000 (equivalent to approximately RMB831,447,000) were converted into 1,145,540,714 shares of the Company.

13 Share Option Schemes

(a) Pre-IPO Share Option Scheme

Pursuant to the written resolutions of the Shareholders dated 24 October 2010, selected employees were granted a total of 62,500,000 share options (the "Pre-IPO Share Options") under the Pre-IPO Share Option Scheme (the "Pre-IPO Share Option Scheme"). The exercise price per share under the Pre-IPO Share Option Scheme was HKD4 per share and shall be equal to a 50% discount to the final offer price at the initial public offering. Each of the Pre-IPO Share Option has a 10-year exercisable period, from 19 November 2010 (the "Old Grant Date"), and ending on the expiration of the tenth anniversary of the date of acceptance of the grant of options, on 26 October 2020. As at 30 June 2015, 35,000,000 share options were exercisable (31 December 2014: 36,750,000).

13 Share Option Schemes (Continued)

(a) Pre-IPO Share Option Scheme (Continued)

The fair value of the share options granted on 24 October 2010, determined using the binomial model (the "Model"), ranged from HKD4.38 to HKD5.17 per option. The significant inputs into the Model were the share price of HKD8 at the Old Grant Date, exercise price shown above, expected dividend yield rate of 1.32%, risk-free rate of 2.09%, an expected option life of ten years and expected volatility of 55.0%. The volatility measured is based on the average annualised standard deviations of the continuously compounded rates of return on the share prices of comparable companies with similar business operations.

Movements in the number of share options outstanding and their related exercise price are as follows:

	Average exercise price in HKD per share	Number of share options (thousands)
At 1 January 2014	4	43,125
Granted	–	–
Exercised	–	–
Lapsed	4	(5,375)
At 30 June 2014	4	37,750
At 1 January 2015	**4**	**36,750**
Granted	**–**	**–**
Exercised	**–**	**–**
Lapsed	**4**	**(1,750)**
At 30 June 2015	**4**	**35,000**

(b) Share Option Scheme

The Company conditionally approved and adopted a share option scheme on 24 October 2010 (the "Share Option Scheme"). The Share Option Scheme became unconditional on 19 November 2010 when the Company's shares were listed on the Main Board of the Hong Kong Stock Exchange.

Pursuant to the written resolutions of the Directors dated 30 April 2012, selected employees were granted a total of 348,580,000 share options under the Share Option Scheme. The exercise price per share under the Share Option Scheme is HKD1.94. No share option is exercisable prior to the first anniversary of 30 April 2012 (the "New Grant Date"). On each of the first, second, third, fourth and fifth anniversaries of the New Grant Date, a further 20% of the share options granted to the selected employees may be exercised, provided that no share option shall be exercised after 30 April 2022. As at 30 June 2015, 135,159,000 share options were exercisable (31 December 2014: 95,080,000).

13 Share Option Schemes (Continued)

(b) Share Option Scheme (Continued)

The fair value of the share options granted on 30 April 2012, determined using the Model, ranged from HKD0.63 to HKD0.64 per option. The significant inputs into the Model were the share price of HKD1.94 at the New Grant Date, the exercise price shown above, expected dividend yield rate of 4.66%, risk-free rate of 1.14%, an expected option life of ten years and expected volatility of 54.5%. The volatility measured is based on the average annualised standard deviations of the continuously compounded rates of return on the share prices of comparable companies with similar business operations.

Movements in the number of share options outstanding and their related exercise price are as follows:

	Average exercise price in HKD per share	Number of share options (thousands)
At 1 January 2014	1.94	263,800
Granted	–	–
Exercised	–	–
Lapsed	1.94	(21,600)
At 30 June 2014	1.94	242,200
At 1 January 2015	**1.94**	**237,700**
Granted	**–**	**–**
Exercised	**–**	**–**
Lapsed	**1.94**	**(12,435)**
At 30 June 2015	**1.94**	**225,265**

The total expense recognised in the interim consolidated statement of comprehensive income for share options granted to directors and employees was approximately RMB11,747,000 during the six months ended 30 June 2015 (2014: RMB14,223,000). During the six months ended 30 June 2015, no expense (2014: nil) is recognised for the Pre-IPO Share Scheme and RMB11,747,000 (2014: RMB14,223,000) is recognised for the Share Option Scheme. The Group has no legal or constructive obligations to repurchase or settle the options in cash.

14 Trade and other payables

	As at 30 June 2015 RMB'000	As at 31 December 2014 RMB'000
Trade payable	1,869,527	1,920,660
Other payables for purchase of property, plant and equipment		
– Third parties	452,020	472,736
– Related parties (Note 27)	568,675	608,870
Other payables		
– Third parties	1,135,738	1,313,849
– Related parties (Note 27)	21,434	21,234
Receipt in advance	28,818	108,227
Accrued expenses		
– Payroll and welfare	120,078	95,134
– Design fees	41,801	47,421
– Utilities	10,758	8,733
– Outsourcing and processing fees	48,860	173,756
– Interests	1,099,443	667,406
– Exploration costs	51,645	31,515
– Others	109,576	170,587
Provision for litigation cases	452,007	317,917
Provision for delayed penalties	9,571	111,274
VAT payable	4,462	2,952
Other tax-related payables	55,668	52,844
Current trade and other payables	6,080,081	6,125,115

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

	As at 30 June 2015 RMB'000	As at 31 December 2014 RMB'000
0 – 30 days	136,946	144,382
31 – 60 days	35,312	39,259
61 – 90 days	32,287	5,013
Over 90 days	1,664,982	1,732,006
	1,869,527	1,920,660

15 Borrowings

	As at 30 June 2015 RMB'000	As at 31 December 2014 RMB'000
Non-current		
Bank borrowings	198,081	1,436,656
Borrowing from a related party (Note 27(v))	39,640	–
Borrowing from a shareholder (Note 27(v))	90,070	–
Finance lease liabilities	–	404,548
	327,791	1,841,204
Current		
Bank borrowings	19,864,476	16,649,856
Other borrowings	138,477	–
Convertible bonds	1,426,399	1,856,286
The medium-term notes	–	1,982,000
Finance lease liabilities	687,176	285,553
	22,116,528	20,773,695
Total borrowings	22,444,319	22,614,899

15 Borrowings (Continued)

Movements in borrowings are analysed as follows:

	RMB'000
Six months ended 30 June 2015	
Opening amounts as at 1 January 2015	**22,614,899**
Proceeds from new bank borrowings	**3,207,353**
Proceeds from new borrowing from a shareholder	**90,070**
Proceeds from new borrowing from a related party	**39,640**
Proceeds from new other borrowings	**138,477**
Repayments of bank borrowings	**(1,231,308)**
Repayments of finance lease liabilities	**(2,925)**
Repayment of the medium-term notes	**(1,982,000)**
Convertible bonds - liability component (Note a)	**243,714**
Conversion of convertible bonds - liability component (Note a)	**(673,601)**
Closing amounts as at 30 June 2015	**22,444,319**
Six months ended 30 June 2014	
Opening amounts as at 1 January 2014	22,407,265
Proceeds from new bank borrowings	8,279,654
Repayments of bank borrowings	(8,958,788)
Repayments of finance lease liabilities	(90,651)
Convertible bonds - liability component (Note a)	1,597,434
Conversion of convertible bonds - liability component (Note a)	(32,378)
Closing amounts as at 30 June 2014	23,202,536

Note:

(a) The movements of convertible bonds are shown in the section of convertible bonds.

15 Borrowings (Continued)

At the balance sheet dates, the Group's borrowings, after taking into account of repayable on demand clauses of certain borrowings, were repayable as follows:

	As at 30 June 2015 RMB'000	As at 31 December 2014 RMB'000
Within 1 year	**22,116,528**	20,773,695
Between 1 and 2 years	**206,741**	894,448
Between 2 and 5 years	**121,050**	946,756
	22,444,319	22,614,899

The Group's borrowings repayable based on the scheduled repayment dates were as follows:

	As at 30 June 2015 RMB'000	As at 31 December 2014 RMB'000
Within 1 year	**18,540,200**	16,528,410
Between 1 and 2 years	**2,071,092**	3,240,733
Between 2 and 5 years	**1,833,027**	2,426,756
Over 5 years	**–**	419,000
	22,444,319	22,614,899

Borrowings and finance lease liabilities amounting to RMB22,314,609,000 as at 30 June 2015 (2014: RMB20,632,899,000) were secured by the raw materials, land use rights, buildings, plant and machinery, vessels under constructions, pledged deposits, available-for-sale financial asset, guarantee of the Group, guarantee from a director of the Company, certain shareholders of the Company and the related parties, and land use rights, buildings, plant and equipment and share capital of certain related parties.

As at 30 June 2015, a current borrowing totaling approximately RMB611,360,000 of the Group required the Group to maintain consolidated tangible net worth at any time of not less than RMB5,000,000,000, the ratio of consolidated net borrowings to the consolidated tangible net worth shall not exceed 4.0 to 1.0. As at 30 June 2015, the Group failed to comply with these covenants. The Group has obtained a waiver for such financial covenants subsequent to period end.

Included in the Group's borrowings were certain current loans of approximately RMB1,105,097,000, which were overdue and have not been renewed or repaid subsequent to 30 June 2015.

15 Borrowings (Continued)

Bank loans of RMB19,132,090,000 and convertible bonds with principal amount of HKD3,250,000,000 (equivalent to approximately RMB2,562,950,000), totaling RMB21,695,040,000 contain cross-default terms in their respective financing agreements. As a result of the above-mentioned overdue of principal and interest repayments and non-compliance with loan covenants, current borrowings totaling RMB18,638,397,000 as at 30 June 2015 became immediately repayable pursuant to the cross-default terms under the relevant loans and convertible bond agreements; and in this connection, certain non-current borrowings totaling RMB844,525,000 have been classified as current liabilities. As at the date of the approval of these condensed consolidated interim financial information, the Group has not obtained waivers from the relevant banks and bondholders on these cross-default clauses; nor have these banks and bondholders taken any action against the Group to demand immediate repayment.

The carrying amounts of the non-current borrowings approximate their fair values.

The Group has the following undrawn borrowing facilities:

	As at 30 June 2015 RMB'000	As at 31 December 2014 RMB'000
Expiring within one year	**326,846**	1,111,813
Expiring beyond one year	**9,604**	9,604
	336,450	1,121,417

15 Borrowings (Continued)

Convertible bonds

As at 30 June 2015, the Group had six guaranteed convertible bonds outstanding, all of which had coupon rate of 7%. The table below summarised the details and features of these guaranteed convertible bonds:

Guaranteed convertible bonds	Principal amount as at 30 June 2015	Issuance and closing date	Maturity date	Conversion period	Conversion price as at 30 June 2015
1st	HKD810,000,000	7 August 2013	30 months after the closing date	After issue date up to maturity date	HKD0.90 per share
2nd	HKD500,000,000	9 January 2014	30 months after the closing date	After issue date up to maturity date	HKD0.94 per share
3rd	HKD100,000,000	30 April 2014	30 months after the closing date	After issue date up to maturity date	HKD0.97 per share
4th	HKD320,000,000	20 May 2014	30 months after the closing date	After issue date up to maturity date	HKD0.99 per share
5th	HKD820,000,000	20 June 2014	30 months after the closing date	After issue date up to maturity date	HKD1.04 per share
6th	HKD700,000,000	20 June 2014	30 months after the closing date	After issue date up to maturity date	HKD1.07 per share

Subject to the following conditions, amongst others, the Company has the right to redeem all or any part of the principal amount of the convertible bonds outstanding. (1) The Company may redeem the respective convertible bonds at any time up to (and excluding) the commencement of the 7 calendar day-period ending on the (and including) maturity date, when the principal amount of the relevant convertible bonds outstanding is equal to or less than 10% of its original aggregate principal amount issued by the Company. Except for the 1st convertible bond, whose redemption price is equal to 100% of the principal amount plus the unpaid interest, the redemption price of all the other five convertible bonds is equal to 100% of the principal amount plus the unpaid interest and an amount equal to 3% per annum on the principal amount outstanding from time to time accrued on a daily basis and calculated for actual number of days elapsed, on a 365-day year calculated from and including the original date of issue of the convertible bonds concerned up to the date of repayment ("Compensation Amount"). (2) The Company may redeem the respective convertible bonds at any time on or after the second anniversary from the closing date and up to the third business day prior to the maturity date. Except for the 1st convertible bond, whose redemption price is equal to 105% of the principal amount plus the unpaid interest, the redemption price of all the other five convertible bonds is equal to 100% of the principal amount plus the unpaid interest and the Compensation Amount.

15 Borrowings (Continued)

Convertible bonds (Continued)

Subject to certain conditions, the bondholders have the right to require the Company to redeem all or part of the convertible bonds. Any bondholders may (1) at any time on or after the 12 months from the closing date and up to the third business day prior to the maturity date; or (2) at any time where the share price of the Company's shares in respect of a Share at a particular date, the average of the closing prices published in the Stock Exchange's daily quotations sheet for one Share for the 5 consecutive trading days ending on and including the trading day last preceding such date is equal to or below HKD0.6 up to the third business day prior to the maturity date, to require the Company to redeem the whole or any part of the principal amount outstanding under the bonds at a value at 100% of the principal amount plus the unpaid interest and Compensation Amount, except for the 1st convertible bonds whose redemption price is 103% of the principal amount plus the unpaid interest.

Conversion price of all the convertible bonds will be subject to adjustment for consolidation or subdivision, capitalisation of profits or reserves, capital distribution, right issues and other dilutive events which may have impacts on the rights of the holders.

The conversion feature of the above convertible bonds fails the fixed-for-fixed requirement for equity classification. The conversion option, together with all other options, are therefore regarded as a single embedded derivative with changes in fair value through profit or loss in accordance with IAS 39. For details, please refer to Note 16.

The fair value of the above convertible bonds was determined by an independent qualified valuer based on the COX, Ross and Rubinstein Binomial Model (the "Binomial Model"). The fair value of the liability component on initial recognition was valued as the proceeds of the convertible redeemable bond (net of transaction cost) minus the fair value of the embedded derivative. The fair value of the embedded derivative was valued by estimating the value of the whole bond with and without the conversion feature. The difference in value reflects the value of the embedded derivatives and changes in fair value would be recognised in the consolidated statement of comprehensive income. During the period ended 30 June 2015, fair value gain on the embedded derivatives amounted to RMB4,792,000 (2014: loss of RMB807,514,000).

All of the convertible bonds are guaranteed by Mr. Zhang Zhi Rong ("Mr. Zhang"), the Company's single largest shareholder (before full conversion of the convertible bonds and exercise of the share options issued by the Company).

15 Borrowings (Continued)

Convertible bonds (Continued)

The movements of convertible bonds recognised in the interim consolidated statement of financial position are shown as follows:

	RMB'000
Opening amounts as at 1 January 2015	1,856,286
Conversion to ordinary shares	(673,601)
Interest expenses (Note 21)	429,985
Interest paid	(185,248)
Exchange gains	(1,023)
Closing amounts as at 30 June 2015	1,426,399
Opening amounts as at 1 January 2014	773,390
Issuance of convertible bonds	3,168,719
Fair value of the embedded derivatives	(1,803,342)
Transaction cost	(11,859)
Conversion to ordinary shares	(32,378)
Interest expenses (Note 21)	233,217
Exchange losses	10,699
Closing amounts as at 30 June 2014	2,338,446

The fair value of the liability component of the convertible bonds as at 30 June 2015 amounted to RMB2,370,777,000 (31 December 2014: RMB3,104,256,000). The fair value is calculated using the market price of the convertible bonds on the date of the interim consolidated statement of the financial position (or the nearest day of trading).

16 Derivative financial instruments

	30 June 2015		31 December 2014	
	Assets RMB'000	**Liabilities RMB'000**	Assets RMB'000	Liabilities RMB'000
Embedded derivatives in convertible bonds	**–**	**343,209**	–	532,805

The fair value of the embedded derivatives in convertible bonds as at 30 June 2015 is determined using the COX, Ross and Rubinstein Binomial Model (the "Model"). The table below shows the significant inputs into the Model:

16 Derivative financial instruments (Continued)

Guaranteed convertible bonds	Principal amount as at 30 June 2015	Issuance date	Stock price as at 30 June 2015 of the underlying shares (HKD)	Exercise price (HKD)	Expected option life (years)	Risk-free interest rate (%)	Expected dividend yield (%)	Expected volatility (%)
1st	HKD810,000,000	7 August 2013	0.67	810,000	0.6	0.0535	0	72
2nd	HKD500,000,000	9 January 2014	0.67	500,000	1.0	0.0819	0	60
3rd	HKD100,000,000	30 April 2014	0.67	100,000	1.3	0.1611	0	59
4th	HKD320,000,000	20 May 2014	0.67	320,000	1.4	0.1758	0	58
5th	HKD820,000,000	20 June 2014	0.67	820,000	1.5	0.1969	0	58
6th	HKD700,000,000	20 June 2014	0.67	700,000	1.5	0.1968	0	58

The volatility measured is based on the daily share price volatility of the Company for an observation period calculated by the difference between the valuation date and maturity date and adjusted by the difference of Hang Seng Index historical and implied volatility as of the valuation dates.

17 Provision for warranty

The Group provides a one-year warranty from the date of delivery of the vessel on shipbuilding products and undertakes to repair or replace items that fail to perform satisfactorily. A provision is recognised at the end of the reporting period for expected warranty claims for repairs and returns based on management estimates and industry practice.

Movements in provision for warranty for the Group are as follows:

	2015 RMB'000	2014 RMB'000
At 1 January	**38,112**	106,731
Provision for the period		
– Charged to for the period (Note 18)	**5,569**	127
– Utilisation during the period	**(5,246)**	(7,157)
– Reversal during the period upon expiring of the warranty period (Note 18)	**(1,999)**	(16,838)
At 30 June	**36,436**	82,863

18 Expenses by nature

	Six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
Raw materials and consumables used	**79,459**	582,519
Cost of sales related to the cancellation of the construction contracts (Note 6)	**–**	(830,843)
Cost of vessels and inventories	**210,857**	–
Amortisation of land use rights (Note 9)	**40,822**	40,202
Depreciation of property, plant and equipment (Note 7)	**249,891**	288,970
Amortisation of intangible assets (Note 8)	**333**	–
Employee benefit expenses	**166,613**	198,972
Operating lease payments	**9,801**	13,515
Auditors' remunerations	**4,113**	1,500
Outsourcing and processing costs	**52,954**	104,512
Commission expenses	**17,249**	7,176
Design fees	**1,666**	1,684
Agency fees	**478**	1,388
Legal and consultancy fees	**31,085**	36,621
Other tax-related expenses and customs duties	**7,857**	10,033
Bank charges (include refund guarantee charges)	**5,488**	45,310
Provision for/(reversal of) warranty		
– charged for the period (Note 17)	**5,569**	127
– reversal upon expiring of the warranty period (Note 17)	**(1,999)**	(16,838)
Office expenses and utilities	**43,401**	43,088
Inspection fees	**2,934**	2,716
Insurance premiums	**1,452**	7,014
Storage and handling charges	**1,559**	15,232
Advertising, promotion and marketing expenses	**151**	4,316
Royalty expenses	**–**	4,585
Provision for inventories	**186,945**	34,332
Provision for delayed penalties	**9,571**	145,212
Provision for/(reversal of) impairment		
– trade receivables	**245,392**	39,965
– amounts due from customers for contract works	**(29,625)**	–
– other receivables and prepayments	**(58,986)**	(142,882)
Provision for litigations	**92,348**	60,833
Compensation to ship owners for cancellation of contracts	**–**	176,143
Miscellaneous expenses	**31,086**	6,373
Total cost of sales, selling and marketing expenses, general and administrative expenses, research and development expenses and provision for impairments and delayed penalties	**1,408,464**	881,775

19 Other income

	Six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
Government grants (Note a)	**82**	467
Rental income (Note b)	**3,459**	16,982
Others	**17,727**	9,179
Total	**21,268**	26,628

Notes:

(a) Government grants represented cash received from Jiangsu Government authority during the six months ended 30 June 2014 and 2015.

(b) Rental income represented the income from the leasing of property, plant and equipment to third parties lessees during the six months ended 30 June 2014 and 2015.

20 Other losses - net

	Six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
Fair value gain on derivative instruments		
– interest rate swap	**–**	1,538
Fair value gain/(loss) on derivative instruments		
– embedded derivatives in convertible bonds	**4,792**	(807,514)
Loss on disposal of land use rights	**(2,326)**	–
Net foreign exchange (losses)/gains	**(4,477)**	3,361
Total	**(2,011)**	(802,615)

21 Finance income and costs

	Six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
Finance income:		
Interest income from bank deposits	**881**	11,483
Imputed interest income	**11,355**	–
Net foreign exchange gains on financing activities	**1,804**	–
	14,040	11,483
Finance costs:		
Interest expenses		
– Borrowings and finance lease liabilities	**659,990**	679,121
– Convertible bonds (Note 15)	**429,985**	233,217
Net foreign exchange losses on financing activities	**–**	18,124
Less: borrowing costs capitalised	**(766)**	(23,766)
	1,089,209	906,696
Net finance costs	**(1,075,169)**	(895,213)

22 Income tax expense

No Hong Kong, PRC and Kyrgyzstan profits tax have been provided for during the six months ended 30 June 2015 (2014: 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 expect that there is no income tax expense for the six months ended 30 June 2015 since it is not expect to have any tax assessable profit (2014: same).

23 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.

	Six months ended 30 June	
	2015	2014
Loss attributable to equity holders of the Company (RMB'000)	**(2,035,847)**	(3,061,227)
Weighted average number of ordinary shares in issue	**9,786,007,712**	7,003,781,535
Loss per share (RMB per share)	**(0.21)**	(0.44)

(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 2015 (2014: same).

24 Dividend

The Board has resolved not to declare the payment of an interim dividend for the six months ended 30 June 2015 (2014: nil).

25 Contingencies

	As at 30 June 2015 RMB'000	As at 31 December 2014 RMB'000
Contingencies:		
Refund guarantees (Note a)	**53,114**	2,000,155
Litigation (Note b)	**225,231**	225,654
Financial guarantees (Note c)	**170,905**	193,291
	449,250	2,419,100

Notes:

(a) **Refund guarantees**

Refund guarantees relate to the guarantees provided by the banks to the Group's customers in respect of advances received from customers. In the event of non-performance, the customers may call upon the refund guarantees and the Group would be liable to the banks in respect of the refund guarantees provided. As at 30 June 2015, refund guarantees are secured by land and buildings, pledged deposits, vessels under constructions, corporate guarantees from the Company and certain of its subsidiaries and personal guarantee from a director of the Group.

25 Contingencies (Continued)

(b) Litigation

The Group has contingent liabilities in respect of legal claims arising in the ordinary course of business.

As at 30 June 2015, certain subsidiaries of the Group were in dispute with certain of their suppliers in relation to the procurement of inventories, subcontracting services, construction of property, plant and equipment, and certain of banks in relation to the repayment of bills payable and certain of its employees in relation to the employment contracts. The alleged claims against the Group amounted to RMB1,132,232,000 (2014: RMB531,677,000). Provision amounted to RMB1,131,217,000 had been provided for trade and other payables in respect of the claims as at 30 June 2015 (2014: RMB531,677,000) as management has determined, on the basis of legal advice from the Group's internal and external counsels that it is not probable that these claims would result in an outflow of economic benefits exceeding the provisions made by the Group.

As at 30 June 2015, the Group was in dispute with one of its customers in relation to a shipbuilding contract. The alleged claim against the Group amounted to approximately USD36,675,000, equivalent to approximately RMB224,216,000 (2014: USD36,675,000, equivalent to approximately RMB225,654,000). No provision has been provided for in respect of this claim as at 30 June 2015 as management has determined, on the basis of legal advice from the Group's external legal counsel that it is not probable that this claim would result in an outflow of economic benefits from the Group.

(c) Financial guarantees

The Group has provided guarantees to certain financial institutions in the PRC in respect of borrowings drawn by certain customers of the Engineering Machinery segment. The borrowings were drawn by the customers of the Engineering Machinery segment to finance the purchase of excavators from the Group. Under the financial guarantee contracts, the Group is required to make payments to the financial institutions should the customers default on the borrowings. As at 30 June 2015, the total value of the guaranteed borrowings outstanding was RMB172,680,000 (31 December 2014: RMB195,225,000) in which the Group had made a provision of RMB1,775,000 (31 December 2014: RMB1,934,000) for borrowings with delinquent payments. Management has determined that no further provision for the remaining contingency of RMB170,905,000 (31 December 2014: RMB193,291,000) is required as the relevant customers have no history of default and it is not probable that the Group would have to make payments to the financial institutions for the guarantees.

26 Commitments

(a) Capital commitments

Capital expenditure committed at the interim consolidated statement of financial position date but not yet incurred is as follows:

	As at 30 June 2015 RMB'000	As at 31 December 2014 RMB'000
Property, plant and equipment		
– Contracted but not provided for	**935,268**	926,071
Other capital commitments		
– Contracted but not provided for (Note (i))	**160,000**	160,000

Note:

(i) **Capital commitment for the investment in 農銀無錫股權投資基金企業 (the "Fund")**

On 16 January 2012, the Group entered into an agreement with 6 strategic investors for the Fund, which the Group proposed to invest RMB200,000,000 into the Fund, representing 6.66% of the total capital of the Fund. As at 30 June 2015, the Group had paid the first instalment of RMB40,000,000 to the Fund which is classified as available-for-sale financial asset in the interim consolidated statement of the financial position.

26 Commitments (Continued)

(b) Operating lease commitments - where the Group is the lessee

The Group leases various offices, residential properties and production facilities under non-cancellable operating lease agreements. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 30 June 2015 RMB'000	As at 31 December 2014 RMB'000
No later than 1 year	11,200	13,286
Later than 1 year and no later than 5 years	–	3,909
	11,200	17,195

27 Related party transactions

Fine Profit Enterprises Limited ("Fine Profit"), a company incorporated in the British Virgin Islands, owned 19.30% of the issued shares of the Company as at 30 June 2015 (2014: 28.93%). Fine Profit was wholly-owned by Mr. Zhang as at 30 June 2015.

The directors of the Company are of the view that the following companies were related parties that had transactions or balances with the Group during the six months ended 30 June 2015:

Name	Relationship with the Group
Shanghai Ditong Construction (Group) Co., Ltd. 上海地通建設(集團)有限公司	Entity controlled by a shareholder/close family member of Mr. Zhang
Jiangsu Xu Ming Investment Group Co., Ltd. 江蘇旭明投資集團有限公司	Entity ultimately controlled by Mr. Zhang
Jiangsu Rong Tong Marine Mechanical and Electrical Co., Ltd. 江蘇熔通海工機電有限公司	Entity ultimately controlled by Mr. Zhang
Nantong Drawshine Petrochemical Co., Ltd. 南通焯晟石油化工有限公司	Entity controlled by a shareholder/close family member of Mr. Zhang
Dynamic Great Limited	Entity ultimately controlled Mr. Zhang
Zhang Jiping 張繼平	Non-controlling interest shareholder of a subsidiary

During the six months ended 30 June 2015, no transactions with the related parties were carried out by the Group.

27 Related party transactions (Continued)

(i) Balances with related parties

As at 30 June 2015 and 31 December 2014, the balances are interest-free, unsecured, and approximate their fair values. All these balances are repayable on demand.

	As at 30 June 2015 RMB'000	As at 31 December 2014 RMB'000
Other payables for property, plant and equipment (Note 14)		
– Entities controlled by Mr. Zhang or a shareholder/ close family member of Mr. Zhang	568,675	608,870
Other payables - non-trade (Note 14)		
– Entities controlled by Mr. Zhang or a shareholder/ close family member of Mr. Zhang	490	490
– Non-controlling interest shareholder of a subsidiary	20,944	20,744
	21,434	21,234

(ii) Advances from related parties

During the six months ended 30 June 2015, the substantial shareholder provides security-free and interest-free revolving facilities up to RMB3,000,000,000 for use by the Group for working capital purposes. As at 30 June 2015, RMB311,472,000 (2014: RMB381,629,000) has been drawn down by the Group and is not repayable until March 2015.

During the six months ended 30 June 2015, the shareholders provide security-free facilities up to USD3,200,000 (equivalent to approximately RMB19,564,000) for use by the Group for working capital purposes.

(iii) Guarantee by a director

As at 30 June 2015, certain bank borrowings and refund guarantees are secured by a director of the Group (2014: same).

(iv) Guarantee by the shareholders and related parties

As at 30 June 2015, certain bank borrowings are secured by the shareholders and the controlling entities of the shareholders.

(v) Borrowings from a shareholder and a related party

During the six months ended 30 June 2015, a shareholder and the non-controlling interest shareholder of a subsidiary provided security-free and interest-free facilities up to HKD124,000,000 and USD6,900,000 respectively (equivalent to approximately RMB139,970,000) for working capital purposes.

INFORMATION FOR SHAREHOLDERS

Listing Information

Listing : Hong Kong Stock Exchange
Stock Code : 01101

Principal Share Registrar and Transfer Agent

Codan Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive,
P.O. Box 2681, Grand Cayman,
KY1 – 1111, Cayman Islands

Hong Kong Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712 – 1716, 17th Floor,
Hopewell Centre,
183 Queen's Road East,
Wanchai, Hong Kong
Tel : (852) 2862-8628
Email : hkinfo@computershare.com.hk

Registered Office

Cricket Square, Hutchins Drive,
P.O. Box 2681, Grand Cayman,
KY1 – 1111, Cayman Islands

Principal Place of Business and Headquarters

Suites 2505 – 2508,
25/F., Two Exchange Square,
8 Connaught Place, Central, Hong Kong

Contact Enquiries

Investor Relations
Tel : (852) 3900-1888
Email : ir@rshi.cn
Website : www.huarongenergy.com.hk

CORPORATE INFORMATION

Executive Directors

CHEN Qiang
(Chairman and Chief Executive Officer)
HONG Liang
Sean S J WANG
(Chief Financial Officer)
WANG Tao
WEI A Ning
ZHU Wen Hua

Independent Non-executive Directors

XIA Da Wei
WANG Jin Lian
ZHOU Zhan

Audit Committee

ZHOU Zhan
(Chairman)
XIA Da Wei
WANG Jin Lian

Corporate Governance Committee

WANG Jin Lian
(Chairman)
CHEN Qiang
Sean S J WANG
XIA Da Wei

Nomination Committee

WANG Jin Lian
(Chairman)
WEI A Ning
XIA Da Wei

Remuneration Committee

ZHOU Zhan
(Chairman)
CHEN Qiang
WANG Jin Lian

Finance and Investment Committee

CHEN Qiang
(Chairman)
HONG Liang
Sean S J WANG
XIA Da Wei
ZHOU Zhan

Company Secretary

LEE Man Yee

Auditor

PricewaterhouseCoopers

Principal Bankers

The Export-Import Bank of China
(Jiangsu Province Branch)
China Development Bank
(Jiangsu Province Branch)
Bank of China Limited
(Nantong Gangzha Branch)
Shanghai Pudong Development Bank Limited
(Hefei Branch)

Legal Advisors

Paul Hastings
Commerce & Finance Law Offices

Company Website

www.huarongenergy.com.hk

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